UPDATED OFFICIAL STATEMENT
Dated March 25, 2003

NEW ISSUE - BOOK-ENTRY ONLY

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

In the opinion of Bond Counsel, McCall, Parkhurst & Horton L.L.P., assuming continuing compliance by the City of San Antonio, Texas, after the date of issuance of the Series 2003 Bonds (identified below) with certain covenants in the Ordinance described herein and subject to the matters discussed herein under "TAX MATTERS," interest on the Series 2003 Bonds is excludable from gross in come for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. INTEREST ON THE 2003 BONDS, HOWEVER, 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.

$50,230,000
CITY OF SAN ANTONIO, TEXAS AIRPORT SYSTEM
FORWARD REFUNDING REVENUE BONDS, SERIES 2003
(ALTERNATIVE MINIMUM TAX BONDS)

CITY OF SAN ANTONIO
AVIATION DEPARTMENT

Date: April 15, 2001 **Due: July 1, as shown herein**
(Interest Accrues from the Settlement Date)

The $50,230,000 "City of San Antonio, Texas Airport System Forward Refunding Revenue Bonds, Series 2003" (the "Series 2003 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; Section 103 of the City's Home Rule Charter; a master ordinance adopted by the City Council of the City (the "City Council") on April 19, 2001 (the "Master Ordinance"); and a first supplement to the Master Ordinance (the "First Supplement") also adopted by the City Council on April 19, 2001 (the Master Ordinance and the First Supplement, collectively, the "Ordinance"). (See "THE SERIES 2003 BONDS - Authority for Issuance" herein.)

Interest on the Series 2003 Bonds will accrue from the date of initial delivery as shown below (the "Settlement Date"), will be payable January 1 and July 1 of each year, commencing July 1, 2003, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Series 2003 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 Series 2003 Bonds will be made available for purchase in the principal amount of $5,000 or any integral multiple thereof. Purchasers of the Series 2003 Bonds (the "Beneficial Owners") will not receive physical delivery of Series 2003 Bonds representing their interest in the Series 2003 Bonds. So long as the Securities Depository is the registered owner of the Series 2003 Bonds, the principal of and interest on the Series 2003 Bonds will be payable by The Bank of New York Trust Company of Florida, N.A., Jacksonville, Florida, as the initial Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

The Series 2003 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 Ordinance) and the other sources and funds, including the Bond Reserve Fund, described in and established by the 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 Series 2003 Bonds. The Series 2003 Bonds are limited obligations of the City, payable solely from a lien on and pledge of the Gross Revenues, and 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 thereof.

The City intends to deliver its $8,175,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2003-A" and its $3,255,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2003-B" on or about May 8, 2003. **This Updated Official Statement describes the Series 2003 Bonds only.**

FSA. The scheduled payment of principal of and interest on the Series 2003 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC. (See "BOND INSURANCE" herein.)

SEE INSIDE COVER PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,
INITIAL REOFFERING YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE SERIES 2003 BONDS

The Series 2003 Bonds are offered for delivery when, as, and if issued and received by the Underwriters listed below, subject among other things 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, as Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriters by their Counsel, Akin Gump Strauss Hauer & Feld LLP, San Antonio, Texas. (See "LEGAL MATTERS" and "DELIVERY CONDITIONS" herein.) It is expected that the Series 2003 Bonds will be available for delivery through the services of DTC, New York, New York on or about April 8, 2003, which is the "Settlement Date."

LEHMAN BROTHERS

Apex Pryor Securities
a division of Rice Financial Products

RBC Dain Rauscher Inc.

M. R. Beal & Company

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

Maturity (July 1)	Principal Amount	Interest Rate	Initial Reoffering Yield[1]	Price	CUSIP Number[2]
2004	$3,870,000	5.50%	4.60%	101.057	796242FX8
2005	4,080,000	5.50	4.75	101.561	796242FY6
2006	4,315,000	5.50	4.85	101.913	796242FZ3
2007	4,545,000	5.75	4.98	102.896	796242GA7
2008	4,810,000	5.75	5.11	102.896	796242GB5
2009	5,085,000	5.75	5.21	102.832	796242GC3
2010	5,380,000	6.00	5.27	104.332	796242GD1
2011	5,700,000	6.00	5.35	104.272	796242GE9
2012	6,045,000	6.00	5.46	103.864	796242GF6
2013	6,400,000	6.00	5.55	103.466	796242GG4

(1) Information with respect to the initial reoffering yields of the Series 2003 Bonds is the responsibility of the Underwriters of the Series 2003 Bonds. Initial Reoffering Yield represents the yield on the initial offering of the Series 2003 Bonds to the public, which yield may be changed for subsequent purchasers.

(2) CUSIP numbers have been assigned to the Series 2003 Bonds by Standard and Poor's CUSIP Service Bureau, A Division of the McGraw-Hill Companies, Inc., and are included solely for the convenience of the owners of the Series 2003 Bonds. Neither the City, the Co-Financial Advisors, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

Redemption

The Series 2003 Bonds are not subject to optional redemption by the City.

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CITY OF SAN ANTONIO, TEXAS
ADMINISTRATION

CITY COUNCIL:

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

* Appointed on February 6, 2003 by the City Council to fill a vacancy for the duration of an unexpired term left after the resignation of a Councilmember.

CITY OFFICIALS:

Name	Position	Years with City of San Antonio	Years in Current Position
Terry M. Brechtel	City Manager	12 Years, 2 Months	1 Year, 11 Months
J. Rolando Bono	Deputy City Manager	25 Years, 4 Months	1 Year, 11 Months
Melissa Byrne Vossmer	Assistant City Manager	4 Years, 10 Months	4 Years, 10 Months
Travis M. Bishop	Assistant City Manager	24 Years, 6 Months	3 Years, 1 Month
Christopher J. Brady	Assistant City Manager	6 Years, 8 Months	3 Years, 1 Month
Jelynne L. Burley	Assistant City Manager	18 Years, 11 Months	9 Months
Frances A. Gonzalez	Assistant to the City Manager	18 Years, 5 Months	2 Years, 5 Month
Roland Lozano	Assistant to the City Manager	22 Years, 8 Months	1 Year, 11 Months
Erik J. Walsh	Assistant to the City Manager	8 Years, 9 Months	1 Year, 11 Months
Andrew Martin	City Attorney	11 Months	11 Months
Yolanda Ledesma	Acting City Clerk	31 Years, 5 Months	4 Months
Louis A. Lendman	Director of Management and Budget	14 Years, 6 Months	2 Years, 3 Months
Kevin Dolliole	Director of Aviation	3 Years, 5 Months	3 Years, 5 Months
Thomas G. Wendorf	Director of Public Works	3 Years, 11 Months	2 Years, 2 Months
Milo Nitschke	Director of Finance	8 Years, 5 Months	2 Years

CONSULTANTS AND ADVISORS:

Bond Counsel	McCall, Parkhurst & Horton L.L.P., San Antonio, Texas
Co-Certified Public Accountants	KPMG L.L.P., San Antonio, Texas, Leal & Carter, P.C., San Antonio, Texas, and Robert J. Williams, CPA, San Antonio, Texas
Co-Financial Advisors	Coastal Securities, San Antonio, Texas and Estrada Hinojosa & Company, Inc., San Antonio, Texas
Airport Consultant	Unison Maximus, Chicago, Illinois

USE OF INFORMATION IN THE UPDATED OFFICIAL STATEMENT

Under no circumstances will this Updated 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 Series 2003 Bonds, other than as contained in this Updated 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 nor the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Updated 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 hereinafter the date of this Updated Official Statement.

THE SERIES 2003 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 SERIES 2003 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 Updated 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 Updated Official Statement regarding The Depository Trust Company or its Book-Entry-Only System.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "BOND INSURANCE" and "APPENDIX E - Specimen Municipal Bond Insurance Policy" herein, none of the information in this Updated Official Statement has been supplied or verified by Financial Security, and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2003 Bonds; or (iii) the tax-exempt status of the interest on the Series 2003 Bonds.

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UPDATED OFFICIAL STATEMENT
Relating to the

$50,230,000
CITY OF SAN ANTONIO, TEXAS AIRPORT SYSTEM
FORWARD REFUNDING REVENUE BONDS, SERIES 2003
(ALTERNATIVE MINIMUM TAX BONDS)

INTRODUCTION

This Updated Official Statement of the City of San Antonio, Texas (the "City") is provided to furnish information in connection with the sale of the City's Airport System Forward Refunding Revenue Bonds, Series 2003 (the "Series 2003 Bonds"), in the aggregate principal amount of $50,230,000. This Updated Official Statement describes the Series 2003 Bonds, the Ordinance (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 Series 2003 Bonds adopted by the City Council of the City (the "City Council") on April 19, 2001 (the "Master Ordinance"), along with a first Supplement thereto (the "First Supplement"), also adopted by the City Council on April 19, 2001, authorizing the issuance of the Series 2003 Bonds (the Master Ordinance and the First Supplement, collectively, the "Ordinance"). (See "APPENDIX B – Excerpts from the Master Ordinance and First Supplements - Definitions" hereto.) 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 Updated Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of this Updated Official Statement will be filed with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314.

The Series 2003 Bonds are issued as Additional Parity Obligations and will be on a parity with those series of bonds payable from Gross Revenues of the Airport System which remain outstanding after delivery of the Series 2003 Bonds (the "Outstanding Bonds"). Subsequent to the sale of the Series 2003 Bonds, the City also issued as Additional Parity Obligations payable from Gross Revenues its $17,795,000 "City of San Antonio, Texas Airport System Revenue Improvement Bonds, Series 2001" and its $92,470,000 "City of San Antonio, Texas Airport System Revenue Improvement Bonds, Series 2002". The City has reserved the right to issue other Additional Parity Obligations payable from Gross Revenues in any amount permitted by the Ordinance (the Outstanding Bonds, the Series 2003 Bonds, the Series 2003 Refunding Bonds (herein defined), and any Additional Parity Obligations are referred to here, collectively, as "Parity Obligations"). Upon settlement of the Series 2003 Bonds, the aggregate principal amount of outstanding Parity Obligations will equal $193,835,000.

The City intends to issue on or about May 1, 2003 the following series of bonds: $8,175,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2003-A" and $3,255,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2003-B" (collectively, the "Series 2003 Refunding Bonds"). The Series 2003 Refunding Bonds will be issued as Additional Parity Obligations payable from Gross Revenues, with the proceeds therefrom used for the purpose of refunding certain currently outstanding Parity Obligations. Upon delivery of the Series 2003 Refunding Bonds, the aggregate principal amount of outstanding Parity Obligations will equal $194,180,000.

The City also has outstanding its $37,575,000 "City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2002" (the "PFC Bonds"). The PFC Bonds represent 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 Obligations issued pursuant to the Master Ordinance, and any Supplement thereto, which are then outstanding or subsequently issued. The City

has reserved the right to issue other obligations payable from the revenues generated by its collection of the PFC and on a parity with the PFC Bonds in any amount permitted by the ordinance authorizing the PFC Bonds. The City currently plans to issue such bonds as part of its CIP (defined herein) in years 2004, 2005, and 2007, although the City is under no obligation to do so.

In addition, under the terms of the Ordinance, the City may, from time to time, issue (i) debt, which would be secured by a lien on and pledge of the Subordinate Net Revenues of the Airport System junior and inferior to the pledge of the Gross Revenues securing the Parity Obligations, but on a parity with or subordinate to the lien on the Subordinate Net Revenues that further secures the PFC Bonds and (ii) 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, 2003, the following issues of Special Facilities Debt remained outstanding in the indicated principal amounts: $4,800,000 "City of San Antonio, Texas Airport Special Facilities Airport Revenue Refunding Bonds, Series 1999 (Raytheon Aircraft Services, Inc. Project)" and $4,133,000 "City of San Antonio, Texas Special Facilities Airport Revenue Bonds, Series 1995 (The Cessna Aircraft Company Project")".

This Updated Official Statement describes only the Series 2003 Bonds.

THE SERIES 2003 BONDS ARE SPECIAL OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM A LIEN ON AND PLEDGE OF THE GROSS REVENUES OF THE AIRPORT SYSTEM AND 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 THEREOF. NO MORTGAGE OR LIEN HAS BEEN CREATED ON THE PHYSICAL PROPERTIES OF THE AIRPORT SYSTEM TO SECURE PAYMENT OF THE SERIES 2003 BONDS.

PLAN OF FINANCING

Purpose

The City is issuing the Series 2003 Bonds for the purpose of (i) refunding certain of its outstanding Parity Obligations, such obligations listed in Schedule I hereto (the "Refunded Obligations") and (ii) paying costs of issuance of the Bonds.

Refunded Obligations

The Refunded Obligations, and interest due thereon, are to be paid from funds deposited with The Bank of New York Trust Company of Florida, N.A. (the "Escrow Agent") or its successor in the total amount of principal plus redemption premiums, and plus accrued interest to July 1, 2003, which is the first optional redemption date. The Ordinance approves and authorizes the execution of an escrow agreement (the "Escrow Agreement") between the City and the Escrow Agent. The Ordinance further provides that concurrently with the initial delivery of the Series 2003 Bonds, from a portion of the proceeds of the sale of the Series 2003 Bonds and other lawfully available funds of the City, the City will deposit with the Escrow Agent the amount sufficient to accomplish the discharge and final payment of the Refunded Obligations. Such amount will be held by the Escrow Agent in an escrow account (the "Escrow Fund") and be used to effectuate a gross cash defeasance of the Refunded Obligations.

Simultaneously with the initial delivery of the Series 2003 Bonds, the City will give irrevocable instructions to mail a notice to the owners of the Refunded Obligations that the Refunded Obligations will be redeemed prior to stated maturity on the first optional redemption date, on which date money will be made available to redeem the Refunded Obligations from money held under the Escrow Agreement.

By the deposit of the cash with the Escrow Agent pursuant to the Ordinance and the Escrow Agreement, Bond Counsel is of the opinion that the City will have entered into firm banking and financial arrangements for the final payment and discharge of the Refunded Obligations pursuant to the terms of the ordinance authorizing the issuance of the Refunded Obligations and in accordance with Texas law, and that the Refunded Obligations will be deemed to be no longer outstanding except for the purpose of being paid from the funds held in such Escrow Fund.

DEBT SERVICE REQUIREMENTS

The following table reflects the total principal and interest requirements on all outstanding Parity Obligations subsequent to the settlement of the Series 2003 Bonds, but prior to the delivery of the Series 2003 Refunding Bonds.

Fiscal Year Ended September 30	Existing Debt Service [1]	Less Refunded Debt Service	The Series 2003 Bonds Principal	The Series 2003 Bonds Interest	The Series 2003 Bonds Total Debt Service	Total Debt Service
2003	$ 11,146,911	$ 1,787,178		$ 672,387	$ 672,387	$ 10,032,120
2004	16,888,822	7,099,356	$ 3,870,000	2,916,375	6,786,375	16,575,841
2005	17,959,016	7,098,200	4,080,000	2,703,525	6,783,525	17,644,341
2006	17,980,635	7,104,231	4,315,000	2,479,125	6,794,125	17,670,529
2007	17,381,273	7,100,669	4,545,000	2,241,800	6,786,800	17,067,404
2008	17,391,718	7,101,800	4,810,000	1,980,463	6,790,463	17,080,381
2009	18,316,260	7,100,844	5,085,000	1,703,888	6,788,888	18,004,304
2010	18,334,574	7,103,938	5,380,000	1,411,500	6,791,500	18,022,136
2011	18,819,605	7,099,744	5,700,000	1,088,700	6,788,700	18,508,561
2012	18,803,774	7,101,788	6,045,000	746,700	6,791,700	18,493,686
2013	18,825,124	7,097,488	6,400,000	384,000	6,784,000	18,511,636
2014	15,483,549					15,483,549
2015	15,529,061					15,529,061
2016	15,544,155					15,544,155
2017	7,540,080					7,540,080
2018	7,545,993					7,545,993
2019	7,558,263					7,558,263
2020	7,566,763					7,566,763
2021	7,573,475					7,573,475
2022	7,586,013					7,586,013
2023	7,593,325					7,593,325
2024	7,604,887					7,604,887
2025	7,609,650					7,609,650
2026	7,622,087					7,622,087
2027	7,635,887					7,635,887
Totals	$321,840,900	$72,795,236	$50,230,000	$18,328,463	$68,558,463	$317,604,127

[1] Includes the Refunded Obligations; excludes the Series 2003 Bonds.

The following table reflects the total principal and interest requirements on all outstanding Parity Obligations subsequent to the delivery of the Series 2003 Refunding Bonds.

			The Series 2003 Refunding Bonds						
Fiscal Year Ended September 30	Existing Debt Service	Less Refunded Debt Service	Series A Principal	Series A Interest	Series A Total Debt Service	Series B Principal	Series B Interest	Series B Total Debt Service	Total Debt Service
2003	$ 10,032,120	$2,103,059	$1,930,000	$ 42,244	$1,972,244		$ 21,596	$ 21,596	$ 9,922,901
2004	16,575,841	2,485,992	2,035,000	130,375	2,165,375		86,385	86,385	16,341,609
2005	17,644,341	2,429,443	2,020,000	89,675	2,109,675		86,385	86,385	17,410,958
2006	17,670,529	2,559,730	2,190,000	49,275	2,239,275		86,385	86,385	17,436,459
2007	17,067,404	1,175,930				$1,020,000	86,385	1,106,385	16,997,859
2008	17,080,381	1,170,845				1,100,000	62,925	1,162,925	17,072,461
2009	18,004,304	1,172,405				1,135,000	34,050	1,169,050	18,000,949
2010	18,022,136								18,022,136
2011	18,508,561								18,508,561
2012	18,493,686								18,493,686
2013	18,511,636								18,511,636
2014	15,483,549								15,483,549
2015	15,529,061								15,529,061
2016	15,544,155								15,544,155
2017	7,540,080								7,540,080
2018	7,545,993								7,545,993
2019	7,558,263								7,558,263
2020	7,566,763								7,566,763
2021	7,573,475								7,573,475
2022	7,586,013								7,586,013
2023	7,593,325								7,593,325
2024	7,604,887								7,604,887
2025	7,609,650								7,609,650
2026	7,622,087								7,622,087
2027	7,635,887								7,635,887
Totals	$317,604,127	$13,097,404	$8,175,000	$311,569	$8,486,569	$3,255,000	$464,111	$3,719,111	$316,712,403

(1) Includes the Series 2003 Bonds and the obligations refunded by the Series 2003 Refunding Bonds; excludes the Series 2003 Refunding Bonds.

THE SERIES 2003 BONDS

General Description

The Series 2003 Bonds are dated April 15, 2001, but bear interest from the Settlement 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, 2003, until the stated maturities. The principal of and interest on the Series 2003 Bonds are payable in the manner described herein under "THE SERIES 2003 BONDS – Book-Entry-Only System". In the event the Book-Entry-Only System is discontinued, the interest on the Series 2003 Bonds will be payable to the registered owner as shown on the security register maintained by the Paying Agent/Registrar, as of the 15th day of the month next preceding such interest payment date, by check, mailed first-class postage prepaid, to the address of such person on the 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 Series 2003 Bonds will be payable at stated maturity upon presentation and surrender thereof at the designated payment office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the Series 2003 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 United States Post Office is not open for business, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

Sources and Uses

The net proceeds from the sale of the Series 2003 Bonds will be applied, together with a cash contribution by the City, on April 8, 2003 to fund the Escrow Fund (hereinafter defined) for the redemption, discharge, and defeasance of the Refunded Obligations and to pay certain costs of issuance. This transaction represents a current refunding of the Refunded Obligations and constitutes the gross cash defeasance of the Refunded Obligations.

The following is a summary of the application of the proceeds of the Series 2003 Bonds and the sources and uses of funds:

Sources of Funds	
Principal Amount of the Series 2003 Bonds	$50,230,000.00
Plus Premium	1,534,037.05
City Contribution	903,000.00
Total Sources of Funds	$52,667,037.05
Uses of Funds	
Escrow Fund Deposit	$51,925,278.13
Costs of Issuance	741,758.92
Total Uses of Funds	$52,667,037.05

Authority for Issuance

The Series 2003 Bonds will be issued under the provisions of applicable laws, including Chapter 22, Texas Transportation Code; Chapters 1371 and 1503, Texas Government Code; and the Ordinance. Excerpts from the Ordinance are included in Appendix B to this Updated Official Statement.

Security

The Series 2003 Bonds will be payable from and secured by an irrevocable first lien on and pledge of Gross Revenues on a parity with the Parity Obligations. "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 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 SERIES 2003 BONDS ARE SPECIAL OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM A LIEN ON AND PLEDGE OF THE GROSS REVENUES OF THE AIRPORT SYSTEM AND CERTAIN FUNDS CREATED UNDER THE ORDINANCE AND 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 THEREOF. NO MORTGAGE OR LIEN HAS BEEN CREATED ON THE PHYSICAL PROPERTIES OF THE AIRPORT SYSTEM TO SECURE PAYMENT OF THE SERIES 2003 BONDS.

In addition to such pledge, the payment of the principal of and interest on the Series 2003 Bonds will be guaranteed by Financial Security pursuant to the Policy. See "BOND INSURANCE" herein.

Perfection of Security

Chapter 1208, Texas Government Code, applies to the issuance of the Series 2003 Bonds and the pledge of the Gross Revenues thereto, and such pledge is, therefore, valid, effective, and perfected. Should Texas law be amended at any time while the Series 2003 Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Gross Revenues is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, in order to preserve to the registered owners of the Series 2003 Bonds a security interest in such pledge, the City has agreed to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

Paying Agent/Registrar

The initial Paying Agent/Registrar is The Bank of New York Trust Company of Florida, N.A. (the "Paying Agent/Registrar"). In the Ordinance, the City covenants to provide a competent and legally qualified bank, trust company, financial institution, or other entity to act as and perform the services of Paying Agent/Registrar at all times until the Series 2003 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 Series 2003 Bonds. Upon a change in the Paying Agent/Registrar for the Series 2003 Bonds, the City is required to promptly cause written notice thereof to be sent to each registered owner of the Series 2003 Bonds by United States 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 (the "Record 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 United States mail, first-class postage prepaid, to the address of each registered owner of a Series 2003 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 Series 2003 Bonds are not in the Book-Entry-Only System, the Series 2003 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 Series 2003 Bond may be assigned by the execution of an assignment form on the Series 2003 Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Series 2003 Bond or Series 2003 Bonds will be delivered by the Paying Agent/Registrar in lieu of the Series 2003 Bonds being transferred or exchanged at the designated payment office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk, and expense. New Series 2003 Bonds issued in an exchange or transfer of Series 2003 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 Series 2003 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 Series 2003 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 Series 2003 Bonds surrendered for exchange or transfer. See "THE SERIES 2003 BONDS – Book-Entry-Only System" herein for a description of the system to be utilized in regard to ownership and transferability of the Series 2003 Bonds.

Damaged, Mutilated, Destroyed, Lost, or Stolen Bonds

The City has agreed to replace damaged, mutilated, destroyed, lost, or stolen Series 2003 Bonds upon surrender of the damaged or mutilated Series 2003 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 Series 2003 Bonds during the period commencing at the close of business on the Record Date and ending at the opening of business on the next interest payment date.

Defaults and Remedies

If the City defaults in the payment of the principal of and interest on any Series 2003 Bond when due, or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Ordinance, 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 covenant, obligations, or conditions. Such right is in addition to any other rights the registered owners of Series 2003 Bonds may be provided by the laws of the State of Texas. Under State law, there is no right to the acceleration of maturity of the Series 2003 Bonds upon the failure of the City to observe any covenant under the Ordinance. Although a registered owner of Series 2003 Bonds could presumably obtain a judgment against the City if a default occurred in payment of principal of or interest on any such Series 2003 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 Gross Revenues sufficient to pay principal of and interest on the Series 2003 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 Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Series 2003 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 Ordinance under the conditions permitted by Section 19 thereof (see Section 19 of the Master Ordinance included in Appendix B hereto). Certain amendments may be made without the consent of any holders of the Parity Obligations, and such authority to amend the Master Ordinance becomes more broad on and after the Second Automatic Amendment Date. Other amendments would require the consent of the holders of at least a majority in aggregate principal amount of the Parity Obligations. For a complete description of the manner in which the Master Ordinance may be amended, see Section 19 of the Master Ordinance in Appendix B attached hereto.

In addition, the City has reserved the right to amend the First Supplement under the conditions permitted by Section 11 thereof. Certain amendments may be made without the consent of any holders of the Series 2003 Bonds. Other amendments would require the consent of the holders of at least a majority in aggregate principal amount of the Series 2003 Bonds. For a complete description of the manner in which the First Supplement may be amended, see Section 11 of the First Supplement included in Appendix B attached hereto.

Amendments Intended to Automatically Occur in Future

The Master Ordinance has been written to correspond with the provisions of the ordinances which authorized the issuance of the Parity Obligations that were issued prior to the date of passage of the Master Ordinance (defined in the Master Ordinance as the "Pre-2001 Parity Obligations") such that obligations issued under the Master 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 Series 2003 Bonds), the City desires to amend certain portions of the existing bond ordinances through the Master Ordinance and make those revisions applicable to all Parity Obligations.

Certain amendments occurred on the "First Automatic Amendment Date", which is defined in the Master 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 Ordinance constitute less than 49% of all Parity Obligations then Outstanding." The First Automatic Amendment Date occurred on March 21, 2002. The provisions in the Master Ordinance which became 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 Special Facilities are not included within the term "Airport System", and (b) Parity 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 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 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 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 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 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 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 Ordinance may be amended. Those two amendments are more specifically described in Sections 4(k)(2) and 19 of the Master Ordinance and are included in Appendix B attached to this Updated Official Statement.

Additional Parity Obligations

The City may issue Additional Parity Obligations on a parity with all then-outstanding Parity Obligations (including the Series 2003 Bonds) in accordance with the provisions, and upon satisfaction of the requirements, set forth in Section 17 of the Master Ordinance, which will be amended as of the Second Automatic Amendment Date,

all of which is described in Appendix B attached 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 attached hereto.

Subordinated Debt

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

Defeasance

The First Supplement provides for the defeasance of the Series 2003 Bonds when the payment of the principal of the Series 2003 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 (i) money sufficient to make such payment or (ii) 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 Series 2003 Bonds. The First Supplement provides that "Defeasance Securities" means (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 that "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 (i) and (ii) 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 Series 2003 Bonds will no longer be regarded to be outstanding or unpaid.

Book-Entry-Only System

This section describes how ownership of the Series 2003 Bonds is to be transferred and how the principal of and interest on the Series 2003 Bonds are to be paid to and credited by The Depository Trust Company, New York, New York ("DTC"), while the Series 2003 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 Updated Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the Series 2003 Bonds, or redemption or other notices, to DTC Participants, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Series 2003 Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (iii) DTC will serve and act in the manner described in this Updated Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Series 2003 Bonds. The Series 2003 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Series 2003 Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities Series 2003 Bonds. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA." The DTC Rules applicable to its participants are on file with the Securities and Exchange Commission. More information about DTC can be found at *www.dtcc.com*.

Purchases of the Series 2003 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2003 Bonds on DTC's records. The ownership interest of each actual purchaser of the Series 2003 Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Series 2003 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 Series 2003 Bonds representing their ownership interests in the Series 2003 Bonds, except in the event that use of the book-entry system for the Series 2003 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2003 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2003 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2003 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2003 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 Series 2003 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2003 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2003 Series Bond documents. For example, Beneficial Owners of the Series 2003 Bonds may wish to ascertain that the nominee holding the Series 2003 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2003 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2003 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2003 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 City or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2003 Bonds at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor depository is not obtained, Series 2003 Bonds 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, Series 2003 Bonds will be printed and delivered.

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

So long as Cede & Co. is the registered owner of the Series 2003 Bonds, the City will have no obligation or responsibility to the DTC Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Series 2003 Bonds are in the Book-Entry-Only System, references in other sections of this Updated 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 Series 2003 Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Payment Record

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

Rate Covenant

The City has covenanted in the 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 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.

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 $0.05 per $100 of assessed valuation of the City's taxable property. The assessed valuation for the City's Tax Year 2002 was approximately $41,684,443,121, which would produce a maximum Maintenance Tax of approximately $20,425,377 at 98% collections for fiscal year 2003. To date, however, no Maintenance Tax has been levied by the City for the benefit of 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 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 Obligations (including the Series 2003 Bonds) then-outstanding and will not be required for the issuance of Additional Parity Obligations.

FLOW OF FUNDS

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, see Sections 7 through 12 of the Master Ordinance, which are included in Appendix B attached 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 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 Obligations, or required to be redeemed prior to stated maturity, on the next interest payment date.

Bond Reserve Fund

The Bond Reserve Fund currently contains an amount of money and investments at least equal in market value to the Average Annual Debt Service Requirements on all Parity Obligations (the "Required Reserve Amount"). The Required Reserve Amount following the delivery of the Series 2003 Bonds (excluding the Series 2003 Refunding Bonds) is $12,668,496.

Under the provisions of the Master 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 a Supplement 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. Such payments and transfers described in the preceding sentence have priority over all deposits to the credit of the Capital Improvement Fund as hereinafter provided. No deposit may ever be made to the credit of the Capital Improvement Fund if any such deposit would reduce the amount on hand in the Operation and Maintenance Account less than the budgeted or estimated Operation and Maintenance Expenses for the ensuing three calendar months.

Special Contingency Reserve Fund

The City is no longer required to maintain the Special Contingency Reserve Fund pursuant to the occurrence of the First Automatic Amendment Date. (See "THE SERIES 2003 BONDS – Amendments Intended to Automatically Occur in Future" herein.)

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.

Capital Improvement Fund

After making all other required deposits and transfers, if any, to the Bond Fund, the Bond Reserve Fund, and the Operation and Maintenance Account in the Revenue Fund, the City transfers the balance remaining in the Operation and Maintenance Account in the Revenue Fund at the end of each fiscal year and deposits same to the credit of the Capital Improvement Fund. The Capital Improvement Fund is 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 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.

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 Ordinance or to the claim of any other Person, including the Holders of the Series 2003 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 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, Comair, Continental, Delta, Midwest Express, Northwest, Southwest, and United. Mexicana and Aerolitoral are Mexican airlines that provide passenger service to Mexico. The Airport Master Plan design allows for an increase from 24 to

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 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. In fiscal year 2002, the City commenced implementation of a ten-year Capital Improvement Plan (the "CIP") pursuant to the Master Plan for the International Airport. The CIP is scheduled to conclude in fiscal year 2011, but the actual time of such conclusion may change as circumstances permit. 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. 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 from the FAA 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 collecting a $3.00 PFC on November 21, 2001 (less an $0.08 air carrier collection charge) per passenger enplaned. A total of approximately $102.5 million in revenues generated by this collection of PFCs will be required to provide funding for these projects, which are included in the CIP and are listed below.

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

Construct 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 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 in conjunction with the additional terminal facilities. The design contract is expected to be awarded in 2003, while the construction development process for new parking facilities is expected to start before the end of 2003. 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.

The Feasibility Report

The City has retained Unison Maximus, Chicago, Illinois ("Unison"), as independent consultant to the Airport System. In such capacity, Unison delivered on March 5, 2002 its "SAN ANTONIO DEPARTMENT OF AVIATION – Financial Feasibility Report" (the "Feasibility Report") detailing the Airport System's past, and forecasting its future, financial performance. The Feasibility Report includes descriptions of the CPI, the Airport's service area, and economic base; summaries of the historical aviation activity at the Airport; and analyses of factors impacting such statistics. The Feasibility Report also provides projections of future revenues and expenses, aviation activity at the Airport, debt service requirements, and debt service coverage rates, along with sensitivity analyses evaluating the potential impact of the Terrorist Attacks to the financial feasibility of proposed financings. The Feasibility Report is attached hereto as Appendix D and made a part hereof.

The Feasibility Report was prepared in conjunction with the March 21, 2002 delivery of the "City of San Antonio, Texas Airport System Revenue Improvement Bonds, Series 2002" and the PFC Bonds, respectively, to demonstrate the sufficiency of the Airport System's revenues in meeting the debt service requirements of existing and then-proposed debt obligations supported thereby. Accordingly, its findings specifically address the aforementioned debt obligations; however, the Feasibility Report also contains general information relating to the operation of the Airport System and all debt obligations, existing or proposed, supported by the revenues therefrom.

The Feasibility Report has not been updated since its delivery. The City is under no obligation to update the Feasibility Report, nor is it required at any time in the future to obtain another such report relating to the Airport System and its outstanding or proposed debt. In addition, the contents of the Feasibility Report are not subject to the City's continuing disclosure requirements (such requirements detailed herein under "CONTINUING DISCLOSURE OF INFORMATION").

To date, the actual results of the Airport System's operations are slightly below the projections made in the Feasibility Report. The Department has deemed these deviations insignificant, and the same will not adversely affect the City's ability to meet its debt service requirements on obligations supported by revenues of the Airport System.

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 airport duty 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 371 employees as follows:

Administration	42	Parking Facilities	41
Airport Police	56	Airport Operations	33
Fire Rescue	28	Stinson Airport	7
Maintenance	164		

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

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.

Air Transportation Advisory Committee. The City Council appoints a ten-member Air Transportation Advisory Commission (the "Advisory Commission"). The Advisory Commission is composed of stakeholders from the aviation industry (three representatives), the travel and tourism industry (two representatives), the community (two representatives), local businesses (two representatives), and the military (one non-voting representative). In accordance with Section 49 of the City Charter, the Advisory Commission assists the Department in an advisory capacity regarding policy affecting the City's airports and air transportation initiatives.

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 that will have a fiscal impact upon the City's program of services. The forecast provides information that is utilized in the budget process by projecting revenues and anticipated expenditures under a defined set of assumptions. An important component of the forecast each year is the identification of 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.

The following Tables 1 through 6, all of which have been prepared by the City's Aviation Department, 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 shown as follows:

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

	1998	1999	2000	2001	2002
January	253,526	262,065	263,067	260,227	245,053
February	253,440	252,881	277,836	259,521	238,440
March	319,615	307,705	324,685	327,425	300,014
April	300,526	307,278	305,533	307,322	291,312
May	310,088	317,229	324,395	316,266	290,594
June	315,372	315,420	334,971	344,934	315,169
July	323,605	315,900	332,611	334,895	304,967
August	288,748	283,560	301,193	317,568	291,066
September	268,819	274,287	272,823	177,863	240,276
October	292,554	305,888	311,970	268,310	280,821
November	288,160	299,929	305,749	264,011	260,846
December	290,919	295,928	292,261	266,533	290,588
Total	3,505,372	3,538,070	3,647,094	3,444,875	3,349,146
% Increase (Decrease) over Prior 12-Month Period	0.61%	0.93%	3.08%	(5.54%)	(2.78%)

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**

	1998		1999		2000		2001		2002	
Airlines	Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total
American	659,726	18.82%	596,783	16.87%	586,879	16.09%	519,526	15.08%	640,345	19.12%
America West	71,225	2.03	75,944	2.15	89,309	2.45	97,496	2.83	103,268	3.08
Atlantic Southeast	2,044	0.06	4,553	0.13	8,721	0.24	22,204	0.64	67,356	2.01
Comair Airlines[1]	--	0.00	--	0.00	--	0.00	--	0.00	18,445	0.55
Continental	427,823	12.20	446,633	12.62	451,472	12.38	428,752	12.45	382,170	11.41
Delta	563,691	16.08	560,836	15.85	575,371	15.78	523,606	15.20	465,539	13.90
Mexicana	57,051	1.63	60,391	1.71	66,165	1.81	63,803	1.85	61,161	1.83
Northwest	99,400	2.84	101,158	2.85	122,712	3.37	130,064	3.78	128,592	3.84
Southwest	1,174,537	33.51	1,230,512	34.78	1,272,039	34.88	1,237,899	35.93	1,183,307	35.33
TWA[2]	163,070	4.65	172,497	4.87	183,213	5.02	146,588	4.26	--	0.00
United[3]	186,956	5.33	177,105	5.01	157,554	4.32	157,109	4.56	178,999	5.35
Other Carriers	99,849	2.85	111,658	3.16	133,659	3.66	117,828	3.42	119,964	3.58
Total	3,505,372	100%	3,538,070	100%	3,647,094	100%	3,344,875	100%	3,349,146	100%

(1) Comair Airlines commenced service to the Airport in March 2002.

(2) Prior to December 2001, enplanements by TWA were reported separately from American's enplanements at the Airport. TWA was rebranded as "American Airlines", however, and its enplanements have been reported with American's since December 2001.

(3) Effective December 9, 2002, UAL Corporation filed for bankruptcy protection. (See "RISK FACTORS – General Factors Affecting the Airline Industry" herein.)

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

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

Months	1998	1999	2000	2001	2002
January	15,297	16,412	15,420	16,675	11,629
February	13,733	12,677	14,653	13,638	9,427
March	19,309	17,497	18,345	17,985	14,254
April	21,322	18,695	17,658	17,549	12,975
May	18,369	18,365	18,250	17,679	16,661
June	25,203	23,524	26,462	27,755	23,691
July	34,528	27,566	34,862	32,674	31,299
August	29,105	23,310	28,218	26,257	26,359
September	14,234	15,343	12,966	9,819	11,886
October	16,253	16,713	16,287	10,204	12,668
November	19,615	19,976	19,217	13,948	14,479
December	19,934	19,319	21,187	15,169	15,946
Total	246,902	229,397	243,525	219,352	201,274
% Increase (Decrease) over Prior 12-Month Period	22.86%	(7.09%)	6.16%	(9.93%)	(8.24%)

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									
Carrier	1998		1999		2000		2001		2002	
	Weight	% of Total	Weight	% of Total	Weight	% of Total	Weight	% of Total	Weight	% of Total
Aerolitoral	24,353.0	0.43%	21,467.5	0.37%	21,776.5	0.37%	27,611.0	0.50%	22,191.5	0.40%
Aeromar	5,421.2	0.10	2,382.0	0.04	2,214.1	0.04	2,052.9	0.04	2,053.0	0.04
Airborne	33,429.3	0.60	61,929.2	1.07	63,876.1	1.09	61,782.0	1.11	64,935.0	1.17
Airtrain (Postal)	81,587.5	1.46	96,861.6	1.68	144,882.0	2.48	70,146.0	1.26	--	0.00
America West	112,813.8	2.01	119,204.6	2.06	114,560.4	1.96	118,004.1	2.13	118,245.5	2.13
American	796,743.5	14.22	747,691.1	12.94	738,546.5	12.65	701,031.8	12.64	888,804.2	15.99
American Intl.	--	0.00	25,960.0	0.45	--	0.00	--	0.00	--	0.00
Atlantic Southwest	8,879.6	0.16	10,046.0	0.17	16,615.8	0.28	31,396.0	0.57	81,498.0	1.47
Continental	574,270.0	10.25	609,663.5	10.55	612,198.0	10.49	586,343.5	10.57	517,604.5	9.31
Delta	839,614.5	14.99	879,945.0	15.23	881,200.0	15.09	781,215.1	14.09	660,873.0	11.89
DHL Airways	29,927.5	0.53	629.0	0.01	--	0.00	--	0.00	--	0.00
Emery Worldwide	4,639.0	0.08	8,348.0	0.14	4,590.0	0.08	9,085.0	0.16	158.0	0.00
Federal Express	195,294.9	3.49	199,980.3	3.46	162,273.7	2.78	197,643.2	3.56	341,189.9	6.14
Kitty Hawk	--	0.00	50,650.8	0.88	24,873.4	0.43	16,974.5	0.31	--	0.00
Mexicana	88,384.9	1.58	78,855.7	1.36	89,165.5	1.53	92,118.7	1.66	100,617.0	1.81
Midwest Express	--	0.00	37,106.8	0.64	56,035.2	0.96	61,599.3	1.11	54,753.7	0.98
Northwest	122,689.8	2.19	141,272.5	2.45	167,861.4	2.88	210,296.7	3.79	216,309.5	3.89
Southwest	1,684,902.0	30.08	1,742,196.0	30.15	1,775,430.0	30.41	1,750,858.0	31.57	1,810,797.0	32.57
Sun County	85,446.5	1.52	93,151.5	1.61	78,238.0	1.34	38,827.0	0.70	1,898.0	0.03
TWA	204,356.7	3.65	230,954.6	4.00	253,471.4	4.34	208,164.3	3.75	--	0.00
United	230,101.5	4.11	230,262.5	3.99	212,137.7	3.63	204,200.6	3.68	228,106.2	4.10
United Parcel	339,971.5	6.07	335,211.0	5.80	315,048.5	5.40	317,323.0	5.72	304,049.5	5.47
Other Carriers	138,789.4	2.48	54,637.5	0.95	103,191.0	1.77	59,888.4	1.08	144,934.4	2.61
	5,601,616.1	100%	5,778,406.7	100%	5,835,185.2	100%	5,546,561.1	100%	5,559,017.9	100%

Following is a summary of cargo activities at the International Airport for the past five years

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

Calendar Year	Mail	Freight	Total Cargo	% Change
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%)
2002	15,904.30	41,223.60	57,127.90	19.21%

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
0-½ hour or fraction thereof	$0.00	1	$ 4.50	$ 8.00	$ 18.00
½ -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	31.50	56.00	126.00

The historical revenues and expenses of the parking system at the 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				
	1998	1999	2000	2001	2002
Parking Revenues	$ 8,118,373	$8,408,007	$10,918,771	$10,955,229	$10,400,762
Parking Expenses	(2,649,822)	(2,731,360)	(2,281,612)	(1,987,083)	(2,114,736)
Net Parking Revenues	$ 5,468,551	$5,676,647	$ 8,637,159	$ 8,968,146	$ 8,286,026
Gross Parking Revenues as a % of Airport System Gross Revenues	21.86%	22.05%	26.30%	25.52%	24.54%
Net Parking Revenue as a % of Airport System Net Revenues	30.96%	34.03%	43.32%	46.43%	41.26%

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 and has been provided by the City's Finance Department.

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 Year ended September 30				
	1998	1999	2000	2001	2002
Gross Revenues					
Airline Revenues					
Scheduled Carrier Landing Fees	$ 4,373,049	$ 4,243,910	$ 4,578,600	$ 4,616,794	$ 4,581,380
Non-Scheduled Carrier Landing Fees	805,500	844,702	855,187	772,468	793,811
Terminal Building Rentals [1]	6,786,006	6,672,439	4,708,351	5,979,199	7,356,692
FIS Space Fees	657,649	645,956	746,321	759,139	629,994
Ramp Fees	382,500	318,263	373,148	376,250	366,875
Subtotal Airlines Revenues	$ 13,004,704	$ 12,725,270	$ 11,261,607	$ 12,503,850	$ 13,728,752
Non-Airline Revenues					
Concession Contracts	$ 8,969,297	$ 9,555,402	$10,634,466	$ 10,398,409	$ 10,002,454
Parking Fees	8,118,373	8,408,008	10,918,771	10,955,229	10,400,762
Property Leases	4,627,438	4,830,525	5,570,323	5,720,005	5,746,096
Stinson Airport	111,068	146,098	161,600	163,270	170,611
Interest Income	2,105,627	2,187,772	2,755,869	2,984,062	1,188,675
Misc. Revenues	198,462	275,109	220,445	203,969	1,140,304
Subtotal Non-Airline Revenues	$ 24,130,265	$ 25,402,914	$ 30,261,474	$ 30,424,944	$ 28,648,902
Total Gross Revenues	$ 37,134,969	$ 38,128,184	$ 41,523,081	$ 42,928,794	$ 42,377,654
Operating & Maintenance Expense					
Airfield Area	$ 1,180,813	$ 1,156,876	$ 1,255,749	$ 1,357,513	$ 1,384,797
Service Area	215,641	238,865	248,543	249,680	276,994
Terminal 2	1,517,409	1,650,253	1,767,493	1,626,325	1,896,570
Terminal 1	2,179,805	2,484,980	2,443,963	2,499,298	2,477,144
Fire & Rescue	2,453,260	2,512,318	2,601,357	2,620,549	2,279,735
Access	356,077	375,858	510,102	529,288	515,225
Central Plant	438,098	452,572	549,340	439,942	479,854
Commercial & Industrial	82,152	80,970	78,840	71,050	66,113
Other Buildings & Area	79,116	81,216	84,021	75,080	66,187
Parking	2,649,822	2,731,360	2,281,612	1,987,083	2,114,736
Stinson Airport	282,085	320,295	347,539	387,165	395,895
Administration	3,371,476	4,486,011	4,634,521	6,811,715	4,979,950
Main. Dir. & Control	775,470	934,141	921,533	972,242	1,021,655
Security	2,016,511	2,156,301	2,176,045	2,319,521	2,648,694
Operations	1,288,823	1,212,105	1,344,320	1,666,184	1,676,215
Ground Transportation	582,779	574,886	340,848	-0-	16,934
Total Operating & Maintenance Expenses	$ 19,469,337	$ 21,449,007	$ 21,585,826	$ 23,612,635	$ 22,296,698
Net Revenues	$ 17,665,632	$ 16,679,177	$ 19,937,255	$ 19,316,159	$ 20,080,956

[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.

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

Historical Debt Service Coverages **Table 9**

	Fiscal Years Ended September 30				
	1998	1999	2000	2001	2002
Gross Revenues [1]	$37,134,969	$38,128,184	$41,523,081	$42,928,794	$42,377,654
Airline Rental Credit	3,763,781	3,510,267	6,175,754	5,209,037	4,468,199
Adjusted Gross Revenues	40,898,750	41,638,451	47,698,835	48,137,831	46,845,853
Expenses	(19,469,337)	(21,449,007)	(21,585,826)	(23,612,635)	(22,296,698)
Net Income	$21,429,413	$20,189,444	$26,113,009	$24,525,196	$24,549,155
Annual Debt Service Requirements	$11,669,744	$11,957,544	$11,965,869	$11,960,544	$13,441,791
Gross Revenue Debt Service Coverage [2]	3.50x	3.48x	3.99x	4.02x	3.49x
Net Revenue Debt Service Coverage	1.84x	1.69x	2.18x	2.05x	1.83x

[1] As reported in the City of San Antonio's audited financial statements.
[2] Calculated using Adjusted Gross Revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Statistics

Operating activity pertaining to domestic and international enplaned passengers, total enplaned passengers, and total enplaned and deplaned international passengers were down for the calendar year ending December 31, 2002 as compared to the same period ending December 31, 2001. Total domestic and international enplaned passengers decreased by 2.78%. Total enplaned and deplaned international passengers decreased by 8.24%. Air carrier landed weight, however, increased slightly by 0.2%. The decline in activity is attributed to both a slow down in the economy as well as the persisting 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 from fiscal years 1998 through 2002 increased by 5.6%, while non-airline revenues increased by 18.7%. 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. The rental credit increased or decreased over the period in proportion to the change in non-airline revenues. The largest increases in non-airline revenues were experienced in parking (which increased by 28.1%) and property leases (which increased by 24.2%). 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 decreased by 5.6% from fiscal year 2001 to 2002. Expenses increased, however, at an average annual rate of 3.6% from fiscal year 1998 through fiscal year 2002. 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.

Terrorist Attacks' Financial Impact on the Airport

Heightened security requirements as a result of the Terrorist Attacks (defined herein) has had an adverse impact on the Airport's operating budget. For fiscal year ending September 30, 2002, approximately $1,085,000

was spent on new security measures. A significant portion of this expense, however, represents one-time costs of certain security-related equipment purchases.

For fiscal year ending September 30, 2003, operating expenditures on security measures are estimated at $840,000, $400,000 of which is anticipated to come from federal sources. The remaining $440,000 will be made available from the Airport's Operating Fund. Future annual operating expenditures are expected to remain at the current fiscal year's $840,000 level. The portion of this expense for which the Airport is responsible is incorporated into airline rates and charges. At this time, future capital costs associated with baggage screening are unknown. A terminal programming study, initiated for the purpose of determining facility requirements and potential costs of an in-line baggage system, is currently underway.

AIRLINES RATES AND CHARGES

The City maintains lease agreements (the "Signatory Agreement") with airlines operating from the International Airport. A new form of 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, American, Continental, Delta, Mexicana, Midwest Express, Northwest, Southwest, and United.

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 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 Signatory 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, D.C., 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, D.C., 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, D.C., 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 have not signed, and will not sign, the Signatory Agreement (the "Non-Signatory Airlines"), which include America West, America West Express, Atlantic Southeast, and Comair, 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 2002, the landing fee was $0.95 for both Signatory Airlines and Non-Signatory Airlines and the average terminal rental rate was $33.50 for the Signatory Airlines and $53.60 for Non-Signatory Airlines. The aggregate fiscal year 2002 cost per enplaned passenger for all airlines was $4.14.

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. There can be no assurance, however, 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 Law Affecting Airport Rates and Charges - Federal Grants-in-Aid," herein. 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.

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 (codified at 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's collected 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 (i) 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 (ii) 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 Series 2003 Bonds and does not necessarily reflect the relative importance of the various risks. Potential purchasers of the Series 2003 Bonds are advised to consider the following factors, among others, and to review the other information in this Updated Official Statement in evaluating the Series 2003 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 Series 2003 Bonds. There can be no assurance that other risk factors will not become material in the future.

General Factors Affecting the Airline Industry

General. 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. Starting in the first quarter of 2001, most airlines began to experience deterioration of their financial condition. Domestic airlines posted net profits of $5.3 billion in 1999, net profits of $2.6 billion in 2000, and net losses of $1 billion in the first half of 2001. Prior to the Terrorist Attacks, the domestic airline industry was predicting total 2001 losses of approximately $2.5 billion; however, the impact of the Terrorist Attacks caused industry-wide losses for 2001 in excess of $7 billion. Losses in 2002 are expected to equal or exceed those from 2001.

Airline Bankruptcy. In the event of bankruptcy proceedings involving an airline operating at the Airport, the debtor or its bankruptcy trustee must determine within a time period determined by the bankruptcy court whether to assume or reject the applicable operating lease agreement between the Airport and the airline. If assumed, the debtor would be required to cure any prior defaults and to provide adequate assurance of future performance. Rejection of the lease would give rise to the Airport's unsecured claim for damages, the amount of which, in the case of a lease, is limited by the Bankruptcy Code.

Extended operating losses resulted in the recent bankruptcy filings of two of the airline industry's larger participants. US Airways, which ceased service to and from the Airport in 1997, filed its petition for reorganization under Chapter 11 of the Bankruptcy Code ("Chapter 11") on August 11, 2002. UAL Corporation and 27 of its United States-based subsidiaries, including United Air Lines, Inc. ("United Airlines") (the fifth largest carrier at the Airport in 2002 based on domestic and international passenger enplanements), filed voluntary petitions for Chapter 11 relief on December 9, 2002. United Airlines received a ruling from the bankruptcy court on January 10, 2003, allowing it to implement interim wage reductions of approximately $70 million a month, beginning in January 2003, for all of its union groups. UAL Corporation announced that this ruling will assist United Airlines in emerging from bankruptcy. United Airlines will continue operations at the Airport under the terms of its Signatory Agreement.

There exists a constant flow of financial information regarding domestic airlines and the continuing deterioration of their financial condition. Potential investors are urged to review the financial information filed by all airlines serving the Airport. See "AIRLINES RATES AND CHARGES" herein. The included information regarding airline performance and airline bankruptcy has been assimilated from publicly available press releases. Neither the City nor the Underwriters make any representation as to the accuracy or completeness of such information.

Impact of Terrorist Attacks on the Airline Industry and the Airport

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 passengers resulting in the aftermath of the Terrorist Attacks, coupled with the aforementioned cessation of air travel immediately thereafter, exacerbated the financial difficulties for a majority of major airline carriers. To help mitigate this situation, the federal government enacted into law the Air Transportation Safety and Stabilization Act, which provided 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. As mentioned, certain airlines have recently filed for bankruptcy protection. Certain other 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."

As a result of the Terrorist Attacks, the Aviation and Transportation Security Act (the "ATSA") 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 are now federal employees, will undergo criminal background checks, and must be U.S. citizens. By 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. The ATSA mandates that certain security measures be undertaken at airports, including the Airport. Among others, the ATSA requires the following security measures to be taken: (i) screening or inspection of all individuals, goods, property, vehicles, and equipment before entry into a secured area of the airport; (ii) security awareness programs for airport employees; (iii) screening of all checked baggage by explosive detection devices beginning in 2003, a requirement with which the Airport has complied by installing a combination of explosive threat detection devices and CTX Scanners, which became fully operational on December 31, 2002; and (iv) operation of a system to screen, inspect, or otherwise ensure the security of all cargo to be transported in all-cargo aircraft.

The new federal security screening services are being 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.

The Homeland Security Act (the "HSA") was signed into law by President Bush in November 2002 to assist in the management of hardships created by terrorist activity. Among other measures, the HSA called for the creation of the Department of Homeland Security (the "DHS") to accomplish numerous safety-related goals, including prevention of terrorist attacks within the United States, reduction of this nation's vulnerability to terrorism, and minimization of damage resulting from terrorist attacks and expediting the recovery therefrom. Under the HSA, the Transportation Security Administration became a part of the DHS. The HSA extends the federal government's guarantee of war-risk insurance to airlines through at least August 31, 2003 and, at DHS's option, through December 31, 2003, eliminates the deductible to be paid for war-risk insurance coverage, and expands the scope of such coverage to include hull loss and injuries to passengers and crew. The HSA also caps the total premium paid by any airline for war-risk insurance coverage at no more than twice the premium the airline was paying DOT for its third party policy as of June 19, 2002.

The Terrorism Risk Insurance Act was also signed into law by President Bush in November 2002. This law established the Terrorism Insurance Program within the Department of the Treasury, with the aim of ensuring the availability of property and casualty insurance for terrorism risk by having the federal government temporarily share the burden of compensating for insured losses. The program lasts until December 31, 2005. Losses resulting from terrorist acts incurred by passenger or cargo air airlines, United States flag vessels, and qualifying vessels based principally in the Untied States are covered by the program, regardless of where the loss occurs.

The United States government launched a military offensive against those perceived to be responsible for the Terrorist Attacks. While the frequency of related military action has diminished, President Bush has warned that any such offensive may continue for years. Ongoing conflicts with the governments of Iraq and North Korea, respectively, could result in the United States' declaration of war against either country. Additionally, the possibility of future terrorist attacks against the United States or its interests persists. Neither the City, the Department, nor the Underwriters can predict effects to the air transportation system if any of these events occur.

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 Gross Revenues, and 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 additional airlines to seek bankruptcy protection.

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.

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 Airport, from time to time to meet applicable standards.

City 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 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 are not special revenues or if the Bondholders do not have a statutory lien on post-bankruptcy Gross 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 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 costs at the Airport, notwithstanding any provision of the Ordinance 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 and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) certificates of deposit 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 the 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 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 rated at least "A-1" or "P-1" or an equivalent rating 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 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 at not less than "AAA" or its equivalent; 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 ten 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; investment diversification, yield, maturity, and the quality and capability of investment management; and include a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "investment strategy statement" that specifically addresses each funds' investment. Each investment strategy statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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 December 31, 2002, investable City funds, in the approximate amount of $886,567,792, were 85.23% invested in obligations of the United States, or its agencies and instrumentalities, and 12.85% invested in a money market fund, with the weighted average maturity of the portfolio being less than one year. The remaining 1.92% 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 100.03% 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

General Litigation and Claims

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and promotional practices; various claims from contractors for additional amounts under construction contracts; and property tax assessments and various other liability claims. The amount of damages in most of the pending lawsuits are capped under the Texas Tort Claims Act; therefore, the potential liability is approximated at $10.5 million which is included in the reserve recorded in the City's Insurance Reserve Fund. The status of such litigation ranges from early discovery stage to various levels of appeal of judgments both for and against the City. The City intends to defend vigorously against the lawsuits; including the pursuit of any and all appeals; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the final outcome of such lawsuits.

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

Information regarding various lawsuits against the City is included in Footnote 11, "Commitments and Contingencies", of the City's Audited Financial Statement for the fiscal year ended September 30, 2002 (excerpts from which are attached hereto as Exhibit C).

Criminal Investigations

On October 10, 2002, the U.S. Attorney's Office announced indictments against Councilmen John H. Sanders and Enrique Martin on charges of conspiracy to commit bribery, bribery, and aiding and abetting charges. The indictments allege that the two Councilmen voted to award a contract to a certain San Antonio based law firm in exchange for cash payments. The federal grand jury has also subpoenaed Mayor Garza and seven other Council members in connection with the investigation.

On October 22, 2002, the Bexar County District Attorney's Office announced an indictment against Councilman Enrique Martin on charges of conspiracy to commit the following: organized criminal activity, bribery, bid rigging, tampering with government records, abuse of official capacity, money laundering, felony theft, aggravated perjury, and tampering with witnesses; and the commission of theft, abuse of official capacity, and bribery, in connection with a certain zoning case before the City Council and award of a certain contract considered by the Board of Trustees of the Alamo Community College District.

The City is unable to otherwise comment on these events or any such investigations. The City is also unable to predict, at this time, how these indictments will be resolved or what actions the federal and state prosecutors and, alternately the courts, will take to resolve these matters. The indicted Council members have denied the allegations and have indicated they will defend against these charges.

TAX MATTERS

Opinion

On the Settlement Date, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), interest on the Series 2003 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 Internal Revenue Code of 1986 (the "Code") as a "substantial user" of the facilities financed or refinanced with the Series 2003 Bonds or a "related person" to such user. Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Series 2003 Bonds. See "Appendix F – Form of Opinion of Bond Counsel" attached hereto.

In rendering its opinion, 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 Ordinance relating to certain matters, including arbitrage and the use of the proceeds of the Series 2003 Bonds and the property financed or refinanced therewith. Although it is expected that the Series 2003 Bonds will qualify as tax-exempt obligations for federal income tax purposes as of the date of issuance, the tax-exempt status of the Series 2003 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 Series 2003 Bonds to become taxable retroactively to the date of issuance.

The law upon which Bond Counsel has based its opinion is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Series 2003 Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations, and covenants. 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 the 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 Series 2003 Bonds. Additionally, no assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Series 2003 Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the Series 2003 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 Series 2003 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 Series 2003 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 Series 2003 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 from the purchase, ownership, or disposition of the Series 2003 Bonds. This discussion is based on existing statutes, regulations, published rulings, and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, 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 SERIES 2003 BONDS.

INTEREST ON THE SERIES 2003 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 Series 2003 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 Series 2003 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 Series 2003 Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount 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 Series 2003 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.

Audit Program

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings, and court decisions and the representations and covenants of the City. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on governmental obligations. If an audit of the Series 2003 Bonds is commenced, under current procedures the Service is likely to treat the City as the "taxpayer", and the owners of the Series 2003 Bonds (the "Owners") would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Series 2003 Bonds, the City may have different or conflicting interests from the Owners. Public awareness of any future audit of the Series 2003 Bonds could adversely affect the value and liquidity of the Series 2003 Bonds during the pendency of the audit, regardless of its ultimate outcome.

REGISTRATION AND QUALIFICATION OF SERIES 2003 BONDS FOR SALE

The sale of the Series 2003 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 Series 2003 Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Series 2003 Bonds been qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for qualification of the Series 2003 Bonds under the securities laws of any jurisdiction in which the Series 2003 Bonds may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Series 2003 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 Series 2003 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 Series 2003 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 Series 2003 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 Series 2003 Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations. The Series 2003 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 Series 2003 Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Series 2003 Bonds for such purposes. The City has made no review of laws in other states to determine whether the Series 2003 Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

On the Settlement Date the City will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Series 2003 Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Series 2003 Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the final updated legal opinion of Bond Counsel to the effect that the Series 2003 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 Series 2003 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 Series 2003 Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Series 2003 Bonds, will also be furnished. In its capacity as Bond Counsel, McCall, Parkhurst & Horton L.L.P. has reviewed the information appearing in this Updated Official Statement under the captions "PLAN OF FINANCING," "THE SERIES 2003 BONDS" (excluding the subsections entitled "Book-Entry-Only System" and "Payment Record" as to which no view is expressed by Bond Counsel), "FLOW OF FUNDS," "TAX MATTERS," "REGISTRATION AND QUALIFICATION OF SERIES 2003 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. Bond Counsel has not, however, independently verified any of the factual information contained in this Updated 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 Updated Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinions of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Series 2003 Bonds are contingent on issuance and delivery of the Series 2003 Bonds. The legal opinion of Bond Counsel will be printed on the definitive Series 2003 Bonds, if any, and the form of such opinion is attached hereto as Appendix B. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriters by their counsel, Akin Gump Strauss Hauer & Feld LLP, San Antonio, Texas.

Neither the Attorney General, Bond Counsel, the 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 Series 2003 Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Series 2003 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

Bond Insurance Policy

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

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

Financial Security Assurance Inc.

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

At September 30, 2002, Financial Security's total policyholders' surplus and contingency reserves were approximately $1,728,433,000 and its total unearned premium reserve was approximately $972,390,000 in accordance with statutory accounting principles. At September 30, 2002, Financial Security's total shareholder's equity was approximately $1,928,564,000 and its total net unearned premium reserve was approximately $814,684,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

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

RATINGS

Moody's, S&P, and Fitch have conditionally rated the Series 2003 Bonds "Aaa", "AAA", and "AAA", respectively, based on final delivery of the Policy on the Settlement Date. An explanation of the significance of such ratings may be obtained from Moody's, S&P, or Fitch. The rating of the Series 2003 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 Series 2003 Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and Beneficial Owners of the Series 2003 Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Series 2003 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 Updated 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 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change.

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Series 2003 Bonds, if such event is material to a decision to purchase or sell Series 2003 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 Series 2003 Bonds; (7) modifications to rights of holders of the Series 2003 Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2003 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.

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 Series 2003 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 Series 2003 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 Series 2003 Bonds in the primary offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering, as well as such changed circumstances, and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorize such an amendment) of the outstanding Series 2003 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 Series 2003 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 Series 2003 Bonds in the primary offering of the Series 2003 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 Updated Official Statement 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 Updated 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 Updated 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 Series 2003 Bonds and, in such capacity, have assisted the City in the preparation of certain documents related thereto.

The Co-Financial Advisors have not independently verified any of the information set forth herein. The information contained in this Updated 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 an implicit or explicit expression of opinions as to the completeness and accuracy of the information contained in this Updated Official Statement.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2003 Bonds from the City at a purchase price of $51,412,427.05 (which represents the par amount of the Series 2003 Bonds plus a premium of $1,534,037.05 and less an Underwriters' discount of $351,610.00) and no accrued interest. The Underwriters' compensation is $351,610.00 and was paid in part from available funds of the Airport System on or about May 16, 2001. The remainder of the Underwriters' compensation will be paid on the Settlement Date from the proceeds of the Series 2003 Bonds. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Series 2003 Bonds if any Series 2003 Bonds are purchased. The Series 2003 Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed from time to time by the Underwriters.

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

CERTIFICATION OF THE UPDATED OFFICIAL STATEMENT

At the time of payment for and delivery of the Series 2003 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 Updated Official Statement, and any addenda, supplement, or amendment thereto, for the Series 2003 Bonds, on the date of such Updated Official Statement, on the date of sale of said Series 2003 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 Updated 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 Updated 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 Updated Official Statement.

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AUTHORIZATION OF THE UPDATED OFFICIAL STATEMENT

This Updated Official Statement has been approved as to form and content and the use thereof in the offering of the Series 2003 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 Series 2003 Bonds, a certified copy of such approval, duly executed by the proper officials of the City.

* * *

This Updated 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/ Yvonne Ledesma
Acting City Clerk, City of San Antonio, Texas

SCHEDULE I

TABLE OF REFUNDED OBLIGATIONS

CITY OF SAN ANTONIO, TEXAS
AIRPORT SYSTEM REVENUE REFUNDING BONDS, SERIES 1993*

MATURITY	PRINCIPAL AMOUNT
2004	$ 3,525,000
2005	3,775,000
2006	4,050,000
2007	4,335,000
2008	4,645,000
2009	4,975,000
2010	5,345,000
2011	5,735,000
2012	6,160,000
2013	6,610,000
	$49,155,000

* All Refunded Obligations will be called for redemption on July 1, 2003 at the redemption price of 102% of par, plus accrued interest.

APPENDIX A

CITY OF SAN ANTONIO
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

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

Population and Location

The 2000 U.S. Census Bureau cites the population of the City to be 1,144,646. The City's Department of Planning estimated the City's population at 1,251,200 for the calendar year ending December 31, 2002. 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's Department of Planning estimated Bexar County's population at 1,512,800 for the calendar year ending December 31, 2002 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, respectively.

The following table provides, as of April 1 for the years shown, the population of the City, Bexar County, and the San Antonio Metropolitan Statistical Area ("MSA"), which includes Bexar County and portions of, Comal, Wilson, 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. 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 448.9 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

Through annexation, the City has grown from its original size of 36 square miles to its current area, encompassing 448.8961 square miles and having a fiscal year 2003 total market valuation of $46.390 billion. The City expects to continue to utilize the practice of annexation as a future growth and development management tool, as well as an opportunity to enhance the City's fiscal position. Planned annexations by the City are currently under consideration.

At its November 20, 2002 meeting, the City Council annexed, effective December 31, 2002, five areas for inclusion within the City for full purposes, adding 18.7031 square miles of land to the City's total area. At that same meeting, the City Council also annexed, effective January 5, 2003, six areas for inclusion within the City for limited purposes. These areas annexed for limited purposes will, upon full purpose annexation, add a total of 56.9656 square miles of land to the City's total area; however, they are not currently included within the calculation of the City's total area given the possibility of de-annexation three years from the date of initial annexation. (See "Limited Purpose Annexation" below).

Limited Purpose Annexation

The City annexed for limited purposes, effective January 5, 2003, six areas south of San Antonio. Limited purpose annexation allows the City to extend regulatory authority for the limited purposes of applying its planning, zoning, health, and safety ordinances to specified areas. The City may not impose a property tax in such areas until the property is annexed for full purposes, which generally occurs within three years after limited purpose annexation.

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

Annexation Legislation

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

The City Council, at its September 19, 2002 meeting, adopted a three-year annexation plan for the City identifying 13 areas for either limited or full purpose annexation, as required by the Annexation Act (such requirement now codified at Section 43.052, Texas Local Government Code), of which 11 areas were annexed in the manner described in "Annexation Plan" above. The City Council added 13 areas identified for annexation by December 31, 2005.

Form of Government and Administration

The City's 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 occurred in 2001 and included, among others, provisions creating the position of an independent City Internal Auditor and granting the City Manager the power to appoint and remove the City Attorney upon the City Council's advice and/or confirmation.

The City Council is composed of 11 elected members, with 10 members elected from single-member districts, while the Mayor is elected at large. Because of the aforementioned term-limits, City Council members 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, 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's operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. CPS revenue transfers to the City for its fiscal year ending January 31, 2003 were $172,236,562. CPS revenue transfers to the City for the City's fiscal year ending September 30, 2002 were $165,331,604.

Water, wastewater, recycled water, steam, and chilled water services are provided by the San Antonio Water System ("SAWS"), another City-owned and operated utility. In addition to these services, SAWS contracted with the City to provide certain storm water services thereto and it manages and develops water resources in and around the San Antonio region. SAWS is in its 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 from revenues received from charges to its customers. SAWS revenue transfers to the City for the City's fiscal year ended September 30, 2002 were $6,116,065.

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 MSA for December 2002 was 769,520, which is 11,161, or 1.47%, more jobs than the December 2001 total of 758,359. Service, trade, and government represent the largest employment sectors in the San Antonio MSA. Medical and bio-medical, tourism, and the military represent the largest industries in San Antonio. The City serves as a major insurance center in the southwest United States and is the headquarters location for several insurance companies. According to the Greater San Antonio Chamber of Commerce Largest Employers Directory 2002, San Antonio's seven largest private sectors employers are: Valero Energy Corporation, United Services Automobile Association, H.B. Zachry Company, H.E.B. Grocery Company, SBC Communications, Inc., SBC Southwestern Bell, and Baptist Health System. The five largest publicly traded companies in the City, ranked by revenues, are SBC Communications, Inc., Valero Energy Corp., Clear Channel Communications, Inc., Tesoro Petroleum Corp., and Harte-Hanks Inc., according to the San Antonio Business Journal Book of Lists 2003.

Healthcare & Bioscience Industry

The healthcare and bioscience industry remains the largest industry segment in the San Antonio economy, according to the San Antonio Greater Chamber's Economic Impact Study, 2001. The industry is diversified, with related industries such as research, pharmaceuticals, manufacturing, and insurance contributing approximately the same economic impact as health services. The total economic impact from this industry sector totaled approximately $11.5 billion in 2001. The industry provided nearly 98,000 jobs, or approximately 14% of the City's total workforce. The healthcare and bioscience industry's annual payroll in 2001 approached $3.5 billion, up 16% from 1998. The 2001 average annual wage of City workers was $30,652, compared to $34,352 for healthcare and bioscience employees. These 2001 economic impact figures represent growth of 5% over the previous year, or

approximately $570 million. In addition, the industry grew by 17% over the four years preceding the date of the aforementioned economic impact study.

Health Care. The 900-acre South Texas Medical Center (the "Medical Center") has 10 major hospitals and nearly 80 clinics, professional buildings, and health agencies with combined budgets of over $2.3 billion as of January 2002. As of January 2002, approximately 24,800 Medical Center employees provided care for over 3.3 million outpatients and approximately 98,000 inpatients. Physical plant values representing the original investments in physical facilities and equipment (less depreciation) held relatively steady at $1.7 billion. The Medical Center has about 300 acres of undeveloped land still available for expansion. Capital projects already in progress total $136 million. Projects planned for the next five years will add an additional estimated $165 million to present physical plant and equipment values.

Central to the Medical Center is The University of Texas Health Science Center at San Antonio (the "UT Health Science Center") with its five professional schools awarding more than 50 degrees and certificates, including Doctor of Medicine, Doctor of Dental Surgery, and Doctor of Philosophy in nursing, allied sciences, and other fields. The UT Health Science Center oversees the new, federally-funded Regional Academic Health Center in the Rio Grande Valley with facilities in Harlingen, McAllen, Brownsville, and Edinburg. An extension campus is under construction in Laredo, Texas.

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

Military Health Care. San Antonio has three major military hospitals, each of which has positively impacted the City for decades. Brooke Army Medical Center ("BAMC") conducts treatment and research in a new, 1.5 million square foot facility at Fort Sam Houston U.S. Army Base, providing health care to nearly 600,000 military personnel and their families. BAMC is a major trauma center and contains the world-renowned Institute of Surgical Research Burn Center. BAMC also conducts bone marrow transplants in addition to more than 600 ongoing research studies.

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

Audie L. Murphy Memorial Veterans Hospital, located in the Medical Center, is an acute care facility and supports a nursing home, the Spinal Cord Injury Center, an ambulatory care program, the Audie L. Murphy Research Services (which is dedicated to medical investigations), and the new Frank Tejeda VA Outpatient Clinic (which serves veterans located throughout South Texas).

Bio-Medical Research and Development. Research and development are important areas that strengthen San Antonio's position as an innovator in the bio-medical field, with total research economic impact exceeding $681.7 million annually.

The Texas Research Park (the "Park") is the site for the University of Texas Institute of Biotechnology, the Cancer Therapy and Research Center's Institute for Drug Development, dozens of new biotechnology-related companies, and will soon include the South Texas Centers for Biology and Medicine. The Park has over $100 million invested in its facilities and equipment and generates more than $200 million in economic activity for the City each year. The Park is owned and operated by the Texas Research Park Foundation, whose mission includes building a world-class center for life-science research and medical education and promoting economic development through job creation. SBC Communications, Inc. recently donated $1.8 million to the Park for a 7,000 square foot, state-of-the-art teleconferencing building that will link all facilities at the Park to the UT Health Science Center and the University of Texas San Antonio ("UTSA").

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

and is internationally renowned. The Southwest Foundation for Biomedical Research has a full time staff of 65 doctoral degree recipients, a technical staff of 102, and an administrative and supporting staff of 165 persons. Research departments include Departments of Genetics, Physiology and Medicine, Virology and Immunology, and Organic and Biological Chemistry. The Department of Laboratory Animal Medicine maintains the animal care facilities.

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

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

A number of highly successful private corporations, such as Mission Pharmacal, DPT Laboratories, Ltd., and ILEX Oncology, Inc., operate their own research and development groups and act as guide posts for numerous biotech startups, bringing new dollars into the area's economy. A notable example of the results of these firms' research and development is ILEX Oncology, Inc., which has developed 8 of the last 11 cancer drugs approved for general use by the Federal Drug Administration.

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 a total economic impact of more than $4 billion. The list of attractions in the San Antonio area includes, among many others, the Alamo and other sites of historic significance, the River Walk, two major theme parks (Seaworld of Texas and Six Flags Fiesta Texas), and the professional basketball team, the San Antonio Spurs.

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Conventions. 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]
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
2002	1,218	609,036	987,912	548,674,442

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

2 For the years of 1993 through 1997, the estimated dollar value is calculated in accordance with a 1993 Deloitte & Touche LLP study for the International Association of Convention and Visitors Bureaus ("IACVB") which reflected the average expenditure of $818.82 per convention and trade show delegate. Beginning in 1998, the estimated dollar value is calculated in accordance with the 1998 IACVB Foundation Convention Income Survey Report conducted by Deloitte & Touche LLP which reflected the average expenditure of $900.89 per convention and trade show delegate.

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.

Military Installations

The military represents a principal component of the City's economy. Three major military installations are currently located in Bexar County, including Lackland Air Force Base ("Lackland AFB"), Fort Sam Houston U.S. Army Base ("Fort Sam"), and Randolph Air Force Base ("Randolph AFB"). In addition, the property of Brooks Air Force Base ("Brooks AFB"), a fourth major military installation, was transferred from the United States Air Force (the "Air Force") to the City on July 22, 2002, as part of the "Brooks City-Base Project." The total military employment associated with the three active military installations and Brooks City-Base, (formerly Brooks AFB), approximates 73,189 military, civilian, and guard reserve part-time personnel, an annual aggregate payroll of $2.9 billion, and a total economic impact of $4.8 billion.

Military Base Redevelopment. On July 13, 2001, Kelly Air Force Base officially closed and the land and facilities were transferred to the Greater Kelly Development Authority ("GKDA"), a City Council-created organization responsible for overseeing the base's redevelopment into a business and industrial park. The new business park, known as KellyUSA, is focused on: (i) establishing an intermodel logistics distribution center promoting Inland Port San Antonio and international trade primarily with Mexico and Central and South America and (ii) becoming both a renowned international aviation overhaul and repair center and a manufacturing center for the City. KellyUSA assets, including roads, buildings, and an 11,400-foot runway for commercial air operations, are valued at $1.8 billion. To further the redevelopment goals, GKDA has completed over $105 million in new construction and facility upgrades over the past two years including a new 123,000 square foot hangar for Boeing and a new office building (which is currently leased at 94% of capacity). In addition, GKDA has planned a $108.6 million capital improvement program for the next five years, including the demolishing of 1.2 million square feet in unusable facilities. As of June 2002, these efforts have resulted in the retention of 7,000 military and the creation of over 5,400 new commercial jobs. GKDA has also executed 60 leases totaling approximately 4.4 million square feet of the space available with tenants such as Boeing, Lockheed-Martin, Chromalloy, Standard Aero, General Dynamics, General Electric, and Pratt & Whitney. An additional 2.4 million square feet of space has been leased back to the Air Force for its continued use.

The Brooks City-Base Project is a collaborative effort between 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 its support operating costs, and promote and enhance economic development on Brooks AFB and in the surrounding community. Both the City and the Air Force are partnering to utilize City incentives and existing Brooks AFB resources to create the Brooks Technology & Business Park ("Brooks Technology & Business Park"), a facility that will foster the development of key targeted industry sectors, such as health services and biotechnology. Brooks Technology & Business Park was officially established on July 22, 2002 with the transfer of the 1,310 acres of land and improvements comprising Brooks AFB to the City Council-established organization, Brooks Development Authority ("BDA"), with the Air Force becoming Brooks Technology & Business Park's anchor tenant and leasing back additional facilities, as necessary, to perform its missions. The City is now providing municipal services to Brooks Technology & Business Park and has been providing fire and police services thereto since October 2001. Base electric, gas, and water utilities have been transferred by the BDA to the City-owned utilities, CPS and SAWS, respectively. The BDA is also contracting with Grubb & Ellis, a national real estate developer and property management firm, to manage Brooks Technology & Business Park facilities and to facilitate the attraction of new tenants and jobs.

Despite the official closure of Kelly Air Force Base in July 2001, the level of military-related employment has remained stable over the past 12 months due to growth and expansion of missions at Lackland AFB and Fort Sam. The City, in partnership with the Greater San Antonio Chamber of Commerce, community volunteers, Bexar County, and community stakeholders, has formed a Military Missions Task Force (the "Task Force") to continue working with local military installations to improve their military value, strengthen partnerships with local institutions, and to help attract new missions and jobs to San Antonio. With another round of base closure and realignment scheduled for 2005, the community has been proactive in strengthening the value of its military installations through unique initiatives like the Brooks City-Base project and the Fort Sam leasing project discussed below. The Task Force will continue to facilitate the success of these projects and to develop new partnership initiatives with the military bases.

Fort Sam has also initiated leasing activities to reduce infrastructure costs and pursue asset management opportunities using military facilities. In April 2000, the United States Army (the "Army") entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. ("FSHRP"), for the redevelopment of the former Brooke Army Medical Center ("BAMC") and two other buildings at Fort Sam. These three buildings, totaling about 500,000 square feet in space and located in a designated historic district, 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. On September 17, 2002, the Army announced that it would be relocating U.S. Army South from Puerto Rico to Fort Sam in 2003, bringing approximately 500 new jobs to San Antonio with an annual economic impact of approximately $200 million. The Army has negotiated a lease with the FSHRP to locate U.S. Army South and the Southwest Region Installation Management Agency in the old BAMC, clearing the way for renovation to begin on these historic facilities. The continued success of this unique public-private partnership at Fort Sam is critical to assisting the Army in reducing infrastructure support costs, preserving historical assets, promoting economic development opportunities, and generating net cash flow for both the Army and FSHRP. This project supports the City's economic development strategy to promote development in targeted areas of the City, leverage military installation economic assets to create jobs, and assist our military installations in reducing base support operating costs. The Army also intends to extend this initiative to include other properties at Fort Sam currently available for redevelopment.

Other Significant Industries

Aerospace Industry. The aerospace industry's annual economic impact to the City is $2.5 billion, a figure which represents five percent of the City's economy. This industry provides over 10,000 jobs, with employees earning total annual wages totaling over $370 million. The aerospace industry continues to expand as the City leverages its key aerospace assets, which include San Antonio International Airport, Stinson Municipal Airport, KellyUSA, Randolph AFB and Lackland AFB, and training institutions. Many of the major aerospace industry participants have significant operations in San Antonio, such as Boeing, Lockheed Martin, General Electric, Pratt & Whitney, Raytheon, Cessna, Southwest Airlines, FEDEX, UPS, and others. The industry in San Antonio is very diversified with continued growth in air passenger service, air cargo, maintenance repair and overhaul ("MRO") and general aviation. San Antonio International Airport has added four new non-stop passenger routes in the past 12 months and

currently has flights to 30 non-stop destinations, with new charter service to Mexico available in March 2003. Stinson is at 100% occupancy rate and has a tenant waiting list for facilities. A Stinson Master Plan was approved by the City Council in October 2002 and is pending approval by the Federal Aviation Administration. At KellyUSA, the MRO business is strong as tenants such as Boeing and Lockheed continue to secure long term government contracts. KellyUSA is also working to add air cargo activity following completion of an Air Cargo Study and Strategic Plan in June 2002. This study also provided San Antonio International Airport with an Air Cargo Strategic Plan that includes recommendations on expanding the existing and growing air cargo business created primarily by UPS, FEDEX, and Airborne Express operations. In June 2002, the innovative Alamo Area Aerospace Academy ("AAAA") graduated its first class of high school students, with 15 of the 25 seniors in the class finding employment with local aerospace employers. The Fiscal Year 2003 class of 127 commenced in August 2002. This innovative workforce initiative provides high school juniors and seniors a dual-credit aerospace curriculum taught by the Austin Community College District and offers paid summer internships with local employers.

Aerospace Research and Development. Brooks Air Force Base 311th Human Systems Wing's School of Aerospace Medicine, long active in research and development related to aviation and human systems, conducts a wide variety of research related to human effectiveness in aviation and is opening a new aircraft sustainability laboratory that will conduct research and development applicable to commercial aviation.

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

Information Technology Industry. The Information Technology ("IT") industry is one of the fastest growing sectors of the local economy. With an overall economic impact of approximately $3.4 billion, the IT industry represents about 7% of the San Antonio economy. This economic impact has tripled since 1990 and doubled since 1995. The IT industry includes two major types of activity: (i) the production and sale of various types of computer products and (ii) computer/data processing services. The annual payroll among IT industry employees is about $500 million, with employment of approximately 11,500 individuals. Not captured in this employment number is an additional 4,600 employees of the Air Intelligence Agency, which is the premier IT agency for the Air Force and the Department of Defense, and is located in San Antonio. Due to the success of the AAAA, the community also established a similar academy for IT, which began in August 2002 with an enrollment of 81 high school juniors. The City is focused on leveraging its IT industry assets to serve the nation in developing and implementing the initiatives of the federal Homeland Security Act.

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

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Growth Indices

City Public Service Electric and Gas Customers.

As of December 31	Electric Customers	Gas Customers
1993	493,763	292,111
1994	504,810	295,092
1995	516,679	297,654
1996	528,302	299,140
1997	538,729	301,044
1998	548,468	301,842
1999	560,628	302,991
2000	575,461	305,181
2001	589,426	305,702
2002	594,945	306,503

Source: CPS (defined herein).

San Antonio Water System Average Customers per Fiscal Year.

Fiscal Year Ended May 31[1]	Water Customers[2]
1993	253,902
1994	257,733
1995	266,308
1996	269,405
1997	273,276
1998	270,897
1999	279,210
2000	285,887
2001	292,136
2002	298,215

[1] On April 3, 2001, the SAWS (defined herein) Board of Trustees approved the changing of SAWS' fiscal from a year-end of May 31 to December 31.
[2] Excluding SAWS irrigation customers.
Source: SAWS (defined herein).

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Construction Activity

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

Calendar	Residential Single Family		Residential Multi-Family[1]		Other[2]	
Year	Permits	Valuation	Permits	Valuation	Permits	Valuation
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
2002	6,347	435,090,131	246	101,680,895	14,326	833,144,271

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

Total Municipal Sales Tax Collections – Ten Largest Texas Cities

	Calendar Year					
	2002	2001	2000	1999	1998	1997
Amarillo	$ 44,201,183	$ 43,357,043	$ 42,474,995	$ 40,781,524	$ 39,276,557	$ 37,611,600
Arlington	42,293,256	65,948,096	65,264,427	60,092,585	57,095,137	54,923,300
Austin	110,208,923	117,393,240	117,818,293	104,915,700	94,261,113	85,272,735
Dallas	192,542,321	210,130,838	215,412,071	198,740,061	189,502,534	173,592,271
El Paso	47,465,776	46,876,210	45,970,014	43,603,400	41,414,498	39,097,126
Fort Worth	72,632,487	72,975,421	71,543,992	68,142,426	64,116,910	57,778,025
Houston	334,122,179	337,540,694	321,095,967	308,508,700	296,149,172	270,268,332
Irving	38,810,594	43,188,105	44,773,277	42,773,277	37,198,548	33,805,687
Plano	45,309,249	47,327,003	47,325,948	40,483,049	36,058,044	32,420,190
SAN ANTONIO	153,207,656	151,422,401	133,360,785	126,060,252	117,583,252	108,526,967

Source: State of Texas, Comptroller's Office.

Education

There are 15 independent school districts within Bexar County, with 41 high schools, 74 middle schools, and 230 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, Bexar County has 92 accredited private and parochial schools at all education levels. In San Antonio, there are seven accredited universities and four public community colleges, excluding business and professional schools, which had a combined enrollment of 83,344 students for the Fall 2002 semester.

Source: Texas Education Agency.

Employment Statistics

The following table indicates the total civilian employment in the San Antonio MSA for the period of December 2002, as compared to the prior periods of November 2002 and December 2001.

	December 2002	November 2002	December 2001
Civilian Labor Force	807,583	813,875	791,854
Total Unemployment	38,063	41,179	33,495
Total Employment	769,520	772,696	758,359
Unemployment Rate	4.7%	5.1%	4.2%

The following table shows certain nonagricultural wage and salary employment by industry in the San Antonio MSA for the period of December 2002, as compared to the prior periods of November 2002 and December 2001.

	December 2002	November 2002	December 2001
Mining	2,400	2,400	2,300
Construction	44,900	44,600	41,500
Manufacturing	52,400	52,500	53,600
Transportation, Communication, and Utilities	34,400	34,400	35,700
Trade	178,400	176,600	180,800
Finance, Insurance, and Real Estate	51,700	51,700	51,800
Services and Miscellaneous	234,900	235,500	232,000
Federal Government	28,800	28,800	28,200
State Government	15,600	15,600	15,400
Local Government	93,400	93,700	90,400
Total	736,900	735,800	731,700

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

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Employers with 500 or More Employers in the San Antonio Metropolitan Area (Includes Bexar, Comal, Guadalupe, and Wilson Counties)

Construction

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

Finance, Insurance, Real Estate

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
American Funds Group	Mutual Funds & Investments	Humana	Health Maintenance Organization
Bank of America	Commercial & Individual Banking	Security Service Federal Credit Union	Federal Credit Union
Benefit Planners, LLP	Insurance Claims Administrators	USAA	Insurance/Financial Services
Frost National Bank	Financial Services	Wells Fargo Bank	Financial Services
Homeside Lending, Inc.	Financial Institution	World Savings	Savings Deposits And Loans

Government

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
Bexar County	County Government	San Antonio Fire Department	Fire Department
Brooks Air Force Base	Military Installation	San Antonio Housing Authority	Public Housing Assistance
City of San Antonio	Municipal Government	San Antonio Police Department	Police Department
Fort Sam Houston	Military Installation	San Antonio Water System	Water Utility
Lackland AFB/37th Training Wing	Military Installation	Texas Dept of Transportation	Road Construction/Maintenance
Randolph Air Force Base	Military Installation	VIA Metropolitan Transit	Urban Public Transportation

Manufacturing

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
Alamo Concrete Products	Ready-Mix Concrete	Lancer Corporation	Beverage Dispensing Equipment
Bausch & Lomb, Ray-Ban	Sunglasses	Levi Strauss & Company	Menswear
Cardell Cabinetry	Cabinetry	Martin Marietta Materials SW, Inc.	Limestone, Asphalt & Concrete
Clarke American	Check Printing	Miller Curtain Company	Curtains & Draperies
Coca-Cola Bottling Co. of the SW	Soft Drinks, Beverage Service	Motorola	Industrial Electronics
Crest Door Systems	Metal Doors	Philips Semi Conductors	Semi-Conductors
DPT Laboratories, Inc.	Pharmaceuticals & Cosmetics	Plains Cotton Cooperative Assn.	Retail Textile Products
Fairchild Dornier Corporation	Regional Airliners/Corporate Jets	RCC Coozie Inc	Promotional Products
Flextronics Enclosures	Metal Stamping & Plastics	S.M.I.-Texas	Steel Manufacturing & Fabrication
Friedrich Air Conditioning Co.	Air Conditioning	San Antonio Express-News	Newspaper Publishers
Kinetic Concepts, Inc.	Specialty Medical Products	San Antonio Shoe, Inc. (SAS)	Mens and Ladies Shoes
L & H Packing Company	Meat Processing	Sony Semiconductor San Antonio	Semiconductors

Medical

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
Advanced Living Technologies	Skilled Nursing Care Facilities	Methodist Healthcare System	Health Care System
Alamo Medical Health Group	Psychiatric Clinic	Methodist Specialty & Transplant Hospital	Hospital And Health Care Services
Baptist Health System	Hospital & Health Education	Metropolitan Hospital	General Acute Health Care
University Health System	Health Care And Trauma Services	PacifiCare	Health Plans: HMO, PPO, POS
Brooke Army Medical Center	Military Health Care	San Antonio State Hospital	Mental Illness Treatment
Caremark Prescription Service	Mail Order Pharmacy	San Antonio State School	Mental Health Residential Care
Center for Health Care Services	Mental Health Case Management	Santa Rosa Health Care Corp.	Medical & Surgical Hospitals
Christus Santa Rosa Health Care	Hospital And Health Care	South Texas Veterans Health Care System	General Acute Care Hospital
Guadalupe Valley Hospital	Hospital Services	UT Health Science Ctr. at S.A.	Professional Health Education
McKenna Memorial Hospital	Health Care		

(Table continues on next page.)

Employers with 500 or More Employers in the San Antonio Metropolitan Area (Includes Bexar, Comal, Guadalupe, and Wilson Counties) (continued)

Retail

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
Aaron Rents and Sells Furniture	Office & Residential Furniture	Frontier Enterprises	Restaurant Headquarters
Curtis C. Gunn, Inc.	Auto Dealerships	H.E.B. Grocery Company	Groceries & Distributing HQ
Den-Tex Central Inc (dba Denny's)	24-Hour, Full Service Restaurants	Holt Company of Texas	Construction Equipment
Dillard's Department Stores	Department Stores	QVC San Antonio Inc.	Electronic Customer Service Ctr.
Foley's	Department Store	Super S Foods	Grocery Store

Service

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
Administaff, Inc.	Professional Employer Organization	North East ISD	Public School System
Advantage Rent-A-Car	Vehicle Rental	Northside ISD	Public School System
Alamo Community College District	Education & Workforce Dev.	Onpoint	Customer Service Centers
Alamo Heights ISD	Education	Parent/Child Inc.	Early Childhood Development
Allen Tharp & Associates	Caterers	Pinkerton, Inc.	On-Site Security
Archdiocese of San Antonio	Catholic Offices	San Antonio College	Public Community College
Beamer Inc	Family Restaurants	San Antonio I.S.D.	Public School System
Bill Miller Bar-B-Q Ent., Ltd.	Food Service And Catering	Sanitors, Inc.	Commercial Janitorial Services
Cadbeck Staffing	Employee Leasing Seville	Schertz-Cibolo-Universal City ISD	Public School System
Calling Solutions, Inc.	Contract Telemarketing	Sears Teleservice Center	Customer Service Consultants
Citicorp	National Service Center	Seguin ISD	Public School System
Comal ISD	Education	South San Antonio ISD	Public School System
Donald E Kierman	Telecommunications Consultant	Southside ISD	Public School System
East Central ISD	Public School System	Southwest ISD	Public School System
Edgewood ISD	Public School System	Southwest Research Institute	Research and Development
Four Seasons Resort & Club	Hotels	St. Mary's University	Private University
Goodwill Industries of S.A.	Vocational Services	Staff Professionals Inc.	Employee Leasing Service
Harlandale ISD	Public Education	Standard Aero US	Aircraft Engine Repair
Hasslocher Enterprises, Inc.	Restaurant Chain/ Food Distributors	Taco Cabana, Inc.	Restaurants
Hospital Klean of Texas, Inc.	Hospital Housekeeping	Tanseco Inc./Div. of Radio Shack	C-C TVs, Alarms, Monitors
Hyatt Hill Country Resort	Hotel Resort	Texas Department of Human Svcs.	Social Services
International Business Benefits	Employee Leasing Service	The Psychological Corporation	Test Publishers
Judson ISD	Public School System	Trinity University	Private University
Luby's Cafeterias, Inc.	Cafeterias	University of Texas at San Antonio	Public University
Marriott Rivercenter Hotel	Hotel	Wendy's of San Antonio Inc.	Fast Food Restaurants
Morningside Ministries, Inc.	Retirement Home	West Teleservices Corporation	Telemarketing Service Vendor
New Braunfels ISD	Public School System	Westaff	Full Service Staffing

Transportation, Communications, Utilities

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
AT&T	Long Distance & Local Telephone	Time Warner Cable	Cable TV and Internet Service
City Public Service	Natural Gas and Electric Service	Trans Met Inc.	Freight Transpiration
Clear Channel Communications	TV & Radio Stations, Advertising	U.S. Postal Service	Postal Services
Qwest Communications	Telecommunications	United Parcel Service	Parcel Delivery
SBC Communications Inc.	Telecommunications	Valero Energy Corporation	Crude Oil Refinery
SBC Southwestern Bell	Telecommunications	WorldCom	Telecommunications
Southwest Airlines	Air Service And Transportation		

Wholesale

FIRM	PRODUCT/SERVICE	FIRM	PRODUCT/SERVICE
CARQUEST Auto Parts (Straus--Frank Co.)	Automotive Replacement Parts	SYGMA Network, Inc.	Distributor
		Tyson Foods, Inc.	Food Service

Source: January 2002, The Greater San Antonio Chamber of Commerce Largest Employer's Directory.

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. The City has traditionally exercised authority to establish utility rates, authorize condemnation proceedings, and issue bonds, notes, and commercial paper. The CPS Board has full power and authority to make rules and regulations governing the furnishing of electric and gas service and full authority with reference to making extensions, improvements, and additions to the EG Systems, and to adopt rules for the orderly handling of CPS's 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 recommendations from the community on the operations of CPS for use by the CPS 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. CAC members meet monthly to advise CPS about community issues and concerns with regard to the EG Systems and other aspects of CPS' business.

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 the provision of energy service to some federal military installations located within the service area that own their own distribution facilities. As discussed below under "Electric Utility Restructuring in Texas; Senate Bill 7", until and unless the City Council and the CPS Board exercise the option to opt-in to retail electric competition, CPS has the sole right to serve as the retail electric energy provider in its service area. On April 26, 2001, the City Council passed a resolution stating that it is not the City's intent to opt-in to the deregulated electric market beginning January 1, 2002. SB 7 provides that "opt-in" decisions are to be made by the governing body or body vested with the power to manage and operate a municipal utility such as CPS. Given the relationship of the CPS Board and the City Council, any decision to opt-in to competition would be based upon the adoption of resolutions of both the CPS Board and the City Council. If the City and CPS choose to opt-in, other retail electric energy suppliers would be authorized to offer retail electric energy in the CPS service area and CPS would be authorized to offer retail electric energy in any other areas open to

retail competition in the Electric Reliability Council of Texas ("ERCOT"), 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 its 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, CPS sells electricity at wholesale rates for resale to the Floresville Electric Light & Power System, the City of Hondo, the City of Castroville, and the City of Brady. 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 be its wholesale electric provider. This contract became 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 firm energy obligations of CPS.

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

Under the Texas Public Utility Regulatory Act ("PURA"), significant original jurisdiction over the rates, services, and operations of electric "public utilities" is vested in the PUCT. Since the deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT's jurisdiction over the investor-owned utility companies primarily encompasses 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 EG 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 which 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," herein.)

The Texas Railroad Commission ("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 gas 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. PURA95 requires the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers, and other transmission customers.

The 1999 Texas Legislature amended the PURA to expressly authorize rate authority over municipal utilities for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method. In general, the postage stamp method results in transmission payments to other transmission owners by a compact urban utility like CPS that exceed its receipts from other utilities for their use of its own transmission facilities. CPS's 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's 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, providing for retail electric open competition which began in 2002, continues electric transmission wholesale open access, and fundamentally redefines and restructures the Texas electric industry. The following discussion applies primarily to ERCOT, the interconnected portion of the Texas electric grid in which CPS is located.

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

SB 7 requires IOUs to have separated their retail energy service activities from regulated utility activities by September 1, 2000 and to have unbundled their generation, transmission/distribution, and retail electric sales functions into separate units by January 1, 2002. An IOU may choose to sell one or more of its lines of business to independent entities, or it may create separate but affiliated companies, and possibly operating divisions, 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 the CPS Board and the City Council choose to opt-in to competition.

Generation assets of IOUs are 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 will otherwise be 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 retail competition are 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.

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 Commission on Environmental Quality's ("TCEQ", formerly the Texas Natural Resource Conservation Commission) 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% from 1997 levels, beginning May 1, 2003. The requirements may be met through an emission allowances trading program that has been established by the TCEQ on a regional basis. CPS applied for state permits from the TCEQ, as required for five CPS generating stations, comprising 12 gas-fired units, and the permits are now final. The NO_x reductions required for SB 7 have already begun and NO_x emissions have been reduced by over 45% system-wide from baseline levels. Future additional expenditures may be required 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 TCEQ regulation is directed at all units, including CPS' coal plants. This regulation requires a 50% reduction in NO_x emissions by May 1, 2005. NO_x reductions required for this program have already begun. It is possible that over the upcoming years the Environmental Protection Agency ("EPA"), the

State of Texas, 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. For example, mercury emission controls will be required at the coal plants in the near future because the EPA has determined to control mercury from power plants. In addition, the rules 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 which affect the construction and operation of its facilities.

Response to Competition

Strategic Planning Initiatives. CPS has a comprehensive corporate strategic plan that is designed to help make CPS a more efficient 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 CPS 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 through 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 outstanding debt. The program also focuses on the use of unencumbered cash and available cash flow to redeem debt ahead of scheduled maturities as a means of reducing outstanding debt. The Debt Management Program is designed to result in lower interest costs, additional funds for strategic initiatives, and increased net cash flow.

Acquisition of Military Base Facilities. On January 14, 2000, CPS purchased the electric and gas systems of the former Kelly Air Force Base. These facilities include both the area privatized the portion of Kelly that remains under Air Force control, which is now a part of Lackland AFB. CPS is the full service electric and gas provider for Kelly USA. CPS provides a variety of electric and gas services for Lackland AFB under a General Services Administration contract.

On July 22, 2002, the Brooks City-Base Property was converted to the City. On October 1, 2002, CPS took ownership of the gas and electric infrastructure. All electric and gas metering was completed as of November 15, 2002. CPS is the full service provider for both gas and electric systems.

CPS has submitted a utility privatization proposal to the Army to become the full service provider for the gas and electric infrastructures at both Fort Sam and Camp Bullis. Discussions are in progress.

Concerning Randolph AFB and Lackland AFB, the Air Force's utility privatization proposal for the Texas Regional Demonstration Project has been delayed. CPS submitted its timely response to the Department of Defense's Request for Proposal. Negotiations are expected to resume in the near future.

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 owns 28% of the two-unit nuclear power plants called the South Texas Project (the "STP"). The STP, is located on a 12,220-acre site near the Texas Gulf Coast and approximately 200 miles from the City.

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

Participants	Percent Ownership	MW
Texas Genco, L.P.,, Incorporated	30.8%	770
City Public Service	28.0	700
AEP – Texas Central Company	25.2	630
City of Austin - Austin Energy	16.0	400
TOTAL	100.0%	2,500

CPS agreed to participate in the STP in 1973. Full power operating licenses were issued by the Nuclear Regulatory Commission on March 22, 1988, for Unit 1 of the STP and March 28, 1989, for Unit 2, and the Units went into commercial operation on August 25,1988, and June 19,1989, respectively.

Since November 1997, the STP has been maintained and operated by a non-profit Texas corporation ("STP Nuclear Operating Company") financed and controlled by the STP owners pursuant to an operating agreement among such owners and STP Nuclear Operating Company. A five-member board of directors governs the STP Nuclear Operating Company, with each STP owner appointing one member to serve with the STP Nuclear Operating Company's chief executive officer. All costs continue to be shared in proportion to STP ownership interests.

Joint Operating Agreement. CPS and Texas Genco Holdings, Inc.,, formerly Reliant Energy, entered into an agreement effective July 1, 1996. The agreement provides that the two entities 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 entity. CPS and Texas Genco now share equally the benefits achieved through joint dispatch of their combined portfolio of power plants, and is expected to continue through the term of the agreement, which ends in 2009..

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

Distribution System. The distribution system is supplied by 80 substations strategically located on the high voltage 138/345 kV transmission system. Approximately 7,291 circuit miles (three-phase equivalent) of overhead distribution lines are included in the distribution system. These overhead lines also carry secondary circuits and street lighting circuits. The underground distribution system consists of approximately 285 miles of three-phase distribution lines, 82 miles of three-phase Downtown Network Distribution lines, and 3,060 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground distribution systems. Presently 70,773 street light units are in service; the vast majority of the lights are high-pressure sodium vapor units.

Gas System

Supply Pressure System. The supply pressure system consists of a network of approximately 200 miles of steel mains that range in size from 4 to 30 inches. The entire system is coated and cathodically protected to mitigate corrosion. The supply pressure system operates at pressures between 50 psig and 274 psig, and supplies gas to approximately 221 pressure regulating stations throughout the gas distribution system which reduce the pressure to between 9 psig and 59 psig for the distribution system. The Supervisory Control and Data Acquisition computer system ("SCADA") control center monitors the gas pressure and flow rates at many strategic locations within the supply pressure system, and most of the critical pressure regulating stations and isolation valves are remotely controlled by SCADA.

Distribution System. The gas distribution system consists of 4,386 miles of 2 to 16-inch steel mains and 1-1/4 to 6-inch high-density polyethylene (plastic) mains. The distribution system operates at pressures between 9 psig and 59 psig. All steel mains are coated and cathodically protected to mitigate corrosion. The vast majority of the gas services are connected to the distribution system, and the gas normally undergoes a final pressure reduction at the

gas meter to achieve the required customer service pressure. Critical areas of the distribution system are remotely monitored by SCADA.

Implementation of New Accounting Policies

During the fiscal year ended January 31, 2002, a number of accounting and reporting changes occurred that affect CPS' financial statements. Most significant were the implementation of GASB Statements 33, Accounting and Financial Reporting for Nonexchange Transactions, and 34, Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments.

A new software system was implemented for customer billing in August 2002.

During the month of November 2002, CPS began recording unbilled revenue to correctly match monthly revenues (billed and unbilled) with the recorded monthly expenses. On average, about 50% of a month's revenues are unbilled as of the end of the month.

Recent Financial Transactions

On August 15, 2002, the City Council approved the sale of $576,705,000 "City of San Antonio, Texas Electric and Gas Systems Revenue and Refunding Bonds, New Series 2002" and the legal defeasance of $144,155,000 of certain of its New Series 1997 Bonds.

City Public Service Operating Statement

	Fiscal Years Ended January 31				
	2003[1]	2002	2001	2000	1999
Operating Revenues					
Electric	$ 1,132,788,588	$ 1,028,259,435	$ 1,124,414,415	$ 933,629,335	$ 909,639,200
Gas	168,704,731	172,586,985	214,555,539	107,019,474	114,236,784
Total	1,301,493,319	1,200,846,420	1,338,969,954	1,040,648,809	1,023,875,984
Operating Expenses[2, 3]	740,161,094	688,875,837	754,145,322	520,915,135	500,082,793
Net Operating Income	561,332,225	511,970,583	584,824,632	519,733,674	523,793,191
Non-Operating Income (Net)[2,4]	29,411,186	49,022,259	51,609,182	39, 319,915	57,528,034
Available for Debt Service	$ 590,743,411	$ 560,992,842	$ 636,433,814	$ 559,053,589	$ 581,321,225
Other Deductions:					
Depreciation	$ (217,036,570)	$ (188,998,839)	$ (197,322,532)	$ (165,177,353)	$ (167,685,579)
Interest on Bonds, Other Interest and Debt Expense	(159,138,600)	(170,212,516)	(173,114,847)	(174,328,911)	(187,090,027)
Interest During Construction	6,776,744	7,060,613	12,593,131	13,286,115	5,716,202
Defeasance of Debt	(7,057,173)	-0-	(2,586,215)	-0-	(24,899,770)
Payments and Refunds to City	(172,235,562)	(168,134,295)	(185,005,847)	(145,473,968)	(144,554,899)
Total Other Deductions:	(548,691,161)	(520,285,037)	(545,436,310)	(471,694,117)	(518,514,073)
Net Income	$ 42,052,250	$ 40,707,805	$ 90,997,504	$ 87,359,472	$ 62,807,152

[1] Unaudited.
[2] Excludes income and expense related to the Employee Health & Welfare Plans and decommissioning income.
[3] Includes nuclear decommissioning expense and regulatory assessments for all 12-month periods shown.
[4] Excludes investments fair value adjustment.
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 City's water system ("SAWS"), a single unified system consisting of the former City departments comprising the waterworks, wastewater, and water reuse systems, together with all future improvements and additions thereto, and all replacements thereof. In addition, the System Ordinance authorizes the City to incorporate into SAWS a 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 "SAWS Board") currently consisting of seven members, including the City's Mayor and six persons who are residents of the City or reside within the SAWS service area. With the exception of the Mayor, all SAWS Board members are appointed by the City Council for four-year staggered terms and are eligible for reappointment for one additional four-year term. Four SAWS Board members must be appointed from four different quadrants in the City, and two SAWS Board members are appointed from the City's north and south sides, respectively. SAWS Board membership specifications are subject to future change.

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

Service Area

SAWS provides water and wastewater service to the majority of the population within the corporate limits of the City and Bexar County, which totals approximately 1.4 million residents. SAWS employs approximately 1,600 personnel and provides maintenance of over 9,000 miles of water and sewer mains.

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Historical Water Consumption (Million Gallons).

Fiscal Year Ended	Daily Average	Peak Day	Peak Month	Metered Usage	Metered Water Revenue
5/31/1998	165	271	August	53,592	$ 69,330,004
5/31/1999	159	308	July	53,520	74,317,726
5/31/2000	162	269	August	57,144	80,606,965
5/31/2001	155	267	July	53.047	73,166,293
12/31/2001[1]	159	274	July	34,839	50,517,854
12/31/2001[2]	159	274	July	58,097	74,521,211
12/31/2002[3]	143	222	August	52,303	77,801,600

[1] On April 3, 2001, the Board approved the changing of the fiscal year for the System from a year end of May 31 to December 31. Report is for the seven months ending December 31, 2001.
[2] Twelve months ending December 31, 2001.
[3] Twelve months ending December 31, 2002. Unaudited.
Source: SAWS.

Water Consumption by Customer Class (Million Gallons).

	2002[3]	2001[2]	2001[1]	2001	2000	1999	1998
Residential	28,372	29,003	19,397	28,694	31,008	29,496	29,232
Commercial	11,942	12,371	6,538	12,384	13,536	11,616	11,916
Apartment	7,791	7,718	4,641	7,783	8,148	8,136	8,460
Industrial	2,696	2,670	1,617	2,737	2,724	2,820	2,568
Wholesale	173	531	770	535	624	528	516
Municipal	876	784	350	914	1,104	924	900
	51,850	53,077	33,313	53,047	57,144	53,520	53,592

[1] On April 3, 2001, the Board approved the changing of the fiscal year for the System from a year end of May 31 to December 31. Report is for the seven months ending December 31, 2001.
[2] Twelve months ending December 31, 2001
[3] Twelve months ending December 31, 2002. Unaudited.
Source: SAWS.

System

SAWS includes all water resources, properties, facilities, and plants owned, operated, and maintained by the City relating to supply, storage, treatment, transmission, and distribution of treated potable water, chilled water, and steam (collectively, the "waterworks system"), collection and treatment of wastewater (the "wastewater system"), and treatment and 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 served more than 80% of the water utility customers in Bexar County and provides potable

water service to approximately 306,900 customers, which includes residential, commercial, apartment, industrial, and wholesale accounts. 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 the end of calendar year 2002, the waterworks system had in place 4,163 miles of distribution mains, ranging in size from 6 to 61 inches in diameter (the majority being between 6 and 12 inches), and 21,463 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 4,966 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 in nature pending completion of interceptor sewers that will connect the flow treated at such facilities to the wastewater system.

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 conserving, protecting, distributing, and reusing wastewater in order to augment the supply of water in the Edwards Aquifer (as hereinafter defined). 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 sell non-potable water outside the waterworks system's and wastewater system's boundaries. SAWS has developed a water-recycling program utilizing the wastewater flow and expects within two 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. 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. 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, provide 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 $11,115,021 in gross revenues for the 2002 fiscal year.

Storm Water System. In September 1997, the City created its Municipal Drainage Utility and established its Municipal Drainage Utility Fund to capture revenues and expenditures for services related to the management of the municipal drainage activity, in response to EPA-mandated stormwater runoff and treatment requirements. The City, along with SAWS, has the responsibility, pursuant to the "Authorization to Discharge under the National Pollutant Discharge Elimination System" (the "Permit") for water quality monitoring and maintenance. The City and SAWS have entered into an interlocal agreement contract to set forth the specific responsibilities of each for the implementation of the requirements under the Permit. The approved annual budget for SAWS' share of program responsibilities for the 2002 fiscal year was $2,358,933, for which SAWS is reimbursed from storm water drainage charges assessed 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 the 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 2001) 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 ensure 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 684,700 acre-feet. The average annual recharge over the last four decades is approximately 797,900 acre-feet. The lowest recorded recharge was 43,000 acre-feet in 1956, while the highest was 2,485,000 acre-feet in 1992. Recharge has been increased by the construction of recharge dams over an area of the Edwards Aquifer exposed to the surface known as the "recharge zone." The recharge dams, or flood-retarding structures, slows floodwaters and allows much of the water that would have otherwise bypassed the recharge zone to infiltrate the Edwards Aquifer.

Enhancing the City's Water Supply

The City has relied on the Edwards Aquifer as its sole source of water since the 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. The Edwards Aquifer Authority was created by the Texas Legislature in 1993 with the passage of the Edwards Aquifer Authority Act to preserve and protect this unique groundwater resource. The Edwards Aquifer Authority acts as a regulatory agency charged with preserving and protecting the Edwards Aquifer in an eight-county region including all of Uvalde, Medina and Bexar counties, plus portions of Atascosa, Caldwell, Guadalupe, Comal, and Hays counties.

Based upon population and water demand projections, along with various regulatory and environmental issues, the City recognizes that additional water sources supplementing its use of the Edwards Aquifer will be required to meet the City's long-term water needs.

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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 $519 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. A listing of scheduled water supply fees for years 2001-2005 is provided in the following table:

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, approved by City Council.

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. Development of additional non-Edwards Aquifer supplies as described below should result in predictable and certain water supply necessary to meet anticipated peak demands.

Conservation Program. Beginning in 1994, SAWS has progressively implemented an aggressive water conservation program which aims to reduce pumping to 140 gallons per person per day by 2008 and ultimately reach 132 gallons per person per day over the next five to ten years. This will be accomplished through a variety of means including consumer education, rebates for water-efficient technologies, system improvements to prevent water loss, and other measures. SAWS has a unique commercial conservation program as well as a strong residential program.

SAWS has also developed partnerships with local authorities, ground water districts, and purveyors to ensure the conservation messages and programs are available throughout the region. The Water Advisory Group, consisting of cities throughout Bexar County and the Edwards Aquifer region meets regularly to coordinate conservation, drought management, and other water resource policies.

Agricultural Irrigation Efficiency. SAWS has been successful in developing partners throughout the region, as well as with federal agencies, through cost-share programs. The amount of $500,000 for fiscal year 2002 has been appropriated by the United States Department of Agriculture ("USDA") for the Edwards Aquifer region to assist landowners with agricultural irrigation efficiencies. The System has partnered with the USDA and farmers to acquire efficient irrigation systems in exchange for Edwards Aquifer water rights. The System is also currently working with the Army Corps of Engineers, the Natural Resource Conservation Service, and other local sponsors on programs designed to enhance recharge of the Edwards Aquifer through impoundment structures and brush management.

Water Reuse Program. The System owns the treated effluent from its wastewater treatment plants and has the authority to contract to acquire and to sell non-potable water inside and outside SAWS' water and wastewater service area. SAWS has developed a water reuse program utilizing the wastewater flow. The reuse water system producing approximately 35,000 acre feet per year is now in the fourth year of active construction and

approximately 99% complete. SAWS anticipates a delivery of reuse water at or near capacity within two years. Construction efforts have been concentrated on completion of two major branches of the water reuse system serving the eastern and western portions of the City. Acceptance testing of the newly constructed pipeline segments is now underway. SAWS anticipates operation of this program at full capacity within two years, culminating in the conversion to non-potable water uses for those currently using Edwards Aquifer water. Upon completion, SAWS will deliver up to 35,000 acre feet per year of reuse water for non-potable water uses including golf courses and industrial uses that are currently being supplied from the Edwards Aquifer. This represents approximately 20% of SAWS' current usage. This infrastructure project will have transmission mains throughout the City, as well as storage and treatment components. Reuse water will be delivered for industrial processes, cooling towers, and irrigation, which would otherwise rely on potable quality water. Combined with the 40,000 acre-feet per year used by CPS, this is the largest reuse water project in the Bexar County. SAWS has a contract with CPS through 2030 for provision of such reused water. The revenues derived from the CPS contract have been excluded from the calculation of SAWS gross revenues, and are not included in any transfers to the City.

Simsboro Project. On December 30, 1998, a contract for the delivery of up to 60,000 acre-feet of water annually from the Simsboro Aquifer was executed with the Aluminum Company of America. At the same time, SAWS acquired the permanent right to produce groundwater from approximately 11,500 acres of land in the Simsboro Aquifer owned by CPS. The ALCOA and CPS contracts collectively constitute the Simsboro Project. Groundwater availability studies conclude that 55,000 acre-feet per year can be sustainable from a combination of groundwater production from both contracts. This project has been included in the approved State Water Plan. The Project is scheduled to begin delivering water in 2015 at an estimated Project cost to the System of $300 million.

Guadalupe-Blanco River Authority/San Antonio River Authority Project. SAWS joined with San Antonio River Authority to jointly develop a project to deliver approximately 94,000 acre-feet per year of water throughout the San Antonio River basin. In May 2001, the partners executed a contract with GBRA for delivery of 70,000 acre-feet of water from the Guadalupe River. The contract provides for delivery of water for 50 years as well as a seven-year period to define specific delivery plans for the project. The diversion for the project is located at the mouth of the Guadalupe River near the community of Tivoli. This contract provides a substantial volume of water that will be augmented from currently unappropriated surface water rights and groundwater from the Gulf Coast Aquifer. Permits authorizing delivery of the surface water to Bexar County have not yet been obtained. A competing application for the unappropriated flows has been filed by the San Marcos River Foundation. Capital costs for the 94,000 acre-feet per year project are estimated at $375 million, with delivery scheduled for 2010-2012.

Capital Improvement Plan

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

- $12 million is budgeted for the wastewater treatment program to repair/replace/upgrade treatment facilities;
- $21 million is budgeted for the wastewater collection program to fix deteriorated components of the collection system;
- $22 million is budgeted to replace sewer and water mains;
- $20 million is budgeted for the governmental replacement and relocation program;
- $9 million is budgeted to construct new production facilities; and
- $68 million is budgeted for water supply development, water treatment, and water transmission projects for new sources of water.

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SAWS contemplates the following capital improvement projects:

	Fiscal Year Ended December 31					
	2003	2004	2005	2006	2007	Total
Heating & Cooling	$ 805,200	$ 854,237	$ 1,497,692	$ 441,987	$ 405,514	$ 4,004,630
Water Delivery	36,728,000	62,281,704	38,656,310	38,230,540	45,217,369	221,113,923
Wastewater	73,271,177	75,941,910	88,917,928	79,266,772	83,896,781	401,294,568
Water Supply	68,236,380	92,689,920	150,878,192	210,143,533	124,508,450	646,456,475
Total Annual Requirements	$ 179,040,757	$ 231,770,757	$ 279,950,122	$ 328,082,832	$ 254,028,114	$ 1,272,869,596

Project Funding Approach

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

	Fiscal Year Ended December 31				
	2003	2004	2005	2006	2007
Revenues	$ 20,208,724	$ 22,478,774	$ 24,112,840	$ 28,614,935	$ 32,361,678
Impact Fees	10,205,000	12,714,660	12,892,666	13,073,163	13,256,187
Debt Proceeds	148,627,033	196,574,337	242,944,616	286,394,734	208,410,249
Total	$179,040,757	$231,767,771	$279,950,122	$328,082,832	$254,028,114

Recent Financial Transactions

On February 7, 2002, the City Council authorized the negotiated sale of $300,510,000 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2002.

On February 28, 2002, the City Council authorized the placement of $137,820,000 City of San Antonio, Texas Water System Revenue Bonds, Series 2002-A and the placement of $27,740,000 City of San Antonio, Texas Junior Lien Water System Revenue Bonds, Series 2002 and Series 2002-A with the Texas Water Development Board.

On March 13, 2003, the City Council anticipates authorizing the placement of $72,500,000 "City of San Antonio, Texas Water System Subordinate Lien Revenue and Refunding Bonds, Series 2003-A" and $50,000,000 "City of San Antonio, Texas Water System Subordinate Lien Revenue and Refunding Bonds, Series 2003-B", with delivery of both series of bonds to occur on or about March 27, 2003. Also on March 13, 2003, the City Council anticipates authorizing the placement of $34,000,000 "City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2003" with the Texas Water Development Board, with delivery of such bonds to occur on or about April 30, 2003.

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San Antonio Water System Summary of Pledged Revenues for Debt Coverage

	December 31		Fiscal Year Ended May 31				
	2002[3]	2001[3]	2001[1]	2001	2000	1999	1998
Revenues							
Water System	58,873,352	79,451,701	52,803,937	$ 77,044,280	$ 82,485,798	$ 80,975,392	$ 74,027,065
Water Supply	76,167,052	36,684,084	23,537,496	21,863,709	11,919,369	2,056,493	2,141,286
Wastewater System	89,226,899	87,438,542	51,541,185	91,175,034	96,194,858	92,775,036	92,095,892
Chilled Water and Steam System	11,115,021	12,899,862	6,822,031	9,800,573	5,127,414	4,234,203	4,028,591
Non Operating Revenues[2]	30,773,197		12,249,485	7,341,296	8,468,123	5,494,022	7,649,669
Adjustments for Pledged Revenues	(7,583,370)		(3,770,167)	(4,334,051)	(6,749,142)	(3,733,765)	(5,971,694)
Total Revenues	$ 258,572,151	$ 216,474,189	$ 143,183,967	$ 202,890,841	$ 197,446,420	$ 181,801,381	$ 173,970,809
Maintenance and Operating Expenses	$ 137,441,940	$ 134,616,252	$ 78,448,318	$ 121,350,696	$ 115,016,340	$ 100,429,763	$ 93,883,767
Net Available for Debt Service	$ 121,130,211	$ 81,857,937	$ 64,735,649	$ 81,540,145	$ 82,430,080	$ 81,371,618	$ 80,807,042
Max Annual Debt Service Requirements – Total Debt	$ 66,267,591	$ 65,767,934	N/A	$ 66,994,372	$ 62,099,234	$ 49,385,448	$ 49,385,448
Max Annual Debt Service Requirements – Senior Lien Debt	$ 61,511,375	$ 55,236,354	N/A	$ 56,293,054	$ 53,566,454	$ 49,385,448	$ 49,385,448
Debt Service for Period							
Coverage of Total Debt	1.83 X	1.24 X	1.70 X	1.22 X	1.33 X	1.65 X	1.62 X
Coverage of Senior Lien Debt	1.97 X	1.48 X	N/A	1.45 X	1.54 X	1.65 X	1.62 X

[1] On April 3, 2001, the Board approved the changing of the fiscal year for the System from a year end of May 31 to December 31. Report is for the seven (7) months ending December 31, 2001.
[2] Beginning in 2001, capital contributions, including items such as impact fees, were recognized as non-operating income in accordance with GASB 34.
[3] Twelve (12) months ending December 31, 2001 and December 31, 2002. Unaudited.

Source: SAWS.

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APPENDIX B

EXCERPTS FROM THE MASTER ORDINANCE AND FIRST SUPPLEMENT

THE FOLLOWING CAPITALIZED TERMS ARE DEFINED IN THE MASTER 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 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.

(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.

(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.

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.

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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.

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.

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THE FOLLOWING SECTIONS 7, 8, 9, 11 AND 13 APPEAR IN THE FIRST SUPPLEMENT:

SECTION 7. SECURITY. (a) ***Gross Revenues.*** The Series 2003 Bonds are special obligations of the City payable from and secured solely by the Gross Revenues pursuant to the Master Ordinance and this First Supplement. The Gross Revenues are hereby pledged to the payment of the principal of, premium, if any, and interest on the Series 2003 Bonds as the same shall become due and payable.

(b) ***Bond Reserve Fund.*** The Series 2003 Bonds are to be secured by the Bond Reserve Fund. The Required Reserve Amount will not increase upon delivery of the Series 2003 Bonds due to the fact that, concurrent with delivery of the Series 2003 Bonds, the Refunded Bonds will be defeased and will no longer be Outstanding, and the City will realize a debt service savings. Consequently, the Average Annual Debt Service Requirements will not increase, and no additional funds will be required to be deposited into the Bond Reserve Fund upon the issuance and delivery of the 2001 Bonds.

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 2003 Bonds when due. The City shall make available to the Paying Agent/Registrar, on or before such principal or interest payment date, money sufficient to pay such interest on and such principal of the Series 2003 Bonds as will accrue or mature. The Paying Agent/Registrar shall cancel all paid Series 2003 Bonds and shall furnish the City with an appropriate certificate of cancellation.

(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 2003 Bonds.

SECTION 9. 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 2003 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 First Supplement and the rights and obligations of the City and of the owners of the Series 2003 Bonds may be modified or amended at any time without notice to or the consent of any owner of the Series 2003 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 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 2003 Bonds, replace or provide additional credit facilities, or change the form of the Series 2003 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 2003 Bonds;

(iv) To make any changes or amendments (A) requested by 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 2003 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 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 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 First Supplement, the Insurer and the owners of Outstanding Series 2003 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 2003 Bonds, the amendment of the terms and conditions in this First Supplement or in the Series 2003 Bonds so as to:

(i) Make any change in the maturity of the Outstanding Series 2003 Bonds;

(ii) Reduce the rate of interest borne by Outstanding Series 2003 Bonds;

(iii) Reduce the amount of the principal payable on Outstanding Series 2003 Bonds;

(iv) Modify the terms of payment of principal of or interest on the Outstanding Series 2003 Bonds, or impose any conditions with respect to such payment;

(v) Affect the rights of the owners of less than all Series 2003 Bonds then Outstanding; or

(vi) Change the minimum percentage of the Outstanding Principal Amount of Series 2003 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 2003 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 2003 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 2003 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 2003 Bonds and all future owners of the Series 2003 Bonds shall thereafter be determined, exercised, and enforced under the Master Ordinance and this First Supplement, as amended.

(f) ***Consent Irrevocable***. Any consent given by any owner of Series 2003 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 2003 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 2003 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 2003 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. FIRST SUPPLEMENT TO CONSTITUTE A CONTRACT; EQUAL SECURITY. In consideration of the acceptance of the Series 2003 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 2003 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 2003 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

EXCERPTS FROM THE CITY OF SAN ANTONIO, TEXAS AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2002

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CITY OF SAN ANTONIO

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

March 14, 2003

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, 2002. 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, a division of McGraw-Hill Companies, Inc. at AA+, and Moody's Investors Service, Inc. at Aa2. The ratings reflect strong financial management and position with continued tax base growth for the foreseeable future.

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 management of the City. The public accounting firms KPMG LLP, Leal & Carter PC, and Robert J. Williams, CPA, have audited the financial statements contained herein. As reflected in the independent auditors' report, the City's financial statements are presented fairly in all material respects.

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

- The introductory section contains the transmittal letter, a copy of the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting, the City's organizational chart, and a list of principal officials.

- The financial section includes the independent auditors' report, management's discussion and analysis (MD&A), the basic financial statements, which consist of government-wide and fund financial statements and notes to the financial statements, other required supplementary information other than MD&A, and other supplementary information.

- 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 basic financial statements, management's discussion and analysis (required supplementary information), required disclosures and schedules are included in the financial section of this CAFR. The Independent Auditors' Report along with other required reports and schedules mandated by the Single Audit Act Amendments of 1996, 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.

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

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. As of September 30, 2002, the City's geographic area was approximately 430.19 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 1,226,250 in fiscal year 2001 to 1,241,100 in fiscal year 2002, an increase of 1.21%.

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), Brooks Development Authority (BDA), 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 major discretely presented component unit. 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".

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 major discretely presented component unit, and it is discussed further in the "Infrastructure Development" section.

THE REPORTING ENTITY AND CITY SERVICES (Continued)

Services (Continued)

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) was established in 1978 to help small businesses in South Central Texas realize business growth and job creation by facilitating access to a diverse package of intermediate and long-term loans. The SALDC administers the following loan programs: Small Business Administration (SBA) 504 Loan Program, SBA Microloan Program, Economic Development Administration (EDA) Revolving Loan Fund (RLF), Inner City Loan Program and the Housing and Urban Development (HUD) Enterprise Community Loan Program. The City Council appoints thirty-three Trustees to oversee SALDC, from which eleven members serve as the Board of Directors and govern the activities of the corporation.

Brooks Development Authority (BDA) was designed to improve mission effectiveness, reduce the cost of providing quality installation support, and promote economic development on Brooks Air Force Base and in the surrounding community. Dedicated funds will provide basic municipal services at the base while continuing to develop it as a technology and business park. An eleven member Board of Directors appointed by the City Council governs the BDA for two-year terms.

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 implementing "A Strategic Plan for Enhanced Economic Development" through the collaborative efforts of San Antonio, Inc., a group of economic development organizations within San Antonio. Furthermore, the City is undertaking on-going infrastructure improvements, neighborhood revitalization, and workforce development initiatives, as well as providing incentive, assistance and attraction programs that are geared to businesses of all sizes. Both government and citizens are working toward increasing the caliber of educational and economic opportunities, expanding arts and leisure choices, revitalizing older neighborhoods, and planning for overall growth in San Antonio. As a result 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

ECONOMIC OVERVIEW (Continued)

biomedical research and health services, international trade and distribution, information technology and security, telecommunications, tourism, financial services, and the military.

Employment Sectors

The nonagricultural employment sectors distribution for the San Antonio metropolitan area as of September 2002, according to statistics provided by the Texas Workforce Commission is as follows:

Industry Sector	Percentage of Total Employment	Jobs Gained/(Lost) (9/01 to 9/02)	%Increase (9/01 to 9/02)
Services	32.4%	2,500	1.1%
Retail & Wholesale Trade	24.0%	(1,800)	(1.0%)
Government	18.4%	2,800	2.1%
Manufacturing	7.2%	(700)	(1.3%)
Finance, Insurance & Real Estate	7.0%	(1,000)	(1.9%)
Construction	6.0%	1,600	3.7%
Transportation, Communication, & Public Utilities	4.7%	(2,100)	(5.8%)
Mining	0.3%	200	9.1%
Total	100.0%	1,500	.2%

The total number of San Antonio's nonagricultural jobs in September 2002 was 733,000. The City's largest employment sectors are Services, Retail and Wholesale Trade, and Government, which comprise about 75% of the area's employment. The largest growth in raw employment came in the government sector with a gain of 2,800 jobs (or 2.1%), while the largest percentage growth came in the mining industry with a growth rate of 9.1%, although this was from a small base of employment. Of the sectors with a more substantial employment base, construction showed the largest percentage increase in employment with an increase of 3.7%. The largest decline in raw employment came in the transportation, communication, and public utilities industry with a loss of 2,100 jobs, resulting in the largest percentage decline of (5.8%).

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 the City possesses are: the Air Force Center for Environmental Excellence (AFCEE), BioMedical Enterprises, Biomedical Development Corporation, BioNumerik, Brooke Army Medical Center (BAMC), Brooks City-Base, the Cancer Therapy and Research Center (CTRC), Conceptual Mindworks, Inc, DPT Laboratories, ILEX Oncology, Inc., Incell Corporation, KARTA Technologies, Lipitek International, 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,

ECONOMIC OVERVIEW (Continued)

Employment Sectors (Continued)

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.

The University of Texas at San Antonio is adding two new significant assets to this impressive list of biomedical assets. UTSA is constructing a bioprocessing facility at Brooks City-Base that will house labs containing two or three fermenters ranging from about 40 liters to possibly 350 liters, a purification/downstream processing area and a cell culture area, a 2,400 square foot common lab with smaller fermenters for training and research, and an analytical lab.

UTSA will begin construction on a new $83 million Biotechnology, Science and Engineering building. The facility will consist of 227,000 square feet for lecture halls; research and teaching laboratories; and seminar, conference, and classrooms to accommodate students in the College of Sciences and Engineering. The facility will also be home to the new doctoral degree programs in cell and molecular biology, computational biosciences, and bioengineering. The completion and eventual operation of the facilities will be vital to the continued development of the health and biotechnology industries in San Antonio.

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.

Yet another significant industry within San Antonio is the information technology and security industry. According to a recent study of the economic impact on San Antonio, that was commissioned by the Greater San Antonio Chamber of Commerce, this industry employs over 11,000 people with an annual payroll of $500 million and has an economic impact of $3.4 billion. With organizations such as the Air Intelligence Agency and the Center for Infrastructure Assurance and Security at the University of Texas at San Antonio, the city has a reputation for excellence in information security.

Past 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. A collaborative effort among the numerous organizations within San Antonio with skills and expertise in homeland security will play a pivotal role in making San Antonio a key player in the nation's homeland security efforts and build upon the city's designation as the second-most prepared city in the country behind New York City.

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

ECONOMIC OVERVIEW (Continued)

Employment Sectors (Continued)

opportunities related to the hospitality industry. The City's proactive management practices and marketing efforts resulted in approximately 1,153 reported conventions in fiscal year 2002, with 1,026,938 associated room nights and an estimated economic impact of $555.1 million. The San Antonio Convention & Visitors Bureau (SACVB) has booked approximately 4.5 million room nights from November 2002 through 2022.

The military continues to represent a principal component of the San Antonio economy. As of September 30, 2002, the military employed approximately 73,189 military, civilian and part-time guard and reserve personnel with an estimated direct economic impact of about $4.8 billion. Three major active installations comprise the military sector: Lackland Air Force Base, Randolph Air Force Base, and U.S. Fort Sam Houston. In addition, Brooks Air Force Base property was conveyed to the Brooks Development Authority (appointed by City Council) on July 22, 2002, with the resident military missions remaining as tenants in the newly established Brooks City-Base Technology and Business Center.

The military presence within San Antonio will be further enhanced with the relocation of US Army South to Ft. Sam Houston. The relocation of this prestigious organization to the city is expected to take place in 2003 and will bring approximately 500 jobs with an estimated annual payroll exceeding $42 million and an annual economic impact of $200 million.

Additionally, San Antonio's stature as a location for corporate headquarters is growing. The City has attracted some major business enterprises to locate their operations in the City. Toyota Motor Manufacturing North America, Inc., has entered into an agreement with the City to invest $400,000,000 in an automotive manufacturing plant that will produce 150,000 Tundra trucks per year and employ 1,800 employees. Construction is scheduled to commence in 2003 with production occurring in 2006. Infonxx, which is a call center that provides directory assistance services announced that it will expand its operation in San Antonio by employing an additional 2,000 workers. The company plans to complete this expansion by December 2003. The City has also entered into an agreement with a large developer to develop a major area in the City to include a PGA Resort with two golf courses, the construction of a major hotel, and construction of residential homes. The development area is in the Northeast part of the City, outside the City limits but within the Extraterritorial Jurisdiction Area and covers approximately 2,597.6 acres of land.

United Services Automobile Association (USAA), a leading insurance agency, 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 energy company, the Valero Energy Corporation, which merged recently with Ultramar Diamond Shamrock. 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 J.P. Morgan, Chase, Citicorp, World Savings & Loan, Boeing, 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 the terrorism events of September 11, 2001, the Mayor appointed a Blue Ribbon Commission on San Antonio's Economy. The commission was comprised of seven task forces that evaluated the local economy and made recommendations to counter the economic slowdown resulting from the terrorism.

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

San Antonio's healthy economy and positive business climate are enhanced by elements key to continued economic growth, such as an advanced telecommunications system, significant recent accomplishments in the area of higher education, and strong workforce development programs. Also enhancing San Antonio's business appeal is the high quality-of-life the City offers and a cost-of-living that is well below the national average. San Antonians enjoy first-rate medical services, a convenient and efficient airport, an excellent highway system, mild weather, and superb recreation choices, including championship golf courses, theme parks, historical attractions, museums, professional sporting attractions and a lively performing arts environment.

The City's Economic Development Department (EDD), in coordination with the private, non-profit San Antonio Economic Development Foundation, continues to attract major corporations to the area and help local businesses expand. Although the nation's economy experienced a downturn in 2002, job growth continued in San Antonio with approximately 2,017 new jobs created through economic development programs. Companies that located or expanded business operations in San Antonio in 2002 include J.P. Morgan, Chase, Boeing, United Health, San Antonio Aerospace, Inc., and World Savings. Another 100 automotive manufacturing jobs are already confirmed for 2003 with the recent announcement by Royal Oak Industries to establish manufacturing operations in San Antonio.

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 the Brooks Development Authority to make Brooks City-Base an economic success. In addition, EDD is working with Fort Sam Houston to explore ways that the City can help this local installation 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 5,300 new commercial jobs and leased out 75% of the available and marketable space with sixty-tenant leases executed. Commercial tenants include major aerospace industry players such as Boeing, Lockheed-Martin, Chromalloy, Standard Aero, General Electric, General Dynamics, and Pratt & Whitney. Boeing employs over 2,000 personnel as they continue to expand and grow their operations at KellyUSA. Over the past two years, GKDA has also completed over $105 million in new construction and facility upgrades and has planned a $108.6 million capital improvement program for the next five years. As part of these improvements, in April of 2002 KellyUSA opened the Advanced Technology Center which provides a curriculum in avionics.

With the completion of the City's Air Cargo Study in July 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, by passing special legislation in October 1999 which was then amended in September 2001, 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). This special authority allowed 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 center.

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

Brooks City-Base (Continued)

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 mission effectiveness, assist in reducing operating costs, and promote and enhance economic development at Brooks AFB and in the surrounding community. Both the City and the Air Force are partnering to utilize 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 was officially established on July 22, 2002, which resulted in the transfer of 1,310 acres of land and improvements conveyed by Brooks AFB to the Brooks Development Authority ("BDA"). The Air Force is the Park's anchor tenant and is leasing back additional facilities, as necessary, to perform its missions. The City is now providing municipal services to include fire and police services. Electric, gas and water utilities have been transferred by the BDA to City Public Service (CPS) and the San Antonio Water System (SAWS), City-owned utilities. The BDA has also contracted with Grubb & Ellis, a national real estate developer and property management firm to manage Park facilities and to facilitate the park in the attraction of new tenants and jobs.

Fort Sam Houston

In April 2000, the U.S. Army (the "Army") entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. ("FSHRP"), for the redevelopment of the former Brooke Army Medical Center and two other buildings at Fort Sam Houston. The three buildings total about 500,000 square feet in space and are located in a designated historic district, had been vacant for some time and in a deteriorating condition. On June 21, 2001, FSHRP signed a 50-year lease with the Army to redevelop and lease the property to commercial tenants. FSHRP is currently seeking tenant sublease commitments necessary to secure financing for an estimated $50 million in renovations to the buildings. On September 17, 2002, the U.S. Army announced that U.S. Army South (USARSO) will relocate from Puerto Rico to Fort Sam Houston in 2003. The relocation will bring up to 500 new jobs to San Antonio with an annual economic impact of approximately $20,000,000. The Army intends to lease facilities from the FSHRP clearing the way for renovation to begin on these historic facilities. The continued success of this unique public-private partnership at Fort Sam Houston 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 initiative supports the City's economic development strategy to promote development in targeted areas of the City, leverage military installation economic assets to create jobs, and assist our military installations in reducing base support operating costs. The Army also intends to extend this initiative to include other properties at Fort Sam Houston currently available for redevelopment.

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 Aerospace) were identified as San Antonio's competencies. Today SATAI has 1,100 members and is instrumental in developing and implementing initiatives that accelerate entrepreneurial job creation and increase community income through the growth of the technology sector of the San Antonio economy. SATAI promotes San Antonio technology through its new web site, airport advertisements, speaker's bureau publications, press opportunities, a regional technology calendar and, by working with the Convention and Visitors' Bureau to attract technology conventions to San Antonio.

San Antonio, Inc.

San Antonio, Inc. was established by City Council ordinance on May 24, 2001 for the purpose of providing a higher level of coordination and collaboration on economic development initiatives. Executive and volunteer leaders from more than sixty local economic development organizations serve in the organization's Directors/Resource Tier, Executive Board, and the Board of Governors. Member organizations include local

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

San Antonio, Inc. (Continued)
chambers of commerce, business and technology parks, small business advocates, regional and international trade organizations, university systems and local colleges, public schools, the City of San Antonio, Bexar County, and the Alamo Area Council of Governments. San Antonio, Inc. is responsible for implementation and regular updates of the 2001 Strategic Plan for Enhanced Economic Development, a comprehensive economic development strategic plan designed to leverage certain targeted driver industries, maximize San Antonio's location advantages in South Texas, facilitate the business development process, ensure small business opportunities in the new economy, and promote revitalization in targeted areas of our community. During fiscal year 2002, San Antonio, Inc. convened the initial meetings of its Executive Board, hired a full-time staff coordinator through the City's economic development department, developed a comprehensive tracking system for 44 current strategies in the strategic plan and initiated a process for annual updates and revisions of the strategic plan, which culminated in the first San Antonio Inc. Annual Meeting & Economic Roundtable on February 25, 2003.

Aviation Industry Development
The Aerospace Industry continues to be a growing segment of the San Antonio economy with the presence of major industry players such as Boeing, Lockheed Martin, Pratt & Whitney, Cessna, General Electric, Sino Swearingen, Raytheon, Standard Arrow and Chromalloy. A recently completed study, funded through the Greater San Antonio Chamber of Commerce Aerospace Committee, determined that the overall annual economic impact of the Aerospace Industry in San Antonio is over $2.5 billion. In addition, the industry employs about 10,000 people who earn an average annual wage of $38,593. The City expects this industry to continue growing particularly in the areas of maintenance, repair and overhaul and in air cargo.

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. At KellyUSA, the GKDA has entered into a joint use agreement for use of the KellyUSA runway for commercial air operations. The airport facilities provide San Antonio with a variety of properties, facilities and assets that comprise the nucleus for a viable and expanding aerospace 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 (AAAA), which opened in August 2001. The City has funded the AAAA with $200,000 in fiscal year 2002 and another $150,000 in fiscal year 2003. The inaugural class enrolled 121 high school students of which 94 graduated in May 2002. Of the 25 seniors in this class, 15 are now employed within the aerospace industry in San Antonio. There are currently 127 students in the fiscal year 2003 AAAA class. Complementing this workforce initiative is the Advanced Technology Center that opened at KellyUSA in April 2002 and provides an avionics curriculum. The City in partnership with the Alamo Community College District funded the $3 million facility renovation project housing the Academy.

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. The Aviation Department completed an Air Service Development Program in October 2001 that identifies opportunities for enhancing air passenger service at San Antonio International. In addition, an Air Cargo Study was completed in July 2002 and has identified opportunities for air cargo growth both at KellyUSA and San Antonio International Airport. Aviation is also one of the four industry cluster groups identified in the San Antonio Technology Accelerator Initiative (SATAI).

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

New Business Prospects
As of the third quarter of 2002, the San Antonio Economic Development Foundation, Inc., reported the City had 84 active business prospects. The new businesses are categorized as business services, financial services, fabricated metal products, industrial machinery, electrical equipment, rubber and plastics, nondurable distribution, durable distribution, engineering and professional services, printing and publishing, custom software, engineering and research, transportation equipment, miscellaneous manufacturing, chemical and pharmaceutical and others.

Downtown Development Projects
The centerpiece of downtown revitalization is the Houston Street Redevelopment Project. This effort was 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 invested more than $100 million to create a retail and entertainment district in the heart of downtown. Public improvements included, among other things, river walk, street, sidewalk, landscaping and pedestrian way improvements. Private improvements included renovations to eight buildings located on Houston Street as well as building the new 214-room Hotel Valencia. 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 recently completed a 704 space multi-level parking garage in the area of Travis and St. Mary's streets, which has alleviated day time corporate parking demand and increased parking for the hotels, restaurants, and night attractions. In addition in 2003, the build-out of the new 100-room Watermark Hotel and the 350-room La Quinta Inn & Suites hotel projects will reshape the downtown skyline. The City will continue its efforts to facilitate the development of a convention headquarters hotel adjacent to the recently enlarged Henry B. Gonzales Convention Center.

International Trade
The Directory of San Antonio Exporters and Support Organizations (published by the City's International Affairs Department) has identified over 700 local companies that export to other nations or provide export assistance.

During fiscal year 2002, the International Affairs Department worked with 122 international delegations that included 2,165 delegates that visited the City. Delegations visited San Antonio from Germany, Israel, Mexico, Japan, Canada, Argentina, Thailand, Qatar, Luxemburg, Spain, Canary Islands, Ireland, China, France, Russia, Czech Republic, Great Britain, Italy, South Africa, and Costa Rica. 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.

As of September 30, 2002, the North American Development Bank (NADB) had authorized loans and grants totaling approximately $458.7 million for the development and financing of 52 infrastructure projects throughout the 10 states that comprise the U.S.-Mexico border region. These projects represent a total investment of approximately $1.3 billion, and are benefiting an estimated 6 million border residents in the United States and Mexico.

The NADB has been the catalyst to a significant and unprecedented level of investment in environmental infrastructure along the U.S.-Mexico border. NADB participation in these projects represents about 34 percent of the total investment in these projects. Of these, 12 have been completed, 24 are currently under construction or in various stages of completion, and 16 are in the design or bidding stage and are expected to start construction this year. In the area of local capacity building, the NADB to date has authorized technical assistance under its Institutional Development Program (IDP) for 106 projects in 68 communities on both sides of the border.

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.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

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 4,242 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 widening of segments of Loop 1604, the construction of new interchanges on US-281, IH 410 and IH-10, and a new transportation corridor, the Wurzbach Parkway. Additionally, the Texas Department of Transportation is currently planning the construction of a four-level IH 410/US-281 interchange. In addition the City has implemented the first reversible lane project to mitigate traffic congestion around he SBC Center, which is a mid-size, multi-purpose arena for the San Antonio Spurs Basketball Team, during events. The Texas Department of Transportation's TransGuide or "smart highway" project has been operational in San Antonio since 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. In addition, TransGuide technology incorporated the Amber Alert System, a system used to alert citizens about missing children.

Public Safety

The improved Dispatch Facility, constructed in 2000 and funded with 1998 Certificates of Obligation, will accommodate the requirements for a new public radio system. Currently in the final stage of field testing, it is scheduled to become operational in the first quarter of 2003.

The Police Department continues implementation of the Police Rolling Staffing Plan. The Plan outlines goals to add new police officer positions and civilian positions while redirecting other police officer positions to patrol functions. The cost of implementation over fiscal years 2002-2006 is $45 million. The 2001 Plan was implemented in order to stay proactive with potential rising property and violent crime rates along with projections of an unusual number of police officer retirements, which would leave potential gaps in police staffing. This potential increase in crime is due to recidivism, as a result of early prison releases. With the continuation of the 2001 Plan, the new Patrol Availability Factor goal for fiscal year 2003 will be 39.56% along with the continuation of dedicated directed patrols.

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. The Police Department currently has a contract with Open Systems Group for the development of a software base for this system. In fiscal year 2002, $4,074,250 was budgeted for this project.

1999 General Obligation Bonds totaling $3,009,000 were allocated to Police Substation Expansion Projects for West, South, North, and Northwest Substations. In fiscal year 2002, $2,935,000 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 North, South and West Substations will be complete in January 2003. The East and Northwest Substations will be complete in December 2003.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Public Safety (Continued)

In fiscal year 2002, the Police Department continued to provide and improve citizens' convenient access to information and investigative services at Police Substations through enhanced data availability on the Department's Website. Police reports are available to the public at the Police Headquarters Records Office and at the four City of San Antonio Community Link Centers.

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, 2002, Public Safety Infrastructure included 6 police stations, 48 fire stations, which house 48 engine companies, 18 truck companies, 8 brush trucks, 8 Fire command units, 5 EMS command units, 25 full-time EMS units and up to 7 peak period units per day, increasing to 10 units during large citywide special events such as Fiesta and the New Year's Eve celebration.

With regard to Fire and EMS services, fiscal year 2002 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 included continuation of the department's apparatus replacement program. Additionally, the First Responder program was continued with the addition of 1 van, bringing the total to 16. This program is part of a Fire Department initiative to increase the useful life of the more expensive firefighting apparatus. Technology and equipment enhancement upgrades related to Laptop Mobile Data Terminals (LMDTs) were continued in fiscal year 2002.

Parks and Recreation Department

As of September 30, 2002, the City's Parks and Recreation infrastructure included over 187 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 13,867 acres. During fiscal year 2002, approximately 25 Parks and Recreation capital improvement projects were completed at a construction cost of over $6.2 million, and an additional 84 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's Citizens Blue Ribbon Redistricting Committee met over the course of several months in fiscal year 2002 to implement a Re-Districting Plan based on the results of the 2000 Census. Numerous Geographic Information System (GIS) and Demographic products were completed for this committee, including staff analysis on population, race, and historic trends. These products supported the submittal of the proposed Re-Districting Plan to the Department of Justice (DOJ). After approval by the DOJ, the GIS Staff created a City-wide GIS Enterprise Data Set of the 2002 City Council Districts. This data is the first to be used by the City Clerk's Office to prepare for registration of City Council Candidates under the 2002 redistricting. After the election, this data will be used for all City information and business processes which service the citizens of San Antonio. During fiscal year 2002, the Southside Balanced Growth Initiative was initiated. The primary goal of this initiative is to

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Planning Department (Continued)
reverse the trend of disinvestments in the southern sector and encourage the balanced growth of the City. Currently outside the City limits, an 83.6 square mile area located 7.5 miles south of downtown will be annexed for limited purposes to extend land use and health safety regulations to the area. This initiative will establish a growth policy for south San Antonio that seeks to develop the area into an integral part of the City and create an overall scenario of sustainable development.

Additionally, this effort seeks to achieve the goals and objectives of the 1997 Master Plan, the 2001 San Antonio Housing Master Plan, and the Community Revitalization Action Group (2000) by utilizing Smart Growth Principles. Through this initiative, the City will encourage the development of attractive, sustainable neighborhoods that are pedestrian oriented and support a mix of uses, provide a range of quality housing options, protect natural resources and open space, support walking, cycling, and bus/rail transit alternatives to driving, revitalize and support existing communities, generate job opportunities, promote quality schools, attract investors and encourage development by making investment easier and profitable, and reduce infrastructure costs by developing closer to the urban area and coordinating development infrastructure. The City added three new Historic Districts, bringing the total of Historic Districts in San Antonio to nineteen. A recent study of the Economic Impact of Historic Designation in San Antonio by Rutgers University showed that Historic District designation increased property values 18% over the normal inflation rate compared neighborhoods of similar character not designated historic. Currently three additional neighborhoods are in various stages of designation. Two of those should be through the designation process by the end of the year.

During the past year the City expanded its Riverwalk areas and created six new River Overlay Districts. The new districts extend along the San Antonio River from the headwaters to the southernmost of San Antonio's Spanish Missions. The overlays regulate development and use of properties using criteria specific to the historical and design setting of each district and will also enhance the City's ability to protect the unique character of the San Antonio River as well as the neighborhoods and businesses near the river.

The Historic Preservation office is also working on an architectural survey of the original thirty-six square mile city limits. The survey, utilizing volunteers from neighborhoods and advocacy groups, is a three-year project to document and identify potential landmarks and historic districts.

The Neighborhood Improvement Challenge Program (NICP) provides neighborhood-based organizations the opportunity to implement small, public improvement projects in partnership with private groups. In fiscal year 2002, the NICP awarded a total of $161,696 to 107 projects ranging from landscaping, murals, park enhancements, and special topics series that include newsletter design, advertising, and promotion and distribution. Although the NICP was not funded for fiscal year 2003, previous funding will enable the scheduling of additional special topics workshops series to be held in the spring of 2003.

As part of the implementation of the Community Building and Neighborhood Planning Program (CBNP), three neighborhood plan projects were initiated. These include the Hays Street Bridge Rehabilitation Project, the Austin Highway Hazard Elimination Safety Program (HESP) and the Olmos Creek Greenway Project. The Hays Street Bridge Project was awarded $2,879,293 through the Texas Equity Act for the 21st Century (TEA 21) enhancement program in 2002. In an effort to raise funds for the City's match, the Planning Department will continue its involvement to coordinate with the citizens committee and to assist with public involvement with Texas Department of Transportation (TxDOT).

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Planning Department (Continued)
Through a Hazard Elimination Safety application submission for TEA 21 funds, $475,000 was awarded to the San Antonio TxDOT district for the construction of medians on Austin Highway from Eisenhauer to Rittiman. The Planning Department, Neighborhood Action Department and the Public Works Department are coordinating the preliminary design and public involvement process with TxDOT.

In April 2002, the City Council adopted a Universal Housing Design Ordinance requiring all single-family houses, triplexes, and duplexes built with City financial assistance to be designed and constructed to accommodate the life span of the owners regardless of disability.
As part of the City's commitment to comply with the 1990 American's with Disabilities Act, 211 facilities have been modified for accessibility and 73 are currently under design. The long-range Building Access Modification Plan (BAMP) projects that an additional 27 facilities will be modified by January of 2005.

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 1 bookmobile. 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 9 library branches are open 6 days and 4 evenings a week. The addition of Thursday evening hours at these locations provided increased library access and usage for families, students and neighborhood residents.

Over 3.4 million people utilized the Library's collection of print and non-print resources in fiscal year 2002. 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 64% over the previous year. Over 152,000 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 Southeast, Comair, Continental, Delta, Midwest Express, Northwest, Southwest, 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 (EGL) constructed

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Airport System (Continued)
a processing facility in the year 2000. 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 2001 totaled 108,815 tons.

San Antonio International 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 indicated that projected peak period demand for airport parking will exceed the available supply by the end of 2004. It is estimated that 2,400 additional parking spaces will be required 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 design contract for the parking improvements is expected to be awarded in early 2003, while construction of the new parking facilities is anticipated to start before the end of 2003.

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 30 part-time positions, which were eliminated following the completion of the recent parking improvements, the recommendations involved a net reduction of 26 positions.

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 year 2002, airline costs per enplaned passenger were estimated to be $4.09.

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 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 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

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Airport System (Continued)
desires to limit to the extent possible the impact on airline rates and charges. 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. During 2001, a process was initiated to develop a new Airport Master Plan for the Stinson Municipal Airport. The Stinson Municipal Airport Master Plan will provide recommendations for airfield and facility improvements needed to meet growing operation demands. The Planning effort will facilitate the development of the Airport to expand its role as a general aviation reliever to the San Antonio International Airport. The expansion of Stinson's facilities are also needed to take advantage of new, complementary business opportunities evolving with the synergy between Brooks City-Base, KellyUSA and the Airport. As part of the master planning process, a Target Industries Analysis is being conducted, which will facilitate development of Stinson properties through the identification of industries and businesses considered to be good prospects for locating at the Airport.

City Public Service
City Public Service (CPS), owned by the City, provides electric and gas services to San Antonio and surrounding areas. As of January 2002, CPS owns and operates 16 electric generating units capable of producing 4,327 megawatts (MW) of power from natural gas, oil and coal. CPS also owns 700 MW of nuclear generating capacity in the South Texas Project plus the rights to another 160 MW of wind generation, which brings the total CPS capacity to 5,817 MW. During fiscal year 2002, CPS's generation was obtained from the following sources: coal, 48.9%; nuclear, 30.5%; and natural gas, 19.5%. Wind energy and purchased power accounted for 1.1%. As the second largest municipally owned utility in the nation, CPS serves more than 592,000 electric customers throughout its 1,566 square-mile service area, and about 307,000 natural gas customers in the urban San Antonio area.

To the citizens' benefit, CPS rates are lower than any major Texas city and among the lowest in the nation. The average CPS residential gas and electric bill ranked second lowest among the 20 largest cities in the United States for the twelve months ending December 2001. CPS remitted over $168 million to the City in fiscal year 2002. Representing a steady and increasing source of revenue for the City, this return helps keep property taxes low and enhances the funding of many city services offered to residents. Additionally, for its August 2002 debt transaction, CPS was awarded a AA+ rating by Standard & Poor's, which is the highest rating they have ever awarded to a publicly owned utility. This rating makes CPS the highest rated publicly owned utility in the nation.

San Antonio Water System
The City's waterworks system, initially acquired in 1925, was included in a consolidation in 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. SAWS provides water and wastewater service to the majority of the population within the corporate limits the City of San Antonio and Bexar County which totals approximately 1.4 million residents. Currently, SAWS provides water and wastewater service to 297,661 and 351,250 customers respectively, including residential, commercial, industrial and irrigation customers. SAWS has 4,076 miles of water mains in place and 4,892 miles of wastewater mains in place.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Housing and 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, Single-Family/Multi-Family Rental Rehabilitation, Affordable Showcase 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 City 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, which encompasses the original 1940 city limit boundaries.

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. Since 2001, 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 and to replenish the line of credit in order to acquire additional projects.

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 Urban Affairs Committee.

Neighborhood Sweep Program
The Neighborhood Action Department coordinated and delivered 24 neighborhood sweeps during fiscal year 2002. Over the last five years, 110 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.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

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 $4,850,500 in private investments and 326 new jobs. During fiscal year 2003, the program will be assessed in an effort to pursue alternatives for greater program success and productivity, as the participants continue to implement strategies that will support inner city revitalization.

Down Payment Assistance Program/Homebuyers Club
In fiscal year 2002, the Neighborhood Action Department provided families with down payment and closing cost assistance toward their purchase of a home. The Department will continue to provide up to $8,000 for families wishing to purchase single family homes in the San Antonio area. In addition, there were 485 participants who attended the City's Homebuyers classes, which provide information on the steps to prepare for homeownership.

Owner Occupied Rehabilitation & Reconstruction Programs
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 which supported the rehabilitation/reconstruction of 32 properties is 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. All applicants must meet eligibility and income qualifications.

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. Funds for this program are made available through the US Department of Housing and Urban Development providing CDBG and HOME funds.

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. During fiscal year 2002, 198 units were made available to low-moderate income families as a result of assistance through this program.

Tax Increment Financing
In the summer of 2002, the City's Tax Increment Financing (TIF) program was undergoing major review in preparation to revise the TIF guidelines and criteria. This review was completed in Fall 2002 and will work to stimulate major new construction and rehabilitation throughout the City. 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,

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Tax Increment Financing (Continued)
construction of low and moderate-income housing, provision of employment opportunities, and improvement of the tax base.

The program assessment provided for additional resources in order to efficiently respond to the TIF applications pending. The onset of the revised guidelines will facilitate higher standards of development for TIF projects through additional development requirements. The Neighborhood Action Department is projecting to complete 8 new project applications in fiscal year 2003.

Housing Policy Guide
For the past 16 months, the City has been working with a Task Force to review its housing policies which apply to all housing projects funded through the Community Development Block Grant (CDBG) and the Home Investment Partnership Program (HOME). These HUD programs provide additional resources for the City to address housing issues and the new policies are designed to maximize efficient use of those resources. The new policies ensure that the City will receive some portion of its investment on every housing project while still assisting residents who need safe, sanitary and decent housing.

Neighborhood Development/Partnerships
Neighborhood Development/Partnerships are an innovative strategy being utilized to tackle inner city revitalization through private development. CDBG and HOME funds have been allocated as seed money to stimulate development in urban neighborhoods. The City will release Requests for Proposals to qualified developers to redevelop the Sunny Slope neighborhood and a targeted neighborhood in Council District 4 through housing rehabilitation and construction of new infill housing. The City has already invested millions of dollars in capital improvements in the Sunny Slope area, which should make it attractive for private investors. This pilot program will stimulate increased activity in neighborhoods that have not seen new development in years.

Department of Community Initiatives
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 strengthen families, develop human capital, and provide a community safety net. Additionally, DCI 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 2003, 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 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 early childhood education, kindergarten readiness, youth development, college scholarships, preparation for transitional employment, long-term job training and adult literacy services, and asset building and asset protection strategies.

DCI's early childhood education goal is to provide high quality and affordable childcare in order to improve workforce participation and prepare children to enter school ready to succeed. Through Head Start, the Child Care Delivery System and local initiatives, the Department will provide childcare to over 16,000 low-income children of parents participating in workforce activities.

The City provides $11 million in In-Kind contributions to the Head Start program to support this early care and education goal. Additionally, the City certified almost $8 million in local expenditures that attracted $12.5 million in federal matching dollars to further underwrite the City's aggressive early care and education initiative. Over the past four years, the City has drawn down proportionately more federal matching early childhood funds

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Department of Community Initiatives (Continued)
than any other Texas community. The Kindergarten Readiness Project strengthens families by empowering parents to serve as their child's first teacher and 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 3,300 parents and 260 teachers in the use of the guidelines. According to a University of Texas at San Antonio (UTSA) research study on the project, 88% 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 through 12th grade students at the 15 participating high schools. Since the program's inception, over 1,200 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. Moreover, all the training facilitated through Project QUEST serves the City's five targeted industries by providing them with skilled and educated workers. The program serves undereducated adults who have completed high school or a GED certificate. Since the program's inception in 1993, over 1,800 participants have completed training and have been placed in jobs at an average wage of $9.90.

DCI'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 a transitional jobs component in partnership with local employers to improve the workplace skills of residents who have a limited work history. This initiative provides comprehensive career readiness and life skills training including intensive job counseling, motivational sessions, financial literacy and job placement. In fiscal year 2002, over 300 adult learners completed these programs and were placed in jobs.

To assist low-income working families transition out of poverty and achieve economic self-sufficiency, DCI has developed the Family Economic Success Program. This program offers asset-building strategies including Volunteer Income Tax Assistance (VITA). Last year, tax preparer volunteers prepared over 2,000 tax returns for low-income working families, which translated in over $2 million returned. DCI will expand VITA services to 14 sites in fiscal year 2003. This expansion will serve over 4,000 families in returning almost $6 million to these families.

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, and improving quality of life. Over the last year, DCI 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.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Information Technology Services Department (ITSD)
The Information Technology Services Department (ITSD) provides information technology (IT) services, 24 hours a day, 7 days a week, to all City departments and other agencies through information and technology sharing agreements. 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. The City uses IT to be more cost efficient, deliver better and more comprehensive services, and provide easy access to information. 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.

As the City continues its Security Initiative to institute new security policies, guidelines and operating procedures for all City systems, its goal is to protect the City's infrastructure by reducing risks, complying with laws and regulations, and ensuring business continuity, information integrity and confidentiality. The City is involved with Homeland Defense and Emergency Management Technology Support Systems and with the Dark Screen Project initiated by Representative Ciro Rodriguez. Dark Screen is a consortium of local, county, state and federal entities involved in preventing cyber terrorism. This Dark Screen operation will test the response capabilities of the City and the surrounding regions to a cyber-terrorist attack; will recommend and develop methods for industry, law enforcement, government and academia to cooperatively protect critical infrastructures; and, will serve as a model for other cities in preparing for a cyber-terrorist attack or similar event. ITSD continues to update its business continuity plans and to monitor, maintain, revise and disseminate current security policies, procedures and administrative directives to ensure they are current.

The San Antonio Community Portal provides Internet access to enhance the City's effectiveness and efficiency in serving its employees, citizens, businesses and visitors. The City's website, sanantonio.gov, strives to seamlessly extend services and improve communications between the City and the Community-at-large. During 2002, e-commerce, including on-line payments, was implemented to provide San Antonio stakeholders one-stop access to government information and services.

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 is 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 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 information technology 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 plan is intended to be dynamic and is updated annually to reflect changes in technology, trends, and the organization.

In an effort to stabilize the desktop computing environment and to improve technology performance, reliability and service across departments, the City will begin leasing PC equipment on a three-year replacement schedule. This program will establish a standard desktop program for City PCs that will provide a uniform operating platform, consistent support and functionality for end-users.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Information Technology Services Department (ITSD) (Continued)
The ITSD Customer Service Initiatives will implement Customer First practices by streamlining communication with customers, establishing a 24/7 help desk, publishing service level standards and providing training for professional growth of ITSD and City staff. The GIS/Mapping Initiatives continue to implement the City's GIS Master Plan and the mapping backbone that can be used to satisfy the spatial and mapping requirements of internal and external users.

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's Office, Director of Finance, and Director of Information Technology Services. The City has hired a consulting firm to assist with this effort. The ERM Project consists of three phases: Phase 1 – needs assessment, definition of "to be processes", and development of the business case was completed in September, 2001; Phase 2 - software and hardware selection which was completed in July 2002; and, Phase 3 - software implementation and integration which will completed by December 2004.

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 2002 staff complement for code enforcement includes 68 Code Enforcement Officers, 10 Dangerous Premises Officers, and 10 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.

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. In fiscal year 2002, $494,460 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

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Medicine and Healthcare (Continued)
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 Therapy and Research Center that attracts patients nationally and internationally. In addition, Brooks City-Base is a major medical and environmental research facility of which the U.S. Air Force Medical Service is a major tenant.

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 and control, emergency preparedness, health education, dental services, and is the local registrar of vital statistics.

Developmental Services
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 Developmental Agreement for the design, construction, and purchase of a facility for the Development and Business Services Center, a/k/a One Stop. Construction began in January 2002 and is scheduled to be completed and the facility occupied by April 2003. The purpose of this Center is to provide a convenient single source of information and assistance to businesses and organizations that are expanding, developing, or relocating. The Center, centrally located at the northwest corner of South Alamo and South Flores streets on the south side of the City's Central Business District, is a two-story state of the art facility, encompassing approximately 75,000 square feet along with over 300 parking spaces and situated on 5.3 acres of land.

The Center will house an estimated 230 employees of governmental entities and various City departments including Development Services, Planning, Health, Fire Inspections/Fire Marshall, and the Economic Development/Small Business Outreach Program, as well as individuals from various business development organizations, the water, electric, and gas utilities, and related departments of Bexar County.

With the opening of the Development and Business Center, space in the Municipal Plaza Building will be vacated. The Department of Asset Management, in conjunction with the City Architect's Office and with the assistance of various other departments, is developing a plan for the backfill of the vacated space. The focus of this plan is to provide additional space for the overcrowded departments, co-locate certain functions for efficiency, and minimize the amount of rent being paid for leased space in the downtown area.

Contracting Initiatives
In July 2001, the City Council approved the creation of the Contract Services Unit, a division of the Department of Asset Management. This division has 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 negotiation and approvals; 3) rigorous monitoring practices; and 4) training programs for contract officers. As a part of this process, the Electronic Contract Management System was developed and serves as a central repository for City-wide contracting data. Recent accomplishments of the Unit include completion of training classes on Contract Law and Contract Negotiation, the first two required courses of the Contract Officer Certification Program training. In addition, the Unit has been charged with the review and approval of all Requests for Proposal for professional services contracts. As a part of the Contract Services Unit's efforts to create City-wide standards for contract management, a staff manual is being developed which outlines the various processes related to contracts. Staff will be trained on the content and use of this manual and the manual will be continually updated and available on the City's intranet.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Environmental Services Department
The Environmental Services Fund receives most of its revenues from the Residential Solid Waste Fee, Brush Fee, and the Environmental Fee as collected by City Public Service. Additional revenues to this fund are generated from Licensing and Permitting Fees, Mulch and Brush Disposal Fees, and Out of Cycle Collections. The fund supports both Environmental Management and the Solid Waste Divisions of the Environmental Services Department.

The Solid Waste Division is responsible for the collection of municipal solid waste generated by over 300,000 homes and businesses within the City of San Antonio. The primary services provided by this Division include: bi-weekly collection of residential garbage, weekly curbside collection of residential recyclables, dead animal collection, downtown night garbage collection, and the bi-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 Association. The Solid Waste Division also provides cleanups for special events, weather related emergencies and high priority needs of the City.

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 (HHW) Programs, monitoring and maintaining the City's closed landfills, and overseeing or performing asbestos assessments and environmental remediation. This division also provides technical support for the City's efforts related to energy conservation and compliance with Senate Bill 5–State legislation requiring 25% reduction in energy consumption by City facilities over the next 5 years.

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, maintenance and renovation of City buildings, streets and drainage facilities, and operates the traffic network.

Significant projects underway include the Northeast Service Center located along the Wurzbach Parkway. The facility consists of vehicle maintenance operations for Purchasing, Street Maintenance Operations under Public Works, and garbage collection services by Environmental Services Department. This facility also includes a 3,000 square foot multi use space for meetings and public use. Construction is expected to begin on Bulverde Fire Station No. 48 and the Guerra Library on Military Drive. The St. Mary's Parking Garage was completed in 2002 and accommodates 704 spaces with office space for lease. The Presa Street Linkage Project completed in 2002 connects the Riverwalk to Houston Street, which includes ADA access to the river. Another downtown project completed in 2002 is the Houston Street Streetscape Enhancements project.

The Capital Programs Division completed 24 street and drainage projects at a cost of $14,353,479. These projects will minimize flooding, reduce the number of potholes, reduce traffic delays, and allow for greater mobility.

The Streets Maintenance Division implemented the first year of the pavement 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 cut the amount of time it takes to reconstruct street surfaces by 50%. Customer service is improved by minimizing inconvenience to the citizens while working in their neighborhoods. Recycling of the existing asphalt diverts waste from the landfill. The additional paver purchased is used to assist city crews in meeting increased customer demand for paved asphalt projects with smooth riding surfaces and skid resistance to improve safety.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Public Works Department (Continued)
Neighborhood Accessibility & Mobility Program (NAMP) funding has been increased to $325,000 for each council district and the scope of work under this program has been expanded from sidewalks and speed humps to other transportation improvements such as street maintenance, small street repair, traffic signals, school flashers, pedestrian walkways and medians. The additional funding and expansion of projects under NAMP will be positive for neighborhoods needing specific improvements.

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. This process also provides R.O.W. staff the opportunity to develop an inventory of all permitted excavations for the purpose of monitoring the integrity of past street repairs.

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. The flood of 2002 emphasized the need for continued efforts to be more proactive in flood control efforts. 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 providing for orderly development.

The Interlocal Agreement (ILA) for Regional Flood Control Management Program (RFCMP) forged over the past year to provide for a collaborative and cooperative effort between the City, County, and SARA to deal with water quantity and quality issues. The agreement allows for suburban city participation. Through the ILA, the city will acquire the tools needed to effectively provide storm water master plans for each of the watersheds. This effort will be funded by SARA's ad-valorem tax and is estimated to cost $6 million. The RFCMP will provide for a strategic financial model, an annual and 5 year capital improvement program, standardized design and maintenance criteria, a county-wide water quality model, hydraulic and hydrologic models for each watershed and a unified service delivery by three governmental entities.

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.

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

ECONOMIC OVERVIEW (Continued)

Supporting Infrastructure Components (Continued)

Convention Center Expansion (Continued)
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 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.

In the fall of 1999 the citizens of San Antonio approved a referendum for the construction of a mid-size, multi-purpose arena for the San Antonio Spurs Basketball Team. This arena, the SBC Center, was completed October 2002 and the Spurs moved to this facility in November 2002. The financial impact of the Spurs departure on the Alamodome remains to be seen, but the facility will continue to be a viable economic generator for the City.

The Alamodome maintains a strong reputation as a host for major events. As a result, the diversity of events that are brought to San Antonio continues to expand. The NCAA will host the Men's Southern Regional Basketball Tournament in 2003, the Men's Final Four Basketball Tournament in 2004, and the 2005 Women's Volleyball Championship. In the next five years, the Alamodome will increasingly become a community facility in addition to serving as a multi-purpose venue for major sporting events, convention activities and concerts as well as civic, religious, and social events. With the increased number of booking dates and improved scheduling flexibility as a result of the departure of the Spurs, the Alamodome will continue to court high-school football games, meeting room and trade show events, family shows and concerts.

Efforts are ongoing to secure recurring events for the Alamodome. The Alamodome negotiates with promoters of recurring events to hold their events at the Alamodome for a sustained period of time, usually five (5) years. These events include; the San Antonio Boat Show; Ringling Brothers Barnum & Bailey Circus; Disney on Ice; Arena Motor Cross; Monster Truck Show; the Texas Classic High School Football Kickoff Game; House Beautiful Show; and American Cheer Power.

ECONOMIC OVERVIEW (Continued)

Supporting Infrastructure Components (Continued)

Nelson W. Wolff Municipal Stadium
The Nelson W. Wolff 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, a *double A* minor league baseball team. In 2000, the Missions became a farm club of the Seattle Mariners. The Missions won the Texas League Championship in 2002 for a second time since moving to the stadium.

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 Spurs, the San Antonio Rampage Ice Hockey team, and the San Antonio Missions. San Antonio also hosts two PGA tour events, the Valero Texas Open and Senior PGA SBC Championship.

International Outlook

For the third year, the City's International Affairs Department continues to develop an Export Leaders 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 three years, the program graduated 36 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 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.

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

Budgetary Controls (Continued)

fiscal year beginning October 1, 2001, the Government Finance Officers Association of the United States and Canada ("GFOA") presented an award of Distinguished Budget Presentation to the City.

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

FINANCIAL INFORMATION

Fiscal Management and Administrative Topics

Pension and Postemployment Retirement Benefits
The City provides pension retirement benefits for its eligible employees through two plans. For uniformed Fire an Police employees, retirement benefits are provided through the Fire and Police Pension Fund, a single-employer defined benefit retirement plan. Contribution and benefit levels are established under State statute. For fiscal year 2002,active members contributed 12.32% of covered payroll, or $21,808 and the City contributed 24.64%, or $43,615.

The City provides all other eligible employees, exclusive of fire and police employees, retirement benefits through the Texas Municipal Retirement System (TMRS), a nontraditional, joint contributory, hybrid defined benefit plan. TMRS is a statewide agent multiple-employer public employee retirement system. Contributions to the system are actuarially determined. The required contribution from City employees is 6%, while the City matches at a rate of approximately 11.63%. Both the City and its covered employees made the required contributions of $23,147 and $11,947 respectively. For additional information on the City's pension plans, see Note 8 in the notes to the financial statements.

With respect to postemployment health benefits, the City provides benefits for all non-uniformed City retirees and for all, pre-October 1, 1989 uniformed fire and police retirees. The cost of the program is reviewed annually and actuarially determined costs of medical claims are funded jointly on a pay-as-you-go basis with the City contributing 2/3 and the retirees contributing 1/3 of the cost. As of September 30, 2002, 1,405 retirees were participating in the program and currently there are 6,650 active civilian employees who may become eligible for this program in the future.

The second postemployment health benefit program provides retirement health care benefits for eligible fire and police retirees under the Fire and Police Retiree Healtchcare Fund ("Fund"). Contribution and benefits levels are established under the City's collective bargaining agreements with the Fire and Police Unions, respectively. The benefits of this plan are financed on a prefunded basis. For fiscal year 2002, the City contributed $15,300 to the Fund and active employees and retirees contributed $1,222. Recent actuarial studies have resulted in different results and indicate that the current contribution levels are not sufficient to amortize the unfunded liability of the Fund. The City continues to review the Fund in order to develop a comprehensive framework for a long-term solution. For additional information on City's postemployment health benefits, please see Note 9, of the notes to the financial statements.

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

FINANCIAL INFORMATION (Continued)

Fiscal Management and Administrative Topics (Continued)

Cash and Investment Management (Continued)
objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

The City is authorized to use demand accounts, time accounts, and certificates of deposit, and other permissible investments including Obligations of the U.S. Treasury and U.S. Agencies, Obligations of States and Cities, Commercial Paper, Repurchase Agreements, Money Market Funds, and Investment Pools. The City's investment portfolio includes 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, 2002, investable City funds were 86.71% invested in obligations of the United States, or its agencies and instrumentalities, and 10.79% invested in a money market mutual fund, with the weighted average maturity of the portfolio being less than one year. The remaining 2.50% of the City's portfolio includes the convention center debt service reserve fund of $16,999, which was invested in fully collateralized repurchase agreement that is fully secured by obligations of the United States or its agencies and instrumentalities. The investments and maturity terms are consistent with State law, and the City's investment policy objectives, which are to preserve principal, limit risk, maintain diversification and liquidity, and to maximize interest earnings. For additional information on Cash and Investments, please see Note 3 of the notes to the financial statements.

Risk Management Programs
For the fifth time in eleven years, the Insurance Reserve Fund maintained a positive net assets balance of $3,103 for the fiscal year 2002. Whereas, the Workers' Compensation Fund reflected a negative net assets balance of $2,505. The Insurance Reserve and Workers' Compensation Funds carried cash reserves at September 30, 2002 in the amount of $14,182 and $12,922, respectively.

The Risk Management Division Safety Office has continued aggressive efforts this year to promote Accident Prevention/Loss Control projects. This year 3,216 employees received formal classroom training on a number of subjects, totaling 15,112 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 2,141 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 Departments 1,801 hours of technical assistance and one-on-one informal training on a variety of safety and health topics in fiscal year 2002. 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 in identifying and correcting negative trends in frequent and loss severity. This year, 5,122 employee driver evaluations were processed with records being updated.

Employee Benefits Program
The City's Self-Insurance Fund continues to experience increased expenses due to rising health care costs, increased prescription drug costs, increased claims volume and changing employee demographics. The City

FINANCIAL INFORMATION

Fiscal Management and Administrative Topics (Continued)

Employee Benefits Program (Continued)
continues to focus on cost containment programs such as: hospital audits, hospital pre-certification, utilization review, large case management, prescription benefit management, and a preferred provider organization to assist in managing the rising cost of medical care. Such strategies have been effective for the City in managing medical cost in a changing health care industry. The City is in the process of hiring a Case Management Nurse and Utilization Review Specialist to support the cost containment programs and aid in identifying additional cost savings. The City has also utilized the services of an outside consultant to conduct a three-year actuarial study and plan design review for the Employee Benefits program. The total cost savings for fiscal year 2003, as a result of plan changes, is estimated at $805. In fiscal year 2002, the Employee Benefits Fund had cash reserve of $1,042 and a deficit net assets balance of $13,000. For additional information on the City's risk and employee benefits programs, please see Note 12, of the notes to the financial statements.

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

Strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its "Aa2", "AA+" and "AA+" bond rating by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Public Ratings Services, a division of McGraw-Hill Companies, Inc. ("S&P"), and Fitch Ratings ("Fitch") respectively. The positive trend in the City's credit strength is evidenced by S&P's rating upgrade in December 1998 from "AA" to its current "AA+" and Fitch's rating upgrade in October 1999 from "AA" to "AA+". For additional information on the City's long-term debt, please see Note 6 of the notes to the financial statements.

OTHER INFORMATION

INDEPENDENT AUDIT

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

SPECIAL ELECTION ISSUES

On November 6, 2001 the citizens of San Antonio approved three charter amendments during a special election. Proposition one creates the position of independent City Auditor, providing that the appointment and removal of the Internal Auditor will be by the City Council. The proposition provides that all employees of the Internal Audit Department will work for the City Auditor, and the department will work to perform financial, fiscal compliance and other audits as directed.

SPECIAL ELECTION ISSUES (Continued)

Proposition two provides the appointment of the City Attorney by the City Manager to be confirmed by the City Council. The proposition provides that the City Manager may remove the City Attorney with advice of the City Council, and that an assistant city attorney may perform the duties of the City Attorney, at the City Attorney's discretion.

Proposition three removes certain licensed professionals and executive job classifications from Municipal Civil Service coverage and protection. It specifically mentioned assistant directors of City departments, architects, assistant auditors, attorneys, dentists, doctors, engineers, psychologists, veterinarians, and part-time and seasonal employees. The proposition also provides for alternate members to the Municipal Civil Service Commission.

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, 2001. This was the 26th 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.

In March 2002, the City's Aviation Department received the FAA's "Texas 2001 Outstanding Airport of the Year" award for the San Antonio International Airport. This award is given to one airport in each of the five states in the FAA's Southwest region. It is presented in recognition of an airport's overall management in its use of Federal funds, diligence in planning and implementing projects, airport maintenance, use of airport improvement program resources and compliance with FAA safety standards.

The City of San Antonio was recognized by the Department of Justice in July of 2002 for its compliance with the Americans with Disabilities Act (ADA) in a meeting in Washington, D.C. The City was high-lighted for its' efforts to follow the guidelines of Project Civic Access, a wide-ranging federal initiative to ensure that state facilities, counties, cities, towns, and villages comply with the ADA. The Department of Justice is featuring a story and photographs of San Antonio and its residents on the ADA web page at www.ada.gov.

The preparation of the City of San Antonio, Texas Comprehensive Annual Financial Report for the fiscal year ended September 30, 2002, 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

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Antonio, Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2001

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

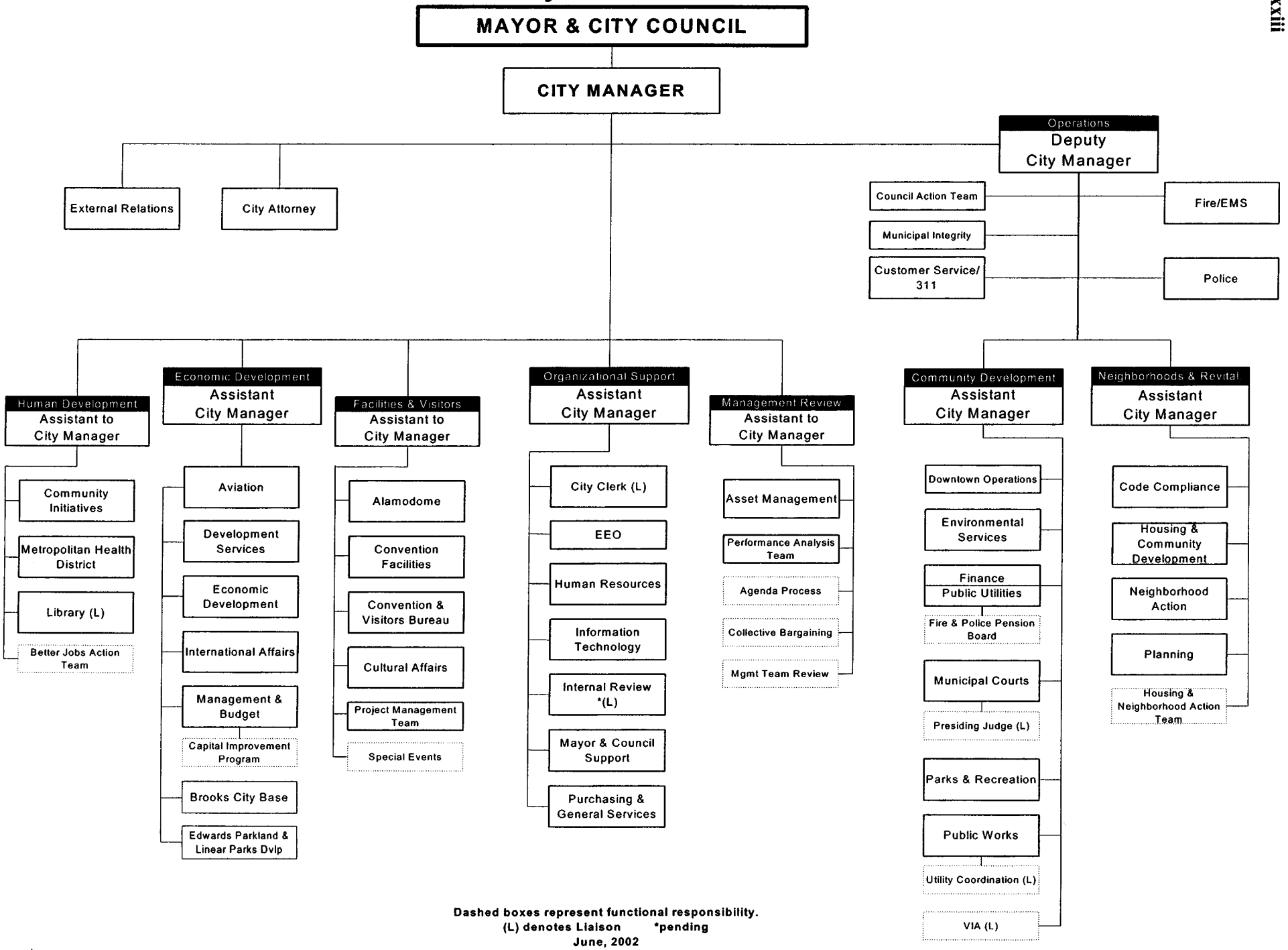
Executive Director

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, 2001. This was the 26th consecutive year that the City has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

City of San Antonio



Dashed boxes represent functional responsibility.
(L) denotes Liaison *pending
June, 2002

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
Nora X. Herrera

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
Travis M. Bishop

ASSISTANT CITY MANAGER
Christopher J. Brady

ASSISTANT CITY MANAGER
Melissa Byrne Vossmer

ASSISTANT CITY MANAGER
Jelynne L. Burley

ASSISTANT TO THE CITY MANAGER
Roland A. Lozano

ASSISTANT TO THE CITY MANAGER
Frances A. Gonzalez

ASSISTANT TO THE CITY MANAGER
Erik J. Walsh

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

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City of San Antonio
Texas

Financial Section

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City of San Antonio
Texas

Independent Auditors' Report

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KPMG

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

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

Independent Auditors' Report

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

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of and for the year ended September 30, 2002, which collectively comprise the City of San Antonio, Texas' basic financial statements as listed in the accompanying table of contents under "Basic Financial Statements." These financial statements are the responsibility of the City of San Antonio, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not jointly audit the financial statements of certain discretely presented component units and blended component units included in the governmental and fiduciary funds of the City of San Antonio, Texas, which represent the indicated percent of total assets and total revenues as presented in the table below. Those financial statements were audited by other auditors, including KPMG LLP and Leal & Carter, P.C., acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those component units, are based solely on the reports of the other auditors.

	Percent not jointly audited	
	Total assets	Total revenue
Government-wide		
Governmental activities	0%	0%
Business-type activities	0%	0%
Discretely presented component units	24%	13%
Fund statements		
Major funds	0%	0%
Aggregate remaining fund information	76%	19%

	Percent audited by KPMG separately		Percent audited by Leal & Carter separately		Percent audited by Robert J. Williams separately	
	Total assets	Total revenue	Total assets	Total revenue	Total assets	Total revenue
Government-wide						
Discretely presented component units	0%	0%	1%	1%	0%	0%
Fund statements						
Aggregate remaining fund information	5%	3%	0%	0%	0%	0%

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of September 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City of San Antonio, Texas has implemented a new financial reporting model, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus,* GASB Statement No. 38, *Certain Financial Statement Note Disclosures,* and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, effective October 1, 2001.

The Management's Discussion and Analysis on pages 1 through 11, the Budgetary Comparison schedule on page 111, and Schedules of Funding Progress and Employer Contributions on pages 112 through 114 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We, and the other auditors, have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we, and the other auditors, did not audit this information and express no opinion on it.

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

February 28, 2003

City of San Antonio
Texas

Management's Discussion and Analysis

(Required Supplementary Information)

(Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of San Antonio (City) presents the following discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2002. This discussion and analysis is intended to assist readers in focusing on significant financial issues, changes in the City's financial position, and identifying any significant variances from the adopted budget. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the financial statements provided in this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the City exceeded its liabilities by $2,466,912 (net assets). Of this amount, $116,612 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $455,756, an increase of $10,808 compared to the fiscal year 2001 fund balance. The total unreserved fund balance of $124,698 is available for spending at the government's discretion. Of this amount, $52,297 is designated and $72,401 is undesignated fund balance.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $53,658, or 10.4% of the total General Fund expenditures.

Overview of the Financial Statements

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

Government-wide financial statements

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

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

The *statement of activities* presents information regarding increases and decreases to the government's net assets for the fiscal year. Changes in net assets are recorded when the underlying event giving rise to the change occurs regardless of the timing of the cash flows. Therefore, revenues and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). Governmental activities include general government, public safety, public works, sanitation, health services, environmental protection and control, culture and recreation, convention and tourism, conservation, urban redevelopment and housing, welfare and economic development opportunity. The business-type activities of the City include the airport system, parking system, and environmental services.

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

Fund Financial Statements

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

Fund financial statements are used to present financial information detailing resources that have been identified for specific activities. The focus of the fund financial statements is on the City's major funds, although non-major funds are also presented in aggregate and further detailed in the supplementary statements. The City uses fund accounting to ensure and demonstrate compliance with requirements placed on resources. Funds are divided into three types: governmental, proprietary, and fiduciary. Fund financial statements allow the City to present information regarding fiduciary funds, since they are not reported in the government-wide financial statements.

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

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

The City of San Antonio maintains five individual governmental funds for financial reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the general fund, debt service fund and the general obligation bond fund, all of which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each nonmajor governmental fund is provided in the form of combining statements elsewhere in this report.

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

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

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

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

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

Government-wide Financial Analysis

GASB 34, Basic Financial Statements- and Management's Discussion and Analysis-for State and Local Governments, requires that the City provide a comparative analysis of government-wide data. Since this is the first year of implementation, the comparative data is not available for this fiscal year. In future years, when prior year information is available, the City will be in a position to provide the government-wide data comparisons on governmental and business-type activities as required by GASB.

City of San Antonio
Net Assets
September 30, 2002

	Governmental Activities	Business-type Activities	Total Primary Government
Current and Other Assets	$ 632,243	$ 222,870	$ 855,113
Capital Assets	2,938,157	276,008	3,214,165
Total Assets	3,570,400	498,878	4,069,278
Other Liabilities	129,128	14,633	143,761
Long-term Liabilities	1,184,719	273,886	1,458,605
Total Liabilities	1,313,847	288,519	1,602,366
Net Assets:			
Invested in Capital Assets, Net of Related Debt	2,036,269	152,261	2,188,530
Restricted	109,693	52,077	161,770
Unrestricted	110,591	6,021	116,612
Total Net Assets	$ 2,256,553	$ 210,359	$ 2,466,912

For the year ended September 30, 2002, total net assets exceeded liabilities by $2,466,912. The largest portion of the City's net assets (89%) is its investment in capital assets less any related debt used to acquire those assets that is still outstanding, and includes assets such as land, infrastructure, improvements, buildings, machinery and equipment. In addition, as of September 30, 2002 the City is required to report infrastructure assets in its financial statements for the first time.

Capital assets are used to provide services to the citizens of San Antonio and are not available for further spending. Although the City's investment in capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

Of the total net assets, 6% ($161,770) represent resources that are subject to external restrictions on how they may be used. The remaining 5% ($116,612) represent unrestricted net assets, which can be used to meet the government's ongoing obligations to citizens and creditors.

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City of San Antonio
Changes in Net Assets
For the fiscal year ended September 30, 2002

	Governmental Activities	Business-type Activities	Total Primary Government
REVENUES:			
Program Revenues:			
Charges for services	$ 133,821	$ 94,814	$ 228,635
Operating Grants and Contributions	183,849	5,040	188,889
Capital Grants and Contributions	16,400		16,400
General revenues:			
Property Taxes	225,740		225,740
Other Taxes	233,851		233,851
Revenues from Utilities	171,632		171,632
Investment Earnings	13,504	3,365	16,869
Net Decrease in Fair Value of Investments	(423)	(74)	(497)
Miscellaneous	12,269	7,610	19,879
Gain on Sale of Capital Assets	1,703	50	1,753
Capital Contributions	481		481
Total Revenues	992,827	110,805	1,103,632
EXPENSES:			
Primary Government:			
Governmental Activities:			
General Government	77,887		77,887
Public Safety	414,382		414,382
Public Works	131,010		131,010
Sanitation	7,909		7,909
Health Services	78,662		78,662
Environmental Protection and Control	194		194
Culture and Recreation	76,400		76,400
Convention and Tourism	49,754		49,754
Conservation	15		15
Urban Redevelopment and Housing	17,038		17,038
Welfare	133,818		133,818
Economic Development Opportunity	27,322		27,322
Commercial Paper Fees	13		13
Interest on Long-term Debt	54,628		54,628
Business-type Activities:			
Airport System		41,941	41,941
Parking Facilities		8,693	8,693
Environmental Services		48,223	48,223
Total Expenses	1,069,032	98,857	1,167,889
Increase/(Decrease) in Net Assets before transfers	(76,205)	11,948	(64,257)
Transfers	2,072	(2,072)	
Net Increase/(Decrease) in Net Assets	(74,133)	9,876	(64,257)
Beginning Net Assets	2,330,686	200,483	2,531,169
Ending Net Assets	$ 2,256,553	$ 210,359	$ 2,466,912

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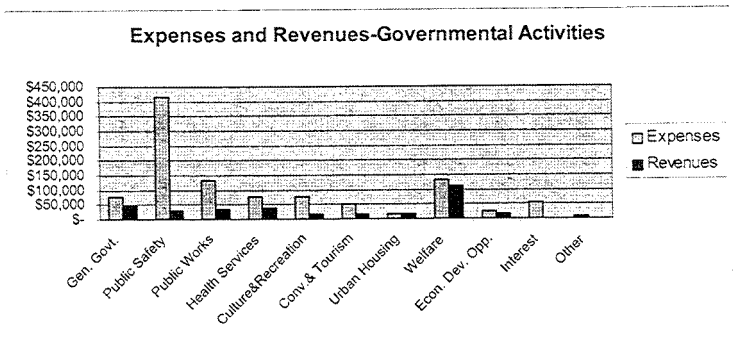
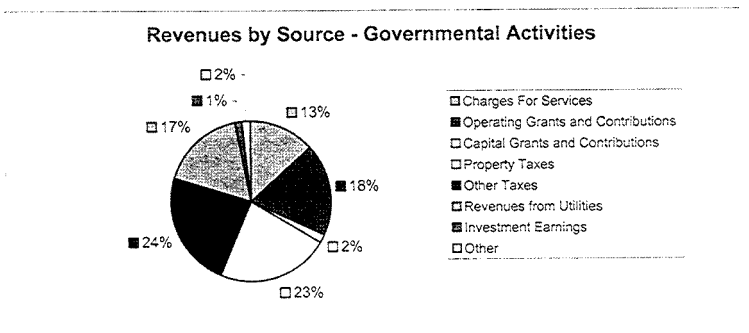
Governmental Activities

The City's total revenues were $1,103,632 for the fiscal year ended September 30, 2002. Revenues from governmental activities totaled $992,827 and revenues from business-type activities totaled $110,805. General revenues represented 61% of the City's total revenue, while charges for services and operating grants provided 39% of revenue received in fiscal year 2002.

Expenses for the City totaled $1,167,889. Governmental activity expenses totaled $1,069,032, or 92% of total expenses.





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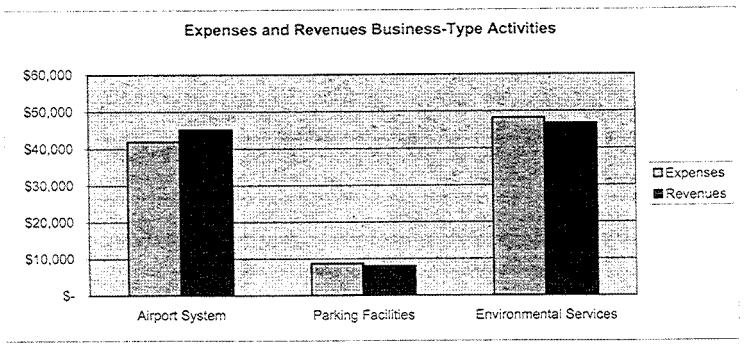
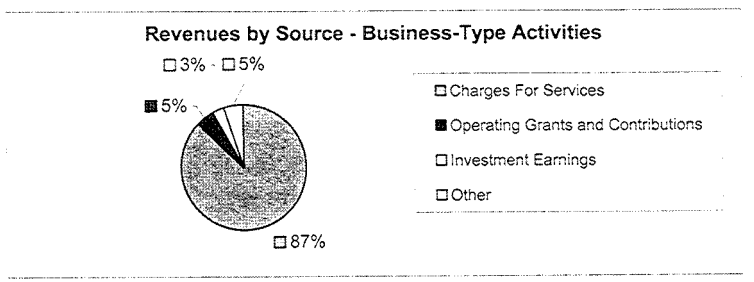
Business-type Activities

Program revenues for the City's business-type activities totaled $99,854. Expenses for business-type activities were $98,857. The remaining revenue was a result of interest and other miscellaneous items.





Financial Analysis of Governmental Funds

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.

Revenues from taxes increased by $24,928 which was primarily attributable to: (1) a $13,605 or 10.84% increase in property tax revenue for the General Fund, (2) a $3,274 or 2.39% increase in sales tax revenue in the General Fund, and (3) a $5,958 or 7.27% increase in property tax revenue for the Debt Service Fund as a result of increased property valuation, new construction, and annexation. Revenues for the utilities category, which is represented in the City's General Fund decreased by $16,706 or 8.89% which is primarily attributed to a decrease of $17,293 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 factors.

The total fund balance of the General Fund at year-end was $62,452, a decrease of $33,746 from the total fund balance of $96,198 for the close of fiscal year 2001. The total unreserved fund balance for fiscal year 2002 is $53,658, which represents $33,861 in designated and $19,797 in undesignated fund balance. The undesignated fund balance, which represents amounts available for additional appropriations, in the General Fund at the close of the fiscal year decreased by $29,640 from the previous year.

The total fund balance of the Debt Service Fund at year-end was $89,348 a increase of $1,051 from the total fund balance for the close of fiscal year 2001. The entire fund balance is reserved for payment of debt service.

The total fund balance for the Capital Projects - General Obligation Bonds fund at year-end was $91,400, an increase of $35,386 from the total fund balance for the close of fiscal year 2001. The unreserved fund balance all of which makes up the undesignated fund balance in the General Obligations Bonds Fund was $52,828.

General Fund Budgetary Highlights

Significant Variances in Budget Appropriations
General Fund

	Original Budget	Final Budget	Actual Results
General Government	$ 66,430	$ 69,352	$ 57,213
Public Safety	347,042	354,820	351,557
Public Works	9,971	10,325	10,245
Health Services	13,696	13,716	14,076
Sanitation	2,566	2,567	2,663
Welfare	17,476	18,318	17,662
Culture and Recreation	61,237	62,403	59,755
Economic Development and Opportunity	6,723	8,324	7,632
Transfers to other funds	69,458	74,881	76,102
Total	$ 594,599	$ 614,706	$ 596,905

Changes in original budget appropriations to the final amended budget appropriations were a $20,107 increase in appropriations. This increase can be summarized by the following discussion.

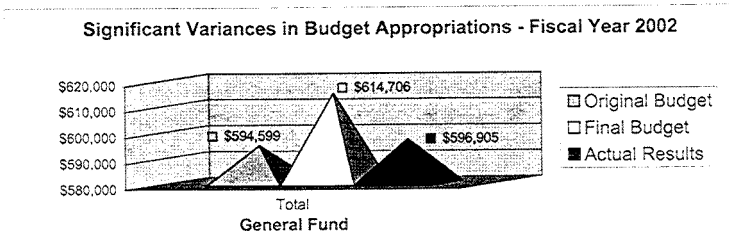
General government had a $2,922 budget increase composed of an increase of $10,784 of budget carry forwards and a $7,862 budget decrease. Of the $7,778 increase in public safety, $2,260 was due to budget carry forwards, $4,464 was funded out of budget decreases in general government and $1,054 was budgeted from available fund balance. Public works had a $354 budget increase composed of an increase of $359 of budget carry forwards and a $5 budget decrease. The $20 budget increase in health services was due to a $22 budget increase of budget carry forwards and a $2 budget decrease. Sanitation had a $1 increase due to budget carry forwards. Of the $842 increase in welfare, $876 was an increase for budget carry forwards and $34 was for budget decreases. The culture and recreation $1,166 increase was due to $930 for budget carry forwards and $236 was funded from decreases in general government. The $1,601 increase in economic development and opportunity was due to a $1,322 increase in budget carry forwards and $279 was funded from decreased budget transfers in the general fund. The $5,423 increase in transfers was due to $2,811 in budget carry forwards and $2,612 was funded from various government functions for the Brooks City-Base project.

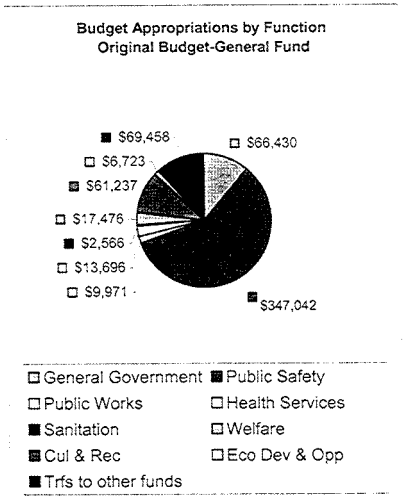
Final budgeted appropriations for the General Fund were $614,706 while actual expenditures were $596,905, creating a positive variance of $17,801 in the following functions. Significant variances are as follows:

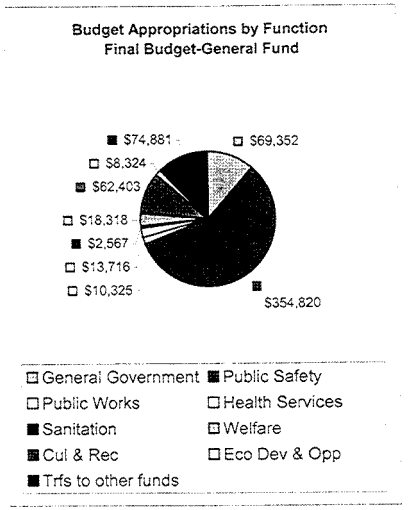
- General Government had a $12,139 positive variance composed of $3,803 of budgeted salaries, $2,403 of anticipated payments to the Bexar County Detention Center and $5,933 of appropriations identified for various one-time projects yet to be completed

- Public Safety had a positive variance in the amount of $3,263 attributable to $1,316 in savings in salaries in the Police Department, $950 in contractual services due to an unrealized budgeted increase in police clothing allowance and an adjustment for the Public Safety Radio Project, $90 in unrealized capital expenditures, $473 in unrealized commodities such as supplies and repairs and maintenance, and $434 in unrealized insurance expenditures
- Culture and Recreation had a $2,648 positive variance composed of $1,720 of savings in temporary services and salaries in the Parks and Recreation Department, $237 of savings in salaries in the Library Department, $576 of unrealized commodities such as supplies, library resources, and repairs and maintenance, and $115 of savings in other expenditures such as insurance
- Transfers to other funds reflect a negative variance in the amount of $1,221 due to the inclusion of the Human Development Fund actual net activities in the amount of $1,448 which are budgeted in a Special Revenue Fund. For presentation purposes the Human Development Fund is included with the General Fund. In addition, there were $227 of budgeted transfers, which were not made during the fiscal year.

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







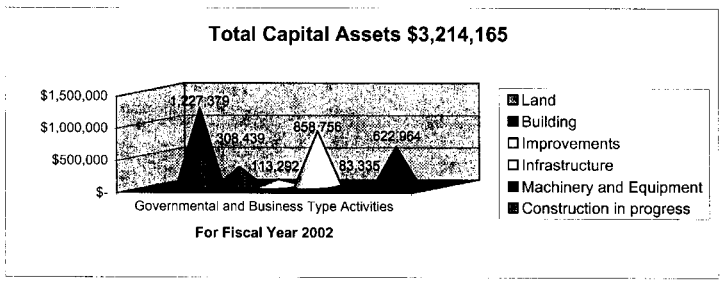
Capital Assets

The City of San Antonio's investment in capital assets for its governmental and business-type activities as of September 30, 2002, amounts to $3,214,165 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, and machinery and equipment. The total increase in the City's investment in capital assets for the current fiscal year was 2.15 percent (3.53 percent decrease of governmental activities and a 5.68 percent increase for business-type activities). The City's infrastructure assets are included in fiscal year 2002.

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

Capital Assets (Net of Depreciation)
As of September 30, 2002

	Governmental Activities	Business-type Activities	Total Primary Government
Land	$ 1,215,391	$ 11,988	$ 1,227,379
Buildings	233,466	74,973	308,439
Improvements	26,747	86,545	113,292
Infrastructure	858,756		858,756
Machinery and Equipment	78,899	4,436	83,335
Construction in progress	524,898	98,066	622,964
Total capital assets	$ 2,938,157	$ 276,008	$ 3,214,165



Change in Capital Assets
September 30, 2002

	Governmental Activites	Business-Type Activities	Total
Beginning Balance	$ 3,038,497	$ 261,162	$ 3,299,659
Additions	134,174	23,449	157,623
Deletions	(153,222)	(1,517)	(154,739)
Accumulated Depreciation	(81,292)	(7,086)	(88,378)
Total	$ 2,938,157	$ 276,008	$ 3,214,165

Additional information on the City's capital assets can be found in Note 4 of the notes to the financial statements.

Debt Administration

At the end of the current fiscal year, the City of San Antonio had a total of $1,293,801 in bonds, certificates, revenue bonds and commercial paper outstanding, an increase of 16% over last year. Additional information on the City of San Antonio's long-term debt, including descriptions of the new issues, can be found in Note 6 in the Notes to the Financial Statements.

City of San Antonio's Outstanding Debt
September 30, 2002

	Governmental Activities	Business-type Activities	Total
Bonds Payable:			
General Obligation Bonds	$ 669,473	$ 12,855	$ 682,328
Tax-Exempt Commercial Paper	20,800		20,800
Tax-Exempt Certificate of Obligation	145,405	915	146,320
Taxable Cerificate of Obligation	9,780		9,780
Revenue bonds	179,393	255,180	434,573
Total	$ 1,024,851	$ 268,950	$ 1,293,801

On September 30, 2001, outstanding general obligation and revenue bonds, certificates, and commercial paper debt totaled $1.112 billion. In November 2001, the City issued additional debt in the amount of $150 million. The $150 million was comprised of $84,945 in general obligation bonds and $65,195 in tax-exempt certificates of obligation. The general obligation bonds and certificates of obligation are to be utilized to fund capital improvement projects to include streets, drainage, flood control, park, and public safety. Also, a portion of the general obligation bonds was used to redeem $15 million in commercial paper, and refund $6 million of the City's outstanding tax supported debt. Additionally, in May 2002, the City issued $251 million in general obligation forward refunding bonds, which were used to refund $256 million of the City's outstanding tax supported debt.

In March 2002, the City issued $130 million in Airport System Revenue Bonds. Proceeds of the bonds will be used to fund airport system improvements and renovations.

Standard & Poor's, Moody's and Fitch's underlying rating for City obligations are as follows:

	Std&Poor's	Moody's	Fitch
General Obligation/ Certificate of Obligation	AA+	Aa2	AA+
Airport	A+	A1	A+
Airport PFC	A-	A2	A+
Convention Center	A+	A	A
Parking	A+	A2	A+

The Constitution of the State of Texas and the City Charter limit the amount of debt the City may incur. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10% of the total assessed valuation. The total assessed valuation for the fiscal year ending 2002 was $44,120,535, which provides a debt ceiling of $4,412,054.

Requests for Information

This financial report is designed to provide a general overview of the City's position for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, P.O. Box 839966, San Antonio, TX 78283-3966.

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City of San Antonio
Texas

Basic Financial Statements

STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2002
(In Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Assets				
Cash and Cash Equivalents	$ 156,717	$ 4,507	$ 161,224	$ 321,832
Investments	316,598	11,289	327,887	37,996
Receivables (net)	109,955	6,572	116,527	146,213
Due from Fiduciary Funds	344		344	
Due from Other Governmental Agencies	36,704		36,704	1,873
Internal Balances	3,283	(3,283)		
Inventories of Materials and Supplies, at Cost	6,051	663	6,714	104,639
Prepaid Expenses	32	17	49	29,018
Deposits	1,064		1,064	
Restricted Assets:				
Cash and Cash Equivalents		52,229	52,229	64,287
Investments		145,592	145,592	1,000,115
Receivables - Accrued Interest		426	426	8,757
Prepaid Expenses		478	478	
Capital Assets:				
Non-depreciable	1,740,289	110,054	1,850,343	667,796
Depreciable, net	1,197,868	165,954	1,363,822	5,622,460
Prepaid Rent Long Term - Leaseback				575,551
Unamortized Debt Expense	1,495	4,380	5,875	33,122
Total Assets	3,570,400	498,878	4,069,278	8,613,659
Liabilities				
Accounts Payable and Other Current Liabilities	98,919	10,205	109,124	200,633
Deferred Revenues	19,929	784	20,713	130
Accrued Interest	7,966	4	7,970	
Accrued Bond and Certificate Interest		3,640	3,640	5,595
Due to Other Governmental Agencies	2,314		2,314	2,546
Noncurrent Liabilities:				
Due within one year	106,568	8,839	115,407	107,012
Due in more than one year	1,078,151	265,047	1,343,198	4,576,462
Total Liabilities	1,313,847	288,519	1,602,366	4,892,378
Net Assets				
Invested in Capital Assets, net of related debt	2,036,269	152,261	2,188,530	2,650,990
Restricted for:				
Debt Service	91,340	28,650	119,990	22,192
Capital Projects				7,400
Specific Purpose Programs	13,698		13,698	
Operations and Maintenance		1,660	1,660	
Equipment Renewal and Replacement		1,500	1,500	721,193
Improvement and Contingency		20,267	20,267	
Perpetual Care:				
Expendable	1,740		1,740	
Nonexpendable	1,378		1,378	
Other purposes	1,537		1,537	
Unrestricted	110,591	6,021	116,612	319,506
Total Net Assets	$ 2,256,553	$ 210,359	$ 2,466,912	$ 3,721,281

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

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STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

FUNCTION/PROGRAM ACTIVITIES	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS: PRIMARY GOVERNMENT: GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT: BUSINESS-TYPE ACTIVITIES	PRIMARY GOVERNMENT: TOTAL	COMPONENT UNITS
Primary Government:								
Governmental Activities:								
General Government	$ 77,887	$ 47,835	$ 395	$ 0	$ (29,657)	$ 0	$ (29,657)	
Public Safety	414,382	18,897	10,821	1,331	(383,333)		(383,333)	
Public Works	131,010	22,062	1,672	12,235	(95,041)		(95,041)	
Sanitation	7,909				(7,909)		(7,909)	
Health Services	78,662	14,438	21,991		(42,233)		(42,233)	
Environmental Protection and Control	194		17	374	197		197	
Culture and Recreation	76,400	10,817	6,448	1,035	(58,100)		(58,100)	
Convention and Tourism	49,754	18,148			(31,606)		(31,606)	
Conservation	15			63	48		48	
Urban Redevelopment and Housing	17,038		16,031	830	(177)		(177)	
Welfare	133,818	230	110,669	5	(22,914)		(22,914)	
Economic Development Opportunity	27,322	1,394	15,805	527	(9,596)		(9,596)	
Commercial Paper Fees	13				(13)		(13)	
Interest on Long-term Debt	54,628				(54,628)		(54,628)	
Total governmental activities	1,069,032	133,821	183,849	16,400	(734,962)		(734,962)	
Business-type Activities								
Airport System	41,941	40,119	5,040			3,218	3,218	
Parking Facilities	8,693	7,978				(715)	(715)	
Environmental Services	48,223	46,717				(1,506)	(1,506)	
Total business-type activities	98,857	94,814	5,040			997	997	
Total primary government	$ 1,167,889	$ 228,635	$ 188,889	$ 16,400	(734,962)	997	(733,965)	
Component units:								
San Antonio Water System	134,067	134,705	0	6,950				$ 7,588
City Public Service	1,223,532	1,200,846		73,096				50,410
Other Component Units	39,004	31,403		16,480				8,879
Total component units	$ 1,396,603	$ 1,366,954	$ 0	$ 96,526	0	0	0	66,877
General Revenues:								
Taxes:								
Property Taxes					225,740	0	225,740	0
General Sales and Use Taxes					157,593		157,593	
Selective Sales and Use Taxes					3,628		3,628	
Gross Receipts Business Taxes					22,518		22,518	
Occupancy Taxes					45,007		45,007	
Penalties and Interest on Delinquent Taxes					5,105		5,105	
Revenues from Utilities					171,632		171,632	
Investment Earnings					13,504	3,365	16,869	57,648
Net (Decrease) in Fair Value of Investments					(423)	(74)	(497)	
Miscellaneous					12,269	7,610	19,879	13,844
Gain (Loss) on Sale of Capital Assets					1,703	50	1,753	(159)
Capital Contributions					481		481	
Transfers (net)					2,072	(2,072)		
Total General Revenues, Special Items, and Transfers					660,829	8,879	669,708	71,333
Cumulative Effect of Change in Accounting Policy								139,074
Change in Net Assets					(74,133)	9,876	(64,257)	277,284
Net Assets - Beginning					2,330,686	200,483	2,531,169	3,443,997
Net Assets - Ending					$ 2,256,553	$ 210,359	$ 2,466,912	$ 3,721,281

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

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CITY OF SAN ANTONIO, TEXAS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

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

BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2002
(In Thousands)

	MAJOR FUNDS				
	GENERAL	DEBT SERVICE	GENERAL OBLIGATION BONDS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets					
Cash and Cash Equivalents	$ 4,087	$ 25,006	$ 28,423	$ 85,954	$ 143,470
Investments	8,080	63,659	68,665	143,446	283,850
Receivables	81,881	10,345	193	88,782	181,201
Allowance for Uncollectibles	(8,321)	(1,217)	(26)	(62,488)	(72,052)
Prepaid Expenditures	27			5	32
Due from Other Funds	12,435	325		2,549	15,309
Due from Other Governmental Agencies	381		2,292	33,756	36,429
Inventories of Materials and Supplies, at Cost	2,659			1,685	4,344
Deposits				353	353
Total Assets	$ 101,229	$ 98,118	$ 99,547	$ 294,042	$ 592,936
Liabilities and Fund Balances					
Liabilities:					
Vouchers Payable	$ 2,435	$ 0	$ 2,579	$ 20,936	$ 25,950
Accounts Payable - Other	2,304		3,176	14,749	20,229
Accrued Payroll	3,458			1,590	5,048
Accrued Leave Payable	4,823			937	5,760
Deferred Revenues	25,729	8,722	2,291	14,057	50,799
Due To:					
Other Funds	28	48	101	27,614	27,791
Other Governmental Agencies				1,603	1,603
Total Liabilities	38,777	8,770	8,147	81,486	137,180
Fund Balances:					
Reserved:					
Reserved for Encumbrances	6,108		38,572	192,654	237,334
Reserved for Inventories	2,659			1,685	4,344
Reserved for Prepaid Expenditures	27			5	32
Reserved for Debt Service		69,857			69,857
Reserved for Convention Center Project		19,406			19,406
Reserved for Other Restricted Purposes		85			85
Unreserved:					
Designated	33,861				33,861
Designated: Special Revenue Funds				15,725	15,725
Designated: Permanent Funds				2,711	2,711
Undesignated	19,797		52,828		72,625
Undesignated: Special Revenue Funds				60,311	60,311
Undesignated: Capital Projects Funds				(71,742)	(71,742)
Undesignated: Permanent Funds				11,207	11,207
Total Fund Balances	62,452	89,348	91,400	212,556	455,756
Total Liabilities and Fund Balances	$ 101,229	$ 98,118	$ 99,547	$ 294,042	$ 592,936

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

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
AS OF SEPTEMBER 30, 2002
(In Thousands)

Fund Balances - Total Governmental Funds		$ 455,756
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental capital assets		
Land and Land Improvements	1,215,391	
Construction In Progress	524,898	
Buildings	367,649	
Improvements	59,395	
Infrastructure Assets	1,939,300	
Machinery and Equipment	48,499	
Less: Accumulated Depreciation	(1,259,290)	
Total Capital Assets		2,895,842
Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are not reported in the governmental funds.		31,435
Internal service funds are used by management to charge the cost of certain activities to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the Statement of Net Assets.		60,535
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Governmental bonds payable	(1,042,630)	
Premium on bonds	(18,674)	
Deferred Amount on Refunding	556	
Leases Payable	(7,592)	
Amounts received from notes & loans	(3,374)	
Unamortized Debt Expense	1,495	
Accrued Interest	(7,964)	
Arbitrage Rebate	(1,580)	
Compensated Absences	(107,252)	
		(1,187,015)
Net assets of governmental activities		$ 2,256,553

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2002

(In Thousands)

	MAJOR FUNDS				
	GENERAL	DEBT SERVICE	GENERAL OBLIGATION BONDS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues					
Taxes:					
Property Taxes	$ 139,336	$ 87,979	$ 0	$ 284	$ 227,599
General Sales and Use Taxes	140,085			17,508	157,593
Selective Sales and Use Taxes	3,628				3,628
Gross Receipts Business Taxes	26,042				26,042
Occupancy Taxes				45,007	45,007
Penalties and Interest on Delinquent Taxes	1,822	1,185		57	3,064
Licenses and Permits	13,302				13,302
Intergovernmental	2,889		2,921	181,018	186,828
Revenues from Utilities	171,234				171,234
Charges for Services	24,631			59,942	84,573
Fines and Forfeits	10,829				10,829
Miscellaneous	10,296		108	13,483	23,887
Interest	1,879	3,520	2,237	4,773	12,409
Net (Decrease) in Fair Value of Investments	(120)		(74)	(159)	(353)
In-Kind Contributions				14,504	14,504
Total Revenues	545,853	92,684	5,192	336,417	980,146
Expenditures					
Current:					
General Government	56,155			8,678	64,833
Public Safety	350,756			13,484	364,240
Public Works	10,180			56,949	67,129
Health Services	13,934			62,608	76,542
Environmental Protection and Control				391	391
Sanitation	2,654				2,654
Welfare	16,991			116,169	133,160
Culture and Recreation	59,454			15,531	74,985
Convention and Tourism				49,764	49,764
Conservation				63	63
Urban Redevelopment and Housing				17,469	17,469
Economic Development and Opportunity	7,330			18,578	25,908
Capital Projects			37,652	80,285	117,937
Debt Service:					
Principal Retirement		66,295			66,295
Interest		49,092			49,092
Issuance Costs		1,656			1,656
Total Expenditures	517,454	117,043	37,652	439,969	1,112,118
Excess (Deficiency) of Revenues Over (Under) Expenditures	28,399	(24,359)	(32,460)	(103,552)	(131,972)
Other Financing Sources (Uses)					
Long-Term Debt Issued		261,930	62,925	65,195	390,050
Payments to Refunded Bond Escrow Agent		(257,467)			(257,467)
Amounts from Notes and Loans				3,374	3,374
Redemption of General Commercial Paper		(15,000)			(15,000)
Premium on Long-term Debt		13,113	2,050	4,385	19,548
Transfers In	11,198	22,834	3,159	126,628	163,819
Transfers Out	(73,343)		(288)	(87,913)	(161,544)
Total Other Financing Sources (Uses)	(62,145)	25,410	67,846	111,669	142,780
Net Change in Fund Balances	(33,746)	1,051	35,386	8,117	10,808
Fund Balances, October 1	96,198	88,297	56,014	204,439	444,948
Fund Balances, September 30	$ 62,452	$ 89,348	$ 91,400	$ 212,556	$ 455,756

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2002

(In Thousands)

Net change in Fund Balances - Total Governmental Funds		$ 10,808
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		
Expenditures for capital assets	115,968	
Less current year depreciation	(77,304)	38,664
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		5,780
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayments.		
Bond and loan amounts	(412,972)	
Bond costs	1,554	
Redemption of commercial paper	15,000	
Payments to Escrow Agent	257,467	
Amortization of Bond Premiums and Deferred Charges (net)	385	
Principal payments	66,295	(72,271)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(39,235)
Internal service funds are used by management to charge the cost of certain activities to individual funds. The net (expense) of the internal service funds is reported with governmental activities.		(17,879)
Change in net assets of governmental activities		$ (74,133)

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

— CITY OF SAN ANTONIO, TEXAS —

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2002
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
ASSETS	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND-ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS
Current Assets:					
Cash and Cash Equivalents	$ 3,556	$ 331	$ 620	$ 4,507	$ 13,247
Investments	8,924	851	1,514	11,289	32,748
Receivables:					
Other Accounts	2,427	70	1	2,498	121
Less: Allowance for Uncollectibles	(488)	(69)		(557)	
Accrued Interest	26	2	6	34	115
Accrued Revenue	787	33	3,777	4,597	7
Due From Other Funds					22,329
Due From Other Governmental Agencies					441
Less: Allowance for Uncollectibles					(166)
Inventories	580	68	15	663	1,707
Prepaid Expenses	17			17	
Deposits					711
Total Current Assets	15,829	1,286	5,933	23,048	71,260
Restricted Assets:					
Debt Service Accounts:					
Cash and Cash Equivalents	3,546	121		3,667	
Investments	27,488	939		28,427	
Prepaid Expenses	478			478	
Receivables-Accrued Interest	152	4		156	
Due From Other Funds		48		48	
Construction Accounts:					
Cash and Cash Equivalents	38,335	3,881	122	42,338	
Investments	92,424	9,357	293	102,074	
Receivables-Accrued Interest	221	22	1	244	
Operations and Maintenance:					
Cash and Cash Equivalents		486		486	
Investments		1,171		1,171	
Receivables-Accrued Interest		3		3	
Improvement and Contingency Accounts:					
Cash and Cash Equivalents	5,063	439	149	5,651	
Investments	12,294	1,058	358	13,710	
Receivables-Accrued Interest	13	2	1	16	
Due from Other Funds	2,621			2,621	
Other Restricted Accounts:					
Cash and Cash Equivalents	87			87	
Investments	210			210	
Receivables-Accrued Interest	7			7	
Total Restricted Assets	182,939	17,531	924	201,394	
Capital Assets:					
Land	2,970	8,125	893	11,988	
Buildings	112,133	18,985	46	131,164	178
Improvements Other Than Buildings	145,825	1,639	3,025	150,489	194
Machinery and Equipment	10,282	759	3,423	14,464	102,194
Construction in Progress	86,651	10,916	499	98,066	
Total Capital Assets	357,861	40,424	7,886	406,171	102,566
Less: Accumulated Depreciation	118,883	8,667	2,613	130,163	60,251
Net Capital Assets	238,978	31,757	5,273	276,008	42,315
Unamortized Debt Expense	3,710	670		4,380	
Total Assets	$ 441,456	$ 51,244	$ 12,130	$ 504,830	$ 113,575

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

— CITY OF SAN ANTONIO, TEXAS —

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2002
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
LIABILITIES	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND-ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS
Current Liabilities:					
Vouchers Payable	$ 251	$ 9	$ 734	$ 994	$ 2,651
Accounts Payable-Other	5,129	76	1,639	6,844	41,161
Accrued Payroll	247	65	347	659	508
Accrued Leave Payable	140	20	127	287	180
Deferred Revenues	784			784	
Accrued Interest			4	4	2
Due to Other Funds	2,173			2,173	9,521
Total Current Liabilities (Payable from Current Assets)	8,724	170	2,851	11,745	54,023
Current Liabilities (Payable from Restricted Assets)					
Vouchers Payable	1,688	1	19	1,708	
Accrued Bond and Certificate Interest	3,356	284		3,640	
Current Portion of Bonds and Certificates	6,185	1,140		7,325	
Due to Other Funds	478			478	
Lease Purchase			133	133	370
Other Payables	649	445		1,094	
Total Current Liabilities (Payable from Restricted Assets)	12,356	1,870	152	14,378	370
Total Current Liabilities	21,080	2,040	3,003	26,123	54,393
Noncurrent Liabilities					
Revenue Bonds (Net of Current Portion)	224,150	24,845		248,995	
General Obligation Bonds and Certificates (Net of Current Portion)		12,630		12,630	
Unamortized Premium on New Series Bonds	436	481		917	
Less: Deferred Amount on Refunding		(528)		(528)	
Accrued Leave Payable	700	103	633	1,436	902
Lease Purchase			544	544	335
Due to Other Governmental Agencies					711
Other Payables			1,053	1,053	
Total Noncurrent Liabilities	225,286	37,531	2,230	265,047	1,948
Total Liabilities	246,366	39,571	5,233	291,170	56,341
NET ASSETS					
Invested In Capital Assets, net of related debt	140,596	6,672	4,993	152,261	41,610
Restricted:					
Debt Service	27,822	828		28,650	
Operations and Maintenance		1,660		1,660	
Renewal and Replacement		1,500		1,500	
Improvements and Contingency	20,267			20,267	
Unrestricted	6,405	1,013	1,904	9,322	15,624
Total Net Assets	$ 195,090	$ 11,673	$ 6,897	$ 213,660	$ 57,234
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(3,301)	
Net assets of business-type activities.				$ 210,359	

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

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues					
Charges for Services	$ 40,119	$ 7,978	$ 46,717	$ 94,814	$ 132,983
Total Operating Revenues	40,119	7,978	46,717	94,814	132,983
Operating Expenses					
Personal Services	15,243	3,699	21,547	40,489	30,081
Contractual Services	4,796	1,175	20,256	26,227	69,015
Commodities	1,121	198	2,873	4,192	5,113
Materials					14,908
Other	928	510	1,745	3,183	26,347
Depreciation	7,376	591	290	8,257	15,397
Total Operating Expenses	29,464	6,173	46,711	82,348	160,861
Operating Income (Loss)	10,655	1,805	6	12,466	(27,878)
Nonoperating Revenues (Expenses)					
Interest and Other	2,889	390	86	3,365	1,395
Net (Decrease) in Fair Value of Investments	(42)	(25)	(7)	(74)	(79)
Other Nonoperating Revenue	7,398	17	195	7,610	3,444
Gain (Loss) on Sale of Fixed Assets	22	(19)	47	50	1,703
Interest and Debt Expense	(10,784)	(2,128)	(11)	(12,923)	(43)
Other Nonoperating Expense	(239)	(46)		(285)	
Total Nonoperating Revenues (Expenses)	(756)	(1,811)	310	(2,257)	6,420
Change in Net Assets Before Contributions and Transfers	9,899	(6)	316	10,209	(21,458)
Capital Contributions	5,040			5,040	481
Transfers In (Out)					
Transfers In		350		350	5,139
Transfers Out	(1,288)	(306)	(828)	(2,422)	(5,342)
Total Transfers	(1,288)	44	(828)	(2,072)	(203)
Change In Net Assets	13,651	38	(512)	13,177	(21,180)
Net Assets - Beginning	181,439	11,635	7,409		78,414
Net Assets - Ending	$ 195,090	$ 11,673	$ 6,897		$ 57,234

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. (3,301)

Change in net assets of business-type activities. $ 9,876

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND-ENVIRONMENTAL SERVICES	TOTALS	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities					
Cash Received from Customers	$ 40,422	$ 8,058	$ 46,069	$ 94,549	$ 133,167
Cash Payments to Suppliers for Goods and Services	(8,123)	(1,931)	(24,848)	(34,902)	(114,419)
Cash Payments to Employees for Service	(15,433)	(3,669)	(21,507)	(40,609)	(30,086)
Other Nonoperating Revenues	7,398	17	195	7,610	3,444
Net Cash Provided by (Used for) Operating Activities	24,264	2,475	(91)	26,648	(7,894)
Cash Flows from Non-Capital Financing Activities					
Transfers In from Other Funds		352		352	4,948
Transfers Out to Other Funds	(1,440)	(306)	(1,038)	(2,784)	(18,539)
Net Cash Provided by (Used for) Non-Capital Financing Activities	(1,440)	46	(1,038)	(2,432)	(13,591)
Cash Flows from Capital and Related Financing Activities					
Acquisitions and Construction of Capital Assets	(14,081)	(2,929)	(73)	(17,083)	(15,967)
Proceeds from Issuance of Long-Term Debt	130,857			130,857	
Principal Payments on Long-Term Debt	(5,080)	(1,220)	(32)	(6,332)	(99)
Interest Paid on Long-Term Debt	(9,012)	(2,154)	(7)	(11,173)	(4)
Debt Issuance	(2,265)			(2,265)	
Principal Payments on Notes					(315)
Interest Paid on Notes					(41)
Proceeds from Sale of Assets	22		177	199	2,521
Net Cash Provided by (Used for) Capital and Related Financing Activities	100,441	(6,303)	65	94,203	(13,905)
Cash Flows from Investing Activities:					
Purchases of Investment Securities	(692,386)	(62,526)	(9,850)	(764,762)	(148,911)
Maturity of Investment Securities	590,621	61,022	9,808	661,451	158,788
Interest on Notes					17
Interest on Investments	2,816	483	111	3,410	1,668
Net Cash Provided by (Used for) Investing Activities	(98,949)	(1,021)	69	(99,901)	11,562
Net Increase (Decrease) in Cash and Cash Equivalents	24,316	(4,803)	(995)	18,518	(23,828)
Cash and Cash Equivalents, October 1	26,271	10,061	1,886	38,218	37,075
Cash and Cash Equivalents, September 30	$ 50,587	$ 5,258	$ 891	$ 56,736	$ 13,247

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTALS	INTERNAL SERVICE FUNDS
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities					
Operating Income (Loss)	$ 10,655	$ 1,805	$ 6	$ 12,466	$ (27,878)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Depreciation	7,376	591	290	8,257	15,397
Other Nonoperating Revenues	7,398	17	195	7,610	3,444
Changes in Assets and Liabilities:					
(Increase) In Other Accounts Receivable	(155)	(70)	(1)	(226)	(27)
Decrease In Allowance for Uncollectibles	46	70		116	166
(Increase) Decrease In Accrued Revenues	(36)	79	(647)	(604)	47
Decrease In Due from Other Funds					217
Decrease In Due from Other Gov'tl Agencies					77
(Increase) Decrease In Inventories	(9)	(31)	3	(37)	365
(Increase) In Prepaid Expenses	(29)			(29)	
Decrease In Deposits			13	13	78
Increase (Decrease) In Vouchers Payable	78	(21)	(92)	(35)	249
Increase (Decrease) In Other Payables	(1,318)	5	101	(1,212)	(45)
Increase In Due to Other Funds					21
Increase In Accrued Payroll	52	13	40	105	2
Increase (Decrease) In Accrued Leave Payable	(242)	17	1	(224)	(7)
Increase In Deferred Revenue	448			448	
Net Cash Provided by (Used for) Operating Activities	$ 24,264	$ 2,475	$ (91)	$ 26,648	$ (7,894)
Noncash Investing, Capital and Financing Activities:					
Acquisitions and Construction of Capital Assets from Capital Contributions	$ 5,040	$	$	$ 5,040	$ 481
Net (Decrease) in Fair Value of Investments	$ (42)	$ (25)	$ (7)	$ (74)	$ (79)

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

— CITY OF SAN ANTONIO, TEXAS —

STATEMENT OF FIDUCIARY NET ASSETS/BALANCE SHEET
FIDUCIARY FUNDS
AS OF SEPTEMBER 30, 2002
(In Thousands)

ASSETS	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
Current Assets			
Cash and Cash Equivalents	$ 71,199	$ 11	$ 7,446
Security Lending Collateral	125,235		
Investments, at fair value:			
US Government and Agency Issues	147,167	27	53
Corporate Bonds	140,838		
Preferred Common Stock	612,282		
Other	269,724		
Total Investments, at fair value	1,170,011	27	53
Receivables:			
Other Accounts	11,348		284
Accrued Interest	6,531		2
Accrued Revenue	566		
Prepayments	13		
Total Current Assets	1,384,903	38	7,785
Capital Assets			
Computer Equipment	76		
Buildings	556		
Total Capital Assets	632		
Less: Accumulated Depreciation	278		
Net Capital Assets	354		
Total Assets	1,385,257	38	$ 7,785
LIABILITIES			
Vouchers Payable	1,332	3	1,448
Accounts Payable- Other	33,166		5,993
Accrued Payroll	38		
Due to Other Funds			344
Securities Lending	125,235		
Total Liabilities	159,771	3	$ 7,785
NET ASSETS			
Held in Trust for Pension Benefits and Other Purposes	$ 1,225,486	$ 35	

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

— CITY OF SAN ANTONIO, TEXAS —

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS:		
Contributions:		
Employer	$ 58,969	$
Employee	23,030	
Other Contributions		21
Total Contributions	81,999	21
Investment Earnings:		
Net (Decrease) in Fair Value of Investments	(154,836)	
Real Estate Income, net	180	
Interest and Dividends	33,530	1
Securities Lending	2,395	
Other Income	286	
Total Investment Earnings	(118,445)	1
Less Investment Expenses:		
Investment Management Fees and Custodian Fees	(5,036)	
Securities Lending Expenses:		
Borrower Rebates	(1,874)	
Lending Fees	(181)	
Net Investment Income	(125,536)	1
Total Additions	(43,537)	22
DEDUCTIONS:		
Benefits	69,706	
Refunds of Contributions	501	
Administrative Expense	1,060	12
Salaries, Wage and Employee Benefits	613	
Total Deductions	71,880	12
Change in Net Assets	(115,417)	10
Net Assets - Beginning of Year	1,340,903	25
Net Assets - End of Year	$ 1,225,486	$ 35

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

— CITY OF SAN ANTONIO, TEXAS —

STATEMENT OF NET ASSETS
COMPONENT UNITS
AS OF SEPTEMBER 30, 2002
(In Thousands)

ASSETS	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTAL
Current Assets:				
Cash and Cash Equivalents	$ 0	$ 303,593	$ 18,239	$ 321,832
Investments	22,902	11,019	4,075	37,996
Receivables:				
Notes			15,411	15,411
Other Accounts	22,851	97,062	3,721	123,634
Accrued Interest	537	6,528	103	7,168
Inventories of Materials and Supplies	4,029	100,610		104,639
Due from Other Governmental Agencies			1,873	1,873
Prepaid Expenses	1,072	27,227	719	29,018
Total Current Assets	51,391	546,039	44,141	641,571
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents	493	13,612		14,105
Investments	22,367	26,324		48,691
Receivables-Accrued Interest		655		655
Construction Accounts:				
Cash and Cash Equivalents	30,955			30,955
Investments	81,417			81,417
Repair and Replacement Account:				
Investments		588,557		588,557
Conservation Accounts:				
Investments	7,400			7,400
Other Restricted Accounts:				
Cash and Cash Equivalents		17,425	1,802	19,227
Investments	5,007	269,043		274,050
Receivables			5,716	5,716
Receivables-Accrued Interest		2,386		2,386
Total Restricted Assets	147,639	918,002	7,518	1,073,159
Capital Assets:				
Land	58,793	54,889	10,397	124,079
Infrastructure			36,564	36,564
Buildings			146,957	146,957
Utility Plant in Service	1,794,131	6,300,740		8,094,871
Machinery and Equipment	100,541		2,431	102,972
Construction in Progress	339,399	190,717	1,002	531,118
Utility Property Leased		18,785		18,785
Nuclear Fuel - Net		269,902		269,902
Held for Future Use		12,599		12,599
Total	2,292,864	6,847,632	197,351	9,337,847
Less: Accumulated Depreciation	643,936	2,393,468	10,187	3,047,591
Net Capital Assets	1,648,928	4,454,164	187,164	6,290,256
Prepaid Rent Long Term-Leaseback		575,551		575,551
Unamortized Debt Expense	5,532	27,590		33,122
Total Assets	$ 1,853,490	$ 6,521,346	$ 238,823	$ 8,613,659

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

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— CITY OF SAN ANTONIO, TEXAS —

STATEMENT OF NET ASSETS
COMPONENT UNITS
AS OF SEPTEMBER 30, 2002
(In Thousands)

LIABILITIES	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTAL
Current Liabilities:				
Accounts Payable and Other Current Liabilities	$ 19,032	$ 160,369	$ 9,447	$ 188,848
Sewer Collections Payable	190			190
Deferred Revenues			130	130
Notes Payable	516		3,626	4,142
Due to Other Governmental Agencies			2,546	2,546
Total Current Liabilities (Payable from Current Assets)	19,738	160,369	15,749	195,856
Current Liabilities (Payable from Restricted Assets):				
Accrued Bond and Certificate Interest	5,595			5,595
Current Portion of Bonds and Certificates	25,045	77,825		102,870
Other Payables	11,090		505	11,595
Total Current Liabilities (Payable from Restricted Assets)	41,730	77,825	505	120,060
Noncurrent Liabilities:				
Revenue Bonds (Net of Current Portion)	703,410	2,512,035		3,215,445
Commercial Paper	185,000	350,000		535,000
Unamortized Premium	1,639	10,542		12,181
Less: Unamortized Discount on New Series Bonds	(15,542)			(15,542)
Deferred Amount on Refunding	(8,572)	(145,729)		(154,301)
Long-Term Lease/Notes Payable	2,930	656,135	81,210	740,275
Other Payables	1,729	235,598	6,077	243,404
Total Noncurrent Liabilities	870,594	3,618,581	87,287	4,576,462
Total Liabilities	932,062	3,856,775	103,541	4,892,378
NET ASSETS				
Invested in Capital Assets, net of related debt	866,324	1,690,076	94,590	2,650,990
Restricted for Renewal and Replacement		720,221	972	721,193
Restricted for Debt Service	17,265		4,927	22,192
Restricted for Conservation	7,400			7,400
Unrestricted	30,439	254,274	34,793	319,506
Total Net Assets	$ 921,428	$ 2,664,571	$ 135,282	$ 3,721,281

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

STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

		Program Revenues		Net (Expense) Revenue and Changes In Net Assets			
	EXPENSES	CHARGES FOR SERVICES	CAPITAL GRANTS AND CONTRIBUTIONS	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTALS
San Antonio Water System	$ 134,067	$ 134,705	$ 6,950	$ 7,588	$	$	$ 7,588
City Public Service	1,223,532	1,200,846	73,096		50,410		50,410
Nonmajor Component Units	39,004	31,403	16,480			8,879	8,879
Total	$ 1,396,603	$ 1,366,954	$ 96,526	7,588	50,410	8,879	66,877
General Revenues:							
Investment Earnings				5,300	51,925	423	57,648
(Loss) on Disposal of Capital Assets				(159)			(159)
Miscellaneous					7,062	6,782	13,844
Total General Revenues				5,141	58,987	7,205	71,333
Cumulative Effect of Change in Accounting Policy					139,074		139,074
Change in Net Assets				12,729	248,471	16,084	277,284
Net Assets - Beginning				908,699	2,416,100	119,198	3,443,997
Net Assets - Ending				$ 921,428	$ 2,664,571	$ 135,282	$ 3,721,281

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

TABLE OF NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2002

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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 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, 2002, 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:

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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):

As set forth in GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, the City excludes fiduciary funds and component units that are fiduciary in nature from the government-wide financial statements. The City's component units that are fiduciary in nature are the San Antonio Fire and Police Pension Fund and the San Antonio Fire and Police Retiree Health Care Fund. These component units are presented in the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets.

City of San Antonio Health Facilities Development Corporation

The City of San Antonio Health Facilities Development Corporation (HFDC) was established by Ordinance No. 55400, dated June 3, 1982, in accordance with state laws for the purposes of, and to act on behalf of, the City as a health facilities development corporation under the Texas Health Facilities Development Act of 1981. The HFDC is authorized to issue tax-exempt health facility revenue bonds, for which the City is not obligated in any manner, to finance health related projects in support of the promotion, expansion, and improvement of health facilities. The HFDC is governed by a Board of Directors which is comprised of the City Council of the City of San Antonio.

City of San Antonio Industrial Development Authority

The City of San Antonio Industrial Development Authority (IDA) was established by Resolution No. 79-48-100 dated October 11, 1979, in accordance with state laws for the purposes of benefiting and accomplishing public purposes of, and to act on behalf of, the City as an industrial development corporation under the Development Corporation Act of 1979. The IDA is authorized to issue tax-exempt industrial revenue bonds, for which the City is not obligated in any manner, to finance qualified projects which may further the promotion and development of commercial, industrial, and manufacturing enterprises to promote and encourage employment and the public welfare. The IDA is governed by a Board of Directors which is comprised of the City Council of the City of San Antonio.

San Antonio Fire and Police Pension Fund

The San Antonio Fire and Police Pension Fund (Pension Fund) is a Single Employer Defined Benefit Plan established in accordance with state law. The Pension Fund is administered by a nine member Board of Trustees, including three City Council Members. The City and Pension Fund participants are obligated to make all contributions to the Pension Fund in accordance with rates established by state law. Benefit levels are also set by state law. Services rendered by the Pension Fund are exclusively for the benefit of eligible firefighters and police officers upon retirement.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

San Antonio Fire and Police Retiree Health Care Fund

The City of San Antonio Firefighters' and Police Officers' Retiree Prefunded Group Health Plan was created in October 1989, in accordance with the provisions of the City's contracts with the local fire and police unions, respectively, to provide 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. 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 of San Antonio.

Discretely Presented With the Primary Government (the relationship among the following component units and the City is such that they meet the criteria, as set forth in GASB Statement No. 14, 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), a municipally owned utility, provides electricity and natural gas to San Antonio and the surrounding areas. CPS is governed by a Board of Trustees which is comprised of four members appointed by City Council and the Mayor of the City as an ex-officio member. The rates for user charges and bond issuance authorizations are approved by the City Council.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

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.

Greater Kelly Development Authority

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

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, a Private Purpose 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. SAHTF administers The San Antonio Housing Trust Finance Corporation.

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 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. 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. Currently, SALDC has an outstanding note payable to HUD, which is guaranteed by the City.

Brooks Development Authority

The Brooks Development Authority (BDA) is a special district and political subdivision of the State of Texas. It was established on September 27, 2001, as a defense base development authority in accordance with state law for the purposes of and to act on behalf of the City in improving mission effectiveness, reduce the cost of providing quality installation support through improved capital asset management and promote economic development on Brooks Air Force Base and in the surrounding community. An eleven member Board of Directors appointed by the City Council governs the BDA for two-year terms and will oversee the Brooks Technology and Business Park in support of the Brooks City-Base Project.

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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: Bruce Miller
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: Richard E. Williamson
Telephone No. (210) 353-2397

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

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

Brooks Development Authority
8030 Challenger Drive
Brooks City-Base, Texas 78235
Contact Person: Virginia Cobarrubias
Telephone No. (210) 536-6710

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 Villarreal
Telephone No. (210) 220-1385

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: Warren Schott
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 major discretely presented component units both as they relate to total component units and to the primary government. Therefore, relevant disclosures have been included in the City's financial statements. Discretely presented component units with different fiscal year ends from the City are the San Antonio Water System with a fiscal year end of December 31, and City Public Service with a fiscal year end of January 31. In 2001, the San Antonio Water System changed its fiscal year-end from May 31 to December 31. Please refer to Note 1S for more information.

Related Organizations

The City Council appoints the members to the Board of Directors for the San Antonio Housing Authority. However, the City's accountability for this entity does not extend beyond making appointments to the Board of Directors and the coordination and approval of strategic plans.

B. Basic Financial Statements – GASB Statement No. 34

Effective October 1, 2001, the City implemented the provisions of GASB Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments". In conjunction with the implementation of GASB Statement No. 34, the City has also implemented GASB Statement No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus, an amendment of GASB Statement No. 21 and No. 34", as well as a portion of GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Measurement and Recognition for Certain Liabilities and Expenditures in Governmental Funds". These statements comply with the requirements of the new reporting model. The significant changes in accounting due to the adoption of these standards include the addition of management's discussion and analysis, the presentation of net assets and the categorization thereof, the use of the accrual basis of accounting in the government-wide financial statements, the inclusion of certain required supplementary information, the elimination of the effects of internal service fund activities, reflecting depreciation on capital assets, the focus on major funds and the removal of non-matured arbitrage and compensated absence liabilities from the governmental funds.

Government-wide and Fund Financial Statements

Under the new governmental financial reporting model, the basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements report information on all non-fiduciary activities of the primary government and its component units. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities. As part of the implementation of GASB Statement No. 34, the City has opted to early implement infrastructure reporting. The implementation requires the historical cost of infrastructure assets, retroactive to 1980, to be included as part of the capital assets, as well as the related depreciation, to be reported in the government-wide financial statements. In addition, for the most part, the effect of interfund activity has been removed from the statements.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements – GASB Statement No. 34 (Continued)

Government-wide Financial Statements (Continued)

The Statement of Net Assets reflects both short-term and long-term assets and liabilities. In the Government-wide Statement of Net Assets governmental activities are reported separately from business type activities. Governmental activities are supported by taxes and intergovernmental revenues whereas business type activities are normally supported by fees and charges for services Long-term assets, such as capital assets, infrastructure assets and long-term obligations are now reported with the assets of governmental activity. The components of net assets, previously shown as fund balances, are presented in three separate components; 1) Invested in Capital Assets, net of related debt, 2) Restricted, and 3) Unrestricted. Interfund receivables and payables between governmental and business type activities have been eliminated in the governmental-wide Statement of Net assets, which minimize the duplicating of assets and liabilities within the governmental and business type activities. Major component units are reported in the statement of net assets as well.

The Statement of Activities reflect both the gross and net cost format. The net cost (by function or business-type activity) is usually covered by general revenues (property tax, sales tax, intergovernmental revenues, etc.). Direct (gross) expenses of a given function or segment are offset by program revenues, and operating and capital grants. Program revenues must be directly associated with the function of business-type activity. The new presentation allows users to determine which functions are self-supporting, and which rely on the tax base in order to complete their mission. Internal service fund balances, whether positive or negative have been eliminated against the expenses and program revenues shown in the governmental activities of the Statement of Activities.

A reconciliation detailing the change in net assets between the government-wide financial statements and the fund financial statements is presented separately for governmental funds. In order to achieve a break-even result in the internal service fund activity, differences in the basis of accounting and reclassifications are allocated back to user departments. These allocations are reflected in the government-wide statements. Any residual amounts of the internal service funds are reported in the governmental activity column.

The proprietary funds have a reconciliation presented in the proprietary funds' Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets. The only reconciling item is the internal service fund allocation.

C. Fund Accounting

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

The criteria used to determine if a governmental or enterprise funds should be reported as a major fund is a follows: The total assets, liabilities, revenues or expenditure/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type (that is, total governmental or total enterprise funds), and total assets and liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

The following is a brief description of the major governmental funds that are each presented in a separate column in the fund financial statements:

The General Fund is always presented as a major fund.

The Debt Service Fund accounts for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs except that which is accounted for in proprietary type funds.

The General Obligation Bonds Capital Project Fund accounts for financial resources obtained through the issuance of general obligation bonds to be used for acquisition or construction of major capital facilities such as drainage, library improvements, excluding those financed by proprietary type funds and trust funds.

The following is a brief description of the major enterprise funds that are each presented in a separate column in the fund financial statements:

The Airport System accounts for the operation of the San Antonio International Airport and Stinson Municipal Airport. Financing for the Airport System operations is provided by user fees.

The Parking System accounts for the operations of the City's parking facilities. Financing for the Parking Facilities Operations is provided by user fees

1. Governmental Funds

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

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

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

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

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

2. Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

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.

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, Private Purpose Trust Funds, and Agency Funds. Pension Trust, Retiree Health Care Trust, and Private Purpose Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements present information about the City as a whole. Government-wide financial statements exclude both fiduciary funds and fiduciary component units. The statement of net assets and the statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year they are levied. Other taxes and fees are recognized as revenue in the year they are earned. Revenue from grants and similar items are recognized in the fiscal year the qualifying expenditures are made and all other eligibility requirements have been satisfied. .

Program Revenues are presented in the Government-wide Statement of Activities. The City reports program revenues into three categories: 1) Charges for services, 2) Operating grants and contributions and 3) Capital grants and contributions. (Further descriptions of these three categories follow.) They are presented separately as a reduction of the total expense to arrive at the net expense of each functional activity. Program revenues are revenues generated by transactions with outside parties who purchase, use, or directly benefit from a program. They also include amounts such as grants and contributions received from outside parties that restrict the use of those funds to specific programs. Investment earnings that are legally restricted to specific programs are also reported as program revenues.

1) **Charges** for services are revenues that are generated by those who purchase goods or services from the City. Examples of charges for services include airport landing fees, solid waste collection and disposal fees, vacant lot clean up, golf course fees, and food establishment licenses. Fines and forfeitures are also reported under charges for services.

2) **Operating** grants and contributions are those revenues that are restricted in the way they may be spent - either for operations of a particular program or to purchase a capital asset for a particular program.

3) **Capital** grants and contributions are also restricted revenues; the funds may only be spent to purchase capital assets for specified programs.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

All governmental Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included on their balance sheets. Revenues are recognized in the accounting period in which they become available and measurable. For this purpose, the City considers revenues, other than grants, to be available if the revenues are collected within sixty days after year-end. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by the provider are met. Grant funds received in advance and delinquent property taxes are recorded as deferred revenue until earned and available. Gross receipts and sales taxes are considered available when in the hands of intermediary collecting governments and are recognized at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain. Expenditures are recognized in the accounting period in which the fund liability is incurred. However, compensated absences, debt service expenditures, claims and judgments and arbitrage rebate are recorded only when the liability is matured.

The reported fund balance (net current assets) for each fund is considered a measure of "current financial resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "current financial resources" during the period.

Special reporting treatments are applied to governmental fund inventories and prepaid expenditures to indicate that they do not represent "current financial resources", since they do not represent net current assets. Such amounts are generally offset by fund balance reserve accounts.

Proprietary, Pension Trust, Private Purpose Trust, and Retiree Health Care Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses and related liabilities, including claims, judgments, and compensated absences, are recognized when they are incurred. These funds are accounted for on a cost of services or "economic resources" measurement focus. Consequently, all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. The reported Proprietary Fund net assets is segregated into three components: 1) invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net assets.

Proprietary funds report both operating and nonoperating revenues and expenses in the Statement of Revenues, Expenses and Changes in Fund Net Assets. The City defines operating revenues as those receipts generated by a specified program offering either a good or service. For example, parking garage and street lot fees are operating revenues of the Parking Fund. This definition is consistent with GASB Statement No. 9 which defines operating receipts as cash receipts from customers and other cash receipts that do not result from transactions defined as capital and related financing, non-capital financing or investing activities. Operating expenses include personnel services, contractual services, commodities, other expenses (such as insurance), and depreciation. Revenues and expenses not fitting the above definitions are considered nonoperating.

The City's enterprise funds, pension trust, private purpose trust and retiree health care funds and business-type activities, as well as its discretely presented component units apply all applicable GASB Statements as well as FASB Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989, in accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." The City and its discretely presented major proprietary component units, CPS and SAWS, have elected not to apply any FASB Statements and Interpretations issued after November 30, 1989.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

CPS' operating revenue includes receipts from energy sales and miscellaneous revenue related to the electric and gas systems operations. This includes late payment fees, rental income, jobbing and contract work, ancillary services, and merchandise sales. Operating expenses include those expenses that result from the ongoing operations of the electric and gas systems. SAWS' principal operating revenues are charges to customers for water and wastewater services. Operating expenses include the cost of service, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Nonoperating revenues consist primarily of investment income, including the changes in fair value of investments. The amortization of net gains from the lease-leaseback and the sale of water rights in prior years are also included. Some miscellaneous income from renting general property and miscellaneous service is also recorded in nonoperating when it's not directly identified with the electric, gas, water and wastewater systems.

CPS changed its policy for accounting for assets accumulated to pay liabilities for the employee health and welfare benefits. As a result of this change in policy, a cumulative effect of adjustment in the amount of $139,074 was recorded in fund net assets.

E. Future GASB Implementations

GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14", provides criteria for determining whether certain organizations might be included in the financial reporting entity as component units based on the nature and significance of their relationship with the City, is effective for fiscal years beginning after June 15, 2003. The City has not fully determined the effect that implementation of Statement No. 39 will have on the City's financial statements.

With regard to GASB Statement No. 38, the City is reviewing the disclosure requirements regarding disaggregation of receivable and payable balances. These disclosure requirements will be implemented in fiscal year 2003. All other components of GASB Statement No. 38 have been implemented in fiscal year 2002.

F. 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. As of September 30, 2002, the City's investment portfolio did not contain any 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, CPS and SAWS account for and report investments in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The Fire and Police Pension Trust and the Fire and Police Health Care Fund report investments at fair value in accordance with GASB Statement No. 25 "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." The City's policy with respect to money market investments, which had a remaining maturity of one year or less at the time of purchase, is to report those investments at amortized cost, which approximates fair value. Amortization of premium or accretion of discount is recorded over the term of the investments.

For purposes of the statement of cash flows, the City, SAWS and CPS consider all highly liquid investments with an original maturity of approximately ninety days or less to be cash equivalents.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventories and Prepaid Items

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.

Prepaid items are goods and services that are paid for in advance. These payments reflect costs applicable to future accounting periods, and are recorded in both government-wide and fund financial statements. Using the consumption method, prepaid items are charged as expenditures for governmental funds and as expenses for proprietary funds as the goods or services are used.

H. Capital Assets and Depreciation

1. Primary Government (City)

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Capital assets recorded under capital leases are recorded at the present value of future minimum lease payments. Depreciation on all exhaustible capital assets of the City is charged as an expense with accumulated depreciation being reported on the Statement of Net Assets. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. With the implementation of GASB Statement No. 34, the City has established capitalization thresholds for infrastructure and machinery and equipment which includes computer equipment. Retroactive reporting of all infrastructure assets is reported in the financial statements and the estimated useful lives and capitalization thresholds applied are as follows:

Assets	Useful Life Years	Capitalization Threshold
Buildings	15-40	$100
Improvements (Other than buildings)	20-40	$100
Machinery and Equipment	5-15	$5
Furniture and Office Equipment	5-10	$5
Infrastructure	15-100	$250

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 require thirty days or more to complete.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets and Depreciation (Continued)

2. City Public Service (CPS) (Continued)

In 2001 and prior years, CPS computed depreciation using the straight-line method over the estimated service lives of the depreciable property using class lives for certain asset categories and specifically assigned lives for certain assets. In 2002, CPS computed depreciation using the straight-line method over the estimated service lives of the depreciable property using specifically identified service lives for each asset type. Total depreciation and depletion, as a percentage of total depreciable assets net of nuclear fuel, was 2.99 percent in 2002.

CPS amortizes its share of nuclear fuel for the South Texas Project (STP) to fuel expense on a unit-of-production method. Under the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS is charged a fee for disposal of spent nuclear fuel, which is based upon CPS' share of the STP generation that is available for sale to CPS customers. The charge is included in fuel expense monthly. For further discussion regarding the STP, see Note 10.

3. San Antonio Water System (SAWS)

The SAWS' capital assets in service are recorded on the basis of cost. Assets acquired through capital leases are recorded on the cost basis and are included in utility plant service. Assets acquired through contributions, such as those from land developers, are capitalized and recorded in the plant accounts at estimated fair value at date of donation. SAWS capitalizes certain interest costs on revenue bonds and commercial paper associated with newly constructed utility plant additions. Maintenance, repairs, and minor renewals are charged to operating expense, while major plant replacements are capitalized.

SAWS' capital assets are depreciated and property under capital lease is amortized on the straight-line method. This method is applied to all individual assets except distribution mains. Groups of mains are depreciated on the straight-line method using rates estimated to fully amortize the costs of the asset group over their estimated average useful life. The following estimated average useful lives are used in providing for depreciation of the SAWS' capital assets:

Structures and improvements	50 years
Pumping and purification equipment	10 - 50 years
Distribution and transmission system	25 - 50 years
Collection system	50 years
Treatment facilities	25 years
Equipment and machinery	5 - 20 years
Furniture and fixtures	20 - 50 years
Computer equipment	5 years
Software	3 years

I. General Bonded Debt Service

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service Fund. Amounts estimated to be required for debt service on general bonded debt are provided by allocated property taxes, interest earned within the Debt Service Fund, and transfers from other funds.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

In the governmental fund financial statements, the City accrues annual leave and associated employee related costs when matured (payable from available resources) for City non-uniformed employees and uniformed fire and police employees. In addition, the City accrues the matured portion of the City's uniformed fire and police employees accrued sick leave pay, holiday pay and bonus pay. Compensatory time is also accrued for the matured portion of the City's non-uniformed non-exempt employees as well as uniformed police officers.

For governmental fund types, the matured current portion of the liability resulting from the accrual of these compensated absences is recorded in the respective governmental fund and reported in the fund financial statements, while the entire vested liability is reported in the government-wide financials. The current and long-term portions of the liability related to proprietary fund types are accounted for in the respective proprietary fund.

K. Insurance

Activity for the City's self-insurance programs is recorded in the Internal Service Funds. Assets and obligations related to property and casualty liability, employee health benefits, workers' compensation, unemployment compensation, extended sick leave, and employee wellness are included.

The City is insured for property and casualty liability. As of the fiscal year end, Allianz Insurance Company 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 as of September 30, 2002. The City records all workers' compensation loss contingencies, including claims incurred but not reported.

Employee health benefit liabilities are determined and accrued based upon the City's estimates of aggregate liabilities for unpaid benefits. Regarding unemployment compensation, the City is subject to the State of Texas Employment Commission Act. Under this act, the City's method for providing unemployment compensation is to reimburse the State for claims paid by the State.

All insurance carriers providing coverage for the City are required to possess an A.M. Best Company rating of A- or better; where A- denotes "Excellent". A.M. Best is an industry recognized rating service for insurance companies. For a more detailed explanation of the City's self-insurance programs, see Note 12.

L. Fund Equity

Reservations of fund equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund equity represent tentative plans identified by management and are subject to change. Designations are utilized in the City's governmental funds for amounts which have been designated for subsequent year's expenditures and amounts allocated to making future improvements and replacements. Such designations will be reflected on the fund financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Revenue Recognition

Governmental fund types record revenues on the modified accrual basis of accounting and are reported as such in the fund financial statements. That is, revenues are recorded when they are both measurable and available to finance current operations or when they are considered susceptible to accrual. Revenues from property taxes, sales taxes, municipal court fines and fees, licenses, interest revenue and charges for services are recorded on the modified accrual basis of accounting, therefore, are considered susceptible to accrual. The City's availability period is no more than 60 days beyond the end of the fiscal year. When collections are delayed beyond the normal time of receipt due to unusual circumstances, the amounts involved are still recognized as revenues of the current period. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by the provider have been met. Proprietary-type funds record revenues when earned. In the government-wide financial statements, all revenues are recorded when earned.

CPS revenues are recorded when billed. Customers' meters are read and bills are rendered monthly. Rate schedules include fuel and gas cost adjustment clauses that permit recovery of fuel and gas costs in the month incurred. CPS reports fuel and distribution gas costs on the same basis as it recognizes revenue. SAWS revenues are recognized when earned under the accrual basis.

N. Allocation of Indirect Expenses

The City recovers indirect costs in the General Fund through the application of departmental indirect cost rates. These rates are developed and documented in the City's departmental indirect cost rate plan. In this plan, each department is classified by function. Indirect costs are budgeted by department and are used as a basis for the City's actual indirect cost allocation. Base rates are then applied to actual indirect costs recovered and indirect costs are reclassified to reduce general government expenditures. For fiscal year 2002, general government expenditures were reduced by $6,511, resulting in increased expenditures in other governmental functions and in business-type activities in the amounts of $4,037 and $2,474, respectively.

O. Nuclear Decommissioning

CPS, together with the other owners of the STP, filed with the Nuclear Regulatory Commission (NRC) a certificate of financial assurance for the decommissioning of the nuclear plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. In 1995, the owners conducted a review of decommissioning costs. The results estimated 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.

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, 2002, CPS had accumulated approximately $145,900 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 $61,400 at December 31, 2001. Based upon the 1998 decommissioning study, the annual level funding into the trust of $15,900 for 2002, was expensed by CPS.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts and debt issuance costs are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures of the funds in which proceeds of debt issuances are recorded.

Q. Elimination of Internal Activity

Eliminations of internal activity, particularly those related to internal service fund transactions, are needed to make the transition from governmental funds to government-wide activities. The overriding objective in "eliminating the effects of internal service fund activity" is to adjust the internal charges to cause a break-even result. Eliminating the "effect" of internal service fund activity requires the City to "look back" and adjust the internal service funds' internal charges. Net income derived from internal service fund activity would cause a pro rata reduction in the charges made to the participating funds/functions. Conversely, an internal service fund net loss would require a pro rata increase in the amounts charged to the participating funds/functions. Therefore, eliminations made to the statement of activities removes the "doubling up" effect of internal service fund activity. The residual internal balances between the governmental and business–type activities are reported in the statement of net assets and the internal balance amounts that exist within the governmental funds or within business-type funds are eliminated. The City reports internal service fund balances in both governmental and business-type activities based on the pro-rata share of the amounts charged to the participating funds/functions.

The City has three internal service funds: Other Internal Services, Information Technology Services, and Self-Insurance Funds. Other Internal Services and Information Technology Services charges users fees for requested goods or services. Building maintenance charges, a component of the Other Internal Services Fund, are based on the space occupied by departments. Through the tracking of these charges to the applicable departments, the net income or loss will be allocated back to the user department based on actual charges incurred.

The Self-Insurance Funds generate their revenues through fixed assessments charged to the various funds each year. The net income or loss generated by the Self-Insurance Funds is allocated back based on the same allocation by which the revenues are received.

R. Application of Restricted and Unrestricted Net Assets

The City may receive funding from an organization whose expenditure is restricted to certain allowable costs. In situations where both restricted and unrestricted net assets are expended to cover allowable expenses, the City will first expend the restricted net assets and cover additional costs with unrestricted net assets. The City reserves the right to selectively defer the use of restricted assets.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

S. Change in Fiscal Year

On April 3, 2001, the SAWS' Board of Trustees approved the changing of the fiscal year from a year-end of May 31st to December 31st. Management has taken all necessary actions to effect the change, including the preparation of their Comprehensive Annual Financial Report for the seven-month period ending December 31, 2001, as well as notification to bondholders, nationally recognized municipal security information repositories, and others, of the change in the fiscal year. The change in fiscal year to calendar year was approved to increase the effectiveness and efficiency for the implementation of capital improvement programs, rate studies and other financial planning.

T. Other Budget Disclosures

Excess of expenditures, transfers and encumbrances over appropriations occurred as follows:

Excess of Expenditures, Transfers and Encumbrances Over Appropriations

Fund/Expenditures	Appropriations	Expenditures, Transfers and Encumbrances	Excess of Expenditures, Transfers and Expenditures over Appropriations
General Fund:			
Health Services	$ 13,717	$ 14,076	$ 359
Sanitation	2,567	2,663	96
Transfers	74,881	76,102	1,221
Special Revenue Funds:			
Hotel Motel Capital Improvements	$ 9,977	$ 20,139	$ 10,162
Emergency Medical Services	37,821	38,311	490
Debt Service Fund	$ 115,968	$ 117,044	$ 1,076
Permanent Funds:			
San Jose Burial Park	$ 412	$ 684	$ 272

The excess expenditures over appropriations were fully offset by excess actual revenues or fund balances. No deficit fund balances resulted from these excesses.

2. PROPERTY TAXES

Property taxes are levied and due upon receipt on October 1, attached as an enforceable lien on property as of January 1st, and become delinquent the following February 1st. Property tax receivables, including related interest and penalty receivable, net of allowances for uncollectible amounts, represent amounts the City believes will ultimately be collected. The portion of property tax receivable, net of allowances for uncollectible amounts, that is considered available, is offset by deferred revenues in the governmental fund financial statements. 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, 2002 was $0.57854 per $100 taxable valuation, which means that the City has a tax margin of $1.92146 per $100 taxable valuation and could raise an additional $760,660 per year based on the net taxable valuation of $39,587,584 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 statement of net assets as Cash and Cash Equivalents. Overdrafts which result from a fund overdrawing its share of pooled cash are reported as inter-fund payables by the overdrawn fund and as inter-fund receivables of the contributing funds.

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 fair 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 or federal depository insurance.

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 statement of net assets.

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 statement of net assets, as of September 30, 2002.

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 decrease in fair value for investments of the City with a remaining maturity of greater than one year at the time of purchase was $497 for the year ended September 30, 2002. The City does not participate in external investment pools.

Investments of the Fire and Police Pension Fund (Pension Fund), a blended component unit, are administered by the Fire and Police Pension Fund Board of Trustees. Investments of the Pension Fund are reported at fair value and include: corporate bonds; 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 fair 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 in plan assets.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Pension Fund has entered into an agreement with its custodial bank to lend the Pension Fund's securities to one or more borrowers for a fee. It is the policy of the Pension Fund and the custodial bank to require that collateral equal to 102% and 105% for domestic and international securities, respectively, of the loaned securities be maintained by the custodial bank. Collateral may be in the form of cash, U.S. government securities and irrevocable letters of credit. Until such time as the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event that the borrower fails to repay the borrowed securities when due and the value of the collateral is insufficient to replace the borrowed securities, the Pension Fund may suffer a loss. Management of the Pension Fund considers the possibility of such a loss to be remote.

As of September 30, 2002, the Pension Fund had lending arrangements outstanding with a total fair value of $121,680 which were fully collateralized with cash and securities. Related to these loaned securities, cash collateral of $125,235 is recorded in the accompanying statements. Net income for the year ended September 30, 2002 under the securities lending arrangement was $339.

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. The fair value of structured financial instruments held for the Pension Fund during fiscal year ended September 30, 2002 was approximately $102,364.

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. Total exposure on these options and futures of approximately $43,995 is included in net appreciation (depreciation) in fair value of investments at September 30, 2002.

The Fire and Police Retiree Health Care Fund Board of Trustees administers investments of the Fire and Police Retiree Health Care Fund, a blended component unit. Investments are reported at fair value and short-term investments are reported at amortized cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established fair 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 fiduciary net assets. No investments in any one organization (other than those issued by the U.S. Government) represent five percent or more in plan assets.

The investment policies of SAWS and CPS, the City's major 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.

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.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Under the provisions of GASB Statement No. 31, SAWS reports money market investments with a remaining maturity at time of purchase of one year or less at amortized cost, which approximates fair value. As of December 31, 2001, SAWS reports money market investments with a remaining maturity at time of purchase of greater than one year at amortized cost. The difference between the reported amount and fair value was $134 and was deemed immaterial; therefore an unrealized loss was not reported.

CPS cash deposits at January 31, 2002 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 investments with a maturity date within one year of the purchase date are reported at amortized cost, which approximates fair value. Amortization of premium and accretion of discount are recorded over the terms of the investments that mature within one year. CPS investments with a maturity date of one year or longer from the purchase date are accounted for using fair value. Fair value is determined by using generally accepted financial reporting services and publications and approved dealers and brokers as necessary. The specific identification method is used to determine costs in computing gain or loss on sales of securities.

CPS allowable investments, excluding the Decommissioning Trust and the Employees Health and Welfare Plans, as defined by CPS Board Resolution and Policy, Bond Ordinances, Tax-Exempt Commercial Paper Ordinance, and State Law include U.S. Government or Government Agency or U.S. Government guaranteed obligations, collateralized mortgage obligations issued by the U.S., fully secured certificates of deposit issued by a state, national bank, savings bank domiciled in the State of Texas, direct repurchase agreements, reverse repurchase agreements, defined bankers acceptances and commercial paper, no-load money market mutual funds, and other types of specific secured or guaranteed investments. CPS reports all South Texas Nuclear Project (STP) decommissioning master trust investments and employee health and welfare investments at fair value.

CPS' investments in the STP decommissioning master trust are held by an independent trustee. Trust investments are limited to U.S. Government or Government Agency or U.S. Government guaranteed obligations by CPS Board Resolution and Policy, Trust Agreement, and state law. These investments are subject to market risk and their fair value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded.

Investments in the employee health and welfare plans are held by an independent trustee. These investments are limited to those authorized by the plans Administrative Committees, the Trust Agreements, and state law. These investments are subject to market risk and their fair value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded. These investment policies follow the "prudent man" concept.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Combined cash and cash equivalents and investments are presented below as of year end for the City, and its significant discretely presented Component Units, SAWS and CPS. The information is provided to give an indication of the proportionate amount of cash and investments held by each respective entity.

Combined Cash, Cash Equivalents, and Investments

	City [1]	SAWS [2]	CPS [3]
Cash and Cash Equivalents	$ 292,109	$ 31,448	$ 334,630
Security Lending Collateral Cash and Cash Equivalents	125,235		
Investments	1,854,590	166,488	1,227,161
Less: Investments with original maturies of less than ninety days included in cash equivalents	(211,020)	(27,395)	(332,218)
Total	$ 2,060,914	$ 170,541	$ 1,229,573

[1] The following amounts were held by the City in a fiduciary capacity and are excluded from the primary government statement of net assets: Cash and Cash Equivalents of $78,656; Security Lending Collateral-Cash and Cash Equivalents of $125,235; Investments of $1,170,091.

[2] For the seven months ended December 31, 2001

[3] For the fiscal year ended January 31, 2002

	City [1]	SAWS [2]	CPS [3]
Totals from Statement of Net Assets and Fiduciary Fund Statements			
Cash and Cash Equivalents	$ 239,880	$ 0	$ 303,593
Security Lending Collateral Cash and Cash Equivalents	125,235		
Investments	1,497,978	22,902	11,019
Restricted Cash and Cash Equivalents	52,229	31,448	31,037
Restricted Investments	145,592	116,191	883,924
Total Cash, Cash Equivalents and Investments	$ 2,060,914	$ 170,541	$ 1,229,573

[1] The following amounts were held by the City in a fiduciary capacity and are excluded form the primary government statement of net assets: Cash and Cash Equivalents of $78,656; Security Lending Collateral-Cash and Cash Equivalents of $125,235; Investments of $1,170,091.

[2] For the seven months ended December 31, 2001

[3] For the fiscal year ended January 31, 2002

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The composition of Cash and Cash Equivalents included in the financial statements for the City and its major discretely presented Component Units as of the respective year-ends is presented below.

	City	SAWS[1]	CPS[2]
Deposits with Financial Institutions	$ 9,643	$ 63,527	$ 2,305
Less: Deposits with Original Maturities of Greater than Ninety Days		(59,500)	
Investments with Original Maturities of Less than Ninety Days	211,020	27,395	332,218
Cash with Pension/Retiree Healthcare Fiscal Agents	71,216		
Cash with Other Financial Agents	31		
Petty Cash Funds	199	26	107
Total Cash and Cash Equivalents	$ 292,109	$ 31,448	$ 334,630

[1]For the seven months ended December 31, 2001
[2]For the fiscal year ended January 31, 2002

Cash with fiscal agents of the Fire and Police Pension Fund and the Fire and Police Retiree Healthcare Fund of the City of San Antonio have been approved by the Funds' Board of Directors and are invested as authorized by Texas State Statutes.

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3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Deposits with financial institutions are classified into three categories of custodial 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 custodial credit risk as follows:

Units	Carrying Amount	Bank Balance	Category 1	Category 2	Category 3
City Deposits:					
With Financial Institutions	$ 9,643	$ 28,809	$ 28,809	$ 0	$ 0
Deposits with Agents	71,247	71,247	71,247		
SAWS Deposits:					
Demand and Savings Accounts	4,027	7,329	7,329		
Certificates of Deposits	59,500	59,500	59,500		
CPS Deposits:					
With Financial Institutions	2,305	10,797	10,797		

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. The Fire and Police Pension Fund also had securities lending collateral - cash and cash equivalents in the amount of $125,235 which is not categorized for custodial 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 custodial 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 custodial credit risk assumed:

Total Investments By Category

	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
City:					
Corporate Bonds	$ 140,838	$ 0	$ 0	$ 140,838	$ 140,838
Preferred Stock	582			582	582
Common Stock	611,700			611,700	611,700
U.S. Treasury & Government Agency Securities	733,561			733,561	734,854
Repurchase Agreements		16,999		16,999	16,999
Total Categorized Investments	1,486,681	16,999	0	1,503,680	1,504,973
Investments not Categorized:					
Money Market Mutual Fund				91,189	91,189
Notes, Mortgages, Contracts				113,639	113,639
Real Estate Investments				56,543	56,543
Venture Capital Partnerships and Other Alternative Investments				89,539	89,539
Total City	$ 1,486,681	$ 16,999	$	$ 1,854,590	$ 1,855,883
SAWS:					
First Union Bank Held in Escrow	$ 0	$ 24,747	$ 0	$ 24,747	$ 24,904
U.S. Treasury & Government Agency Securities	82,241			82,241	82,569
Total SAWS	$ 82,241	$ 24,747	$ 0	$ 106,988	$ 107,473
CPS:					
U.S. Treasury & Government Agency Securities	$ 948,098	$ 0	$ 0	$ 948,098	$ 950,932
South Texas Nuclear Project Decommissioning Master Trust:					
U.S. Treasury & Government Agency Securities	144,222			144,222	144,222
Employee Health and Welfare:					
Corporate bonds	18,498			18,498	18,498
Common stock	67,668			67,668	67,668
U.S. Treasury & Government Agency Securities	28,113			28,113	28,113
Global Bonds	5,980			5,980	5,980
Foreign equities	5,127			5,127	5,127
Total Health and Welfare Investments Categorized	125,386			125,386	125,386
Investments not Categorized:					
Money Market Mutual Fund				9,455	9,455
Total Employee Health and Welfare	125,386			134,841	134,841
Total CPS	$ 1,217,706	$	$	$ 1,227,161	$ 1,229,995

4. CAPITAL ASSETS

Capital asset activity for governmental activities, to include Internal Services Funds, for the year ended September 30, 2002 was as follows:

Capital Assets - Governmental Activities

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Assets				
Land	$ 1,206,632	$ 8,759	$ 0	$ 1,215,391
Construction in Progress	440,562	84,336		524,898
Total Non-Depreciable Assets	1,647,194	93,095		1,740,289
Depreciable Assets				
Buildings	367,827			367,827
Improvements	59,712	356	(479)	59,589
Infrastructure	1,939,300			1,939,300
Machinery and Equipment	262,713	40,723	(152,743)	150,693
Total Depreciable Assets	2,629,552	41,079	(153,222)	2,517,409
Accumulated Depreciation				
Buildings	(124,370)	(9,991)		(134,361)
Improvements	(31,599)	(1,243)		(32,842)
Infrastructure	(1,023,913)	(56,631)		(1,080,544)
Machinery and Equipment	(58,367)	(24,836)	11,409	(71,794)
Total Accumulated Depreciation	(1,238,249)	(92,701) [1]	11,409	(1,319,541)
Total Depreciable Assets, net	1,391,303	(51,622)	(141,813)	1,197,868
Total Capital Assets, net [1]	$ 3,038,497	$ 41,473	$ (141,813)	$ 2,938,157

[1] **Depreciation expense was charged to governmental functions as follows:**

General Government	$ 7,193
Public Safety	11,393
Public Works	57,727
Health Services	125
Welfare	102
Culture and Recreation	371
Convention and Tourism	18
Urban Redevelopment and Housing	375
Depreciation on capital assets held by the City's internal service funds is charged to various functions based on asset usage	15,397
Total Depreciation Expense for Governmental Activities	$ 92,701

[1] The capital assets of internal service funds are included in governmental activities. In fiscal year 2002, internal service fund capital assets increased by $18,206, decreased by $13,985, resulting in an ending balance of $102,566. Depreciation expense of $15,397 resulted in an ending accumulated depreciation balance of $60,251, to arrive at a net book value of $42,315.

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4. CAPITAL ASSETS (Continued)

Capital asset activity for business-type activities for the year ended September 30, 2002 was as follows:

Capital Assets - Business-type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Assets				
Land				
Aviation Fund	$ 2,970	$ 0	$ 0	$ 2,970
Parking Fund	8,125			8,125
Non-Major Funds	893			893
Total	11,988			11,988
Construction in Progress				
Aviation Fund	67,504	19,147		86,651
Parking Fund	8,557	2,359		10,916
Non-Major Funds	410	89		499
Total	76,471	21,595		98,066
Total Non-Depreciable Assets	88,459	21,595		110,054
Depreciable Assets				
Buildings				
Aviation Fund	112,133			112,133
Parking Fund	18,985			18,985
Non-Major Funds	46			46
Total	131,164			131,164
Improvements				
Aviation Fund	145,825			145,825
Parking Fund	1,639			1,639
Non-Major Funds	3,025			3,025
Total	150,489			150,489
Machinery and Equipment				
Aviation Fund	9,674	1,079	(471)	10,282
Parking Fund	810	33	(84)	759
Non-Major Funds	3,643	742	(962)	3,423
Total	14,127	1,854	(1,517)	14,464
Total Depreciable Assets	295,780	1,854	(1,517)	296,117
Accumulated Depreciation				
Buildings				
Aviation Fund	(45,874)	(2,636)		(48,510)
Parking Fund	(6,972)	(482)		(7,454)
Non-Major Funds	(226)	(1)		(227)
Total	(53,072)	(3,119)		(56,191)
Improvements				
Aviation Fund	(59,416)	(3,901)		(63,317)
Parking Fund	(428)	(75)		(503)
Non-Major Funds	(20)	(104)		(124)
Total	(59,864)	(4,080)		(63,944)
Machinery and Equipment				
Aviation Fund	(6,536)	(839)	319	(7,056)
Parking Fund	(728)	(34)	52	(710)
Non-Major Funds	(2,877)	(184)	799	(2,262)
Total	(10,141)	(1,057)	1,170	(10,028)
Total Accumulated Depreciation	(123,077)	(8,256)	1,170	(130,163)
Total Depreciable Assets, net	172,703	(6,402)	(347)	165,954
Total Capital Assets, net	$ 261,162	$ 15,193	$ (347)	$ 276,008

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4. CAPITAL ASSETS (Continued)

CPS and SAWS capitalize interest incurred on construction projects, in accordance with Statement of Accounting Standards No. 62 issued by the Financial Accounting Standards Board. CPS and SAWS capitalized construction period interest in the amount of $7,062 and $4,169, respectively. Capital asset activity for CPS and SAWS was as follows:

Capital Assets - City Public Service

City Public Service [1]	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Assets				
Land	$ 53,336	$ 1,558	$ (5)	$ 54,889
Land held for future use	12,599			12,599
Construction in Progress	144,510	274,283	(228,076)	190,717
Total Non-Depreciable Assets	210,445	275,841	(228,081)	258,205
Depreciable Capital Assets				
Utility Plant in Service	6,098,970	228,479	(26,709)	6,300,740
Utility Property Leased	18,785			18,785
Nuclear Fuel	258,236	11,666		269,902
Total Depreciable Assets	6,375,991	240,145	(26,709)	6,589,427
Accumulated Depreciation				
Utility Plant in Service	(1,996,773)	(188,999)	31,442	(2,154,330)
Utility Property Leased	(138)	(66)		(204)
Nuclear Fuel	(223,816)	(15,118)		(238,934)
Total Accumulated Depreciation	(2,220,727)	(204,183)	31,442	(2,393,468)
Total Depreciable Assets, net	4,155,264	35,962	4,733	4,195,959
Total Capital Assets, net	$ 4,365,709	$ 311,803	$ (223,348)	$ 4,454,164

Capital Assets - San Antonio Water System

San Antonio Water Systems [2]	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Assets				
Land	$ 58,316	$ 477	$ 0	$ 58,793
Construction in Progress	319,251	49,420	(29,272)	339,399
Total Non-Depreciable Assets	377,567	49,897	(29,272)	398,192
Depreciable Assets				
Utility Plant in Service	1,763,749	30,747	(365)	1,794,131
Machinery and Equipment	98,159	3,836	(1,454)	100,541
Total Depreciable Assets	1,861,908	34,583	(1,819)	1,894,672
Accumulated Depreciation				
Utility Plant in Service	(565,799)	(25,462)	365	(590,896)
Machinery and Equipment	(50,337)	(3,992)	1,289	(53,040)
Total Accumulated Depreciation	(616,136)	(29,454)	1,654	(643,936)
Total Depreciable Assets, net	1,245,772	5,129	(165)	1,250,736
Total Capital Assets, net	$ 1,623,339	$ 55,026	$ (29,437)	$ 1,648,928

[1] For the fiscal year ended January 31, 2002
[2] For the seven months ended December 31, 2001

4. CAPITAL ASSETS (Continued)

Construction-in-progress relating to the Capital Assets is comprised of the following:

Construction-In-Progress: Assets-Governmental Activities

	Project Authorization	Expended to Sept. 30, 2002	Committed	Required Future Financing
Buildings	$ 40,207	$ 34,920	$ 5,287	None
Streets and Bridges	192,124	92,901	99,223	None
Storm Drainage and Flood Prevention	126,738	123,643	3,095	None
Improvements Other Than Buildings	292,270	265,055	27,215	None
Total	$ 651,339	$ 516,519	$ 134,820	None

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5. DUE (TO) FROM OTHER FUNDS

The following is a summary of interfund receivables and payables for the City as of September 30, 2002:

Summary Table of Interfund Receivables and Payables
As of September 30, 2002

	Due From Other Funds	Due To Other Funds
General Fund:		
Airport System	$ 30	$ 0
Fiduciary Funds	337	
Internal Service Funds		16
Nonmajor Governmental Funds	12,068	12
Total General Fund	12,435	28
Debt Service Funds:		
General Obligation Bonds	19	
Parking Facilties		48
Nonmajor Governmental Funds	306	
Total Debt Service Funds	325	48
General Obligation Bonds:		
Debt Service Funds		19
Nonmajor Governmental Funds		82
Total General Obligation Bonds		101
Airport System Fund:		
Airport I&C Fund from the Airport Operating Fund	2,143	
Airport I&C Fund from the Airport Debt Service Fund	478	
Airport Operating Fund to the Airport I&C Fund		2,143
Airport Debt Service Fund to the Airport I&C Fund		478
General Fund		30
Total Airport System Fund	2,621	2,651
Parking Facilities:		
Debt Service Funds	48	
Total Parking Facilities	48	
Fiduciary Agency Funds:		
General Fund		337
Nonmajor Governmental Funds		7
Total Fiduciary Agency Funds		344
Internal Service Funds:		
General Fund	16	
Internal Service	9,500	9,500
Nonmajor Governmental Funds	12,813	21
Total Internal Service Funds	22,329	9,521
Nonmajor Governmental Funds:		
General Fund	12	12,068
Debt Service Funds		306
General Obligation Bonds	82	
Fiduciary Agency Funds	7	
Internal Service Funds	21	12,813
Nonmajor Governmental Funds	2,427	2,427
Total Nonmajor Funds	2,549	27,614
Total	$ 40,307	$ 40,307

(amounts are expressed in thousands)

5. DUE TO (FROM) OTHER FUNDS (Continued)

As of September 30, 2002, $113 was owed to the Internal Service Funds by a Nonmajor Special Revenue Fund for loans made to fund improvements and leasing agent commissions at the International Center. This amount is scheduled to be collected in fiscal year 2003. In addition, a loan of $478 was made by the Airport Improvement Contingency Fund to the Aviation Debt Service Fund in fiscal year 2002 for prepaid bond costs in connection with a Forward Refunding. Repayment is expected on April 8, 2003. The remaining balances represent short term loans resulting from (1) timing differences between the dates that transactions are recorded in the accounting system and (2) short-term borrowings at year end. Of the $12,435 due from other funds in the General Fund, $10,579 is a result of overdraws of pooled cash.

6. LONG-TERM DEBT

A. Primary Government (City)

1. Governmental Activity 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, 2002.

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 2002. In November 2001, the City issued the following: $84,945 General Improvement and Refunding Bonds, Series 2001 and $65,195 Combination Tax and Revenue Certificates of Obligation, Series 2001. 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.

The General Improvement and Refunding Bonds, Series 2001 were utilized to refund a portion of the City's outstanding tax supported debt, 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. The Series 2001 General Improvement and Refunding Bonds are retired serially in the years 2002 through 2022 and bear interest rates ranging from 3.000% to 5.250%.

Proceeds of the Combination Tax and Revenue Certificates of Obligation, Series 2001 will be utilized to fund capital improvements to include public safety, including constructing new fire stations and renovating and improving existing fire stations; street, sidewalk, bridge, and drainage improvements; improvements and renovations to existing municipal facilities; the acquisition of buildings, construction of street and drainage improvements and utility relocation related thereto, and demolition of buildings, relating to KellyUSA; 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 work purposes; the implementation of a new Enterprise Resource Management System, including development and installation costs relating thereto; and professional services related to the construction and financing of the aforementioned projects. The certificates are retired serially in the years 2003 through 2014 and bear interest rates ranging from 4.000% to 5.250%.

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Additionally, in May 2002, the City issued $251,280 of General Improvement Forward Refunding Bonds, Series 2002, of which $239,910 is recorded in governmental funds and $11,370 is recorded in proprietary funds. Delivery of the bonds occurred on May 8, 2002. These obligations were issued to advance refund $256,125 of outstanding long-term debt, of which $244,535 was recorded in governmental funds and $11,590 was recorded in proprietary funds. The obligations bear interest ranging from 4.000% to 5.250% and will be retired serially in the years 2002 through 2013.

A portion in the amount of $7,112 of the net proceeds from the sale of the 2001 General Improvement and Refunding Bonds, including $92 of the original issue premium, was applied to fund an escrow fund for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2001 refunding, the City will realize a total reduction of $1,332 in debt service payments. Through the transaction, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of $926.

The net proceeds from the sale of the 2002 Forward Refunding bonds, which included an original issue premium of $13,638, were applied to fund an escrow fund for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2002 refunding, the City will realize a total reduction of $23,561 in debt service payments, of which $22,570 is allocated to governmental funds. Through the transactions, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of $19,662, of which $18,924 is allocated to governmental funds.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

The following table is a summary of changes for the year ended September 30, 2002 for governmental activity debt:

Governmental Activity Long-Term Debt

Issue	Original Amount	Final Principal Payment[1]	Interest Rates (%)[1]	Balance Outstanding October 1, 2001	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2002
General Obligation Bonds[2,3]							
1988 Refunding	$ 132,978	2006	7.250-7.400	$ 4,008	$	$ 0	$ 4,008
1992 Refunding	380,540	2013	5.200-5.750	259,255		259,255	0
1993 Refunding	92,165	2014	4.000-8.000	78,435		7,340	71,095
1994	30,450	2004	5.800-6.000	3,850		1,200	2,650
1996	35,330	2015	5.100-5.250	28,475		1,375	27,100
1996A Refunding	82,235	2016	4.375-6.000	75,565		1,385	74,180
1996B Refunding	6,030	2008	6.350-6.700	4,435		525	3,910
1998 Refunding	30,855	2018	4.500-5.000	29,395		785	28,610
1998 Forward Refunding	53,950	2008	5.500-6.000	44,260		7,340	36,920
1998A Refunding	47,955	2019	4.000-4.750	47,040		855	46,185
1999	12,000	2020	5.375-6.000	12,000		360	11,640
2000	27,565	2020	4.500-5.000	27,565		910	26,655
2000A	15,615	2021	5.250-5.375	15,615			15,615
2001	84,945	2022	3.000-5.250		84,945	285	84,660
2002 Refunding	239,910	2013	4.000-5.250		239,910	3,665	236,245
Subtotal	$ 1,272,523			$ 629,898	$ 324,855	$ 285,280	$ 669,473
Tax -Exempt Commercial Paper							
Series 2000	$ 15,000	2020	5.000	$ 15,000	$ 0	$ 15,000	$ 0
Series 2001	32,700	2004	1.200-3.450	32,700		11,900	20,800
Subtotal	$ 47,700			$ 47,700	$	$ 26,900	$ 20,800
Tax -Exempt Certificates of Obligation							
Series 1988	$ 4,400	2002	7.300	$ 275	$	$ 275	$ 0
Series 1992	17,655	2013	5.200-5.750	7,620		7,620	0
Series 1994	9,900	2004	5.750-6.000	1,260		375	885
Series 1996	8,415	2015	5.100-5.400	6,805		330	6,475
Series 1996A	12,515	2016	4.375-5.250	10,355		485	9,870
Series 1998	4,315	2018	4.625-5.000	3,730		315	3,415
Series 1998A	36,535	2019	4.000-4.750	33,585		1,560	32,025
Series 1999	4,230	2020	5.750-6.000	4,230		125	4,105
Series 2000	8,490	2020	4.500-5.000	8,490		280	8,210
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
Series 2001	65,195	2014	4.000-5.250		65,195		65,195
Subtotal	$ 186,875			$ 91,575	$ 65,195	$ 11,365	$ 145,405
Taxable Certificates of Obligation							
Series 1988	$ 6,700	2008	9.400-9.500	$ 3,925	$	$ 3,925	$ 0
Series 1996	6,160	2015	6.550-7.125	5,100		3,050	2,050
Series 1996B	7,375	2016	6.350-7.250	6,230		255	5,975
Series 2000B	1,755	2021	7.450-7.550	1,755			1,755
Subtotal	$ 21,990			$ 17,010	$ 0	$ 7,230	$ 9,780
Hotel Occupancy Tax Revenue Bonds[4]							
Series 1996	$ 182,012	2026	4.700-5.700	$ 180,773	$	$ 1,380	$ 179,393
Total	$ 1,711,100			$ 966,956	$ 390,050	$ 332,155	$ 1,024,851

[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, 1998A, and 2002 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]Accretion of interest on the 1988 General Improvement Refunding Bonds for Fiscal Year 2002 resulted in an increase of $6,832 in General Obligation Bonds Payable. This increase is reflected on the Combined Balance Sheet but is not shown on the above table.

[3]As of October 1, 2001, all outstanding Golf Course debt was reclassified to Governmental Debt. These balances are now reflected in the above table.

[4]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 2002 resulted in an increase of $10,947 in Revenue Bonds Payable. The accreted interest is reflected on the Combined Balance Sheet but is not shown on the above table.

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Annual Requirements

The annual requirements to amortize all General Obligation Bonds, Tax Exempt Commercial Paper, Certificates of Obligation, Hotel Occupancy Tax Revenue Bonds, outstanding as of September 30, 2002, 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
2003	$ 47,155	$ 33,227	$ 11,400	$ 510	$ 6,550	$ 7,835	$ 2,045	$ 8,756	$ 117,478
2004	48,205	31,007	9,400	190	9,420	7,471	2,785	8,658	117,136
2005	45,134	33,695			9,525	7,033	3,515	8,522	107,424
2006	44,129	31,573			9,970	6,580	4,255	8,346	104,853
2007	48,585	24,488			10,505	6,075	5,105	8,091	102,849
2008-2012	250,380	82,897			58,665	21,745	28,521	47,468	489,676
2013-2017	114,985	31,965			39,400	7,147	16,041	68,943	278,481
2018-2022	70,900	8,278			11,150	980	57,820	27,172	176,300
2023-2027							59,306	8,685	67,991
Total	$ 669,473	$ 277,130 [1]	$ 20,800	$ 700	$ 155,185	$ 64,866	$ 179,393	[1] $ 194,641	$ 1,562,188
Total Principal & Interest Payable Within One Year									
Principal	$ 47,155		$ 11,400		$ 6,550		$ 2,045		$ 67,150
Interest	33,227		510		7,835		8,756		50,328
Total	$ 80,382		$ 11,910		$ 14,385		$ 10,801		$ 117,478

1 Accretion of interest on the 1998 General Improvement Bonds for the year ended September 30, 2002 resulted in an increase of $6,832 in General Obligation Bonds Payable. Total interest to be accreted is reflected in the interest portion of the above table.

2 A portion of the Hotel Motel Occupancy Tax Revenue Bonds (Series 1996) were sold as Capital Appreciation Bonds (CABS). Interest on the CABS accretes from the date of delivery and will be payable only at maturity or redemption. The interest accreted through September 30, 2002 resulted in an increase of $10,947 in Revenue Bonds Payable. Total interest to be accreted is reflected in the interest portion of the above table.

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Authorized But Unissued General Obligation Debt

Authorization Date	Purpose	Amount Authorized	Bonds Previously Issued	Bonds Authorized But Unissued
1-26-80 [1]	Drainage and Flood Control	$ 21,637	$ 17,413	$ 4,224
1-26-80 [1]	Fire Protection	4,257	2,125	2,132
1-26-80 [1]	Libraries	4,978	3,926	1,052
1-26-80 [1]	Street, Bridge, and Related Improvements	43,287	34,035	9,252
5-07-94	Street Improvements	25,600	25,600	
5-07-94	Drainage Improvements	34,400	34,400	
5-07-94	Parks and Recreation	41,600	41,600	
5-01-99	Streets and Pedestrian Improvements	41,300	36,590	4,710
5-01-99	Drainage	19,000	14,165	4,835
5-01-99	Flood Control	12,200	12,200	
5-01-99	Parks and Recreation	24,200	18,164	6,036
5-01-99	Library System	13,200	6,426	6,774
5-01-99	Public Safety	30,300	20,045	10,255
Total		$ 315,959	$ 266,689	$ 49,270

[1] In addition to the debt authorized on May 1, 1999, the City has authority pursuant to an election held on January 26, 1980 to issue $16,660,000 in bonds. The City does not currently intend to issue the bonds authorized in 1980.

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 2002 was $44,120,535 which provides a debt ceiling of $4,412,054. The total outstanding debt that is secured by an ad valorem tax pledge is $838,428.

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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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

Interfund Borrowings

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 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. As of September 30, 2002, the remaining balance for the notes payable from the International Center Fund have been recorded as a governmental liability. The following is an annual debt service schedule:

Principal and Interest Requirements

Year Ending September 30,	Principal	Interest	Total Annual Requirements
2003	$ 113	$ 7	$ 120

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

Leases

The City leases property and equipment from others. Leased property having elements of ownership are recorded in the government-wide financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in the government-wide financial statements. Other leased property, not having elements of ownership, are classified as operating leases. Both capital and operating lease payments are recorded as expenditures when matured in the governmental fund financial statements. Total expenditures for operating leases for the fiscal year ended September 30, 2002 were approximately $2.9 million.

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, fire trucks, golf equipment, public works equipment, a high capacity trailer, and a hazardous materials vehicle. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council.

The assets acquired through capital leases for governmental activities are as follows:

Asset:	
Machinery and Equipment	$ 11,756
Less: Accumulated Depreciation	(3,061)
Total	$ 8,695

As of September 30, 2002, the City (excluding discretely presented component units) had future minimum lease payments under capital and operating leases with a remaining term in excess of one year for governmental activities as follows:

Leases - Governmental Activities

	Capital Leases	Operating Leases	Total
Governmental Activities:			
Fiscal year ending September 30:			
2003	$ 3,166	$ 2,649	$ 5,815
2004	2,543	2,248	4,791
2005	2,077	1,770	3,847
2006	734	1,672	2,406
2007	390	780	1,170
2008-2012		2,971	2,971
2013-2017		3,277	3,277
2018-2022		2,821	2,821
Future Minimum Lease Payments	8,910	$ 18,188	$ 27,098
Less: Interest	(613)		
Present Value of Future Minimum Lease Payments	8,297		
Less: Current Portion	(2,867)		
Capital Leases, net of current portion	$ 5,430		

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

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 to be repaid from proprietary funds resources, is reported in the respective proprietary fund. The long-term indebtedness of the City's Enterprise Funds is presented in the discussion that follows.

Airport System: The Airport System includes the City of San Antonio International Airport and Stinson Municipal Airport and all land, buildings, structures, equipment, and facilities pertaining thereto. The Airport System's long-term debt is equally and ratably secured solely by a first lien on and pledge of the Gross Revenues of the Airport System. Gross Revenues of the Airport System include all revenues of any nature derived from contracts or use agreements with airlines and other users of the System and its facilities. In March 2002, the City sold $92,470 City of San Antonio, Texas Airport System Revenue Improvement Bonds, Series 2002 (GAR Bonds), 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 2005 to 2027 and have interest rates ranging from 5.00% to 5.75%.

On April 19, 2001, the City Council approved the sale of the City of San Antonio, Texas Airport System Forward Refunding Revenue Bonds, Series 2003. Delivery of these obligations is expected to occur on or about April 8, 2003. The principal amount is $50,230 with maturities from 2004 through 2013, and interest rates from 5.50% to 6.00%. These bonds are special obligations of the City payable from gross revenues of the City's airport system. Proceeds will be combined with a cash contribution from the City and used to refund other Airport System obligations.

Additionally, in March 2002, the City sold $37,575 of City of San Antonio, Texas Passenger Facility Charge (PFC) and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2002, which will be available for purposes of acquiring and constructing PFC eligible airport-related projects. The Series 2002 PFC Bonds are secured by and payable from PFC revenues, 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 bonds. The bonds are retired in years 2003 to 2027 and have interest rates ranging from 4.00% to 5.75%. GAR and PFC 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. Total annual principal and interest requirements for the Airport System are shown in the table at the end of this section.

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. Additionally, during fiscal year 2000, Revenue bonds were issued to construct two new parking garages; renovate certain existing facilities; and provide signage. The bonds are payable from and secured by a first lien on and a pledge of the gross revenues derived from the ownership and operation of the City's Parking system. The bonds are retired serially in years 2004 to 2024 and bear interest rates from ranging from 5.000% to 5.750%.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

In May 2002, the City issued $251,280 of General Improvement Forward Refunding Bonds, Series 2002 of which $239,910 was reported in governmental funds and $11,370 was reported in proprietary funds. Delivery of the bonds occurred on May 8, 2002. These obligations were issued to advance refund $256,125 of outstanding long-term debt, of which $244,535 was reported in governmental funds and $11,590 was reported in proprietary funds. The obligations bear interest ranging from 4.000% to 5.250% and will be retired serially in the years 2002 through 2013.

The net proceeds from the sale of the 2002 Forward Refunding bonds, which included an original issue premium of $13,638, were applied to fund an escrow fund for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2002 refunding, the City will realize a total reduction of $23,561 in debt service payments, of which $991 will be realized by the Parking Fund. Through the transactions, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of $19,662, of which $738 was realized by the Parking Fund. Total annual principal and interest requirements for the Parking 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 revenue bonds, general obligation bonds and tax-exempt certificates of obligation for the fiscal year ended September 30, 2002.

Proprietary Long-Term Debt

Issues	Original Amount	Final Principal Payment	Interest Rates (%) [1]	Balance Outstanding October 1, 2001	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2002
Airport System							
Revenue Bonds:							
Series 1992 Refunding	$ 3,130	2009	6.100	$ 3,130	$ 0	$ 0	$ 3,130
Series 1992	21,655	2006	5.500-5.750	9,675		1,720	7,955
Series 1993 Refunding	73,785	2013	7.000-7.375	55,545		3,085	52,460
Series 1996	38,000	2014	5.700-5.750	19,225		275	18,950
Series 2001	17,795	2016	5.375	17,795			17,795
Series 2002	92,470	2027	5.000-5.750		92,470		92,470
Series PFC	37,575	2027	4.000-5.750		37,575		37,575
Subtotal	$ 284,410			$ 105,370	$ 130,045	$ 5,080	$ 230,335
Parking System							
Revenue Bonds:							
Series 2000	$ 24,845	2024	5.000-5.750	$ 24,845	$ 0	$ 0	$ 24,845
General Obligation:							
Series 1992 Refunding	16,785	2013	5.200-5.750	11,330		11,330	
Series 1996A Refunding	495	2014	4.650-5.400	495			495
Series 1998A Refunding	1,155	2013	4.000-5.250	1,155			1,155
Series 2002 Refunding	11,370	2013	4.000-5.250		11,370	165	11,205
Tax Exempt Certificates of Obligation							
Series 1992	1,735	2013	5.200-5.750	1,245		1,245	
Series 1994	700	2004	5.750-6.000	90		25	65
Series 1996	1,105	2015	5.100-5.400	895		45	850
Subtotal	$ 58,190			$ 40,055	$ 11,370	$ 12,810	$ 38,615
Total	$ 342,600			$ 145,425	$ 141,415	$ 17,890	$ 268,950

[1] A portion of the outstanding principle applicable to certain series of Parking System bonds and certificates of obligation were advance refunded prior to maturity, by the Series 1988, 1992, 1993, 1996A, 1998A, and 2002 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 principle is scheduled to mature on such dates that when added to interest earned in the escrow accounts, is fully sufficient to make timely payments on the refunded bonds. The refunded bonds represent a legal defeasance and are not a liability of the City.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

The annual requirements to amortize long-term debt for the City's Enterprise Funds related to revenue bonds, general obligations, and certificates of obligation outstanding at September 30, 2002, are as follows:

Proprietary Long-Term Debt

Year End	Airport System			Parking System		
Sept. 30:	Principal	Interest	Total	Principal	Interest	Total
2003	$ 6,185	$ 13,425	$ 19,610	$ 1,140	$ 2,041	$ 3,181
2004	6,570	13,044	19,614	1,590	1,995	3,585
2005	8,060	12,632	20,692	1,670	1,921	3,591
2006	8,575	12,140	20,715	1,760	1,839	3,599
2007	8,505	11,616	20,121	1,830	1,751	3,581
2008-2012	56,440	48,935	105,375	10,535	7,248	17,783
2013-2017	56,985	29,700	86,685	7,375	4,804	12,179
2018-2022	34,305	17,362	51,667	8,560	2,715	11,275
2023-2027	44,710	7,289	51,999	4,155	362	4,517
Total	$ 230,335	$ 166,143	$ 396,478	$ 38,615	$ 24,676	$ 63,291

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

Leases

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, fire trucks, golf equipment, public works equipment, a high capacity trailer, and a hazardous materials vehicle. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council.

The assets acquired through capital leases for business-type activities are as follows:

Asset:		
Machinery and Equipment	$	709
Less: Accumulated Depreciation		(59)
Total	$	650

As of September 30, 2002, the City (excluding discretely presented component units) had future minimum payments under capital leases with a remaining term in excess of one year for business-type activities as follows:

Leases - Proprietary Activities: Nonmajor Enterprise Fund

		Capital Leases
Proprietary Activities		
Fiscal year ending September 30:		
2003	$	156
2004		156
2005		156
2006		155
2007		117
Future minimum lease payments		740
Less: Interest		(63)
Present Value of Future minimum Lease Payments		677
Less: Current Portion		(133)
Capital Leases, net of current portion	$	544

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

3. Governmental and Proprietary Long-Term Debt

Long-Term Obligations and Amounts Due Within One Year

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	$ 629,898	$ 324,855	$ 285,280	$ 669,473	$ 47,155
Tax-Exempt Commercial Paper	47,700		26,900	20,800	11,400
Tax-Exempt Certificates of Obligation	91,575	65,195	11,365	145,405	6,010
Taxable Certificates of Obligation	17,010		7,230	9,780	540
Hotel Tax Revenue	180,773		1,380	179,393	2,045
	966,956	390,050	332,155	1,024,851	67,150
Less: Unamortized (Discount)/Premium		19,548	874	18,674	1,626
Deferred Amount on Refunding		(720)	164	(556)	(196)
Total Bonds Payable	966,956	408,878	333,193	1,042,969	68,580
Other Liabilities:					
Accrued Arbitrage Rebate Payable	694	907	21	1,580	381
Capital Leases	5,049	5,083	1,835	8,297	2,867
Compensated Absences	79,210	77,691	42,807	114,094	34,740
	84,953	83,681	44,663	123,971	37,988
Total Governmental Activities Long-term Liabilities	$ 1,051,909	$ 492,559	$ 377,856	$ 1,166,940	$ 106,568
Business-type Activities:					
Bond Payable:					
General Obligation Bonds	$ 12,980	$ 11,370	$ 11,495	$ 12,855	$ 1,065
Revenue Bonds	130,215	130,045	5,080	255,180	6,185
Tax-Exempt Certificates of Obligation	2,230		1,315	915	75
	145,425	141,415	17,890	268,950	7,325
Less: Unamortized (Discount)/Premium	(641)	1,558		917	
Deferred Amount on Refunding	(96)	(457)	25	(528)	
Total Bonds Payable	144,688	142,516	17,915	269,339	7,325
Other Payables:					
Aviation	992	507	851	649	5
Parking	997	142	694	445	5
Nonmajor Fund	1,069	25	41	1,053	1,084
Total Other Payables	3,058	674	1,586	2,147	1,094
Capital Leases-Nonmajor Fund		708	32	677	133
Compensated Absences	1,948	300	525	1,723	287
Total Other Liabilities	5,006	1,682	2,143	4,547	1,514
Business-type Activity Long-term Liabilities	$ 149,694	$ 144,198	$ 20,058	$ 273,886	$ 8,839

The accreted interest for Fiscal Year 2002, resulted in an increase of $10,947 in Hotel Tax Revenue Bonds Payable in governmental activites and an increase of $6,832 in General Obligation Bonds Payable. The accreted interest in the amount of $17,779 is reflected on the governmental fund combined statement but is not reflected in this table.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

3. Governmental and Proprietary Long-Term Debt (Continued)

Compensated Absences

The following is a summary of compensated absences for the year ended September 30, 2002:

Governmental Activities					
Fund Type	Short-Term Available	Short-Term Remaining	Total Short-Term	Long-Term	Total
Governmental Funds	$ 5,760	$ 28,800	$ 34,560	$ 78,452	$ 113,012
Internal Service Funds		180	180	902	1,082
Total Governmental Activities	$ 5,760	$ 28,980	$ 34,740	$ 79,354	$ 114,094

Business-Type Activities			
Fund	Current	Long-Term	Total
Aiport	$ 140	$ 700	$ 840
Parking	20	103	123
Non-Major Fund	127	633	760
Total Business-Type Activities	$ 287	$ 1,436	$ 1,723

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

3. Governmental and Proprietary Long-Term Debt (Continued)

Conduit Debt Obligations

The City facilitates the issuance of bonds to enable the San Antonio Industrial Development Authority, Health Facilities Development Corporation and the Education Facilities Corporation (formerly known as Higher Education Authority), component units of the City, to provide financial assistance to various entities for the acquisition, construction or renovation of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired property transfers to the entity served by the bond issuance. As of September 30, 2002, there were thirty-five series of Industrial Revenue Bonds, twenty-one series of Health Facilities Development Bonds, and eleven series of Education Facility Revenue Bonds outstanding. The aggregate principal amount payable for the one series of Industrial Revenue Bonds, the one series of Health Facilities Development Bonds, and the four series Education Facility Revenue Bonds issued after October 1, 1997 was $5,500, $15,500, $58,080, respectively. The aggregate principal amount payable for the remaining series of Industrial Revenue Bonds, Health Facilities Development Bonds, and Education Facility Revenue Bonds issued prior to October 1, 1997 is $112,490, $80,581, and $67,720, respectively.

The City also facilitates the issuance of tax exempt revenue bonds to enable the San Antonio Housing Finance Corporation to provide financing of residential developments for persons of low and moderate income. The bonds are secured by the property financed and are payable solely from and secured by a pledge of rental receipts. As of June 30, 2002, there were twenty-three series of tax exempt revenue bonds outstanding with an aggregate principal amount payable of $112,345 and an aggregate principal amount issued of $130,300.

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, 2002 was $4,600 and $3,973, respectively.

The Municipal Facilities Corporation was created in 2001 to aid and act on behalf of the City to acquire, construct, equip, finance, operate and maintain land and municipal facilities for the City. The City of San Antonio, Municipal Facilities Corporation Lease Revenue Bonds, Series 2001 were issued to finance the acquisition and construction of a municipal office facility which, in turn, is leased to the City. The bonds are secured by the property financed and are payable solely from the lease payments made by the City sufficient to pay principal and interest on the bonds and are subject to annual budget appropriations. The bonds are not reported as liabilities in the accompanying financial statements. As of September 30, 2002, the Municipal Facilities Corporation Lease Revenue Bonds outstanding totaled $13,955.

Neither the City, the State of Texas, 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.

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6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS)

As of January 31, 2002 the Bond Ordinances for New Series Bonds issued on and after August 6, 1992 contain, among others, the following provisions:

Funds in CPS's General Account shall be pledged and appropriated to be used in the following priority: (a) for maintenance and operating expenses of the systems, (b) for payments of the New Series Bonds, including the establishment and maintenance of the reserve therefore, (c) for the payment of any obligations inferior in lien to the New Series Bonds which may be issued, (d) for an amount equal to 6% of the gross revenues of the systems to be deposited in the Repair and Replacement Account, (e) for cash payments and benefits to the City not to exceed 14% of the gross revenues of the systems, and (f) any remaining net revenues in the General Account to the Repair and Replacement Account.

The maximum amount in cash to be transferred or credited to the General Fund of the City from the net revenues of the systems during any fiscal year shall not exceed 14% of the gross revenues of the systems less the value of gas and electric services of the systems used by the City for municipal purposes and the amounts expended during the fiscal year for additions to the street lighting system. The percentage of gross revenues of the systems to be paid over or credited to the General Fund of the City each fiscal year shall be determined (within the 14% limitation) by the governing body of the City. The net revenues of the systems are pledged to the payment of principal and interest on the New Series Bonds. All New Series Bonds and the interest thereon shall have a first lien upon the net revenues of the systems.

The City agrees that it will at all times maintain rates and charges for the sales of electric energy, gas, or other services furnished, provided, and supplied by the systems to the City and all other consumers which shall be reasonable and nondiscriminatory and which will produce income and revenues sufficient to pay:

(a) all maintenance and operating expenses, depreciation, replacement and betterment expenses, and other costs as may be required by Chapter 1502, as amended, Texas Government Code;
(b) the interest on and principal of all New Series Bonds, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the New Series Bonds;
(c) to the extent the same are reasonably anticipated to be paid with available revenues (as defined in the ordinance authorizing the Commercial Paper), the interest on and principal of all Notes (as defined in said ordinance), and
(d) a legal debt or obligation the systems as and when the same shall become due.

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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

Bond Series	Maturities	Weighted-Average Interest Rate on Outstanding Bonds	2002
Tax Exempt New Series Bonds, 1992-2001	2003-2021	5.223%	$ 2,445,270
Taxable New Series Bonds, 1998-2001	2003-2021	6.674%	144,590
Total New Series Bonds Outstanding		5.317%	2,589,860
Less: Current Maturities of Bonds			77,825
Total Revenue Bonds, net of current maturities			$ 2,512,035

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
2003	$ 77,825	$ 136,336	$ 214,161
2004	100,015	132,686	232,701
2005	120,335	127,615	247,950
2006	126,635	121,369	248,004
2007	134,515	114,766	249,281
2008-2012	776,510	463,969	1,240,479
2013-2017	740,305	250,425	990,730
2017-2021	513,720	60,431	574,151
Totals	$ 2,589,860	$ 1,407,597	$ 3,997,457

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6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS) (Continued)

In November 2001, CPS issued $115.3 million of New Series 2001 Revenue Refunding Bonds at a true interest rate of 3.84 percent. The bonds were sold at a combined net premium of $10.5 million.

The refunding bonds were issued to refund $122.5 million in certain outstanding 1992 New Series Bonds, and were $7.2 million less than the amount of bonds refunded. The refunding transaction resulted in cash flow savings of $14.2 million, which equates to a present value savings of $11.7 million, or 9.6 percent of the par amount of refunded bonds. This transaction resulted in loss for accounting purposes of $2.4 million which has been deferred and will be amortized over the shorter of life of the refunded or refunding bonds.

Long-Term Debt Activity

Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding February 1, 2001	Additions During Year	Deletions During Year	Balance Outstanding January 31, 2002
Revenue and Refunding Bonds							
1992 Tax-exempt	$ 700,805	2017	6.048	$ 254,155	$ 0	$ 132,540	$ 121,615
1994-A Tax-exempt	684,700	2014	5.008	595,805		30,235	565,570
1994-C Tax-exempt	56,000	2006	5.008	42,710			42,710
1995 Tax-exempt	125,000	2018	5.500	112,300		3,000	109,300
1997 Tax-exempt	350,000	2020	5.738	332,570			332,570
1997 Tax-exempt	311,170	2014	5.509	245,880		1,575	244,305
1998A Tax-exempt	785,515	2021	4.918	767,160		24,010	743,150
1998B Taxable	99,615	2020	6.343	97,045		1,655	95,390
2000A Tax-exempt	170,770	2017	5.374	170,770			170,770
2000B Taxable	50,425	2021	7.403	50,425		1,225	49,200
2001 Tax-exempt	115,280	2011	3.843		115,280		115,280
				2,668,820	115,280	194,240	2,589,860
Less Bond current maturities				71,755	6,070		77,825
Less Bond discount/(premium)				3,485	(10,528)	3,499	(10,542)
Less Bond acquisition costs				158,691	5,611	18,573	145,729
Revenue Bonds, Net				2,434,889	114,127	172,168	2,376,848
Tax-Exempt Commercial Paper (TECP)				252,800	97,200		350,000
Long-term Debt, Net				$ 2,687,689	$ 211,327	$ 172,168	$ 2,726,848

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6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS)

On April 30, 1992, City Ordinance No. 75686 was adopted. This ordinance authorized the issuance of $635,925 Water System Revenue Refunding Bonds, Series 1992, dated April 15, 1992. These bonds were issued to refund, in advance of maturity, $253,065 Water Revenue Bonds authorized and outstanding under terms of City Ordinance No. 52091, $330,125 of Sewer Revenue Bonds authorized and outstanding under terms of City Ordinance No. 51975, $14,500 of other bonded debt of annexed water districts, and $49,200 of Sewer System Commercial Paper. The purpose of this advance refunding was to release and discharge the covenants contained in City Ordinance No. 52091 and No. 51975 in order to permit the City to consolidate the operations of the water related utilities.

The System: City Ordinance No. 75686 defines SAWS as all properties, facilities, plants owned, operated and maintained by the City and/or the Board of Trustees, for the supply, treatment, transmission and distribution of treated potable water, chilled water and steam, for the collection and treatment of wastewater and for water reuse, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, and any other projects and programs of SAWS; provided however, that the City retains the right to incorporate a stormwater system as provided by the Texas Local Government Code. See "Stormwater" below.

Funds Flow: City Ordinance No. 75686 requires that Gross Revenues of SAWS be applied in sequence to: (1) current maintenance and operating expenses including a two month reserve based upon the budgeted amount of maintenance and operating expenses for the current fiscal year; (2) Debt Service Fund requirements of Senior Lien Obligations; (3) Reserve Fund requirements of Senior Lien Obligations; (4) Interest and Sinking Fund and Reserve Fund requirements of Junior Lien Obligations; (5) Interest and Sinking Fund and Reserve Fund requirements of Subordinate Lien Obligations; (6) payment of amounts required on Inferior Lien Obligations, and (7) transfers to the City's General Fund and to the Renewal and Replacement Fund.

Reuse Contract: SAWS has a contract with City Public Service, the City owned electricity and gas utility, for the provision of reuse water. The revenues derived from the contract have been restricted in use to only reuse activities, are excluded from the calculation of Gross Revenues, and are not included in any transfers to the City's General Fund. Revenues derived from this contract were $1,167 during the seven months ended December 31, 2001.

SAWS is developing a recycled water system, which will provide non-potable water to various customers now using Edwards Aquifer water. During the seven months ended December 31, 2001, the System generated an additional $252 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.

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6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Revenue Bonds

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 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 December 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.

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 December 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 December 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.

Revenue bonds currently outstanding are as follows:

San Antonio Water System

Purpose	Interest Rates	Amount
Build, improve, extend, enlarge, and repair the System	1.85-6.5%	$ 728,455

The following summarizes transactions of the revenue bonds for the seven months ended December 31, 2001:

	Beginning Balance June 1, 2001	Additions	Reductions	Ending Balance Dec. 31, 2001	Due Within One Year
Bonds Payable	$ 728,455	$ 0	$ 0	$ 728,455	$ 25,045
Less Deferred Amounts For issuance discounts/ premiums/losses		1,639	(24,114)	(22,475)	
Total Bonds Payable, Net	$ 728,455	$ 1,639	$ (24,114)	$ 705,980	$ 25,045

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6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Annual debt service requirements are shown as follows:

San Antonio Water System
Annual Debt Service Requirements
Revenue Bonds

Year Ended December 31,	Junior Lien Revenue and Refunding Bonds		Senior Lien Revenue and Refunding Bonds	
	Principal	Interest	Principal	Interest
2002	$ 4,515	$ 4,857	$ 20,530	$ 33,908
2003	4,640	4,726	22,085	32,610
2004	4,780	4,586	23,480	31,201
2005	4,920	4,436	24,945	29,760
2006	5,075	4,276	26,445	28,229
2007-2011	34,585	18,140	162,845	113,261
2012-2016	41,975	11,170	127,105	68,585
2017-2021	33,765	2,541	95,825	37,024
2022-2026			90,940	13,363
Total	$ 134,255	$ 54,732	$ 594,200	$ 387,941

Capitalized Interest Costs

Interest costs incurred on revenue bonds and short-term commercial paper debt totaled $25,528 during the seven months ended December 31, 2001, of which $4,169 was capitalized as part of the cost of SAWS' utility plant additions.

Leases

SAWS entered into various lease agreements for financing the acquisition of computer equipment, software and heavy equipment. 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 $23,869 monthly and $286,435 annually. The annual percentage rate of the leases range from 3.18% 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.

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6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

The future minimum lease obligations as of December 31, 2001, are as follows:

San Antonio Water System
Minimum Lease Obligation

Year Ending December 31,	Principal	Interest	Total Annual Requirements
2002	$ 306	$ 35	$ 341
2003	263	78	341
2004	124	8	132
2005	75	1	76
Total	$ 768	$ 122	$ 890

Note Payable

During fiscal year 2000, a contract was entered into between SAWS and CPS whereby SAWS acquired water rights from certain CPS properties. A note was signed for 116 payments of $40 at an interest rate of 7.5%. Total payments on this note are $4,640 including interest. The liability as of December 31, 2001 is included in the statement of net assets for both the current portion of $289 and long-term amount of $2,389. The annual principal and interest requirements are as follows:

San Antonio Water System
Principal and Interest Requirements

Year Ending December 31,	Principal	Interest	Total Annual Requirements
2002	$ 289	$ 191	$ 480
2003	311	169	480
2004	336	144	480
2005	362	118	480
2006	390	90	480
2007	420	60	480
2008	452	28	480
2009	118	2	120
Total	$ 2,678	$ 802	$ 3,480

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7. COMMERCIAL PAPER PROGRAMS AND OTHER BORROWINGS

A. Primary Government (City)

Commercial Paper

In October 1999, the City Council of the City of San Antonio, Texas (City Council) adopted an ordinance authorizing the issuance of up to $50,000 in General Improvement Commercial Paper Notes (the Notes). This ordinance provides interim financing to pay project costs for eligible projects and to refund obligations issued in connection with an eligible project. Eligible projects are defined as any project for which there exists, as of the date of the note ordinance, authorized but unissued obligations approved at an election held on May 1, 1999 and projects 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. Proceeds of the notes have been used to provide financing to pay costs for eligible projects. On November 29, 2001, the City issued bonds to refund the $15,000 in outstanding Commercial Paper Notes.

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 Edwards 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 Bank (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, 2002, $20,800 of Commercial Paper notes are outstanding with interest rates on the notes between 1.200% and 3.450% 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.

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7. COMMERCIAL PAPER PROGRAMS AND OTHER BORROWINGS (Continued)

A. Primary Government (City) (Continued)

Revolving Line of Credit

The City uses a revolving line of credit for the Housing Asset Recovery Program. The line of credit is used to preserve housing stock and to revitalize neighborhoods by renovating and rehabilitating property owned by the City that is acquired through various programs (i.e. flood buyouts, facilities expansion, etc.). The City intends to finance their repayment with the proceeds received from the sale of the renovated houses. The amount of the line of credit is $1,250, of which $331 was outstanding as of September 30, 2002.

Revolving Line of Credit			
Beginning Balance	Increases	Decreases	Ending Balance
$ 0	$ 331	$ 0	$ 331

B. City Public Service (CPS)

Commercial Paper

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, in an aggregate amount not to exceed $450,000. Eligible projects include 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, 2003, and may be renewed for additional periods.

To date, there have been no borrowings under the credit agreement. The TECP is secured by the net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of the New Series Bonds and any to be issued in the future.

CPS sold $97,200 of TECP in fiscal year 2002 and $118,000 in 2001, of which $123,600 has been used to fund construction expenditures through January 2002. As of January 31, 2002, $350,000 in principal amount was outstanding, with a weighted average interest rate of approximately 1.36% and an average life outstanding of approximately 80 days.

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7. COMMERCIAL PAPER PROGRAMS AND OTHER BORROWINGS (Continued)

C. San Antonio Water System (SAWS)

Commercial Paper

On January 11, 2001, the City Council authorized SAWS to expand the tax-exempt short-term borrowing program (the "Commercial Paper Program") from $175,000 to $350,000. The purpose of the Commercial Paper Program is to provide funds for the interim financing for the increased level of future expenditures on water resource projects and scheduled maturities of the short-term borrowing under the Commercial Paper Program may not extend past May 14, 2032. The City has covenanted in the ordinance authorizing the Commercial Paper Program (the "Note Ordinance") to maintain at all times credit facilities with banks or other financial institutions which would provide available borrowing sufficient to pay the principal of the Commercial Paper Program. The credit facility is maintained under the terms of a revolving credit agreement.

To further support the Commercial Paper Program, on June 2, 2001, the City entered into agreements with the following:

- Dealer Agreements with Goldman, Sachs & Co., J.P. Morgan Securities Inc., and Ramirez & Co., Inc.
- Revolving Credit Agreement with Westdeutsche Landesbank Girozentrale and Landesbank Baden Wurttemberg.
- Issuing and Paying Agency Agreement with Bank One, National Association Chicago, Illinois.

The borrowings under the Commercial Paper Program are equally and ratably secured by and are payable from (i) proceeds from the sale of bonds or additional borrowing under the Commercial Paper Program and (ii) borrowing under and pursuant to the revolving Credit Agreement.

Commercial paper notes of $185,000 are outstanding as of December 31, 2001. The proceeds of the notes have been used solely for the financing of capital improvements of SAWS. The tax-exempt commercial paper notes have been classified as long-term in accordance with the refinancing terms of the Credit Agreement and management's intention to continue the remarketing of the tax-exempt commercial paper notes to maintain a portion of its debt in variable rates. Interest rates on the notes outstanding at year-end range from 1.45% to 2.50% and from 34 to 153 days in maturity. The outstanding notes at December 31, 2001 had an average rate of 1.82% and averaged 85 days to maturity.

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8. PENSION AND RETIREMENT PLANS

A. General Plan Information

The City of San Antonio, SAWS and CPS participate in several contributory retirement plans. These are funded plans covering 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 Pension Fund	Single Employer Defined Benefit Plan	$ 176,508	$ 21,808	$ 43,615	$ 65,423
	Texas Municipal Retirement System (TMRS)	Non Traditional Defined Contribution Agent Plan	199,112	11,947	23,147	35,094
Component Units:						
SAWS	[1]Texas Municipal Retirement System (TMRS)	Non Traditional Defined Contribution Agent Plan	51,958	1,008	1,044	2,052
	[2]PMLIC Contract	Agent Multiple Employer Defined Benefit Plan	51,050		2,969	2,969
CPS	[3]CPS All Employees Plan	Single Employer Defined Benefit Plan	165,314	7,981	1,048	9,029

[1] Seven Months ended December 31, 2001
[2] Plan year ended December 31, 2001
[3] Fiscal year ended January 31, 2002

(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

B. Primary Government (City)

Fire and Police Pension Plan

The Pension Fund is a single-employer defined benefit retirement plan established in accordance with the laws of the State of Texas. The City provides retirement benefits for all eligible full-time Fire and Police employees through the Pension Fund. Employees who terminate having five to twenty years of service may apply to receive a refund of their original contribution. Employees retiring who have served and contributed for twenty years or more shall, upon application to the Board of Trustees of the Pension Fund, receive a retirement pension based on the average of the employee's total salary, excluding overtime pay, for the highest three years of pay of the last five years of service. The retirement annuity for employees retiring after September 30, 2001 is computed at the rate of 2.25% of this average for each of the first twenty years of service, plus 4.5% of the member's average total salary for each of the next seven years, plus three percent of the member's average total salary for each of the next three years of service, plus 0.5% of the member's average total salary for each of the next four years of service, with fractional years of service prorated based on full months served as a contributing member. In making the computation for a year, the year is considered to begin on the first day a contribution is made. A retirement annuity under this subsection may not exceed, as of the date of retirement, 87.5% of the member's average total salary.

An employee with twenty years and one month of actual service credit may at the time of retirement elect a Backward Deferred Retirement Option Plan (Back DROP). The Back DROP election results in a lump sum payment equal to the number of full months of service elected by an employee that does not exceed the lesser of the number of months of service credit the employee had in excess of twenty years or thirty-six months and a reduced annuity payment.

There is also a provision for a 13th and a 14th pension check. 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. 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 $43,615 and the employee's required contribution of $21,808 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. Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

Effective October 1, 2001, in addition to the changes for credited service and the 14th check as mentioned above, other new provisions include allowing the surviving spouse of an active member to elect to receive benefits in the form of a lump-sum payment and reduced annuity, similar to a Back DROP election made by a retiring member, increasing the maximum benefit for surviving spouses and dependent children from a 26 to 27 year pension, and increasing cost-of-living increases for all retirees who retired between August 30, 1971 and October 1, 1991.

For the year ended September 30, 2002, the City's annual pension cost of $43,615 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 2001 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, 2001 was 27.04 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 1948 to provide retirement and disability benefits to city employees. It is the opinion of the TMRS management that the plans in TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the plan.

TMRS issues a publicly available financial report that includes financial information related to participating municipalities. The report may be obtained by writing to the TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or calling (512) 476-7577.

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 5 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 5 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.

8. PENSION AND RETIREMENT PLANS (Continued)

B. Primary Government (City) (Continued)

Texas Municipal Retirement System (Continued)

The plan provisions and contribution requirements are adopted by the governing body of the City within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

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 11.63%, 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.

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 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions and contribution requirements 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/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period.

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (Continued)

When SAWS' periodically adopts updated service credits and increases the annuities in effect, the increased unfunded actuarial liability is to be amortized over a new twenty-five year period. Currently, the unfunded actuarial liability is to be amortized over the twenty-five year period, which began January 1, 1998. The unit credit actuarial cost method is used for determining SAWS contribution rate.

Contributions are made monthly by both the employees and SAWS. Since SAWS needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. Significant assumptions used in the actuarial valuation of annual required contributions include a rate of return on the investment of present and future assets of 8.0% per year. Additionally, there is no need to project salary increases since the benefit credits earned for service to date are not dependent on future salaries. Likewise, inflation and cost-of-living adjustments are not accounted for in the actuarial study. Assets are valued at amortized cost.

Principal Mutual Life Insurance Company

The contract with Principal Mutual Life Insurance Company (PMLIC) serves as a supplement to the TMRS and Social Security benefits. SAWS' covered payroll at January 1, 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 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. The plan provisions and contribution requirements are governed by SAWS which may amend plan provisions and is responsible for the management of plan assets.

Significant assumptions used by PMLIC's actuary to compute the actuarially determined contribution requirements include: (a) a rate of return on the investment of present and future assets of 8.5% 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.

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Principal Mutual Life Insurance Company (Continued)

The PMLIC contract funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. The actuarial cost method is known as the Entry Age Normal-Frozen Initial Liability Method. This method spreads the total cost of the projected pension benefits for each employee evenly from the date the employee is first eligible for the plan to the employee's assumed retirement date. As plan benefits are related to compensation, the cost is spread as a level percentage of compensation. The total of annual amounts for all employees combined is called the Normal Cost. The employee's Entry Age is determined as if the plan had always been in existence. Thus, as of the plan effective date, there are some accumulated Normal Costs for past years that have not been paid. The value of these costs is called the Frozen Initial Liability.

In subsequent years the Frozen Initial Liability is reduced by employer deposits to the plan in excess of employer Normal Cost and interest requirements. This reduced amount is known as the Unfunded Frozen Initial Liability. Contribution requirements are established and may be amended by 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.

The PMLIC issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Principal Life Insurance Company, Pension Diversified Retirement Services, Des Moines, Iowa 50392-0001 or by calling (515) 247-5111.

D. City Public Service (CPS)

All Employee Plan

The CPS Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan (Plan) covering substantially all employees who have completed one year of service. Normal retirement is age 65; however, early retirement is available with 25 years of benefit service and to those employees who are ages 55 or older with at least 10 years of benefit service. Retirement benefits are based on length of service and compensation, and benefits are reduced for retirement before age 55 with 25 years or more of benefit service, or age 62 with less than 25 years of service.

The Plan and contribution requirements are sponsored by and may be amended by CPS, acting by and through the General Manager and Chief Executive Officer of CPS. The Plan assets are held in a separate trust that is 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 0.6% 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).

8. PENSION AND RETIREMENT PLANS (Continued)

D. City Public Service (CPS) (Continued)

All Employee Plan (Continued)

As calculated under GASB Statement No. 27, CPS' annual pension cost and net pension obligation for the fiscal year ended January 31, 2002 were $654 and $0 respectively. The annual required contribution was determined as part of the January 1, 2001 actuarial valuation using (a) the five-year smoothed market method for asset valuation, (b) the projected unit credit for pension cost, and (c) the level dollar open for amortization. The remaining amortization period is 9.89 years and is calculated using the level dollar open amortization method.

Significant actuarial assumptions used for the January 1, 2001 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 %.

E. Three Year Trend Information

Trend information compares the annual required contribution to annual pension cost and the resultant net pension obligation as required by GASB Statement No. 27.

Three Year Trend Information

Pension Plan	Fiscal Year	Annual Required Contribution (ARC)	Interest on Net Pension Obligation (NPO)	Adjustment To ARC	Annual Pension Cost (APC)	Contributions In relation to ARC	Increase (Decrease) in NPO	Net Pension Obligation at Beginning of Year	Net Pension Obligation at End Of Year	Percentage of APC Contributed
Fire and Police Pension-	2000	$ 40,238	$ 0	$ 0	$ 40,238	$ 0	$ 0	$ 0	$ 0	100%
City of San Antonio	2001	42,065			42,065					100%
	2002	43,615			43,615					100%
TMRS-	2000	19,352			19,352					100%
City of San Antonio	2001	21,610			21,610					100%
	2002	23,147			23,147					100%
CPS All Empoyee	2000	12,288	42	(490)	11,840	(12,231)	(391)	490	99	103%
Plan [1]	2001	5,397	8	(13)	5,392	(5,392)		99	99	100%
	2002	660	8	(14)	654	(753)	(99)	99		115%
TMRS-	1999	1,576			1,576					100%
SAWS [2]	2000	1,593			1,593					100%
	2001	1,044			1,044					100%
PMLIC-	1999	4,753			4,753					100%
SAWS [3]	2000	2,770			2,770					100%
	2001	2,969			2,969					100%

1 Fiscal year ended January 31, 2002
2 Seven months ended December 31, 2001
3 Plan year ended December 31, 2001

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8. PENSION AND RETIREMENT PLANS (Continued)

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	None
Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years – Open Period
Asset Valuation Method	Amortized Cost

Location of Schedules of Funding Progress

The Schedule of Funding Progress is located in the "Required Supplementary Information" section of this report. The schedules are designed to provide information about each entity's progress in accumulating sufficient assets to pay benefits due.

9. POSTEMPLOYMENT RETIREMENT BENEFITS

A. Primary Government (City)

In addition to the pension benefits discussed in Note 8, the City provides all their retired employees with certain health benefits under two 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 6,650 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, 2002, there were 1,405 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 $5,704. For the year ended September 30, 2002, total contributions were as follows:

City	$ 3,305
Employees	1,750
TOTAL	$ 5,055

The second post-employment benefit program of the City provides retirement health care benefits for eligible Fire and Police retirees under the Fire and Police Retiree Healthcare Fund ("Fund"). The Fund was originally established as a fund of the City pursuant to the respective Fire and Police collective bargaining agreements to provide postemployment health benefits for San Antonio Fire Fighters and Police Officers who retired on or after October 1, 1989. Effective October 1, 1997, the Fund was created as a separate and distinct statutory trust. The Fund is governed by a nine member Board of Trustees comprised of the Mayor, two City Councilmembers, two active police officers, two active fire fighters, a retiree representative of the Fire Department, and a retiree representative of the Police Department. The Board of Trustees is responsible for the investment of the assets of the Fund. Contribution and benefit levels are determined by the respective collective bargaining agreements with the Fire and Police Associations.

9. POSTEMPLOYMENT RETIREMENT BENEFITS (Continued)

A. Primary Government (City) (Continued)

The benefits of this plan are financed on a prefunded basis. The City currently makes contributions on behalf of 3,363 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 872 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 Police contract, the City contributed 9.4% of base pay plus longevity of all eligible police officers and each police officer contributed $20 per month. Based on the Fire contract, the City contributed 9.4% of base pay plus longevity and fire fighters contributed $20 per month, during the period from January 2001 to May 2002. Beginning in June 2002, the City contributed 8.92% of base pay plus longevity and active fire fighters contributed $40 per month. Please note the number of firefighters and police officers, retirees, and monthly contribution rates in this section are not expressed in thousands. For the year ended September 30, 2002, total expenses for retired employees was $7,007 and total contributions were as follows:

City	$ 15,354
Employees and Retiree Dependent Premiums	1,222
TOTAL	$ 16,576

Historically, actuarial valuations have been performed periodically to determine the actuarial position of the Fund and whether the existing financing of the Fund can be reasonably expected to be adequate over a long period of time. The Board of Trustees had an actuarial valuation performed as of July 1, 2000 and the results of that study indicated that based on employer contributions of 9.4% of covered payroll (base pay plus longevity) plus the employee monthly contributions of $20, the unfunded liability of the Fund could be amortized over a 25 year period. Subsequently, the Board of Trustees engaged another actuarial firm to perform an actuarial valuation of the Fund as of October 1, 2001. The actuarial report was issued on May 20, 2002 and the results of this report indicated that the employer and employee contributions mentioned previously were not sufficient to amortize the unfunded liability. Additionally, the study recommended a contribution rate of 13.94% of covered payroll plus the employee monthly contributions of $20 to amortize the unfunded liability of the Fund over a 40 year period. Based on this rate, the total contribution to the Fund would be required to increase from an estimated $17,200 to $25,100, an increase of $7,900 beginning October 1, 2002.

Since then, the Board of Trustees has had another actuarial valuation of the Fund initiated with a valuation date of October 1, 2002. The results of the draft study reflect a recommended contribution rate of 19.52% of covered payroll in addition to employee contributions of $70 monthly. This would result in an increase in the total annual contribution to the Fund of an estimated $20,000 beginning October 1, 2003. The actuary also indicated in their report that a phase-in of increased contributions over a period of time such as ten years would be actuarially acceptable. The recommended funding increase shown in both the 2002 and 2003 studies is primarily attributable to the actuarial assumptions for current benefit health claims costs and future increases in health benefit claims costs.

While the results of both the 2002 and 2003 studies reflect significant changes in contribution levels, the actuarial reports also state that the Fund does not have a short term financing problem. As of September 30, 2002, net assets available for postemployment benefits were $83,600 while benefits payments for the fiscal year ended September 30, 2002 were $7,000. As noted above, contribution and benefit levels are established pursuant to the collective bargaining agreements. The current agreement with the Fire Association will expire September 30, 2005 and has an evergreen clause through September 30, 2015. This agreement was negotiated prior to the issuance of the actuarial valuation as of October 1, 2001, however, the agreement does contain a limited reopener related to contributions to the Fund. The City's current agreement with the Police Association expired on September 30, 2002 but has an evergreen clause through September 30, 2012. The City and Police Officers Association have been in negotiations, however, have been unable to reach terms for a final agreement.

9. POSTEMPLOYMENT RETIREMENT BENEFITS (Continued)

A. Primary Government (City) (Continued)

The City anticipates it will resume negotiations with the Police Officers Association in June 2003 and will seek to include a comprehensive framework for a long-term solution for the Fund. Additionally, due to the differences in the results of the studies from July 2000 to October 2002, the City in conjunction with both the Fire and Police Associations anticipate having an independent review and valuation performed of the Fund by another actuarial firm.

B. City Public Service (CPS)

CPS provides certain health care and life insurance benefits for retired employees. Most former CPS employees are eligible for these benefits upon retirement from CPS. Plan assets are held as part of CPS' Group Health and Life Insurance Plans and funding is from both participant and employer contributions determined by annual actuarial and in-house calculations. Retired employees contribute to the health plan in varying amounts depending upon an equity formula that considers age and years of service. The Plans may be amended by CPS. The annual cost of retiree health care and life insurance benefits funded by CPS is recognized as an expense of CPS as employer contributions are made to the programs.

These costs approximated $3,400 for 2002. CPS reimbursed certain retirees and their spouses enrolled in Medicare Part B a percentage of the monthly premium, which totaled $207 for fiscal year 2002.

Retired employees and covered dependents contributed $1,300 for their health care and life insurance benefits in fiscal year 2002. There were approximately 2,098 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, 2001 valuations are $62,500 for health and $16,900 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 $44,500 for health, $4,900 for life insurance, and $2,500 for disability benefits. CPS began partial accrual and funding of projected future benefits in 1992. Funding totaled $6,500 in 2002. 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, 2001 actuarial valuations include (a) a rate of return on the investment of present and future assets of 8.5% per year for the health, life, and disability plans, (b) projected salary increases for the plans ranging from 4.5% to 12.0% depending on age for base and other salaries, and (c) medical cost increases projected at 8% for 2002.

C. San Antonio Water System (SAWS)

SAWS provides certain health care and life insurance benefits for retired employees. Substantially all full-time employees who retire from SAWS may become eligible for those benefits. On December 31, 2001, there were 368 retirees with life insurance and 316 retirees with medical coverage. Please note the numbers of retirees are not stated in thousands.

SAWS provides medical and life insurance for retirees and recognizes the cost of providing these benefits on a pay-as-you-go basis by expensing the annual insurance. For the seven months ending December 31, 2001, premiums for medical insurance and life insurance amounted to $1,573 and $29, 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, 2002, CPS' investment in the STP utility plant was approximately $1,700,000, net of accumulated depreciation.

Effective November 17, 1997, the Participation Agreement among the owners of STP was Amended and Restated and the STP Nuclear Operating Company, a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STP Nuclear Operating Company.

Nuclear Insurance

The Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities, was 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.

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 $24,800 during any one policy year.

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10. CPS SOUTH TEXAS PROJECT (STP) (Continued)

Nuclear Decommissioning

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, 2002, CPS has accumulated approximately $145,900 of funds in the external trust. Based on the annual calculation of financial assurance required by the NRC, CPS' trust balance exceeded the calculated financial assurance amounts of $61,400 at December 31, 2001. Based upon the 1998 and 1994 decommissioning cost study, the annual levelized funding into the trust of $15,900 for 2002 was expensed by CPS.

11. COMMITMENTS AND CONTINGENCIES

A. Primary Government (City)

Grants

The City has received significant financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a materially adverse effect on the City's financial position at September 30, 2002. Grants awarded by federal, state and other governmental agencies but not yet earned nor received in cash as of September 30, 2002 were $155,457.

Capital Improvement Program

The City will be undertaking various capital improvements to its airport system during fiscal year 2003. The estimated cost of these improvements is $82,287. Approximately $32,989 of the total will be funded by federal grants.

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11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Litigation

The City is involved in various lawsuits related to alleged personal and property damages, wrongful death, breach of contract, various claims from contractors for additional amounts under construction contracts, property tax assessments, environmental matters, class action and promotional practices, and discrimination cases. The Office of the City Attorney estimates the probable liability for these suits will approximate $10,500 which is included as a component of the reserve for claims liability in the amount of $16,179. The estimated liability, including an estimate of incurred but not reported claims, is recorded in the Insurance Reserve Fund. The City makes significant estimates in determining the amounts of unsettled claims under its self-insurance program and believes that the self-insurance reserves recorded in the Self-Insurance Funds are adequate to cover losses for which the City may be liable. It is not determinable whether additional claims or revisions to estimates required for settlement on existing claims could have a material effect on the government-wide financial statements.

Charles and Tracy Pollock, Individually and as next friend of Sarah Jane Pollock, a minor child v. City of San Antonio. This is a nuisance case alleging that benzene gas emitted from the West Avenue Landfill caused chromosomal damage to a fetus during the period of gestation, resulting in Plaintiff's contracting acute lymphoblastic leukemia. Although the trial court has entered against the City a judgment of approximately $20,000, the City believes that $19,980 of such sum ($10,000 in exemplary damages and $9,980 in personal injury damages) is not recoverable by the Plaintiff under a nuisance theory. Even if recoverable, the City believes that damages are capped at $250 under the Texas Tort Claims Act. The City is appealing the judgment.

Arbitrage

The City has issued certain tax-exempt obligations that are subject to Internal Revenue Service (IRS) arbitrage regulations. Non-compliance with these regulations, which pertain to the utilization and investment of proceeds, can result in penalties including the loss of the tax-exempt status of the applicable obligations retroactive to the date of original issuance. In addition, the IRS requires that interest income earned on proceeds in excess of the arbitrage rate on applicable obligations be rebated to the federal government. The City monitors its bond proceeds in relation to arbitrage regulations, and "arbitrage rebate" is estimated and recorded in the government-wide and proprietary financial statements when susceptible to accrual and in the governmental fund type when matured.

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11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Leases

The City leases City-owned property to others which consists of buildings, real property, and parking spaces. Costs of specific leased components are not readily determinable. Total rental revenue on operating leases for fiscal year ended September 30, 2002 was $3.9 million. As of September 30, 2002, the leases provide for the following future minimum rentals:

Leases Receivable

	Governmental Activities	Aviation	Parking	Total
Fiscal year ending September 30:				
2003	$ 1,950	$ 15,106	$ 167	$ 17,223
2004	1,897	14,275	133	16,305
2005	1,653	14,046	42	15,741
2006	1,428	13,260		14,688
2007	889	1,866		2,755
2008-2012	2,824	6,496		9,320
2013-2017	2,616	4,332		6,948
2018-2022	1,721	886		2,607
2023-2027	750	326		1,076
2028-2032	750	27		777
2033-2037	525			525
2038-2042	467			467
Future Minimum Lease Rentals	$ 17,470	$ 70,620	$ 342	$ 88,432

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11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Landfill Postclosure Care Costs

In October 1993, the City Council approved closure of the Nelson Gardens Landfill which immediately stopped accepting solid waste. Subsequent to landfill closure, Federal and State laws required the City to incur certain postclosure care costs over a period of thirty years. As of September 30, 1994, the City estimated these costs for postclosure of the Nelson Gardens Landfill at $3,800. The estimate was based on estimated costs for installation of a leachate and groundwater collection system, installation of a methane recovery system, geotechnical and environmental engineering services, and monitoring and maintaining the facility for a thirty year period. In accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs", the estimated postclosure cost of $3,800 for the Nelson Gardens Landfill was recorded as a liability and expensed in the Environmental Services Fund in fiscal year 1994. This cost is an estimate and is subject to changes resulting from inflation/deflation, advances in technology, or changes in applicable laws or regulations.

Each fiscal year, the City performs an annual re-evaluation of the postclosure care costs associated with the Nelson Gardens Landfill. The annual re-evaluation conducted for the fiscal year ended September 30, 2002 resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of $1,083. This represents a reduction of $41 from the prior fiscal year for expenditures incurred for geotechnical and environmental engineering services.

TCEQ Financial Assurance

The City is required under the provision of the Texas Administrative Code to provide financial assurance to the Texas Commission on Environmental Quality (TCEQ), formerly known as the Texas Natural Resource Conservation Commission (TNRCC), related to the closure of municipal solid waste operations including, but not limited to, storage, collection, handling, transportation, processing, and disposal of municipal solid waste. As such, financial assurance is required to ensure that funds are available, when needed, to meet costs associated with the closure of the City's North East Transfer Station. Additionally, financial assurance is required to demonstrate financial responsibility for underground storage petroleum facilities. As of September 30, 2001, the permit for the North East Transfer Station has been transferred from the City and the new permitee has provided adequate financial assurance for this facility. Based on the number of underground petroleum storage tanks, the City is required to provide $1,000 of financial assurance related to the underground storage facilities.

Brooks City-Base – Electric and Gas Utilities

The Brooks City-Base Project is a collaborative effort between the U.S. Air Force (the "Air Force") and the City designed to retain the Air Force missions and jobs at Brooks Air Force Base, improve mission effectiveness, assist in reducing operating costs, and promote and enhance economic development at Brooks. On July 22nd, the land and improvements were transferred to the Brooks Development Authority (BDA) for the purpose of creating the Brooks Technology & Business Park, a facility which will foster the development of key targeted industries. The Air Force is currently the Park's anchor tenant and is leasing back facilities to perform its missions.

As part of the conveyance, the electric and gas utilities were transferred to City Public Service (CPS), the City's utility. The electric and gas utility systems' infrastructure at Brooks are deficient and require extensive upgrades and improvements. Pursuant to the transfer, the Air Force, BDA, and CPS have committed to make certain improvements and upgrades to the electric and gas utility over a 20 year period. Funding for these improvements include $3,400 from the Air Force and $6,300 from BDA and CPS each, respectively for a total of $16,000.

11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Brooks City-Base – Electric and Gas Utilities (Continued)

With respect to BDA's obligation of $6,300, the City has agreed, under certain circumstances and if necessary, to assist BDA in funding its obligation. The City has agreed to contribute to BDA on an annual basis an amount equivalent to the incremental increase in the City's payment from CPS derived from Brooks. The City, as the owner of CPS, receives 14% of CPS' gross revenues and this amount represents additional resources available to the City as a result of its increased payment from CPS derived at Brooks. The first payment, if necessary, is due in January 2004 is estimated at $112. Over the 20 year period, the City's annual payments will not exceed $3,400. In the event BDA has exhausted all of its available resources and has been unable to fulfill its obligation of $6,300 by the end of the 20 year term, the City has agreed in good faith to utilize all of its funding options to enable BDA to satisfy its obligation.

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 Commission on Environmental Quality (TCEQ) 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, 2002, the City has expended approximately $13,402 related to Alamodome soil remediation efforts, inclusive of the supplemental environmental projects, and estimates the remaining cost for soil remediation to be approximately $66. In January 1996, TCEQ 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 TCEQ 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 TCEQ that these projects were successfully completed. Additionally, nine of the ten sites that require remedial activity under the Agreed Order have been completed. The TCEQ has provided closure letters for all of these sites. Final remediation is scheduled for fiscal year 2003 for the remaining site.

B. City Public Service (CPS)

Other

Purchase and construction commitments amounted to approximately $2,600,000 at January 31, 2002. This amount includes approximately $81,700 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 $78,100 for pipeline quality gas to be produced from the City's "Nelson Gardens" landfill under the contract which is currently in effect through the year 2017. Also included is $65,000 for coal purchases through December 2003, $331,500 for coal transportation through

11. COMMITMENTS AND CONTINGENCIES (Continued)

B. City Public Service (CPS) (Continued)

December 2014, and $3,000 for treated cooling water through 2005, based upon the minimum firm commitment under these contracts.

CPS has also committed to purchase $289,400 in wind power and $40,000 in additional natural gas requirements; $73,800 in railcars; $31,900 for generation plant maintenance services; and $44,600 million for distribution system construction and maintenance.

Additional purchase commitments at January 31, 2002, which are related to STP include approximately $335,500 for raw uranium and associated fabrication and conversion services. This amount represents services that will be needed for future refueling through the year 2028.

The Public Utility Commission of Texas (PUC) 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 the amount of load served by each utility. CPS' cost for calendar year 2001 were approximately $5,600. The estimated cost for calendar year 2002 is approximately $10,800. The decrease in amounts paid for calendar year 2001 is a result of CPS' success in updating the CPS transmission cost of service approved by the PUC. This new cost became effective in January 2001. In March 2000, CPS began recovering these costs from customers.

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. In April 2001, Reliant met the Joint Operations Agreement of $150 million cumulative savings obligation.

In August 2001, the Joint Operations Agreement was extended until 2009. Under the extended agreement, CPS will receive the ninety percent 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. As of January 31, 2002, CPS' total cumulative savings were $190,300.

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.

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11. COMMITMENTS AND CONTINGENCIES (Continued)

C. San Antonio Water System (SAWS)

Other

SAWS is committed under various contracts for completion of construction or acquisition of utility plants totaling approximately $93,800 as of December 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. RISK FINANCING

A. Primary Government (City)

Property and Casualty Liability

At September 30, 2002, 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. Allianz Insurance Company provides property coverage on the City's building and contents inventory. The City utilizes a third party administrator for the handling of administration, investigation, and adjustment of liability claims.

Obligations for claims under these programs are accrued in the City's Self-Insurance Reserve Internal Service Fund based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported, and Departments are assessed premiums to cover expenditures. There were no significant reductions in insurance coverage. Claims settlements did not exceed insurance coverage for each of the past three years.

Employee Health Benefits

The City provides its current employees with a comprehensive employee benefit program including coverage for medical, dental and life insurance, vision, dependent care reimbursement accounts and additional life insurance for its employees and their dependents. The City's self-insured medical programs are provided to all City employees. Obligations for benefits are accrued in the City's Self-Insurance Employee Benefits Insurance Internal Service Fund based upon the City's estimates of the aggregate liability for unpaid benefits.

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12. RISK FINANCING

A. Primary Government (City) (Continued)

Workers' Compensation

The City self-insures for Workers' Compensation. The City is a member of the Texas Municipal League (TML) Workers' Compensation Joint Insurance Fund, an unincorporated association of political subdivisions of the State of Texas. The TML Workers' Compensation Joint Insurance Fund is not intended to operate as an insurance company, but rather is intended to be a contracting mechanism which the City as a member utilizes to administer self-insurance workers' compensation benefits to its employees for claims that occurred prior to September 30, 1986. The City also utilizes third party administrators for the handling of administration, investigation, and adjustment of workers' compensation claims that occurred after October 1, 1986. All loss contingencies, including claims incurred but not reported, if any, are recorded in the City's Self-Insurance Workers' Compensation Internal Service Fund and City departments are assessed premiums to cover expenditures. As of September 30, 2002, the City has excess workers' compensation coverage through the North River Insurance Company. Claims settlements did not exceed insurance coverage for each of the past three years.

Unemployment Compensation Program

The Unemployment Compensation Program of the Self-Insurance Internal Service Fund provides a central account for payment of unemployment compensation claims. As of the fiscal year end, claims were being administered internally by the City and are paid to the Texas Workforce Commission on a reimbursement basis. All costs incurred are recorded on a claim paid basis.

Extended Sick Leave Program

The Extended Sick Leave Program of the Self-Insurance Internal Service Fund is used to pay benefits associated with the City's employee long-term disability plan. Benefits are administered by the City. Actual costs are incurred when extended leave is taken.

Employee Wellness Program

The Self-Insurance Employee Wellness Program Internal Service Fund is used to account for revenues and operating expenses of the City Occupational Health Clinic operated by the San Antonio Metropolitan Health District. The clinic's operation is supported by transfers from the Workers' Compensation Fund and the Employee Health Benefits Fund as expenses are incurred. In fiscal year 1999, the Employee Assistance Program was established to offer City employees short term mental health, marital, and financial counseling, as well as substance abuse intake and assessment. The Program was funded by a transfer from the Workers' Compensation Fund.

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12. RISK FINANCING

A. Primary Government (City) (Continued)

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 Workers' 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 an undiscounted rate.

The following is a summary of changes in claims liability for the City's Insurance Reserve, Employee Benefits, and Workers' Compensation Programs for the year ended September 30, 2002.

Schedule of Changes In Claims Liability

Fund	Liability October 1,	Change in Estimates	Claims & Adjustments	Claims Payments	Liability Balance September 30, [1]
Insurance Reserve					
Fiscal Year 2001	$ 18,531	$	6,434	$ 6,434	$ 18,531
Fiscal Year 2002	18,531	(2,352)	6,285	(6,285)	16,179
Employee Benefits					
Fiscal Year 2001	$ 3,415	600	$ 33,638	$ (33,638)	$ 4,015
Fiscal Year 2002	4,015	1,351	38,980	(38,980)	5,366
Workers' Compensation:					
Fiscal Year 2001	$ 16,858	1,847	$ 8,685	$ (8,685)	$ 18,705
Fiscal Year 2002	18,705	4,500	9,946	(9,946)	23,205

[1] The Workers' Compensation Liability Balance of $23,205 is comprised of $20,879 recorded in the Workers' Compensation Fund and the remaining liability of $2,326 is recorded in Proprietary Funds.

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(amounts are expressed in thousands)

12. RISK FINANCING (Continued)

B. City Public Service (CPS)

CPS is exposed to various risks of loss including those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS purchases commercial liability and property insurance coverages to provide protection in event of large/catastrophic claims. CPS performs actuarial studies periodically to determine its insurance retentions. An actuarial study was last performed in 2001.

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, 2002, CPS accumulated approximately $131,700 in these external trusts. The trust accounts and related claims liabilities are included in CPS' financial statements. CPS has recorded $25,500 of expense related to these plans for the year ended January 31, 2002.

Based upon the guidance of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, the following information is provided regarding the changes in the insurance reserves for property, and employee and public liability claims for the years ended January 31:

City Public Service
Schedule of Changes In Claims Liability

Fund	Liability Balance February 1,	Claims & Adjustments	Claims Payments	Liability Balance January 31,
Property Insurance				
Fiscal Year 2001	10,158	406	(620)	9,944
Fiscal Year 2002	9,944	7	(1,327)	8,624
Employee & Public Liability Claims				
Fiscal Year 2001	5,603	3,117	(2,880)	5,840
Fiscal Year 2002	5,840	2,056	(2,888)	5,008
Employee Health & Welfare Claims				
Fiscal Year 2001	0	0	0	0
Fiscal Year 2002	0	28,022	(24,381)	3,641

The employee health and welfare plan assets are segregated from CPS's assets. They are separately managed by committee whose members are appointed by the CPS General Manager and CEO. These plans have separate financial statements for calendar year 2001. These separately audited financial statements are available upon request from CPS.

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(amounts are expressed in thousands)

12. RISK FINANCING (Continued)

B. City Public Service (CPS) (Continued)

In 2002, CPS entered into two short-term natural gas forward contracts to purchase fixed quantities of natural gas at fixed prices for specific months through February 2002. CPS entered into this contract to help plan natural gas costs and to protect itself against an increase in the market price of the commodity during the winter months of 2002 and the early part of next year. At January 31, 2002, market natural gas prices were lower than the contractual prices. As a result, CPS may incur additional natural gas costs of approximately $2,100 in February 2002 based on the fixed quantities remaining to be purchased. CPS will pass any additional costs through to its customers under the fuel and gas cost adjustment provisions of the rate tariffs.

	2002	2001
Natural Gas Forward Contracts:		
Volume Remaining in MMBtu	560,000	0
Fixed Price per MMBtu	$4.55	0
Natural Gas Two Way Collar:		
Volume Remaining in MMBtu	420,000	0
Ceiling Price per MMBtu	$7.00	0
Floor Price per MMBtu	$4.14	0
Market Price at January 31	$2.25	0

Subsequent to year end, the CPS Board of Trustees approved a policy for energy price risk management. The 1999 Texas utility deregulation legislation, Senate Bill 7, contained provisions modifying the Texas Public Funds Investment Act to allow municipal utilities the ability to purchase and sell energy related fuel oil, and electric energy. The policy approved by the Board requires that general operating procedures and guidelines as well as basic oversight and control structures be in place prior to implementation or operation next fiscal year.

C. San Antonio Water System (SAWS)

Risk Management

SAWS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

SAWS is self administered and self-insured for the first $500 of each worker's compensation 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 seven months ended December 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 $1,729 as of December 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:

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12. RISK FINANCING (Continued)

C. San Antonio Water System (SAWS) (Continued)

San Antonio Water System
Schedule of Changes In Claims Liability

Year Ended	Balance at Beginning of Fiscal Year Liability	Claims & Adjustments	Claims Payments	Balance at End of Fiscal Year Liability
May 31, 2000	$ 3,652	$ 714	$ (1,503)	$ 2,863
May 31, 2001	$ 2,863	$ 913	$ (1,602)	$ 2,174
Seven Months ended Dec. 31, 2001	$ 2,174	$ 824	$ (1,269)	$ 1,729

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13. INTERFUND TRANSFERS

The following is a summary of interfund transfers for the City for the year ended September 30, 2002:

Summary Table of Interfund Transfers for the year ended September 30, 2002

	Transfers From Other Funds	Transfers To Other Funds
General Fund:		
General Obligation Bonds	$ 69	$ 97
Airport System Fund	176	
Parking Facilities	166	350
Internal Service Funds	187	3,000
Nonmajor Governmental Funds	9,966	69,896
Nonmajor Enterprise Funds	634	
Total General Fund	11,198	73,343
Debt Service Funds:		
Nonmajor Governmental Funds	22,834	
Total Debt Service Funds	22,834	
General Obligation Bond Funds:		
General Fund	97	69
Nonmajor Governmental Funds	3,062	219
Total General Obligation Bond Funds	3,159	288
Airport System Fund:		
General Fund		176
Internal Service Funds		138
Nonmajor Governmental Funds		974
Total Airport System Fund		1,288
Parking Facilities Fund:		
General Fund	350	166
Internal Service Funds		35
Nonmajor Governmental Funds		105
Total Parking Facilities Fund	350	306
Internal Service Funds:		
General Fund	3,000	187
Airport System	138	
Parking System	35	
Internal Service Funds	1,030	1,030
Nonmajor Governmental Funds	743	4,125
Nonmajor Enterprise Funds	193	
Total Internal Service Funds	5,139	5,342
Nonmajor Governmental Funds:		
General Fund	69,896	9,966
Debt Service		22,834
General Obligation Bonds	219	3,062
Airport System	974	
Parking Facilities	105	
Internal Service Funds	4,125	743
Nonmajor Governmental Funds	51,308	51,308
Nonmajor Enterprise Funds	1	
Total Nonmajor Governmental Funds	126,628	87,913
Nonmajor Enterprise Funds:		
General Fund		634
Internal Service Funds		193
Nonmajor Governmental Funds		1
Total Nonmajor Enterprise Funds		828
Total	$ 169,308	$ 169,308

(amounts are expressed in thousands)

13. INTERFUND TRANSFERS (Continued)

Transfers are made to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds. These transfers are in the form of operating subsidies, grant matches and funding for capital projects. In addition, transfers are routinely made from other funds to fund debt service payments and for other restricted purposes. All transfers are in accordance with budgetary authorizations.

For the year ended September 30, 2002, the City made several significant one-time transfers. The Other Internal Services Fund made a $4,125 one-time transfer to the Improvement Projects Fund to support the construction of a new automotive service center. In addition, the General Fund made a one-time transfer in the amount of $650. This transfer was intended to provide initial funding for a new special revenue fund, the Brooks City-Base Fund. The Brooks City-Base Fund was created in order to consolidate all Brooks related funds for efficient internal control and monitoring.

Other significant transfers by the General Fund include $615 set aside for the purchase of additional ladder trucks from fiscal year 2006 through fiscal year 2009. This is the second year that funds have been set aside for that purpose as the Master Plan recommended in fiscal year 2001 that $615 in funds be set aside each year through fiscal year 2005. In addition, the General Fund continued its support to the Information Technology Services Fund for the GIS Program which will provide numerous computerized mapping applications in support of various departments. This year's transfer was in the amount of $478.

The Enterprise Resource Management Fund was established in fiscal year 2001 to record all operating revenues and expenditures associated with the development and implementation of the new enterprise system. Funding is provided by transfers from the Improvement Projects Fund. This year's support totaled $1,875.

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(amounts are expressed in thousands)

14. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the Government-wide Statement of Net Assets.

One element of this reconciliation states, "Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are not reported in the governmental funds." The detail of the $31,435 is as follows:

Revenues previously reported as deferred in the fund financial statements	$ 42,565
Receivable applicable to governmental activities, which are not available in the current period	565
Deferred revenues previously reported as income in the fund financial statements	(11,695)
Revenues collected after year end but are not available soon enough to pay for the current period's expenditures and therefore are recognized in governmental funds	$ 31,435

Another element of this reconciliation states, "Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds". The details for the decrease related to capital leases is as follows:

Total capital leases reported on the Government-wide Statement of Net Assets	$ 8,297
Less: Short-term available portion reported in fund financial statements	(705)
Net adjustment to decrease fund balance-total governmental funds to arrive at new assets-governmental activities for capital leases	$ 7,592

The details for the decrease related to accrued interest is as follows:

Total Accrued Interest reported on the Government-wide Statement of Net Assets	$ 7,966
Less: accrued interest reporting in the Internal Service Funds	(2)
Net adjustment to increase fund balance-total governmental funds to arrive at net assets-governmental activities for accrued interest	$ 7,964

14. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities

The governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the Government-wide Statement of Activities.

The details of the increase of revenues that do not provide current financial resources are as follows:

Revenues earned but not recorded in fund financial statements	$ 5,763
Current year property tax revenue unavailable in current period	1,780
Less: Property taxes collected in current year previously earned	(1,763)
Revenues in the Statement of Activities that do not provided current financial resources and are not reported as revenues in the fund financial statements	$ 5,780

The details of the increase of bond costs are as follows:

Issuance costs expended per fund financial statements	$ 1,656
Less: amounts expeneed amounts attrituble to current period	(102)
Total bonds costs	$ 1,554

The details of the increase of bond premiums and deferred charges are as follows:

Amortization of bond premiums on long-term debt-Debt Service Fund, previously expensed in the fund financial statements	$ 12,624
Amortization of bond premiums on long-term debt-General Obligation Bonds previously expensed in the fund financial statements	$ 2,050
Amortization of bond premiums on long-term debt-nonmajor governmental funds previously expensed in the fund financial statements	4,385
Less: premiums on bonds and certificates not previously recorded in the fund financial statements	(18,674)
Total amortization of bond premiums and deferred charges (net)	$ 385

14. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities (Continued)

Another element of this reconciliation states, "Some expenses reported in the Statement of Activities are not reported as expenditures in governmental funds." The details of the $39,234 are as follows:

Compensated Absences	$ (32,428)
Amortization Expense	265
Bond Refunding Expense	(5,887)
Interest Expense	(300)
Arbitrage Rebate Expense	(885)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	$ (39,235)

15. DEFICITS IN FUND BALANCES / NET ASSETS

Special Revenue Funds

As of September 30, 2002, deficit fund balance at year-end is reported in the HOME Program and Community Development Program in the amounts of $33 and $168, 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.

The Golf Course Fund had a deficit fund balance of $781 as of September 30, 2002. The deficit is attributable to a decline in revenues in recent years due to increased competition by the private sector and extreme weather patterns. In addition, increased labor and equipment costs have contributed to the deficit.

Internal Service Funds

As of September 30, 2002, deficit net assets at year-end are reported in the Employee Benefits Program, Workers Compensation Program, and Unemployment Compensation Self-Insurance Funds in the amounts of $13,000, $2,504, and $229, respectively. The City will fund the deficits through assessments charged to 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.

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16. OTHER DISCLOSURES

A. Donor Restricted Endowment

The City of San Antonio has three permanent funds: the San Jose Burial Park Permanent Fund, the Carver Cultural Center Endowment Fund and the San Antonio Housing Trust Fund. The City is only allowed to spend interest proceeds generated from the principal amount for each of these funds. The net assets from these three endowment funds are classified as restricted net assets and are reported in the government-wide financial statements. The principal is required to be retained in perpetuity while the interest is available to cover specific expenditures.

The San Jose Burial Park Permanent Fund generated $68 in interest to be expended for specified purposes. Chapter 713 of the Texas Health and Safety Code governs what expenditures the City may incur when spending the interest income. Per Chapter 713, the revenue can be spent for the maintenance and care of the graves, lots, and burial places, and to beautify the entire cemetery. The principal amount of this fund is increased each year by sales of lots from the San Jose Cemetery.

The Carver's Endowment Fund generated $8 in interest. These earnings can be used for the Carver Community Cultural Center's operating program, or reinvestment expenses (as detailed in the grant agreement). This fund is managed in accordance with the Uniform Management of Institutional Funds Act, which is codified as Section 163.001 in the Texas Property Code. The principal portion of the fund came from a one-time grant from the National Endowment for the Arts.

The San Antonio Housing Trust Fund generated $199 in interest. These earnings may be disbursed to projects with particular emphasis on housing programs as grants or secured loans. All distributions or disbursements of this trust shall be made for the primary purpose of providing additional and continuing housing opportunities for low and moderate income families. This trust shall at all times be governed by, construed, regulated and administered in all respects under the laws of the State of Texas.

17. SUBSEQUENT EVENTS

A. Primary Government (City)

Sale of Refunding and New Money General Obligation Debt

On November 21, 2002, the City Council approved the sale of the following obligations:

- $55,850 General Improvement and Refunding Bonds, Series 2002, maturing 2003 through 2023, with interest rates ranging from 2.000% to 5.000%.
- $69,930 Combination Tax and Revenue Certificates of Obligation, Series 2002, maturing 2004 through 2023, with interest rates ranging from 3.000% to 5.000%.

Delivery of the proceeds from the 2002 obligations occurred on December 11, 2002. Proceeds of the Series 2002 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, parks and recreation facilities improvements, library system improvements, public safety improvements, improvements and renovations to existing municipal facilities, and for other public purposes.

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City of San Antonio
Texas

Required Supplementary Information Other Than MD&A

(Unaudited)

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City of San Antonio
Texas

Budgetary Comparison Schedule - General Fund

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2002

	2002			
	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
Resources (inflows):				
Taxes	$ 312,356,198	$ 312,592,198	$ 310,912,963	$ (1,679,235)
Licenses and Permits	13,288,960	13,288,960	13,302,392	13,432
Intergovernmental	2,517,179	2,517,179	2,888,626	371,447
Revenues from Utilities	171,396,335	171,396,335	171,234,083	(162,252)
Charges for Services	24,346,744	25,078,687	24,631,495	(447,192)
Fines and Forfeits	13,121,897	13,121,897	10,828,974	(2,292,923)
Miscellaneous	14,468,642	12,977,011	12,054,469	(922,542)
Transfers from other funds	12,151,737	11,444,951	11,198,493	(246,458)
Amounts Available for Appropriation	563,647,692	562,417,218	557,051,495	(5,365,723)
Charges to Appropriations (outflows):				
General Government	66,430,184	69,351,827	57,213,168	12,138,659
Public Safety	347,042,322	354,820,409	351,557,071	3,263,338
Public Works	9,971,350	10,324,699	10,244,816	79,883
Sanitation	2,566,526	2,567,060	2,663,359	(96,299)
Health Services	13,696,002	13,716,542	14,076,213	(359,671)
Culture and Recreation	61,236,892	62,402,981	59,755,427	2,647,554
Welfare	17,475,534	18,317,676	17,662,015	655,661
Economic Development and Opportunity	6,722,970	8,323,656	7,632,008	691,648
Transfers to other funds	69,457,610	74,881,068	76,101,511	(1,220,443)
Total Charges to Appropriations	594,599,390	614,705,918	596,905,588	17,800,330
Excess (Deficiency) of Resources Over (Under) Charges to Appropriations	(30,951,698)	(52,288,700)	(39,854,093)	12,434,607
Fund Balance Allocation	30,951,698	52,288,700	39,854,093	(12,434,607)
Excess (Deficiency) of Resources Over (Under) Charges to Appropriations	$ 0	$ 0	$ 0	$ 0

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.	$ 557,051,495
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(11,198,493)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.	$ 545,853,002
Uses/outflows of resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	$ 596,905,588
Differences - budget to GAAP:	
Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.	(3,350,459)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(76,101,511)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.	$ 517,453,618

General Fund Budgetary Information

The City Charter establishes requirements for the adoption of budgets and budgetary control. Under provisions of the Charter, expenditures of each City function and activity within individual funds cannot legally exceed the final budget approved by the City Council. Amendments to line items within a departmental budget may be initiated by Department Directors.

The City's prepares an annual budget for the General Fund on a modified accrual basis which is consistent with generally accepted accounting principles. The annual budgetary data reported for the General Fund represents the original appropriation ordinance and amendments thereto as adopted by the City Council, adjusted for encumbrances outstanding at the beginning of the fiscal year. All annual appropriations lapse at fiscal year end.

City of San Antonio
Texas

Pension Schedules

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
10-01-01	$ 1,285,936	$ 1,539,932	$ 253,996	84%	$ 179,554	141%
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%

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
12-31-01	$ 412,867	$ 532,821	$ 119,954	78%	$ 189,495	63%
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%

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
01-01-01	$ 713,600	$ 643,500	$ (70,100)	111%	$ 165,300	(42)%
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%

NOTES: (1) Abstracted from City payroll records.

(amounts are expressed in thousands)

(unaudited - see accompanying accountants' report)

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
SCHEDULES OF FUNDING PROGRESS
LAST THREE FISCAL YEARS

SAN ANTONIO WATER SYSTEM - TMRS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-01	$ 44,613	$ 55,201	$ 10,588	81%	$ 51,958	20%
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%

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%

(amounts are expressed in thousands)

(unaudited - see accompanying accountants' report)

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST THREE FISCAL YEARS

FIRE AND POLICE PENSION - CITY OF SAN ANTONIO

YEAR ENDED DATE	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
9/30/02	$ 43,615	100%
9/30/01	42,065	100%
9/30/00	40,238	100%

TEXAS MUNICIPAL RETIREMENT SYSTEM - CITY OF SAN ANTONIO

YEAR ENDED DATE	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
9/30/02	$ 23,147	100%
9/30/01	21,610	100%
9/30/00	19,352	100%

CPS ALL EMPLOYEE PLAN

YEAR ENDED DATE	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
1/31/02	$ 660	100%
1/31/01	5,397	100%
1/31/00	12,288	100%

SAN ANTONIO WATER SYSTEM - TMRS

YEAR ENDED DATE	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
12/31/01	(1) $ 1,044	100%
5/31/01	1,620	100%
5/31/00	1,593	100%
5/31/99	1,576	100%

SAN ANTONIO WATER SYSTEM - PMLIC

YEAR ENDED DATE	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
12/31/01	(1) $ 2,969	100%
5/31/01	2,770	100%
5/31/00	4,753	100%
5/31/99	3,344	100%

NOTES: (1) Contribution reflects for the seven months ended December 31, 2001, to coincide with San Antonio Water System new fiscal year end.

(amounts are expressed in thousands)

(unaudited - see accompanying accountants' report)

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
NOTES TO SCHEDULES OF FUNDING PROGRESS

	FIRE AND POLICE PENSION FUND	TMRS - CITY AND SAWS	CPS ALL EMPLOYEE PLAN	PMLIC SAWS
Actuarial Cost Method	Entry-age	Unit Credit	Unit Credit	Entry-age
Method Used to Value Assets	5 year smoothed	Amortized Cost	5 year smoothed	Amortized Cost
Assumed Inflation Rate	4.5%	None	4.0%	None
Assumed Investment Return	8.0%	8%	8.5%	8.5%
Assumed Projected Salary Increases	5.5%	None	5.0%	APH plus 3.4%
Assumed Postretirement Salary Increases	3.3750% to 4.5%	None	2.0%	None
Amortization Method	Level % of payroll	Level % of payroll	Level dollar	Level dollar
Amortization Period	27.04 years	25 years	9.89 years	39 years
Open/Closed Period	Open	Open	Open	Closed

(1) Table S-5 from the Actuary's Pension Handbook

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APPENDIX D

FEASIBILITY REPORT

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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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March 5, 2002

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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.

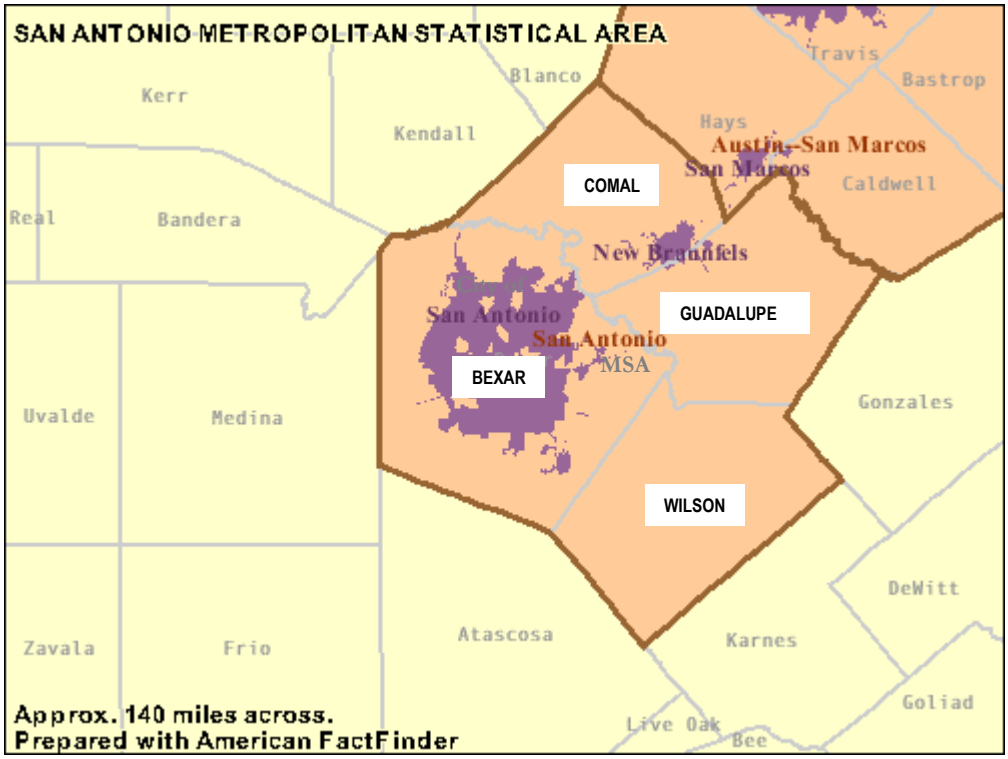
AUS, the major commercial airport closest to San Antonio MSA, can potentially provide alternative air service to San Antonio residents. The air service that is available at AUS is, in many ways, similar to the air service provided by SAT. For example, as of January 2002, 12 air carriers operate approximately 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%**

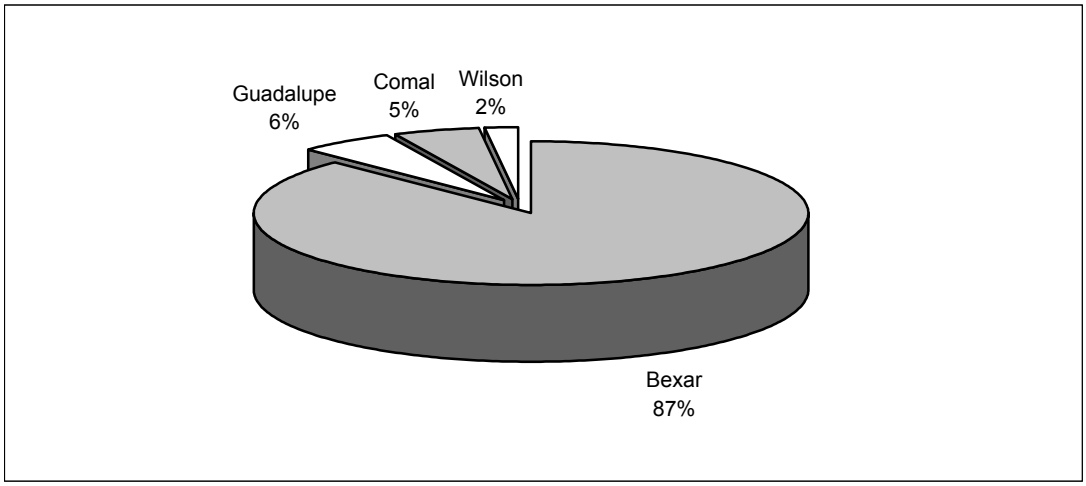
n.a. - not available

[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%	

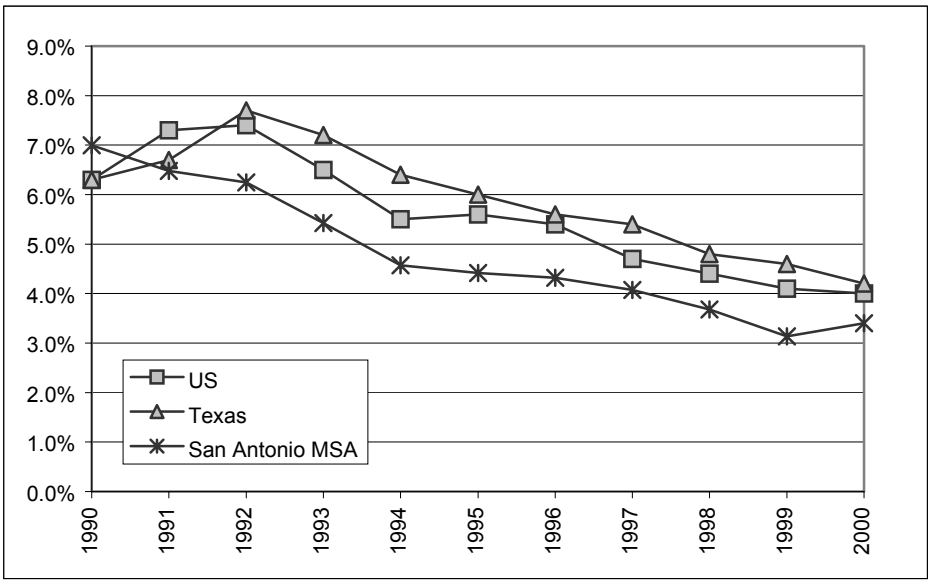
Source: U.S. Bureau of Labor Statistics, *Local Area Unemployment Survey*, at *stats.bls.gov*.

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.

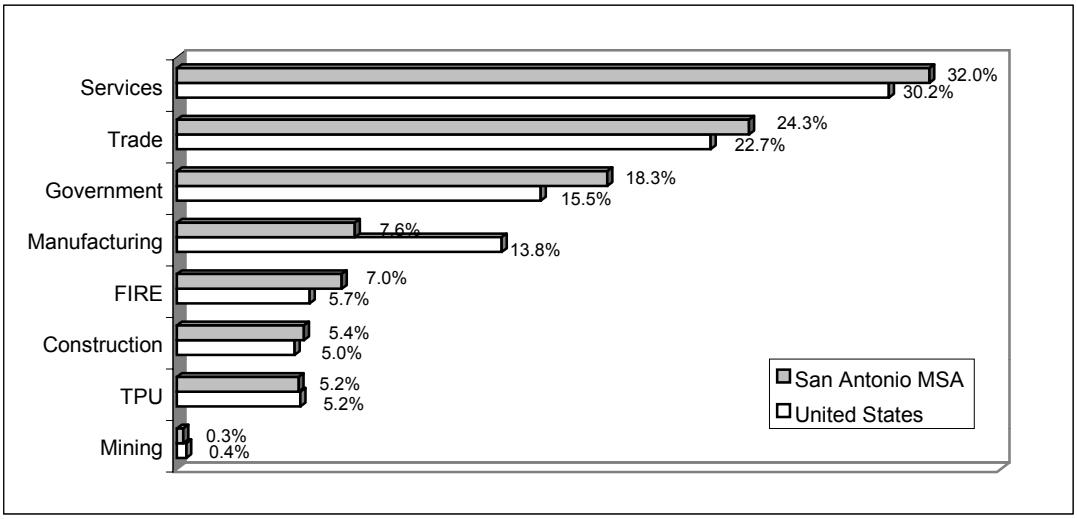
FIGURE III-3
UNEMPLOYMENT RATES IN THE SAN ANTONIO MSA, TEXAS, AND UNITED STATES
1990-2000



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



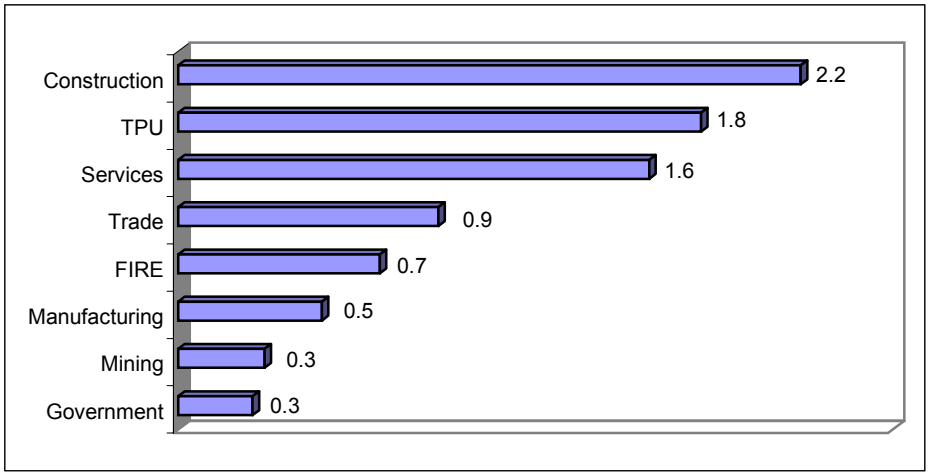
TPU - Transportation and public utilities; FIRE - Finance, Insurance, and Real Estate
Source: U.S. Bureau of Labor Statistics at *stats.bls.gov*.

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

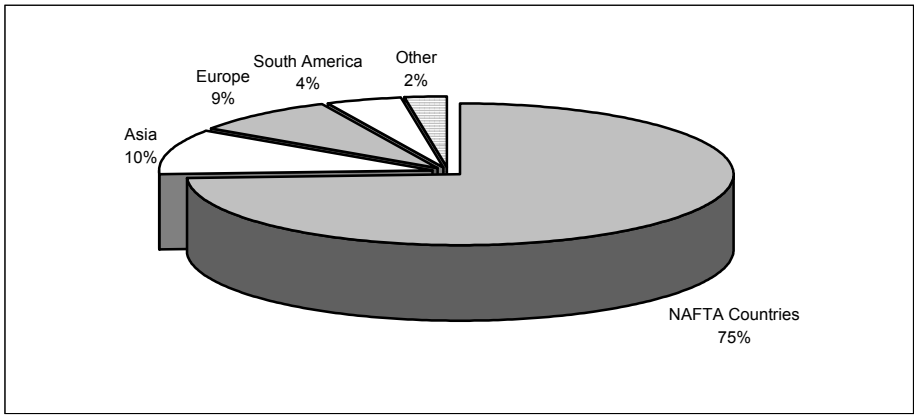
Market	Merchandise Exports ($000) 1993	Merchandise Exports ($000) 1999	% Change 1993-99
NAFTA Countries	$328,853	$1,484,657	351.5%
Caribbean & Central America	$11,772	$26,152	122.2%
South America	$12,209	$88,210	622.5%
Europe	$112,865	$171,889	52.3%
Asia	$66,786	$210,068	214.5%
Africa	$5,365	$3,597	-33.0%
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

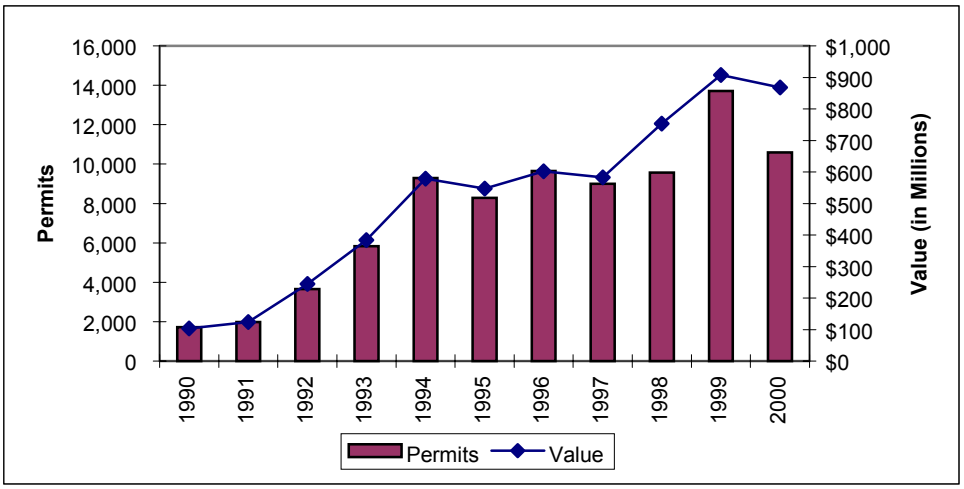


Source: U.S. Department of Commerce, International Trade Administration, Office of Trade and Economic Analysis at *www.ita.doc.gov*.

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.

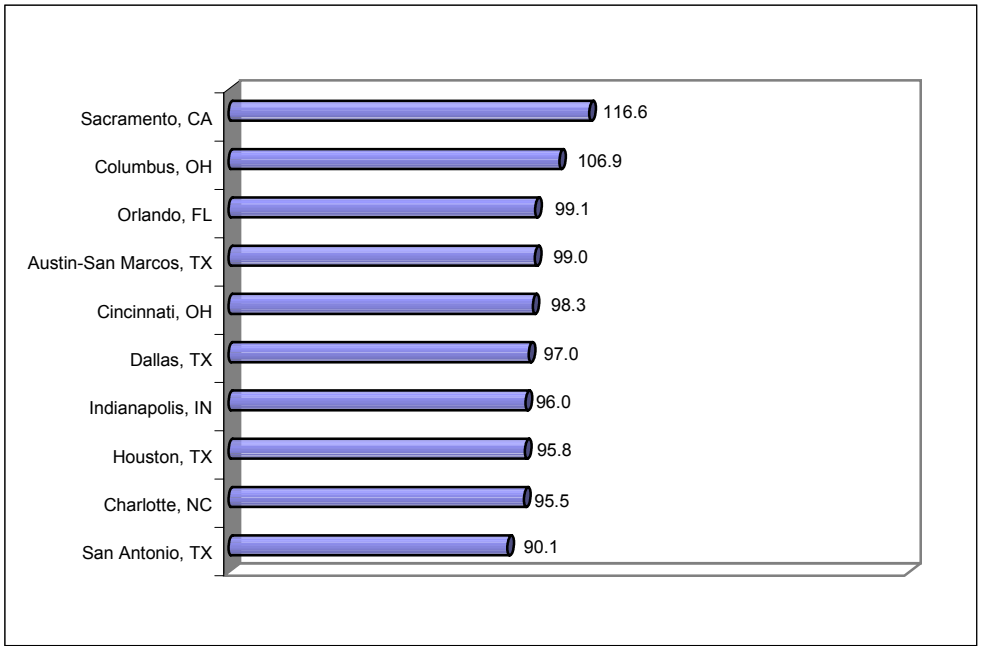
Source: City of San Antonio Convention and Visitors Bureau

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%	-

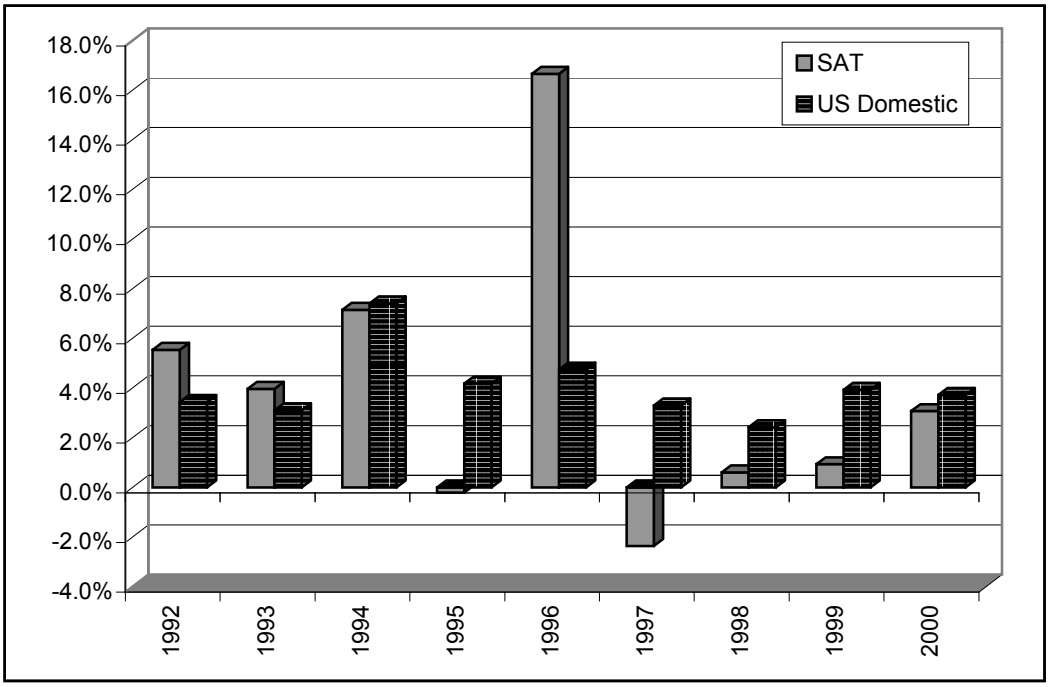
Sources:

[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.

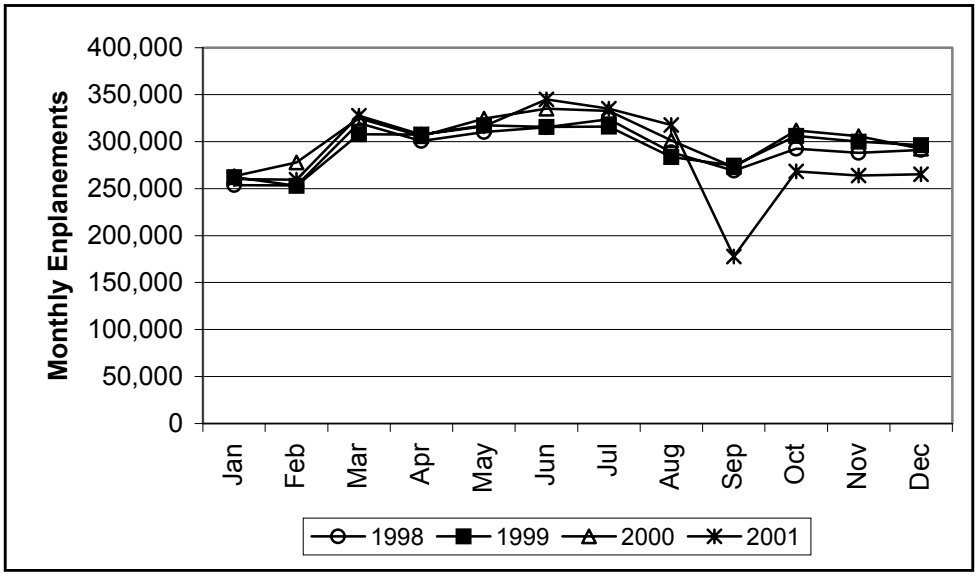
FIGURE IV-1
COMPARISON OF ANNUAL GROWTH RATE
CY 1992-2000



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

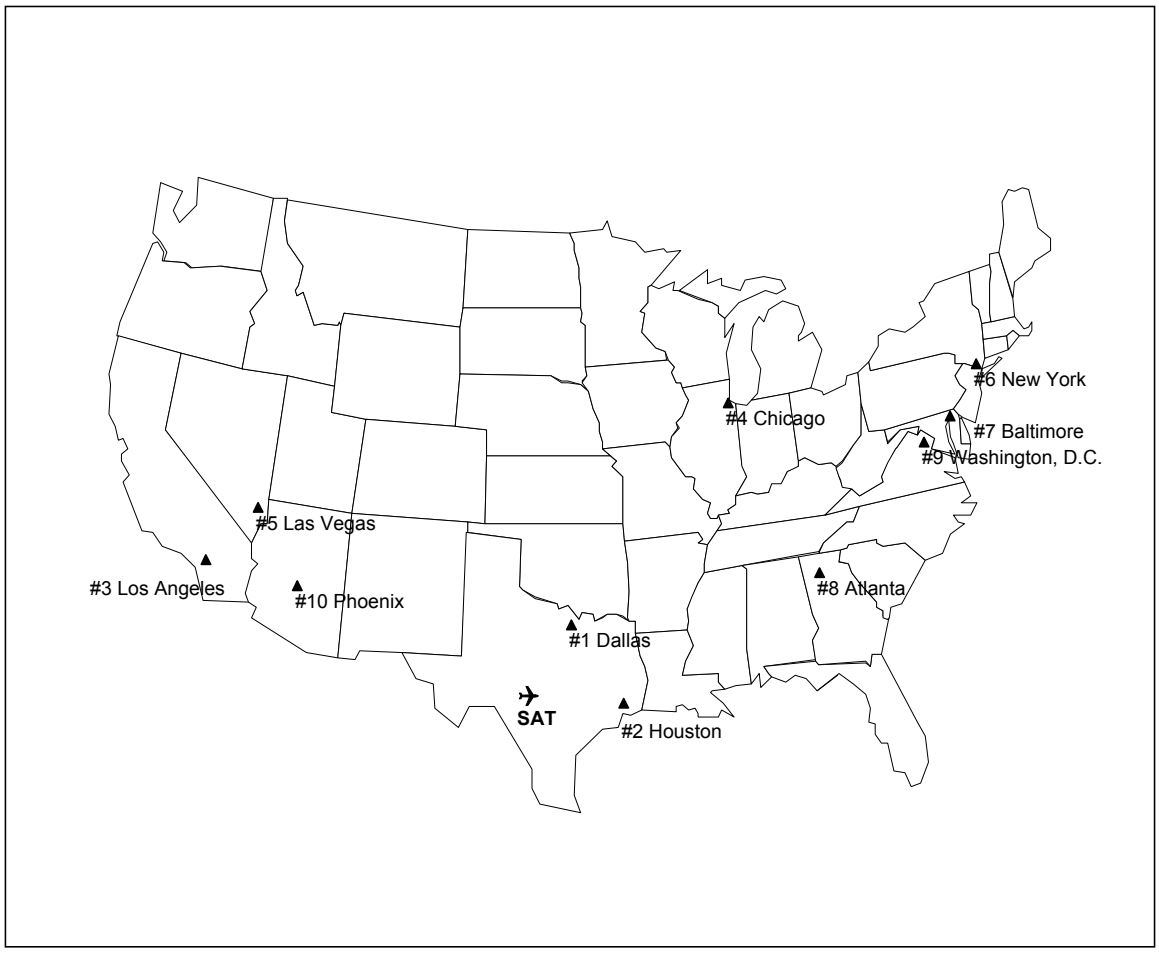


TABLE IV-7
COMPARISON OF AVERAGE AIRFARE [1]
1999-2001

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

	Multivariate Regression Model [1]					
		Alternative Impact Scenarios				
Year	Base	Low	High	Trendline Projection [2]	FAA TAF [3]	Market Share Projection [4]
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.

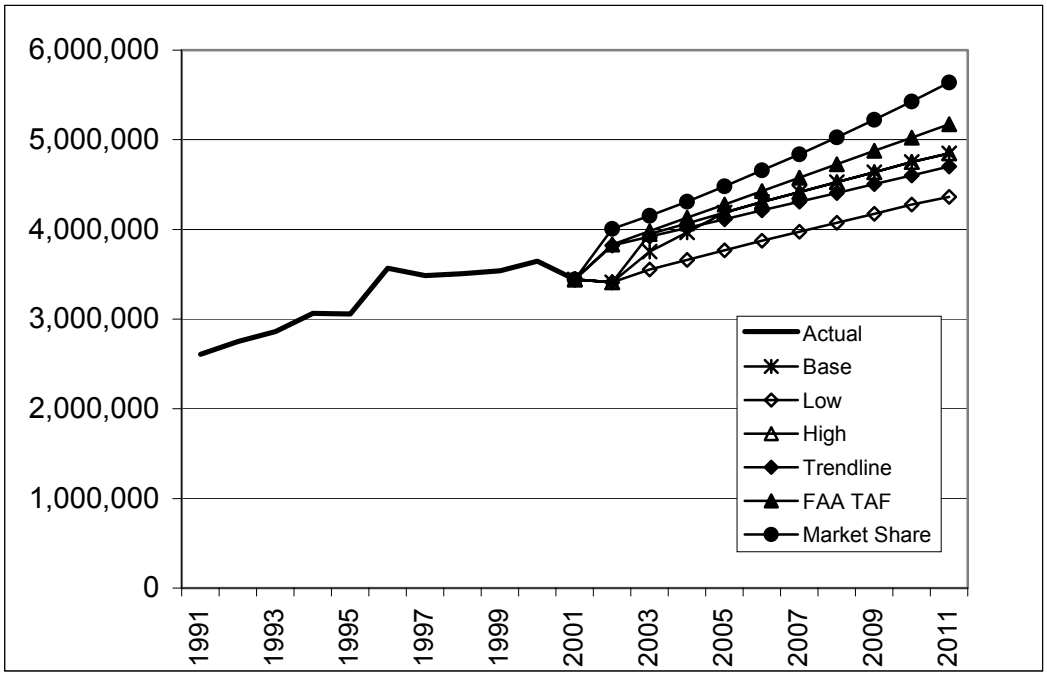
[3] FAA Terminal Area Forecast Summary Report for SAT downloaded from the FAA on-line database on December 3, 2001. According to an FAA bulletin, the current TAF figures for all U.S. airports do not yet reflect the impact of the events of September 11, 2001. The bulletin indicated that an estimate of 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		Connecting		Total
	Enplanements	% Share	Enplanements	% Share	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;

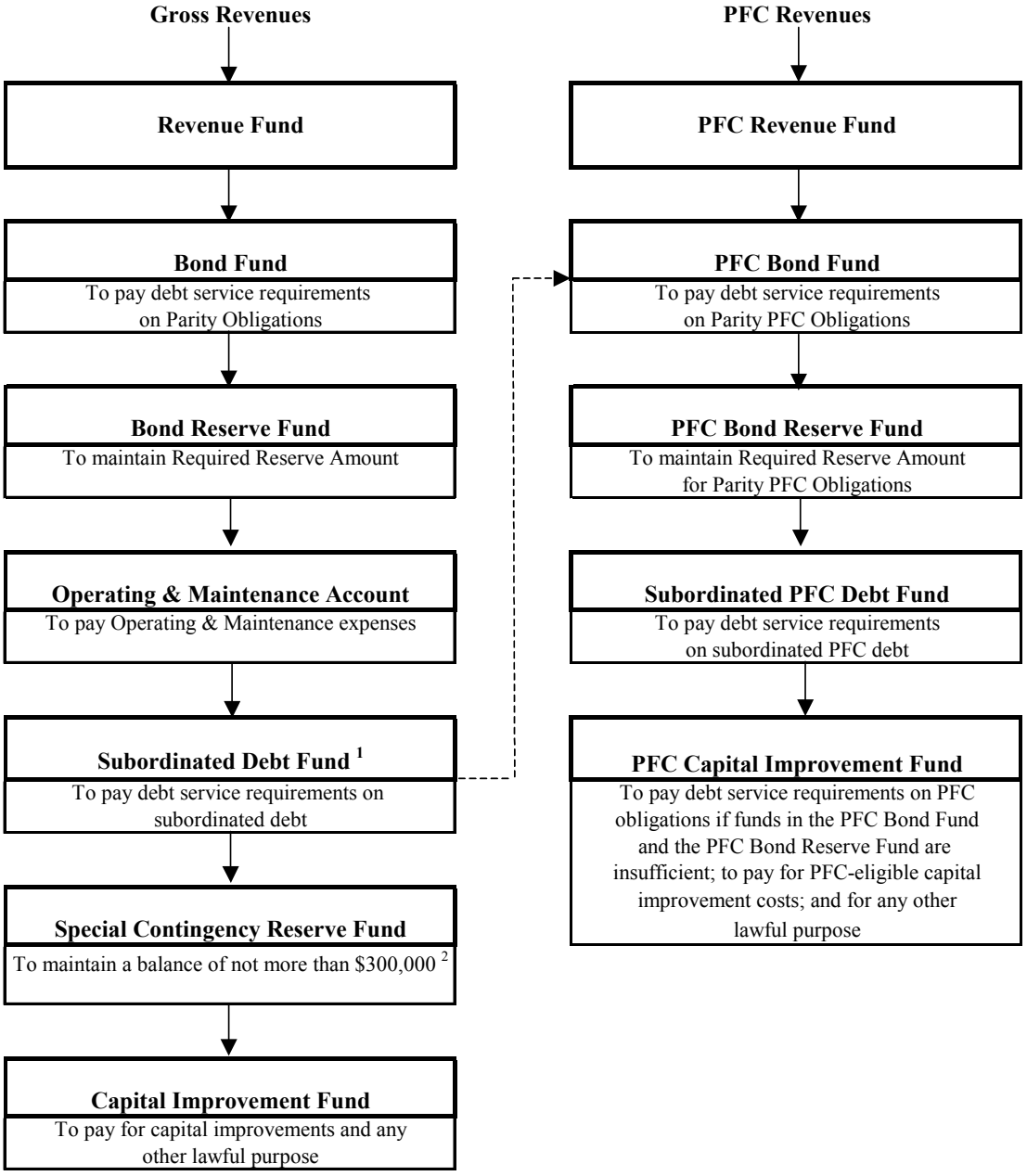
[2] The PFC Ordinances, which authorize the issuance of the Series 2002 PFC Bonds, are described in sub-section 2 below.

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					Avg. Annual Growth Rate
	1997	1998	1999	2000	2001	
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%

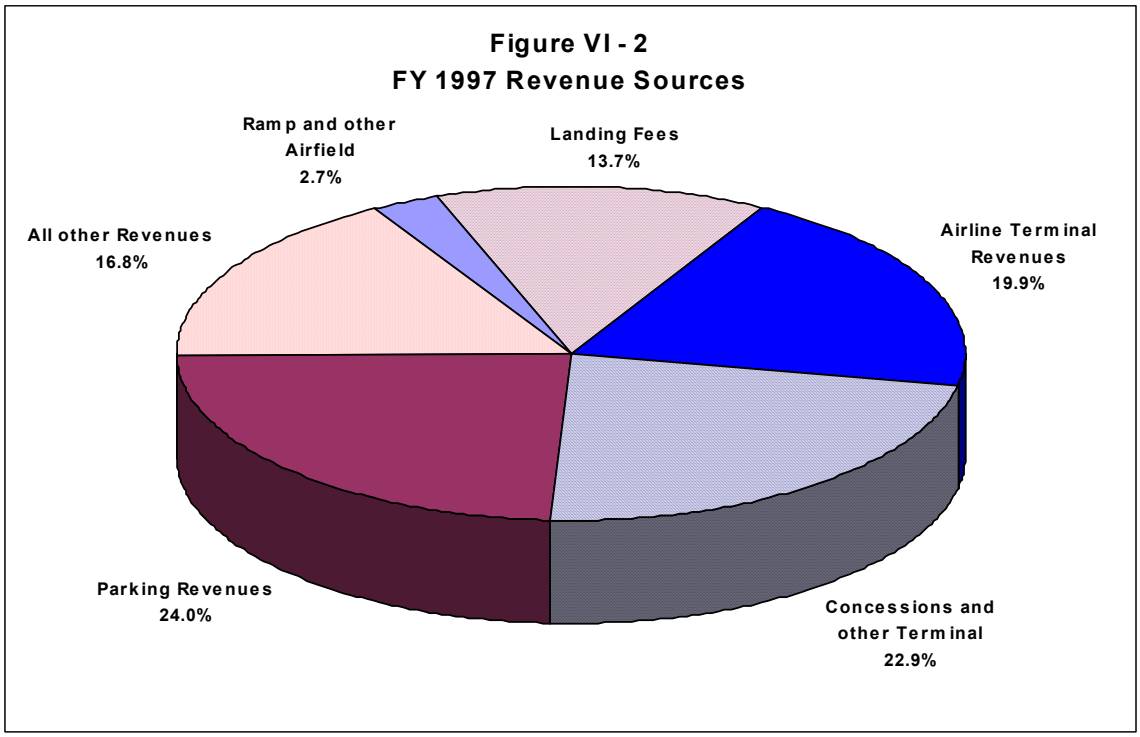


Figure VI - 2
FY 1997 Revenue Sources
Ramp and other Airfield 2.7%
Landing Fees 13.7%
All other Revenues 16.8%
Airline Terminal Revenues 19.9%
Parking Revenues 24.0%
Concessions and other Terminal 22.9%

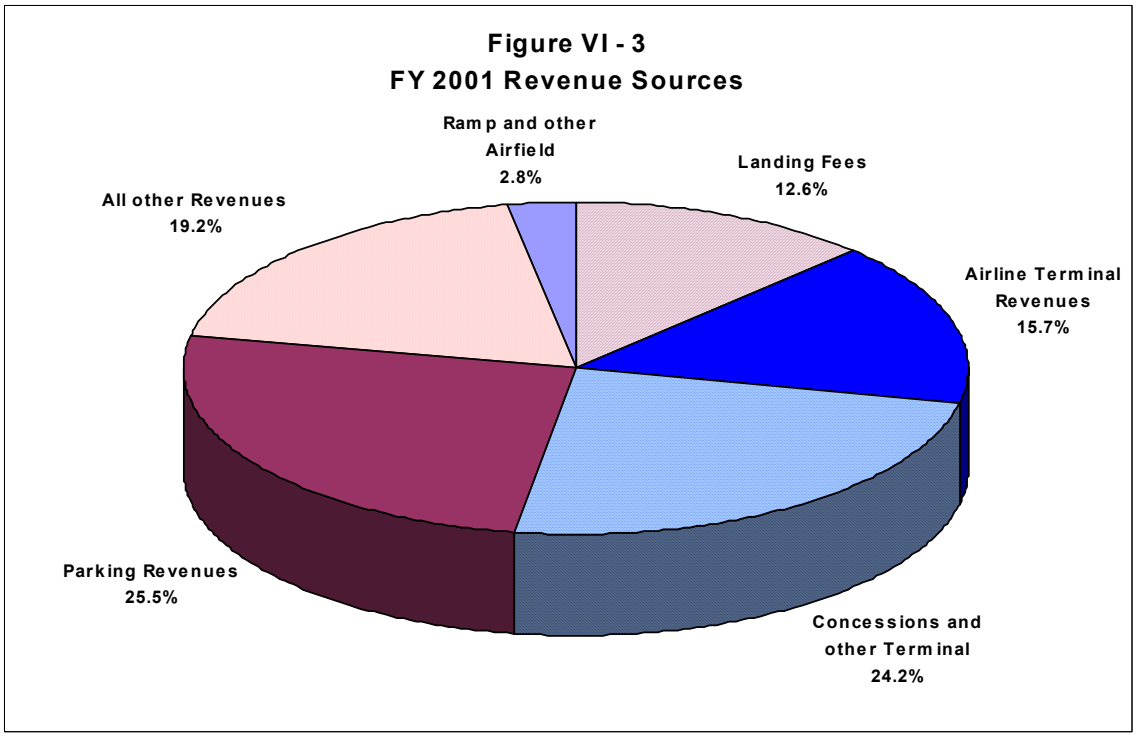


Figure VI - 3
FY 2001 Revenue Sources
Ramp and other Airfield 2.8%
Landing Fees 12.6%
All other Revenues 19.2%
Airline Terminal Revenues 15.7%
Parking Revenues 25.5%
Concessions and other Terminal 24.2%

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**
Total Projected 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
Less: Ineligible Traffic - 7.0 % [2]	216,155	256,743	273,924	289,270	299,281	307,228	315,023	322,769	330,662	337,752
PFC Eligible 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
Net PFC 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
Unused PFCs 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
Interest Revenue on PFC Fund	$80,158	$123,573	$125,652	$144,700	$94,934	$28,214	$19,241	$29,049	$0	$0
Cumulative 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
PFC Pay-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
PFC funds 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
PFC Bond 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
Unused PFCs -- 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
Covenant 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
Net Revenues Available to Pay PFC Debt 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
Total Pledged Revenues Available to Pay PFC Debt 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
PFC Debt 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
PFC Bond Debt Service as a % 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%

[1] The FAA approved a PFC charge effective November 1, 2001. Therefore, FY 2002 represents 11 months (November 1, 2001 to September 30, 2002).

[2] Ineligible 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 third segment of a trip. For this analysis, 7% of total annual enplanements are assumed to be ineligible for PFC collections.

[3] PFC revenues of $3.00 per eligible enplanement, minus the $0.08 per eligible enplanement airline collection fee.

[4] The City 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 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.

[5] PFC bond 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
HIGH SCENARIO										
Revenue 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
Parity 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
PFC Debt Service Coverage	N/A	8.86	6.51	5.98	4.62	4.62	3.94	3.89	4.08	4.39
Cost per Enplaned Passenger	$4.34	$3.55	$3.58	$4.34	$4.33	$4.52	$4.49	$4.78	$4.74	$4.62
LOW SCENARIO										
Revenue 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
Parity 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
PFC Debt Service Coverage	N/A	8.20	5.90	5.32	4.12	4.11	3.52	3.46	3.64	3.91
Cost 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 new concourse project and an airfield project, as mentioned in the assumptions above, 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 3.30 during the forecast period. The 3.30 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.

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APPENDIX E

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

SPECIMEN

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)

SPECIMEN

APPENDIX F

FORM OF BOND COUNSEL OPINION

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April __, 2003

CITY OF SAN ANTONIO, TEXAS
AIRPORT SYSTEM FORWARD REFUNDING REVENUE BONDS, SERIES 2003
DATED APRIL 15, 2001
IN THE AGGREGATE PRINCIPAL AMOUNT OF $50,230,000

AS 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 until maturity from the date of initial delivery at the rates stated in the text of the Bonds, and maturing on July 1 in each of the years 2004 through 2013, 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"* and the *"First Supplement to the Master Ordinance,"* each of which was adopted by the City Council of the City on April 19, 2001) which authorized the issuance of the Bonds (collectively, the "Ordinance"), (ii) the Escrow Agreement, dated as of April 15, 2001, between the City and The Bank of New York Trust Company of Florida, N.A., as Escrow Agent (the "Escrow Agreement"), and (iii) 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 Escrow Agreement has been duly authorized, executed and delivered by the City and constitutes a binding and enforceable agreement in accordance with its terms, and that the "Refunded Bonds" (as defined in the Ordinance) being refunded by the Bonds are outstanding under the ordinance authorizing their issuance only for the purpose of receiving the funds provided by, and are secured solely by and payable solely from, the Escrow Agreement and the cash and investments, including the income therefrom, held by the Escrow Agent pursuant to the Escrow Agreement.

IT IS FURTHER 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 includable in the gross income of the holder during any period that the Bonds are held by either a "substantial user" of the facilities refinanced with the proceeds of the Bonds or a "related person" of such user, as provided in section 147(a) 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 refinance 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 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.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Respectfully,

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