

**OFFICIAL STATEMENT**  
**Dated December 2, 2004**

**NEW ISSUE – BOOK-ENTRY-ONLY**

**RATINGS: Fitch: “AAA”**

**Moody’s: “Aaa”**

**S&P: “AAA”**

**(See “RATINGS” and “BOND INSURANCE” herein.)**

*In the opinion of Co-Bond Counsel (named below) assuming continuing compliance by the City (defined below) after the date of issuance of the 2006 Forward Refunding Bonds (defined below) with certain covenants in the ordinance described herein and subject to the matters discussed herein under “TAX MATTERS,” interest on the 2006 Forward Refunding Bonds under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from gross income of the owners thereof for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or except as described herein under “TAX MATTERS,” corporations. (See “TAX MATTERS” and “DELIVERY CONDITIONS” herein.)*



**\$33,090,000**  
**CITY OF SAN ANTONIO, TEXAS**  
**GENERAL IMPROVEMENT FORWARD REFUNDING BONDS,**  
**SERIES 2006**

**Date: December 1, 2004**

**Due: August 1, as shown herein**

The \$33,090,000 “City of San Antonio, Texas General Improvement Forward Refunding Bonds, Series 2006” (the “2006 Forward Refunding Bonds”) are being issued by the City of San Antonio, Texas (the “City”) pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended; the Home Rule Charter of the City (the “City Charter”); and an ordinance adopted by the City Council of the City (the “City Council”) on November 18, 2004 (the “Ordinance”). (See “THE 2006 FORWARD REFUNDING BONDS- Authority for Issuance” herein.) As permitted by Texas law, in the Ordinance, the City Council delegated to the Interim City Manager, or his designee, the ability to execute a pricing certificate approving the final maturity schedule, redemption provisions, and the other pricing terms with respect to the 2006 Forward Refunding Bonds. This pricing certificate was executed by the Interim City Manager on December 2, 2004.

Interest on the 2006 Forward Refunding Bonds will accrue from the Settlement Date (hereinafter defined) and will be payable on February 1 and August 1 of each year, commencing August 1, 2006, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The 2006 Forward Refunding Bonds will be issued as fully registered obligations in book-entry-only form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository (the “Securities Depository”). Book-entry interests in the 2006 Forward Refunding Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the 2006 Forward Refunding Bonds (the “Beneficial Owners”) will not receive physical delivery of certificates representing their interest in the 2006 Forward Refunding Bonds. So long as the Securities Depository is the registered owner of the 2006 Forward Refunding Bonds, the principal of and interest on the 2006 Forward Refunding Bonds will be payable by JPMorgan Chase Bank, National Association, Dallas, Texas, as the initial Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners. (See “THE 2006 FORWARD REFUNDING BONDS –Book-Entry-Only System” herein.)

The 2006 Forward Refunding Bonds are being issued to provide funds (1) to current refund certain currently outstanding obligations as described in Schedule I hereto (the “Refunded Obligations”) and (2) to pay the costs of issuance of the 2006 Forward Refunding Bonds. (See “PURPOSE AND PLAN OF FINANCING” herein.)

The 2006 Forward Refunding Bonds are payable from ad valorem taxes levied annually against all taxable property located within the City, within legal limitations, including the constitutional tax limit of \$2.50 per \$100 of assessed valuation. (See “THE 2006 FORWARD REFUNDING BONDS - Security” herein.)



The scheduled payment of principal of and interest on the 2006 Forward Refunding Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2006 Forward Refunding Bonds by **Financial Guaranty Insurance Company**. (See “BOND INSURANCE” herein.)

---

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

---

*The 2006 Forward Refunding Bonds are offered for delivery, when, as and if issued and received by the initial purchasers (the “Underwriters”), and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Fulbright & Jaworski L.L.P., San Antonio, Texas and Escamilla & Poneck, Inc., San Antonio, Texas, as Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton, L.L.P., San Antonio, Texas, and for the City by the City Attorney. (See “LEGAL MATTERS” herein.) It is expected that the 2006 Forward Refunding Bonds will be available for initial delivery on the Settlement Date through the services of DTC on or about May 9, 2006.*

**FIRST SOUTHWEST COMPANY**  
**M. E. Allison & Co., Inc.**

**Southwest Securities**

**RAMIREZ & CO., INC.**  
**Southwestern Capital Markets, Inc.**

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

**\$33,090,000 GENERAL IMPROVEMENT FORWARD REFUNDING BONDS, SERIES 2006**

Stated Maturity	Principal Amount	Interest Rate	Yield	CUSIP No. <sup>1</sup>
2009	\$ 2,400,000	5.25%	3.70%	796237DT9
2010	2,550,000	5.25%	3.83%	796237DU6
2011	5,320,000	5.25%	3.98%	796237DV4
2012	6,065,000	5.25%	4.09%	796237DW2
2013	6,420,000	5.25%	4.18%	796237DX0
2014	6,835,000	5.50%	4.27%	796237DY8
2015	1,700,000	5.50%	4.38%	796237DZ5
2016	1,800,000	5.50%	4.44%	796237EA9

**The 2006 Forward Refunding Bonds are not subject to redemption prior to stated maturity.**

<sup>1</sup> CUSIP numbers have been assigned to the 2006 Forward Refunding Bonds by Standard & Poor's CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc., and are included solely for the convenience of the owners of the 2006 Forward Refunding Bonds. Neither the City, the Underwriters, nor the Co-Financial Advisors shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

**CITY OF SAN ANTONIO, TEXAS  
ADMINISTRATION**

**CITY COUNCIL:**

<u>Name</u>	<u>Years on City Council</u>	<u>Term Expires</u>	<u>Occupation</u>
Ed Garza, Mayor	7 Years, 6 Months	May 31, 2005	Land Planner
Roger O. Flores, District 1	1 Year, 6 Months	May 31, 2005	Restaurant Owner
Joel Williams, District 2	1 Year, 6 Months	May 31, 2005	Civil Service
Ron H. Segovia, District 3	1 Year, 6 Months	May 31, 2005	Police Officer, Retired
Richard Perez, District 4	1 Year, 6 Months	May 31, 2005	Self-Employed
Patti Radle, District 5	1 Year, 6 Months	May 31, 2005	Agency Director and Teacher
Enrique M. Barrera, District 6	4 Years, 11 Months	May 31, 2005	Retired, Texas Workforce Commission
Julián Castro, District 7	3 Years, 6 Months	May 31, 2005	Attorney
Art A. Hall, District 8	1 Year, 6 Months	May 31, 2005	Attorney, Investment Banker
Carroll Schubert, District 9	3 Years, 6 Months	May 31, 2005	Attorney
Christopher "Chip" Haass, District 10	1 Year, 6 Months	May 31, 2005	Educator

**CITY OFFICIALS:**

<u>Name</u>	<u>Position</u>	<u>Years with City of San Antonio</u>	<u>Years in Current Position</u>
J. Rolando Bono <sup>(1)</sup>	Interim City Manager	27 Years, 1 Month	Appointed 10/01/2004
Melissa Byrne Vossmer	Assistant City Manager	6 Years, 7 Months	6 Years, 9 Months
Christopher J. Brady	Assistant City Manager	8 Years, 5 Months	4 Years, 1 Month
Jelynn L. Burley	Assistant City Manager	20 Years, 8 Months	2 Years, 8 Months
Frances A. Gonzalez	Assistant City Manager	20 Years, 2 Months	1 Year, 1 Month
Roland Lozano	Assistant to the City Manager	24 Years, 5 Months	3 Years, 11 Months
Erik J. Walsh	Assistant to the City Manager	10 Years, 6 Months	3 Years, 11 Months
Andrew Martin	City Attorney	2 Years, 8 Months	2 Year, 11 Months
Leticia M. Vacek	City Clerk	6 Months	6 Months
Thomas G. Wendorf	Director of Public Works	5 Years, 8 Months	3 Years, 2 Months
Milo Nitschke	Director of Finance	10 Years, 2 Months	3 Years, 5 Months
Peter Zanoni	Director of Management and Budget	7 Years, 8 Months	Appointed 09/22/2004

<sup>(1)</sup> See "THE CITY - City Manager Selection" herein.

**CONSULTANTS AND ADVISORS:**

**Co-Bond Counsel**

Fulbright & Jaworski L.L.P., San Antonio, Texas  
and Escamilla & Poneck, Inc., San Antonio, Texas

**Co-Certified Public Accountants**

KPMG L.L.P., San Antonio, Texas,  
Leal & Carter, P.C., San Antonio, Texas,  
and Robert J. Williams, CPA, San Antonio, Texas

**Co-Financial Advisors**

Coastal Securities, San Antonio, Texas  
and Estrada Hinojosa & Company, Inc., San Antonio, Texas

## USE OF INFORMATION IN THE OFFICIAL STATEMENT

This Official Statement and the information contained herein are subject to completion and amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation with respect to the 2006 Forward Refunding Bonds, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by the Co-Financial Advisors or the Underwriters and is not to be construed as a promise or guarantee of the Co-Financial Advisors or the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth hereinafter the date of this Official Statement.

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

The agreements of the City and others related to the 2006 Forward Refunding Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the 2006 Forward Refunding Bonds is to be construed as constituting an agreement with the purchasers of the 2006 Forward Refunding Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

THE 2006 FORWARD REFUNDING 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 2006 FORWARD REFUNDING BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

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

## TABLE OF CONTENTS

STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, AND CUSIP NUMBERS .....	ii
ADMINISTRATION .....	iii
USE OF INFORMATION IN THE OFFICIAL STATEMENT .....	iv
INTRODUCTION.....	1
PURPOSE AND PLAN OF FINANCING.....	1
Purpose of the 2006 Forward Refunding Bonds.....	1
Sources and Uses of the 2006 Forward Refunding Bonds.....	1
Refunded Obligations .....	2
THE 2006 FORWARD REFUNDING BONDS .....	3
General Description.....	3
Authority for Issuance of the 2006 Forward Refunding Bonds.....	3
Security .....	3
Redemption Provisions.....	4
No Redemption .....	4
Paying Agent/Registrar .....	4
Transfer, Exchange and Registration.....	4
Mutilated, Destroyed, Lost or Stolen 2006 Forward Refunding Bonds .....	4
Limitation on Transfer.....	5
Defaults and Remedies.....	5
Record Date for Interest Payment .....	5
Amendments.....	6
Defeasance .....	6
Payment Record .....	6
Book-Entry-Only System.....	6
Use of Certain Terms in Other Sections of this Official Statement .....	8
DELIVERY CONDITIONS.....	9
General .....	9
Escrow Closing .....	9
Issues Affecting Settlement of the 2006 Forward Refunding Bonds.....	9
Secondary Market Risk .....	9
Market Value Risk.....	10
Tax Law Risk .....	10
Conditions of Settlement .....	10
Termination of Bond Purchase Contract .....	10
DEBT STATEMENT: ASSESSED VALUATIONS, OUTSTANDING DEBT PAYABLE FROM AD VALOREM	
TAXES AND DEBT RATIOS .....	11
Assessed Valuation (Table 1A).....	11
Debt Payable from Ad Valorem Taxes (Table 1B) .....	12
EXISTING DEBT SERVICE AND PRINCIPAL AND INTEREST REQUIREMENTS .....	13
Principal and Interest Requirements for the 2006 Forward Refunding Bonds (Table 2).....	13
Tax Adequacy (Table 3).....	14
Interest and Sinking Fund Management Index (Table 4) .....	14
Ad Valorem Tax Debt Principal Repayment Schedule (Table 5).....	15
Debt Obligations – Capital Leases Payable (Table 6) .....	16
AD VALOREM TAXATION .....	17
Tax Data (Table 7) .....	23
DEBT AND TAX RATE LIMITATIONS.....	23
Tax Rate Distribution (Table 8) .....	24
Principal Taxpayers (Table 9) .....	24
Net Taxable Assessed Valuation for Tax Years 1995-2004 (Table 10) .....	25
Net Taxable Assessed Valuation and Ad Valorem Tax Debt (Table 11) .....	25
Authorized but Unissued Ad Valorem Tax Debt (Table 12).....	26
Classification of Assessed Valuation (Table 13).....	27
Assessed Valuation and Tax Rate of Overlapping Issuers (Table 14).....	28
Direct And Overlapping Debt Data and Information (Table 15).....	29
REVENUE SOURCES AND EXPENDITURES .....	30
Sources of Revenue.....	30
General Fund Comparative Statement of Revenues and Expenditures and Analysis of Changes in Fund Balances (Table 16).....	30
Sales Taxation .....	31
Legislation.....	31

## TABLE OF CONTENTS

Municipal Sales Taxes (Table 17).....	32
Comparison of Selected Sources of Revenues (Table 18).....	33
Expenditures for Selected Functions (Table 19).....	34
THE CITY.....	35
Governmental Structure.....	35
Services.....	35
Economic Overview.....	35
Employees.....	36
Employee Pension Plan and Benefits.....	36
City Manager Selection.....	37
Financial Accounting and Financial Policies.....	37
Debt Management.....	38
The Budget Process.....	42
Annexation.....	44
Public Improvement District.....	45
GASB Statement No. 34 Implications for the City.....	45
Investments.....	46
Certain Significant Issues Affecting The City.....	48
LITIGATION.....	51
General Litigation and Claims.....	51
TAX MATTERS.....	53
Tax Accounting Treatment of Discount or Premium on Certain Bonds.....	54
REGISTRATION AND QUALIFICATION OF 2006 FORWARD REFUNDING BONDS FOR SALE.....	55
LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS.....	55
LEGAL MATTERS.....	56
BOND INSURANCE.....	56
RATINGS.....	59
VERIFICATION OF ARITHMETICAL AND MATHEMATICAL CALCULATIONS.....	59
CONTINUING DISCLOSURE OF INFORMATION.....	59
Annual Reports.....	59
Material Event Notices.....	60
Availability of Information from NRMSIRs and SID.....	60
Limitations and Amendments.....	61
Compliance with Prior Undertakings.....	61
FORWARD-LOOKING STATEMENTS.....	61
UNDERWRITING.....	62
CO-FINANCIAL ADVISORS.....	62
CERTIFICATION OF THE OFFICIAL STATEMENT.....	62
AUTHORIZATION OF THE OFFICIAL STATEMENT.....	62
Schedule I    –    Table of Refunded Obligations	
Appendix A    –    General Information Regarding the City of San Antonio, Texas, and Bexar County	
Appendix B    –    Form of Opinion of Co-Bond Counsel	
Appendix C    –    Specimen Municipal Bond Insurance Policy	

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

(The remainder of this page is intentionally left blank.)

**OFFICIAL STATEMENT**  
**Relating to the**  
**\$33,090,000**  
**CITY OF SAN ANTONIO, TEXAS**  
**GENERAL IMPROVEMENT FORWARD REFUNDING BONDS, SERIES 2006**

**INTRODUCTION**

This Official Statement of the City of San Antonio, Texas (the "City") is provided to furnish information in connection with the sale of the "City of San Antonio, Texas General Improvement Forward Refunding Bonds, Series 2006," in the principal amount of \$33,090,000 (the "2006 Forward Refunding Bonds"). The principal amount of the 2006 Forward Refunding Bonds represents bonds issued that will be sufficient to discharge and refund certain outstanding tax-supported debt of the City hereinafter described in Schedule I (the "Refunded Obligations").

There follows in this Official Statement descriptions of the 2006 Forward Refunding Bonds, the Ordinance (defined herein), and certain other information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City at the Office of the Director of Finance, City Hall Annex, 506 Dolorosa, San Antonio, Texas 78204; or from the City's Co-Financial Advisors, Coastal Securities, 600 Navarro, Suite 350, San Antonio, Texas 78205, and Estrada Hinojosa & Company, Inc., 100 West Houston Street, Suite 1485, San Antonio, Texas 78205, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

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

**To view the City's Comprehensive Annual Financial Report ("CAFR") which includes audited financial statements for the fiscal year ending September 30, 2003, please refer to [www.sanantonio.gov/finance](http://www.sanantonio.gov/finance) and click on "CAFR". The City, as permitted by Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), incorporates by reference these audited financial statements which have been filed with the SID (defined herein) and the NRMSIRs (defined herein). If requested of the Director of Finance at the above address, the City will provide the CAFR by electronic mail or upon payment of reasonable handling, mailing, and copying charges.**

**PURPOSE AND PLAN OF FINANCING**

**Purpose of the 2006 Forward Refunding Bonds**

The 2006 Forward Refunding Bonds are being issued to provide funds: (1) to refund the Refunded Obligations; and (2) to pay the costs of issuance of the 2006 Forward Refunding Bonds.

**Sources and Uses of the 2006 Forward Refunding Bonds**

The net proceeds of \$35,340,955.35 from the sale of the 2006 Forward Refunding Bonds, which includes an original issue premium of \$2,250,955.35, will be applied, together with a cash contribution by the City on May 9, 2006, (the "Settlement Date") to fund the Escrow Fund (as hereinafter defined) for the redemption, discharge, and defeasance of the Refunded Obligations, and to pay certain costs of issuance.

The City will invest the Escrow Fund in certain Government Securities (as hereinafter defined) that will result in the City receiving \$\_\_\_\_\_ in investment income. The City will transfer this amount to the Bond Fund on the Settlement Date.

The following table summarizes the application of the proceeds resulting from the sale of the 2006 Forward Refunding Bonds, and the sources and uses of funds.

<b><i>Sources of Funds</i></b>	
Principal Amount of the 2006 Forward Refunding Bonds	\$33,090,000.00
Net Original Issue Premium	2,250,955.35
Interest & Sinking Funds on Hand	<u>400,000.00</u>
Total Sources of Funds	<u>\$35,740,955.35</u>
<b><i>Uses of Funds</i></b>	
Escrow Fund Deposit	\$35,303,293.75
Costs of Issuance and Insurance Premium	230,775.72
Underwriters' Discount	<u>206,885.88</u>
Total Uses of Funds	<u>\$35,740,955.35</u>

### **Refunded Obligations**

The Refunded Obligations, and interest due thereon, are to be paid from funds deposited with JPMorgan Chase Bank, National Association, Dallas, Texas (the "Escrow Agent") or its successor in the total amount of principal plus redemption premium, if any, and plus accrued interest to August 1, 2006, which is the redemption date for the Refunded Obligations. 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 2006 Forward Refunding Bonds on the Settlement Date, from a portion of the proceeds of the sale of the 2006 Forward Refunding 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 2006 Forward Refunding Bonds on the Settlement Date, 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.

Grant Thornton LLP, Minneapolis, Minnesota, certified public accountants, will verify at the time of delivery of the 2006 Forward Refunding Bonds to the Underwriters that the direct obligations of the United States of America (the "Federal Securities") purchased with certain proceeds of the 2006 Forward Refunding Bonds will mature and pay interest, without reinvestment, at such times and in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. Such maturing principal of and interest on the Federal Securities will not be available to pay the debt service requirements on the 2006 Forward Refunding Bonds.

By the deposit of the cash and Federal Securities, if any, with the Escrow Agent pursuant to the Ordinance and the Escrow Agreement, Co-Bond Counsel is of the opinion that the City will have entered into firm banking and financial arrangements for the final payment and discharge of the Refunded 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.

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

## THE 2006 FORWARD REFUNDING BONDS

### General Description

Interest on the 2006 Forward Refunding Bonds accrues from the Settlement Date and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2006. The principal of and interest on the 2006 Forward Refunding Bonds are payable in the manner described herein under "Book-Entry-Only System." In the event the Book-Entry-Only System is discontinued, the interest on the 2006 Forward Refunding Bonds will be payable to the registered owner as shown on the security register maintained by JPMorgan Chase Bank, National Association, Dallas, Texas, as the initial Paying Agent/Registrar, as of the fifteenth (15<sup>th</sup>) 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 2006 Forward Refunding Bonds will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the designated payment office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the 2006 Forward Refunding Bonds is a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized to close or the United States Post Office is not open for business, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

### Authority for Issuance of the 2006 Forward Refunding Bonds

The 2006 Forward Refunding Bonds are issued pursuant to the Home Rule Charter of the City (the "City Charter"); the general laws of the State of Texas (the "State"), particularly Chapter 1207, Texas Government Code, as amended; and the ordinance adopted by the City Council of the City (the "City Council") on November 18, 2004 authorizing the issuance of the 2006 Forward Refunding Bonds (the "Ordinance"). The proceeds of the 2006 Forward Refunding Bonds will be utilized to redeem, discharge, and defease the Refunded Obligations and pay certain costs of issuance for the 2006 Forward Refunding Bonds. As permitted by Texas law, in the Ordinance, the City Council delegated to the Interim City Manager, or his designee, the ability to execute a pricing certificate approving the final maturity schedule, redemption provisions, and the other pricing terms with respect to the 2006 Forward Refunding Bonds. This pricing certificate was executed by the Interim City Manager on December 2, 2004.

### Security

#### *Ad Valorem Tax Pledge*

In the Ordinance, the City covenants that it will levy and collect an annual ad valorem tax within the limitations prescribed by law against all taxable property located within the City sufficient to meet the debt service requirements on the 2006 Forward Refunding Bonds. The City had outstanding, as of November 15, 2004, \$887,436,140 in principal amount of tax-supported obligations prior to the issuance of the 2006 Forward Refunding Bonds. After effectuating delivery of the 2006 Forward Refunding Bonds on or about May 9, 2006, the City's outstanding principal amount of indebtedness payable from ad valorem taxes will be \$805,650,124, assuming no other ad valorem tax-supported obligations are issued by the City prior to such date.

#### *Tax Rate Limitations*

The State Constitution and the City Charter provide that the ad valorem taxes levied by the City for general purposes and for the purpose of paying the principal of and interest on the City's indebtedness must not exceed \$2.50 for each \$100 of assessed valuation of taxable property. There is no constitutional or statutory limitation within the \$2.50 rate for interest and sinking fund purposes; however, the Texas Attorney General, who must approve the issuance of the 2006 Forward Refunding Bonds, has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from \$1.50 of the foregoing \$2.50 maximum tax rate calculated at 90% collections. In addition, the City has a City Charter

provision that limits the amount of debt payable from the ad valorem tax proceeds. This City Charter provision prohibits the total debt of the City from exceeding 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of any indebtedness secured in whole or in part by special assessments, exclusive of the debt of any improvement district, and exclusive of any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. The issuance of the 2006 Forward Refunding Bonds does not result in the City's violation of these provisions.

### **Redemption Provisions**

#### **No Redemption**

The 2006 Forward Refunding Bonds are not subject to redemption prior to stated maturity.

#### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is JPMorgan Chase Bank, National Association, Dallas, Texas. 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 2006 Forward Refunding Bonds are duly paid. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the City, must be a bank, trust company, financial institution, or other entity duly qualified and legally authorized to serve as a Paying Agent/Registrar for the 2006 Forward Refunding Bonds. Upon a change in the Paying Agent/Registrar for the 2006 Forward Refunding Bonds, the City will promptly cause written notice thereof to be sent to each registered owner of the 2006 Forward Refunding Bonds by United States mail, first-class, postage prepaid.

#### **Transfer, Exchange and Registration**

In the event the 2006 Forward Refunding Bonds are not in the Book-Entry-Only System, the 2006 Forward Refunding 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 2006 Forward Refunding Bond may be assigned by the execution of an assignment form on the 2006 Forward Refunding Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new 2006 Forward Refunding Bond will be delivered by the Paying Agent/Registrar in lieu of the 2006 Forward Refunding 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 2006 Forward Refunding Bonds issued in an exchange or transfer of 2006 Forward Refunding 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 2006 Forward Refunding 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 2006 Forward Refunding 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 2006 Forward Refunding Bonds surrendered for exchange or transfer. (See "THE 2006 FORWARD REFUNDING BONDS - Book-Entry-Only System" herein for a description of the system to be utilized in regard to ownership and transferability of the 2006 Forward Refunding Bonds.)

#### **Mutilated, Destroyed, Lost or Stolen 2006 Forward Refunding Bonds**

The City has agreed to replace damaged, mutilated, destroyed, lost, or stolen 2006 Forward Refunding Bonds upon surrender of the damaged or mutilated 2006 Forward Refunding 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 2006 Forward Refunding Bonds during the period commencing at the close of business on the Record Date (as hereinafter defined) and ending at the opening of business on the next interest payment date.

### **Defaults and Remedies**

The Ordinance does not establish specific events of default or remedies with respect to the 2006 Forward Refunding Bonds. If the City defaults in the payment of the principal and interest on any 2006 Forward Refunding Bond when due, or defaults in the observance or performance of any covenants, conditions, or obligations set forth in the Ordinances any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, conditions, or obligations. Such right is in addition to any other rights the registered owners of 2006 Forward Refunding Bonds may be provided by the laws of the State. Under State law, there is no right to the acceleration of maturity of the 2006 Forward Refunding Bonds upon the failure of the City to observe any covenant under the Ordinance. Although a registered owner of 2006 Forward Refunding Bonds could presumably obtain a judgment against the City if a default occurred in payment of principal of or interest on any such 2006 Forward Refunding 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 levy, assess, and collect an annual ad valorem tax sufficient to pay principal of and interest on the 2006 Forward Refunding 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 holders of the 2006 Forward Refunding Bonds upon any failure of the City to perform in accordance with the terms of such Ordinance, or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation debt of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce remedies would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court), and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Co-Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the 2006 Forward Refunding Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

### **Record Date for Interest Payment**

The record date for determining the person to whom the interest is payable on any interest payment date (the "Record Date") is the fifteenth (15<sup>th</sup>) day of the month next preceding such interest payment date, as specified in the Ordinance. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new Record Date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which must be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a 2006 Forward Refunding 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.

## **Amendments**

The City may amend, change, or modify the Ordinance without the consent of or notice to any registered owners, as may be required (1) by the provisions of the Ordinance; (2) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission therein; or (3) in connection with any other change which is not to the prejudice of the registered owners. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the 2006 Forward Refunding Bonds then outstanding and affected thereby, amend, change, modify, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the 2006 Forward Refunding Bonds affected, no such amendment, change, modification, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any 2006 Forward Refunding Bonds is due and payable, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, or interest on the 2006 Forward Refunding Bonds; (2) give any preference to any 2006 Forward Refunding Bonds over any other 2006 Forward Refunding Bonds; (3) extend any waiver of default to subsequent defaults; or (4) reduce the respective aggregate principal amount of 2006 Forward Refunding Bonds required for consent to any amendment, change, modification, or rescission.

## **Defeasance**

The Ordinance provides for the defeasance of the 2006 Forward Refunding Bonds when the payment of the principal of the 2006 Forward Refunding Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or otherwise) is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment; and/or (2) Government Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation, and expenses of the paying agent for the 2006 Forward Refunding Bonds. The Ordinance provides that "Government Securities" means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and (ii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

## **Payment Record**

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

## **Book-Entry-Only System**

This section describes how ownership of the 2006 Forward Refunding Bonds is to be transferred and how the principal of, premium, if any, and interest on the 2006 Forward Refunding Bonds are to be paid to and credited by The Depository Trust Company, New York, New York ("DTC"), while the 2006 Forward Refunding Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the 2006 Forward Refunding Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the 2006 Forward Refunding Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable

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

DTC will act as securities depository for the 2006 Forward Refunding Bonds. The 2006 Forward Refunding 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 2006 Forward Refunding Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

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 certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, 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](http://www.dtcc.com).

Purchases of the 2006 Forward Refunding Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2006 Forward Refunding Bonds on DTC's records. The ownership interest of each actual purchaser of the 2006 Forward Refunding 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 2006 Forward Refunding Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2006 Forward Refunding Bonds, except in the event that use of the book-entry system for the 2006 Forward Refunding Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2006 Forward Refunding 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 2006 Forward Refunding Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2006 Forward Refunding Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2006 Forward Refunding Bond documents. For example, Beneficial Owners of the 2006 Forward Refunding Bonds may wish to ascertain that the nominee holding the 2006 Forward Refunding 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 2006 Forward Refunding 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 2006 Forward Refunding Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, and interest payments on the 2006 Forward Refunding 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 principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2006 Forward Refunding Bonds at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor depository is not obtained, 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, 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 2006 Forward Refunding 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 2006 Forward Refunding Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Direct Participant or Indirect Participant acquires an interest in the 2006 Forward Refunding 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.

## **DELIVERY CONDITIONS**

### **General**

The City anticipates that the 2006 Forward Refunding Bonds will be issued and delivered on or about May 9, 2006 (the "Settlement Date").

The following is a description of certain provisions of the Forward Delivery Bond Purchase Contract between the City and the Underwriters with respect to the 2006 Forward Refunding Bonds (the "Bond Purchase Contract"). This description is not to be considered a full statement of the terms of the Bond Purchase Contract and accordingly is qualified by reference thereto and is subject to the full text thereof.

### **Escrow Closing**

Upon the satisfaction of certain conditions described below and in the Bond Purchase Contract, including the execution and delivery of the certificates, opinions and other documents in accordance with the terms and conditions as set forth in the Bond Purchase Contract (such transactions are collectively referred to herein as the "Escrow Closing"), which is scheduled to occur on December 21, 2004 (the "Escrow Closing Date"), the City shall be obligated to deliver, or to cause to be delivered, fully executed 2006 Forward Refunding Bonds to the Paying Agent/Registrar to be held in escrow. In addition, on the Escrow Closing Date, the City will deliver to the Paying Agent/Registrar an irrevocable letter of instruction directing the Paying Agent/Registrar to authenticate and deliver the 2006 Forward Refunding Bonds on the Settlement Date subject to the conditions specified in the Bond Purchase Contract. The Underwriters shall be obligated to fund the purchase of the 2006 Forward Refunding Bonds, subject to such compliance, on the Settlement Date. The 2006 Forward Refunding Bonds will be executed on the Escrow Closing Date, but will not be issued and delivered until the Settlement Date. The opinion of the Attorney General of Texas and the final, approving opinion of Co-Bond Counsel will not be delivered until the Settlement Date.

### **Issues Affecting Settlement of the 2006 Forward Refunding Bonds**

Delivery of the 2006 Forward Refunding Bonds is contingent upon the delivery of certain certificates, reports, and legal opinions, and the satisfaction of other conditions as of the Settlement Date, as provided in the Bond Purchase Contract. Events which may prevent those conditions from being satisfied include, among others, (i) changes in law affecting the City, the validity or enforceability of the Ordinance, the 2006 Forward Refunding Bonds, the Escrow Agreement, or the tax-exempt status thereof as described below, (ii) the filing of certain types of litigation affecting the authorization, issuance or tax-exempt status of the 2006 Forward Refunding Bonds, (iii) the occurrence of an event of default, technical or otherwise, under the Ordinance, (iv) the failure of Financial Guaranty Insurance Company (the "Bond Insurer") to issue a bond insurance policy relating to the 2006 Forward Refunding Bonds (the "Bond Insurance Policy") on the Settlement Date, or (v) the failure to receive a rating of "Aaa," "AAA," and "AAA," respectively, by Moody's Investors Service, Inc., Fitch Ratings, and Standard & Poor's Ratings Service, on the Settlement Date.

During the period of time between the date of this final Official Statement for the 2006 Forward Refunding Bonds and the issuance and delivery of the 2006 Forward Refunding Bonds (the "Delayed Delivery Period"), certain information contained in this final Official Statement could change in a material respect. The City has agreed to update this final Official Statement at least ten (10) days prior to delivery of the 2006 Forward Refunding Bonds and to provide an updated Official Statement to purchasers of the 2006 Forward Refunding Bonds prior to the Settlement Date. Any changes in such information will not permit the Underwriters to terminate the Bond Purchase Contract unless the change is an event described under "Termination of Bond Purchase Contract" below. In addition to the risks set forth above, purchasers of the 2006 Forward Refunding Bonds are subject to certain additional risks, some of which are described below.

### **Secondary Market Risk**

The Underwriters are not obligated to make a secondary market in the 2006 Forward Refunding Bonds and no assurance can be given that a secondary market will exist for the 2006 Forward Refunding Bonds during the

Delayed Delivery Period. Purchasers of the 2006 Forward Refunding Bonds should assume that the 2006 Forward Refunding Bonds will be illiquid throughout the Delayed Delivery Period.

### **Market Value Risk**

The market value of the 2006 Forward Refunding Bonds as of the Settlement Date may be affected by a variety of factors including, without limitation, general market conditions, the ratings on the 2006 Forward Refunding Bonds, the financial condition and business operations of the City and the Bond Insurer, federal and state income tax and other laws, and changes in the City's ad valorem tax base. The market value of the 2006 Forward Refunding Bonds on the Settlement Date therefore could be greater or less than the agreed purchase price therefor by the initial purchasers thereof, and the difference could be substantial. Neither the City nor the Underwriters make any representation as to the market price of the 2006 Forward Refunding Bonds as of the Settlement Date.

### **Tax Law Risk**

Subject to the additional conditions of settlement described under "Conditions of Settlement" and "Termination of Bond Purchase Contract" below, the Bond Purchase Contract obligates the City to deliver and the Underwriters to acquire the 2006 Forward Refunding Bonds if the City delivers an opinion of Co-Bond Counsel substantially in the form and to the effect set forth in APPENDIX B or to the effect that (1) the interest on such bonds is not includable in the gross income of the holders thereof for federal income tax purposes by virtue of Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") (or the comparable provisions of any successor federal income tax laws) or (2) notwithstanding a change in law from that existing on the Escrow Closing Date which affects the treatment, for tax purposes, the interest on the 2006 Forward Refunding Bonds is not subject to any currently imposed federal income tax. During the Delayed Delivery Period, new legislation, new court decisions, new regulations, or new rulings may be enacted, promulgated, or interpreted which might prevent Co-Bond Counsel from rendering its opinion or otherwise affect the substance of such opinion. Notwithstanding that the enactment of new legislation, new court decisions, or the promulgation of new regulations or rulings might diminish the value of, or otherwise affect, the federal tax exemption for interest payable on "state or local bonds", the City might be able to satisfy the requirements for the delivery of the 2006 Forward Refunding Bonds. In such event the Underwriters would be required to accept delivery of the 2006 Forward Refunding Bonds. Prospective purchasers are encouraged to consult their tax advisors regarding the likelihood of any changes in tax law and the consequences of such changes to the purchasers.

### **Conditions of Settlement**

The settlement and the issuance of the 2006 Forward Refunding Bonds on the Settlement Date will not require further authorization or action by the City Council. The documents to be delivered on the Settlement Date include, among other items, the opinion of Co-Bond Counsel in substantially the form set forth as APPENDIX B hereto and certain opinions of Co-Bond Counsel (see "Tax Law Risk" above), the City Attorney, and Underwriters' Counsel and a certificate of the City as to the completeness and accuracy of the updated Official Statement (the "Updated Official Statement") relating to the 2006 Forward Refunding Bonds, which the Bond Purchase Contract requires the City to prepare and furnish to the Underwriters, as such Updated Official Statement may have been supplemented and amended to the Settlement Date.

### **Termination of Bond Purchase Contract**

The Underwriters may terminate the Bond Purchase Contract by notification to the City if, at any time on or prior to the Settlement Date, certain events described in the Bond Purchase Contract occur including the following: (a) as a result of any legislation, regulation, ruling, order, release, court decision or judgment, or action by the United States Department of the Treasury, the Internal Revenue Service, or the Securities and Exchange Commission, either issued, effective adopted, or proposed, (i) Co-Bond Counsel cannot issue an opinion to the effect set forth above under "Tax Law Risk" or (ii) the offering or sale of the 2006 Forward Refunding Bonds would be in violation of any provision of the Securities Act of 1933, as amended, and as then in effect (the "1993 Act"), the Securities Exchange Act of 1934, as amended and as then in effect, or the Trust Indenture Act of 1939, as amended and as then in effect, or the offering or sale of the 2006 Forward Refunding Bonds would be subject to registration under

the 1933 Act or similar federal law; (b) for any other reason Co-Bond Counsel cannot deliver the opinion referenced above; (c) the occurrence of an event of default, technical or otherwise, under the Ordinance; (d) the Bond Insurer fails to issue the Bond Insurance Policy on the Settlement Date; or (e) the 2006 Forward Refunding Bonds are not rated “Aaa,” “AAA,” and “AAA,” respectively, by Moody’s Investors Service, Inc., Fitch Ratings, or Standard & Poor’s Ratings Service on the Settlement Date.

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

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

<b>Assessed Valuation<sup>1</sup></b>	<b>Table 1A</b>
<b>Tax Year 2004 Actual Market Value of Taxable Property</b>	<b>\$ 51,740,621,099</b>
Less:	
Optional 65 Years of Age & Older Homestead Exemptions	\$ 3,759,057,491
Optional 65 Years of Age & Older Homestead Exemptions Prorated	3,145,268
Disabled and Deceased Veterans' Exemption	126,751,721
Freeport Exemption	265,407,110
Article 8, Sec. 1-d-1 Special Appraisals	275,774,401
Tax Phase-In Exemptions	411,469,662
Historical Exemptions	34,787,788
Historical Preservation Area	2,469,320
Appraised Value Limitations	133,821,117
Absolute Exemptions Pro-rated	<u>19,995,708</u>
Total Exemptions	\$ 5,032,679,586
<b>Tax Year 2004 Net Taxable Assessed Valuation (100% of Actual Market)</b>	<b>\$ 46,707,941,513</b>

<sup>1</sup> See “AD VALOREM TAXATION” herein for a description of the City’s taxation procedures. Based on Tax Year 2004 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 25, 2004.

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

<b>The Outstanding Ad Valorem Tax-Supported Debt (at 9/30/04) <sup>1</sup></b>	
General Improvement Bonds	\$ 668,386,140
Combination Tax and Revenue Certificates of Obligation	214,470,000
Taxable Combination Tax and Revenue Certificates of Obligation	<u>4,580,000</u>
<b>Total Ad Valorem Tax-Supported Debt (at 9/30/04)</b>	<b>\$ 887,436,140</b>
<b>The 2006 Forward Refunding Bonds</b>	<b>\$ 33,090,000</b>
<b>Less:</b>	
<b>Outstanding Obligations to be Refunded with 2006 Forward Refunding Bonds (See Schedule I)</b>	<b>\$ 34,400,000</b>
<b>Total Gross Outstanding Ad Valorem Tax Debt <sup>2</sup></b>	<b>\$ 886,126,140</b>
<i>Less: Self-Supporting Debt (at 9/30/04) <sup>3</sup></i>	<u>14,137,187</u>
<b>Total Net Debt Payable from Ad Valorem Taxes</b>	<b><u>\$ 871,988,953</u></b>
Interest and Sinking Fund Balance at 9/30/04 <sup>4</sup>	\$ 59,251,057
Ratio of Gross Debt to Actual Market Value	1.713%
Ratio of Gross Debt to Net Taxable Assessed Value	1.897%
Ratio of Net Debt to Actual Market Value	1.685%
Ratio of Net Debt to Net Taxable Assessed Value	1.867%
Tax Year 2004 Actual Market Value of Taxable Property	\$ 51,740,621,099
Tax Year 2004 Net Taxable Assessed Valuation (100% of Actual Market) <sup>5</sup>	\$ 46,707,941,513
Per Capita 2004 Net Taxable Assessed Valuation <sup>6</sup>	\$ 36,422
Per Capita Gross Debt <sup>6</sup>	\$ 691
Per Capita Net Debt <sup>6</sup>	\$ 680

<sup>1</sup> Includes the Refunded Obligations.

<sup>2</sup> Includes the 2006 Forward Refunding Bonds.

<sup>3</sup> To maintain this debt as self-supporting, payments will be made from the operation of the Parking System and Hotel-Motel Tax Funds. Commencing with fiscal year 2002, the Golf Course Fund is no longer considered a self-supporting debt.

<sup>4</sup> Unaudited.

<sup>5</sup> See "AD VALOREM TAXATION" for a description of the City's taxation procedures, including determination of net assessed valuation.

<sup>6</sup> Based on the City of San Antonio Planning Department estimated population of 1,282,400 for calendar year ending December 31, 2004 (figure includes those individuals residing within areas expected to be annexed by the City by such date).

**EXISTING DEBT SERVICE AND PRINCIPAL AND INTEREST REQUIREMENTS**

The following table describes the existing debt service payable from ad valorem taxes, which includes self-supporting debt.

**Principal and Interest Requirements**

**Table 2**

Fiscal Year Ended 9/30	The 2006 Forward Refunding Bonds					Total Debt Service Requirement
	Existing Debt Service <sup>1</sup>	Refunded Debt Service	Principal	Interest	Annual Debt Service	
2005	\$ 104,479,791					\$ 104,479,791
2006	103,136,938	\$ 903,294	\$ 0	\$ 401,586	\$ 401,586	102,635,230
2007	103,005,571	1,806,588	0	1,763,063	1,763,063	102,962,046
2008	105,466,888	1,806,588	0	1,763,063	1,763,063	105,423,363
2009	103,375,751	4,601,588	2,400,000	1,763,063	4,163,063	102,937,226
2010	103,780,883	4,621,838	2,550,000	1,637,063	4,187,063	103,346,108
2011	103,991,695	7,258,178	5,320,000	1,503,188	6,823,188	103,556,705
2012	78,273,005	7,295,928	6,065,000	1,223,888	7,288,888	78,265,965
2013	79,504,143	7,333,148	6,420,000	905,475	7,325,475	79,496,470
2014	62,809,136	7,407,440	6,835,000	568,425	7,403,425	62,805,121
2015	44,738,019	1,902,000	1,700,000	192,500	1,892,500	44,728,519
2016	40,454,744	1,905,750	1,800,000	99,000	1,899,000	40,447,994
2017	35,770,018					35,770,018
2018	35,769,061					35,769,061
2019	33,924,943					33,924,943
2020	30,591,489					30,591,489
2021	25,605,923					25,605,923
2022	23,289,325					23,289,325
2023	11,590,950					11,590,950
2024	4,228,938					4,228,938
	\$ 1,233,787,211	\$ 46,842,340	\$ 33,090,000	\$ 11,820,314	\$ 44,910,314	\$ 1,231,855,185

<sup>1</sup> Does not include the Refunded Obligations.

**Tax Adequacy****Table 3**

2004 Net Taxable Assessed Valuation <sup>1</sup>	\$46,707,941,513
Maximum Annual Debt Service Requirements, Fiscal Year Ended 2008	105,423,363
Indicated Interest and Sinking Fund Tax Rate	0.225708
Indicated Interest and Sinking Fund Tax Levy at 97.5% Collections	0.231495

<sup>1</sup> Based on tax year 2004 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 25, 2004.

*Note: See "TAX DATA" herein.*

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

Interest and Sinking Fund Balance, Fiscal Year Ended 9/30/04 <sup>1</sup>	\$ 59,251,057
2005 Actual Interest and Sinking Fund Rate	\$ 0.2115
2004 Interest and Sinking Fund Tax Levy at 97.5% Collections Produces <sup>2</sup>	\$ 96,317,613
Total Available for Debt Service	\$ 155,568,670
Less: Ad Valorem Debt Service Requirements, Fiscal Year Ended 9/30/05	\$ 104,479,791
Estimated Surplus at Fiscal Year Ended 9/30/05 <sup>2</sup>	\$ 51,088,879

<sup>1</sup> Unaudited.

<sup>2</sup> Does not include revenues derived from self-supporting debt operations, delinquent tax collections, penalties and interest on delinquent tax collections, or investment earnings.

**Ad Valorem Tax Debt Principal Repayment Schedule**

**Table 5**

<u>Fiscal Year Ended 9/30</u>	<u>Currently Outstanding Obligations</u>	<u>Refunded Obligations</u>	<u>2006 Forward Refunding Bonds</u>	<u>Combined Principal</u>	<u>Obligations Remaining Outstanding End of Year</u>	<u>Percent of Principal Retired</u>	<u>Cumulative Percent of Principal Retired</u>
2005	\$ 56,846,016			\$ 56,846,016	\$ 862,100,124	6.42%	6.42%
2006	58,080,124			58,080,124	804,020,000	6.56%	12.97%
2007	65,160,000			65,160,000	738,860,000	7.35%	20.33%
2008	70,870,000			70,870,000	667,990,000	8.00%	28.32%
2009	72,560,000	\$ 2,795,000	\$ 2,400,000	72,165,000	593,695,000	8.14%	36.46%
2010	76,200,000	2,955,000	2,550,000	75,795,000	515,350,000	8.56%	45.02%
2011	80,175,000	5,745,000	5,320,000	79,750,000	430,280,000	9.00%	54.02%
2012	58,380,000	6,070,000	6,065,000	58,375,000	365,840,000	6.59%	60.61%
2013	62,750,000	6,435,000	6,420,000	62,735,000	296,685,000	7.08%	67.69%
2014	49,145,000	6,860,000	6,835,000	49,120,000	240,730,000	5.54%	73.23%
2015	33,460,000	1,725,000	1,700,000	33,435,000	205,595,000	3.77%	77.00%
2016	30,820,000	1,815,000	1,800,000	30,805,000	172,990,000	3.48%	80.47%
2017	27,685,000			27,685,000	145,305,000	3.12%	83.60%
2018	29,155,000			29,155,000	116,150,000	3.29%	86.89%
2019	28,810,000			28,810,000	87,340,000	3.25%	90.14%
2020	26,900,000			26,900,000	60,440,000	3.04%	93.18%
2021	23,190,000			23,190,000	37,250,000	2.62%	95.80%
2022	22,000,000			22,000,000	15,250,000	2.48%	98.28%
2023	11,120,000			11,120,000	4,130,000	1.26%	99.53%
2024	4,130,000			4,130,000	0	0.47%	100.00%
	\$887,436,140	\$34,400,000	\$33,090,000	\$886,126,140			

(The remainder of this page is intentionally left blank.)

**Debt Obligations – Capital Leases Payable**

**Table 6**

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, fire trucks, golf operations equipment, public works equipment, a high capacity trailer, a library automation system, and a hazardous materials (“HAZMAT”) vehicle. Shown below is the gross value of the assets at September 30, 2003. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council. The following is a schedule of the projected remaining future minimum lease payments under these capital leases together with the present value of the net minimum lease payments as of September 30, 2003.

Description	Lease Termination Date	Present Value Of Minimum Lease Payments	Amount Representing Interest	Total Future Minimum Lease Payments
Color Copier	12/01/2007	\$ 114,333	\$ 25,352	\$ 139,685
Computer, Laptop CDPD	05/01/2005	178,030	5,833	183,863
Computer, Mainframe	11/01/2003	67,289	740	68,029
Document Publishing System	04/01/2007	267,408	25,649	293,057
Fire Personal Protective Equipment	11/01/2005	650,186	43,326	693,512
Fire Truck, Aerial	11/01/2005	712,900	47,505	760,405
Fire Truck, Ladder	05/01/2007	502,757	38,108	540,865
Fire Truck, Platform	05/01/2007	514,638	39,009	553,647
Fire Truck, Pumper	11/01/2003	115,296	1,482	116,778
Fire Truck, Pumper	05/01/2005	703,353	23,044	726,397
Fire Truck, Pumper	05/01/2005	703,534	23,050	726,584
Golf Cart Equipment	03/01/2004	19,892	244	20,136
Golf Turf Equipment	11/01/2005	209,141	13,936	223,077
Golf Turf Equipment	05/01/2007	159,404	12,082	171,486
HAZMAT Vehicle	05/01/2005	185,001	6,061	191,062
Library Automation System	05/01/2008	718,282	49,649	767,931
Public Works Equipment	05/01/2007	441,026	33,429	474,455
Stormwater Tractor Trailers	05/01/2008	383,970	26,541	410,511
Street Maintenance Equipment	05/01/2008	3,153,527	217,978	3,371,505
Trailer, High Capacity	05/01/2007	543,775	41,217	584,992
Total		<u>\$ 10,343,742</u>	<u>\$ 674,235</u>	<u>\$ 11,017,977</u>

(The remainder of this page is intentionally left blank.)

On May 15, 2001, the City became obligated to pay \$14,465,000 in lease revenue bonds issued through the City of San Antonio, Texas Municipal Facilities Corporation (the "Corporation") to provide funds for the construction of the "One Stop Development Services Center," a municipal office facility. The City and the Corporation entered into a lease whereby the Corporation agreed to cause such facility to be built and leased by the City, and the City agreed to annually appropriate funds to pay lease payments sufficient to pay principal and interest on the Bonds when due. The lease commenced on May 15, 2001 and the City has budgeted \$1.180 million for lease payments during fiscal year 2004. The table below shows the debt service schedule for the aforementioned bonds. In addition to the debt service on these bonds, the lease payments include other expenses related to the operation and maintenance of the facility.

Fiscal Year Ended 09/30	Principal	Interest	Annual Debt Service
2004	\$ 550,000	\$ 630,117.50	\$ 1,180,117.50
2005	570,000	610,180.00	1,180,180.00
2006	600,000	588,520.00	1,188,520.00
2007	610,000	564,820.00	1,174,820.00
2008	640,000	539,810.00	1,179,810.00
2009	670,000	512,930.00	1,182,930.00
2010	695,000	483,785.00	1,178,785.00
2011	725,000	452,857.50	1,177,857.50
2012	760,000	420,232.50	1,180,232.50
2013	800,000	384,892.50	1,184,892.50
2014	835,000	346,492.50	1,181,492.50
2015	875,000	305,577.50	1,180,577.50
2016	920,000	261,827.50	1,181,827.50
2017	965,000	215,367.50	1,180,367.50
2018	1,015,000	166,152.50	1,181,152.50
2019	1,065,000	113,880.00	1,178,880.00
2020	1,125,000	58,500.00	1,183,500.00
	<u>\$ 13,420,000</u>	<u>\$ 6,655,942.50</u>	<u>\$ 20,075,942.50</u>

## AD VALOREM TAXATION

### Authority to Levy Ad Valorem Taxes; Tax Rate Limitations

The City is authorized to levy an annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City in an amount sufficient to pay the principal of and interest on debt payable therefrom. The City is also authorized to levy an annual ad valorem tax for operations and maintenance purposes. The maximum rate that may be levied by the City for all City purposes is \$2.50 per \$100 assessed valuation as provided in Article XI, Section 5 of the Texas Constitution and as provided in the City Charter, which adopts this constitutional limitation. No direct funded debt limitation is imposed on the City under current Texas law; however, the Texas Attorney General has adopted an administrative policy that prohibits the issuance of general obligation debt by a municipality, such as the City, if the issuance produces debt service requirements exceeding that which can be paid from \$1.50 of the foregoing \$2.50 maximum tax rate calculated at 90% of collections. In addition, the City Charter provides that the total bonded debt of the City must never exceed 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of (1) any indebtedness secured in whole or in part by special assessments; (2) the bonded debt of any improvement district; and (3) any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. The issuance of the 2006 Forward Refunding Bonds does not violate these limitations. (See "DEBT AND TAX RATE LIMITATIONS" herein.)

## **Texas Property Tax Code and County-Wide Appraisal District**

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

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Bexar Appraisal District (the “Appraisal District”) has the responsibility for appraising property for all taxing units within Bexar County. Two and one half (2½) acres of the City’s taxable property lie in Comal County. The Comal Appraisal District has the responsibility for appraising property for all taxing units within Comal County. Such appraisal values are subject to review and change by the Bexar Appraisal Review Board and the Comal Appraisal Review Board.

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

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

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

## **Property Subject to Taxation by the City**

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

## **Residential Homestead Exemptions**

The Property Tax Code authorizes the governing body of each political subdivision in the State, at its option, to exempt up to 20% of the appraised value of residential homesteads from ad valorem taxation. The City may be required to offer such an exemption if a majority of voters approve it at an election. The City would be required to call such an election upon petition by 20% of the number of qualified voters who voted in the preceding election. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of this additional residence homestead exemption may be considered each year, but must be adopted by July 1. Additionally, the City may grant an exemption to an individual who is disabled or is 65 years of age or older in a fixed amount of no less than \$3,000 of assessed value. The City currently grants a \$65,000 residential

homestead exemption to only persons 65 years of age or older effective immediately upon their 65<sup>th</sup> birthday. Effective for fiscal year 2006 (tax year 2005), the City will grant a disabled residential homestead exemption in the amount of \$12,500.

### **Disabled/Deceased Veterans' Exemptions**

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

### **Historical Property Exemptions**

The City has granted an exemption to historically significant sites in need of tax relief to encourage preservation. Commercial buildings that meet definitions of historical sites and that have been substantially rehabilitated or restored will be exempt from taxation by the City for five tax years, and thereafter, will be taxed by the City at 50% of current assessed value for an additional five years. For the purposes of levying taxes, residential buildings meeting the definition of historical sites and having been substantially rehabilitated or restored will for a period of ten years retain the property value assessed prior to such rehabilitation or restoration.

### **Historical Preservation Area Exemptions**

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

### **Freeport Goods Exemptions**

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

### **Article 8, Section 1-d-1 Special Appraisals**

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

### **Proposition 13**

Proposition 13, an amendment to the Texas Constitution approved on September 13, 2003, allows the governing bodies of counties, cities, towns, and junior college districts to impose a ceiling on the amount of property taxes that could be imposed on residence homesteads owned by the elderly or disabled. Property taxes could not increase as long as the residences are maintained as homesteads by the owners who are disabled or have reached the age of sixty-five (65) or their spouses who are disabled or are at least sixty-five (65) years of age.

Alternatively, upon receipt of a petition signed by at least five percent (5%) of the political subdivision's registered voters, a local governing body would have to call an election to determine by majority vote whether to impose a ceiling on taxes for elderly and disabled homeowners.

The amendment allows the transfer of the property tax ceiling upon the death of a disabled or 65 years of age or older homeowner to a surviving spouse who was 55 years of age or older when the owner died, as long as the spouse claimed the property as a residence homestead. A taxing entity could increase taxes on such homesteads only to the extent that homeowners made improvements, other than governmentally required repairs or improvements that increase the property's appraised value.

City Council has directed City staff to draft a resolution to place Proposition 13 on the ballot for a public vote on May 7, 2005. Should Proposition 13 be approved by the voters, the City would realize the reduction on tax revenues beginning in fiscal year 2007, assuming appraised values and/or tax rates increase.

### **Tax Phase-In Agreements**

The City may designate areas within the City as a reinvestment zone. Thereafter, the City may enter into a tax phase-in agreement with owners of property within the zone. Before entering into a tax phase-in agreement, each entity must adopt guidelines and criteria for establishing agreements. Each entity with taxing authority over the designated property may follow in granting tax phase-in agreements. The tax phase-in agreement may exempt from ad valorem taxation all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed. The property is exempt on the condition that the property owner makes specified improvements and created jobs at the property in conformity with the terms of the tax phase-in agreement. Tax phase-in agreements approved after the passing of City Ordinance #88091 on July 2, 1998 were required to meet a wage standard. An agreement may include each of the applicable taxing jurisdictions, including the City, for a period of up to 10 years. The City and County tax phase-in agreements are not required to be substantially the same, with the exception of projects located in a State-designated enterprise zone. Since 1989, the City has entered into 54 tax phase-in agreements; 31 are active; and 23 have expired or are inactive. The following table depicts, as of November 1, 2004, the City's 31 active tax phase-in agreements.

#### ***Active Tax Phase-In Agreements***

Company	Phase-In Period	Phase-In Term (Years)	Percent of Phase-In (Type of Property)
Gruma/Mission Foods	1995-2004	10	Real @ 50%
McCarley/Texas Beverages	1995-2004	10	Real @ 50%
Security Capital/Gaylord Containers	1995-2004	10	Real @ 100%; Personal @ 80%
World Savings & Loan	1995-2004	10	Real & Personal @ 100%
York International	1995-2004	10	Real @ 75%
Silver Rio (Westin Riverwalk Hotel)	1997-2006	10	Real & Personal @ 100%
Valero (formerly Diamond Shamrock)	1997-2006	10	Real @ 100%; Personal @ 80%
MSPA Acquisition II, L.P. (Adams Mark Hotel)	1997-2006	10	Real & Personal @ 100%
Oberthur Gaming Technologies	1997-2006	10	Real @ 100%
Richter's Bakery/Flowers Bakery	1997-2006	10	Real @ 100%; Personal @ 50%
Takata Seat Belts	1997-2006	10	Real @ 100%; Personal @ 50%
Cadillac Lofts	1998-2007	10	Real @ 90%
Boeing Aerospace	1999-2008	10	Personal @ 90%
Capital Group/American Funds	1999-2008	10	Real & Personal @ 100%
LCWW Partners (Westin La Cantera Resort Hotel)	1999-2008	10	Real & Personal @ 100%
Clark American	2000-2005	6	Real @ 100%
ALCOA	2001-2010	10	Real @ 100%
S.A. Aerospace	2001-2010	10	Real @ 100%

(Table continues on next page.)

Company	Phase-In Period	Phase-In Term (Years)	Percent of Phase-In (Type of Property)
Coilplus Texas	2001-2006	6	Real @ 100%
PacificCare Health Systems/Opus South	2001-2006	6	Real @ 100%
Chase Bank Credit Card Services – Phase 1	2001-2010	10	Personal @ 100%
Chase Bank Credit Card Services – Phase 2	2002-2011	10	Real & Personal @ 100%
Chase Bank Credit Card Services – Phase 4	2002-2011	10	Personal @ 100%
H.B. Zachry	2002-2011	10	Real @ 100%
United Healthcare/Today University Park	2002-2007	6	Real @ 100%
Chase Bank Credit Card Services – Phase 3	2003-2012	10	Real @ 100%
MedLine	2003-2012	10	Personal @ 100%
Texas Machining Enterprises II, L.L.P.	2003-2011	10	Personal @ 100%
AeroSky	2004-2009	6	Real @ 100%
HEB (Meat Packing)	2004-2009	6	Real @ 100%
First Health	TBD	6	Real @ 100%

### Appraised Value Limitations

All real and personal property of the City within Bexar County must be appraised by the Appraisal District at market value as of January 1 of each year. The City’s real and personal property within Comal County is appraised by the Comal Appraisal District. Such appraisal values are subject to review and change by the Bexar Appraisal Review Board and the Comal Appraisal Review Board, respectively. State law, however, provides for limitations on appraised value of residential homesteads. The appraised value of a residential homestead may not exceed the lesser of:

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

### Absolute Pro-Rated Exemptions

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

### Effective Tax Rate and Rollback Tax Rates

The City must annually calculate and publicize its “effective tax rate” and “rollback tax rate.” The City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or 103% of the effective tax rate until it has held a public hearing on the proposed increase following notice to the taxpayers and otherwise complied with the Property Tax Code. If the adopted tax rate exceeds the rollback tax rate, the qualified voters of the City, by submission of a valid petition, may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

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

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

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

### **Taxpayer Remedies**

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

### **Levy and Collection of Taxes**

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

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

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

### **City’s Rights in the Event of Tax Delinquencies**

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

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

order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

**Tax Increment Reinvestment Zone Financing**

The City has approved “Guidelines and Criteria” for the utilization of Tax Increment Financing (“TIF”) and the creation of Tax Increment Reinvestment Zone (“TIRZ”) pursuant to Chapter 311 of the Texas Tax Code, as amended. Since 1998, the City has utilized TIF as a vehicle to fund in whole or in part eligible capital costs related to economic development, commercial and residential projects. As of September 30, 2004, thirteen TIRZs have been approved and one TIRZ has been dissolved. The active TIRZs are also referred to as the Rosedale, Highland Heights, New Horizons, Mission Del Lago, Brookside, Houston Street, Stablewood Farms, Inner City, Plaza Fortuna, Lackland Hills, Sky Harbor, and North East Crossing Projects. The TIRZs were established in order to finance the costs of public improvements to be made in each of the TIRZ which were created for various purposes, including the construction of single family and multi-family residential housing and commercial development projects, and included reimbursing developers from TIRZ revenues for the costs of public improvements, as well as, in the Houston Street TIRZ, the issuance of certificates of obligation by the City payable from the Houston Street TIRZ revenues to pay a portion of the costs of public improvements.

**Tax Data**

**Table 7**

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation <sup>1</sup>	Tax Rate	Tax Levy	Percent (%) Collections Current	Percent (%) Collected Total
1995	1996	\$ 26,793,724,971	\$ 0.57979	\$ 155,347,338	97.96	99.64
1996	1997	28,320,799,143	0.57979	164,201,161	98.24	99.23
1997	1998	29,422,284,674	0.57979	170,587,464	98.42	99.75
1998	1999	31,253,551,025	0.57979	181,204,963	98.35	99.86
1999	2000	33,315,478,862	0.57979	193,159,815	98.14	99.80
2000	2001	36,033,321,329	0.57979	208,917,594	97.89	99.30
2001	2002	39,587,584,280	0.57854	229,030,010	97.78	99.25
2002	2003	41,535,547,008	0.57854	240,299,754	97.78	99.23
2003	2004	44,583,138,927 <sup>2</sup>	0.57854	257,663,177	97.96	99.58
2004	2005	46,707,941,513 <sup>3</sup>	0.57854	270,224,125	(In the process of collecting)	

<sup>1</sup> Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.  
<sup>2</sup> Based on Tax Year 2003 Net Taxable Assessed Valuation Bexar Appraisal District certification on August 27, 2004.  
<sup>3</sup> Based on Tax Year 2004 Net Taxable Assessed Valuation Bexar Appraisal District certification on July 25, 2004.

**DEBT AND TAX RATE LIMITATIONS**

No direct debt limitation is imposed on the City under current Texas law; however, the City Charter provides that the total bonded debt of the City must never exceed 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of (1) any indebtedness secured in whole or in part by special assessments; (2) the bonded debt of any improvement district; and (3) any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. In addition, Article XI, Section 5 of the State Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. The City operates under a City Charter that adopts this constitutional provision. The Texas Attorney General has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from \$1.50 of the foregoing \$2.50 maximum tax rate calculated at 90% collection. The issuance of the 2006 Forward Refunding Bonds will not exceed the above described limits or violate the Texas Attorney General’s administrative policy. The following obligations, among others, may be issued by the City:

- Ad valorem tax-supported debt to finance capital improvements and to refund obligations previously issued for such purpose. A majority vote of the qualified voters is ordinarily required to authorize the issuance of ad valorem tax-supported debt, other than refunding bonds, certificates of obligations, tax anticipation notes, and public property finance contractual obligations.
- Certificates of obligation may be issued for the purpose of paying contractual obligations incurred in the construction of public works or the purchase of land, materials, and other supplies or services for the City's needs and for professional services without an election except under certain circumstances. The certificates of obligation may be refunded by ad valorem tax-supported bonds without an election. In addition, the City may issue certificates of obligation with a pledge of both tax and revenues derived from the operation of the facility to be acquired, or from any other lawful source, provided that the City otherwise has the right to pledge the revenues involved. Authority for the issuance of certificates of obligation is subject to notice by publication and right of referendum by the voters.
- Contractual obligations, generally to finance personal property, and tax anticipation notes payable from ad valorem taxes may be issued for capital improvements. The contractual obligations and tax anticipation notes may be refunded by ad valorem tax-supported bonds without an election. The issuance of contractual obligations and tax anticipation notes does not require publication of notice or voter approval. Tax anticipation notes are limited to seven years amortization or less.
- Revenue bonds may be issued for certain purposes which include the financing of the water, municipal drainage and sanitary sewer systems, electric and gas systems, convention centers, airports and parking systems. The revenue bond indebtedness is not considered in determining the legal debt margin on ad valorem tax-supported obligations. Revenue bond indebtedness, in certain cases, can be refunded by ad valorem tax-supported bonds without an election.

**Tax Rate Distribution**

**Table 8**

Tax Rate	Fiscal Year Ended September 30				
	2005	2004	2003	2002	2001
General Fund	\$ 0.36704	\$ 0.36704	\$ 0.36204	\$ 0.35454	\$ 0.35079
Interest and Sinking Fund	0.21150	0.21150	0.21650	0.22400	0.22900
Total Tax Rate	<u>\$ 0.57854</u>	<u>\$ 0.57854</u>	<u>\$ 0.57854</u>	<u>\$ 0.57854</u>	<u>\$ 0.57979</u>

**Principal Taxpayers**

**Table 9**

Name	Type of Property	FY 2005 Taxable Assessed Valuation	Percent (%) of FY 2005 Taxable Assessed Valuation
H.E. Butt Grocery Company	Retail/Grocery	\$ 525,786,733	1.13
Southwestern Bell Telephone Company	Telecommunications	450,247,950	0.96
United States Automobile Association	Insurance/Banking	348,918,340	0.75
Wal-Mart Stores, Inc.	Retail/Grocery	219,857,260	0.47
Humana/Methodist Healthcare System	Hospital/Healthcare	173,422,535	0.37
Marriott Corporation	Hotel Chain	166,113,750	0.36
Time Warner	Cable Vision	118,125,330	0.25
North Star Mall	Shopping Center	116,483,860	0.25
Hyatt Regency Hotels	Hotel Chain	105,757,610	0.23
Simon Property Trust (Texas)	Shopping Centers	102,987,711	0.23
Total		<u>\$ 2,327,701,079</u>	<u>5.00</u>

**Net Taxable Assessed Valuation for Tax Years 1995-2004****Table 10**

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation <sup>1</sup>	Change From Preceding Year	
			Amount	Percent (%)
1995	1996	\$26,793,724,971	\$2,483,849,807	10.22
1996	1997	28,320,799,143	1,527,074,172	5.70
1997	1998	29,422,284,674	1,101,485,531	3.89
1998	1999	31,253,551,025	1,831,266,351	6.22
1999	2000	33,315,478,862	2,061,927,837	6.60
2000	2001	36,033,321,329	2,717,842,467	8.16
2001	2002	39,587,584,280	3,554,262,951	9.86
2002	2003	41,535,547,008	1,947,962,728	4.92
2003	2004	44,583,138,927 <sup>2</sup>	3,047,591,919	7.34
2004	2005	46,707,941,513 <sup>3</sup>	2,124,802,586	4.77

<sup>1</sup> Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.

<sup>2</sup> Based on Tax Year 2003 Net Taxable Assessed Valuation Bexar Appraisal District certification on August 27, 2004.

<sup>3</sup> Based on Tax Year 2004 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 25, 2004.

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

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation <sup>1</sup>	Ad Valorem Gross Debt	Debt Ratios Percent (%)
1995	1996	\$26,793,724,971	\$739,603,108	2.76
1996	1997	28,320,799,143	740,393,108	2.61
1997	1998	29,422,284,674	734,238,108	2.50
1998	1999	31,253,551,025	754,958,108	2.42
1999	2000	33,315,478,862	780,378,108	2.34
2000	2001	36,033,321,329	768,693,108	2.13
2001	2002	39,587,584,280	838,428,108	2.12
2002	2003	41,535,547,008	881,038,108	2.12
2003	2004	44,583,138,927 <sup>2</sup>	887,436,140	1.99
2004	2005	46,707,941,513 <sup>3</sup>	862,100,124	1.85

<sup>1</sup> Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.

<sup>2</sup> Based on Tax Year 2003 Net Taxable Assessed Valuation Bexar Appraisal District certification on August 27, 2004.

<sup>3</sup> Based on Tax Year 2004 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 25, 2004.

**Authorized But Unissued Ad Valorem Tax Debt****Table 12**

<u>Date of Authorization</u>	<u>Improvements</u>	<u>Amount Authorized</u>	<u>Bonds Issued to Date</u>	<u>Bonds Authorized but Unissued</u>
11/04/2003	Street & Pedestrian	\$ 29,398,217	\$ 14,231,235	\$ 15,166,982
11/04/2003	Drainage	18,912,770	6,727,477	12,185,293
11/04/2003	Parks & Recreation	27,224,013	10,967,438	16,256,575
11/04/2003	Library System	3,965,000	353,850	3,611,150
11/04/2003	Public Health & Safety	35,500,000	2,405,000	33,095,000
	Total	<u>\$ 115,000,000</u>	<u>\$ 34,685,000</u>	<u>\$ 80,315,000</u>

(The remainder of this page is intentionally left blank.)

**Classification of Assessed Valuation**

**Table 13**

	Fiscal Year 2005 <sup>1</sup>	% of Total	Fiscal Year 2004 <sup>2</sup>	% of Total	Fiscal Year 2003	% of Total	Fiscal Year 2002	% of Total	Fiscal Year 2001	% of Total
Real, Residential, Single-Family	\$ 28,423,216,796	54.94	\$ 26,981,200,741	54.26	\$ 25,034,363,533	54.05	\$ 23,042,259,879	51.77	\$ 20,906,400,776	51.77
Real, Residential, Multi-Family	3,260,507,664	6.30	2,984,321,716	6.00	2,717,427,164	5.87	2,709,129,752	6.17	2,493,260,199	6.17
Real, Vacant Lots/Tracts	1,174,294,368	2.27	1,197,445,978	2.41	1,126,243,791	2.43	1,128,002,482	2.16	872,215,729	2.16
Real, Acreage (Land Only)	618,379,283	1.20	645,187,786	1.30	575,936,197	1.24	593,891,997	1.22	494,498,219	1.22
Real, Farm and Ranch Improvements	12,271,145	0.02	10,90,317	0.02	10,324,941	0.02	10,838,121	0.03	10,644,999	0.03
Real, Commercial	10,668,696,039	20.62	10,427,411,952	20.97	9,758,713,978	21.07	9,648,251,767	21.97	8,872,239,575	21.97
Real, Industrial	342,067,675	0.66	296,110,000	0.59	281,431,440	0.61	280,721,510	0.66	266,649,434	0.66
Real, Minerals, Oil and Gas	39,040	0.00	21,530	0.00	25,840	0.00	41,210	0.00	25,600	0.00
Real and Tangible, Personal Utilities	517,066,535	1.00	567,879,520	1.14	611,213,510	1.32	887,733,010	1.86	750,974,070	1.86
Tangible Personal, Commercial	4,798,059,666	9.27	4,633,515,421	9.32	4,567,575,590	9.86	4,536,610,190	10.92	4,408,249,620	10.92
Tangible Personal, Industrial	1,395,142,048	2.70	1,497,182,570	3.01	1,145,800,919	2.47	835,935,050	2.02	817,832,650	2.02
Tangible Personal, Mobile Homes	100,064,804	0.19	102,150,358	0.21	98,236,520	0.21	83,188,740	0.16	62,635,280	0.16
Real Property, Inventory	191,420,683	0.37	142,388,282	0.29	154,262,049	0.33	135,157,724	0.55	220,758,778	0.55
Special Inventory Tax	239,371,754	0.46	237,410,270	0.48	239,240,740	0.52	228,768,060	0.52	210,326,420	0.52
Exempt Property	23,900	0.00	174,700	0.00	-0-	0.00	5,600	0.00	93,000	0.00
<b>Total Assessed Value</b>	<b>\$ 51,740,621,099</b>	<b>100.00</b>	<b>\$ 49,723,331,141</b>	<b>100.00</b>	<b>\$ 46,320,796,212</b>	<b>100.00</b>	<b>\$ 44,120,535,092</b>	<b>100.00</b>	<b>\$ 40,386,804,349</b>	<b>100.00</b>
Less:										
Optional 65 Years of Age or Older Homestead Exemptions	\$ 3,759,057,491		\$ 3,724,266,517		\$ 3,384,996,852		\$ 3,132,670,748		\$ 2,986,283,978	
Optional 65 Years of Age or Older Homestead Exemptions Pro-Rated	3,145,268		25,474,801		42,579,166		81,397,988		75,138,795	
Deceased/Disabled Veterans' Exemptions	126,751,721		121,505,478		116,497,985		105,709,837		91,466,773	
Historical Property Exemptions	34,787,788		25,341,198		26,278,818		25,081,549		23,764,701	
Historical Preservation Area Exemptions <sup>1</sup>	2,469,320		1,200,136		1,141,781		-0-		-0-	
Freeport Goods Exemptions	265,407,110		278,560,740		296,922,420		318,663,870		292,442,670	
Article 8, Section 1-d-1 Special Appraisals	275,774,401		289,077,692		257,595,602		255,213,756		208,454,066	
Tax Phase-In Agreements	411,469,662		443,930,328		386,918,532		368,613,029		430,648,671	
Appraised Value Limitations	133,821,117		195,043,337		235,530,114		204,099,139		207,496,828	
Absolute Pro-Rated Exemptions	<u>19,995,708</u>		<u>35,746,987</u>		<u>36,787,934</u>		<u>41,500,896</u>		<u>37,786,538</u>	
<b>Less: Total Exemptions</b>	<b>\$ 5,032,679,586</b>		<b>\$ 5,140,147,214</b>		<b>\$ 4,785,249,204</b>		<b>\$ 4,532,950,812</b>		<b>\$ 4,353,483,020</b>	
<b>Net Taxable Assessed Valuation</b>	<b><u>\$ 46,707,941,513</u></b>		<b><u>\$ 44,583,138,927</u></b>		<b><u>\$ 41,535,547,008</u></b>		<b><u>\$ 39,587,584,280</u></b>		<b><u>\$ 36,033,321,329</u></b>	

<sup>1</sup> Based on Tax Year 2004 Net Taxable Assessed Valuation Certified by the Bexar Appraisal District as of July 25, 2004.

<sup>2</sup> Based on Tax Year 2003 Net Taxable Assessed Valuation Certified by the Bexar Appraisal District as of August 27, 2004.

Sources: City of San Antonio, Finance Department, and the Bexar Appraisal District, County Tax Office.

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

<u>Governmental Subdivision</u>	<u>FY 2004 Gross Assessed Valuation</u>	<u>FY 2004 Net Taxable Value</u>	<u>FY 2004 Tax Rate</u>
Alamo Community College District	\$ 61,723,648,636	\$ 59,012,328,712	\$ 0.107050
Alamo Heights Independent School District	3,443,502,660	3,301,149,005	1.630000
Bexar County	61,048,310,472	56,974,620,794	0.320952
Bexar County Flood Control	61,110,758,295	60,002,150,657	0.012719
Bexar County Hospital District d.b.a. University Health System	61,060,545,413	60,841,346,582	0.243869
East Central Independent School District	1,247,141,203	1,095,463,807	1.680000
Edgewood Independent School District	927,241,944	681,393,936	1.627300
Harlandale Independent School District	1,215,594,448	960,993,049	1.756000
Judson Independent School District	16,833,680	16,833,680	1.776000
North East Independent School District	19,297,286,904	17,597,776,011	1.744000
Northside Independent School District	18,283,276,399	16,638,113,683	1.762500
San Antonio Independent School District	9,474,311,002	8,395,668,641	1.722000
San Antonio River Authority	61,433,781,047	59,302,179,253	0.016425
Somerset Independent School District	247,056,399	205,949,007	1.685000
South San Antonio Independent School District	953,962,194	796,018,001	1.717590
Southside Independent School District	376,749,489	314,749,643	1.720000
Southwest Independent School District	710,621,477	596,463,859	1.665200

(The remainder of this page is intentionally left blank.)

**Direct and Overlapping Debt Data and Information**

**Table 15**

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

Taxing Entity <sup>1</sup>	As Of	Amount of Gross Debt Outstanding	Percent (%) Overlapping	Amount of Gross Debt Overlapping
Alamo Community College District	09/30/2004	\$ 21,043,778	78.17	\$ 16,449,921
Alamo Heights Independent School District	10/31/2004	34,385,743	49.34	16,965,926
Bexar County	09/30/2004	198,547,512	78.17	155,204,590
Bexar County Hospital District d.b.a. University Health System	09/30/2004	-0-	100.00	-0-
Comal Independent School District	09/30/2004	335,861,320	0.02	6,717
East Central Independent School District	09/30/2004	84,306,467	34.72	29,271,205
Edgewood Independent School District	09/30/2004	113,952,251	100.00	113,952,251
Harlandale Independent School District	10/31/2004	173,088,855	100.00	173,088,855
Judson Independent School District	10/31/2004	187,940,030	21.79	40,952,133
North East Independent School District	10/31/2004	758,329,748	77.78	589,828,878
Northside Independent School District	09/30/2004	1,196,901,673	60.02	718,380,384
San Antonio Independent School District	09/30/2004	970,790,540	98.76	958,752,737
San Antonio River Authority	10/31/2004	56,110,000	83.43	46,812,573
South San Antonio Independent School District	09/30/2004	157,810,870	99.51	157,037,597
Southside Independent School District	09/30/2004	46,043,147	10.72	4,935,825
Southwest Independent School District	10/31/2004	62,275,000	37.02	23,054,205
Total Gross Overlapping Debt		\$ 4,957,866,934		\$ 3,044,693,797
City of San Antonio	09/30/2004	887,436,140	100.00	887,436,140
Total Direct and Overlapping Debt		\$ 5,845,303,074		\$ 3,932,129,937
Tax Year 2004 Actual Market Value of Taxable Property				\$51,740,621,099
Tax Year 2004 Net Taxable Assessed Valuation (100% of Actual Market)				46,707,941,513
Ratio of Direct and Overlapping Debt to Actual Market Value				7.60%
Ratio of Direct and Overlapping Debt to Net Taxable Assessed Value				8.42%
Per Capita Direct and Overlapping Debt <sup>2</sup>				\$ 3,066.23
Note: The City's total net debt payable from ad valorem taxes is \$873,298,953 as of September 30, 2004. Calculations on the basis of total net debt payable from ad valorem taxes would change the above figures as follows:				
Total Net Direct and Overlapping Debt				\$ 3,917,992,750
Ratio of Net Direct and Overlapping Debt to Actual Market Value				7.57%
Ratio of Net Direct and Overlapping Debt to Net Taxable Assessed Value				8.39%
Per Capita Net Direct and Overlapping Debt <sup>2</sup>				\$ 3,055.20

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

<sup>2</sup> Based on the City of San Antonio Department of Planning estimated population of 1,282,400 for calendar year ending December 31, 2004 (figure includes those individuals residing within areas expected to be annexed by the City by such date).

## REVENUE SOURCES AND EXPENDITURES

### Sources of Revenues

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

### General Fund Comparative Statement of Revenues and Expenditures and Analysis of Changes in Fund Balances

**Table 16**

The following statements set forth in condensed form reflect the historical operations of the City. The City has prepared such summary for inclusion herein based upon information obtained from the City's Comprehensive Annual Financial Report and financial records. Reference is made to such statements for further and complete information.

	Fiscal Year Ended September 30				
	2003	2002	2001	2000	1999
<b>Fund Balance - Beginning of Year</b>	\$ 62,452,494	\$ 96,198,138	\$ 105,702,670 <sup>1</sup>	\$ 96,035,183	\$ 100,063,422
<b>Revenues</b>					
Taxes	\$ 320,518,083	\$ 310,912,963	\$ 291,378,953	\$ 277,833,729	\$ 261,272,870
Licenses and Permits	13,912,258	13,302,392	12,683,156	12,257,775	12,164,099
Intergovernmental	2,878,131	2,888,626	2,865,885	2,669,780	2,526,778
Revenues from Utilities	210,466,156	171,234,083	187,939,902	172,300,674	149,956,113
Charges for Services	27,283,429	24,631,495	23,211,576	23,010,824	21,726,181
Fines and Forfeits	11,282,396	10,828,974	11,116,047	11,593,504	11,838,121
Miscellaneous	<u>9,810,913</u>	<u>12,054,469</u>	<u>14,249,362</u>	<u>13,017,615</u>	<u>12,705,684</u>
<b>Total Revenues</b>	<u>\$ 596,151,366</u>	<u>\$ 545,853,002</u>	<u>\$ 543,444,881</u>	<u>\$ 512,683,901</u>	<u>\$ 472,189,846</u>
<b>Expenditures<sup>2</sup></b>					
General Government	\$ 53,416,465	\$ 57,213,168	\$ 69,212,609	\$ 56,676,788	\$ 50,127,983
Public Safety	361,835,168	351,557,071	327,362,706	308,127,849	291,548,960
Streets and Roadways	11,920,629	10,244,816	9,869,123	9,909,813	9,467,167
Health Services	13,814,613	14,076,213	13,423,252	12,472,403	11,394,680
Sanitation	2,515,192	2,663,359	2,754,611	2,601,621	2,400,482
Welfare	16,317,480	17,662,015	17,158,677	13,864,539	12,046,649
Culture and Recreation	59,119,473	59,755,427	58,341,346	53,607,164	48,771,521
Economic Dev. and Opportunity	<u>5,537,792</u>	<u>7,632,008</u>	<u>6,791,425</u>	<u>6,352,358</u>	<u>5,617,688</u>
<b>Total Expenditures</b>	<u>\$ 524,476,812</u>	<u>\$ 520,804,077</u>	<u>\$ 504,913,749</u>	<u>\$ 463,612,535</u>	<u>\$ 431,375,130</u>
<b>Excess of Revenues Over Expenditures</b>	<u>\$ 71,674,554</u>	<u>\$ 25,048,925</u>	<u>\$ 38,531,132</u>	<u>\$ 49,071,366</u>	<u>\$ 40,814,716</u>
<b>Other Financing Sources (Uses)</b>					
Operating Transfers In	\$ 13,120,941	\$ 11,198,493	\$ 19,042,598	\$ 16,324,734	\$ 15,207,796
Operating Transfers Out	<u>(70,377,939)</u>	<u>(76,101,511)</u>	<u>(73,789,801)</u>	<u>(64,535,173)</u>	<u>(66,366,621)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>\$ (57,256,998)</u>	<u>\$ (64,903,018)</u>	<u>\$ (54,747,203)</u>	<u>\$ (48,210,439)</u>	<u>\$ (51,158,825)</u>
Add Encumbrances <sup>2</sup>	<u>4,772,022</u>	<u>6,108,449</u>	<u>6,711,539</u>	<u>8,806,560</u>	<u>6,315,870</u>
<b>Fund Balance - End of Year</b>	<u>\$ 81,642,072</u>	<u>\$ 62,452,494</u>	<u>\$ 96,198,138</u>	<u>\$ 105,702,670</u>	<u>\$ 96,035,183</u>

<sup>1</sup> For fiscal year 2001, the City implemented GASB Statement No. 33, "Accounting and Financial Reporting for Non Exchange Transactions," as amended by GASB Statement No. 36 "Recipient Reporting for Certain Shared Non Exchange Revenues," which resulted in the restatement of certain prior year balances for the City's General Fund. For comparative purposes, the prior year's tax revenues and fund balances have been restated for the impact of GASB Statement No. 33. These amounts have been excerpted from the City's Comprehensive Annual Financial Report as adjusted for the impact of GASB No. 33 and GASB No. 36.

<sup>2</sup> Expenditures are reported on a budgetary basis with encumbrances added back to arrive at a GAAP fund balance.

## Sales Taxation

### *Authority to Levy Sales Taxes*

The City has adopted the provisions of Chapter 321 of the Texas Tax Code, as amended, which authorizes the City to levy and collect a municipal sales and use tax on the receipts from the sale of taxable items within the City at a rate of 1%. (See “Legislation – Advanced Transportation District” for a discussion of a new sales tax approved by the voters of Bexar County, Texas, at an election held on November 2, 2004.)

The Texas Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales or taxable items to reduce the property tax levy. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year. The City has not authorized this additional one-half cent sales tax.

### *Legislation*

*Advanced Transportation District.* A proposition was passed during the November 2, 2004 election which allows VIA Metropolitan Transit (“VIA”) to create an Advanced Transportation District (“District”) within Bexar County, Texas and impose an additional one quarter of one percent ( $\frac{1}{4}$  of 1%) sales and use tax. The  $\frac{1}{4}$ % sales and use tax will be allocated as follows: fifty percent (50%) will be used for advanced transit services, operations, passenger amenities, equipment and other advanced transportation purposes; twenty-five percent (25%) will be used to construct, improve and maintain streets and sidewalks and related infrastructure to improve mobility and other advance transportation purposes in the District; and twenty-five percent (25%) will be used as the local share to obtain state and federal grants for highways, transportation infrastructure designed to improve mobility and other advanced transportation purposes in the District. With the imposition of this additional sales and use tax, the sales tax rate will increase to eight percent (8%).

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

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

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

*Edwards Aquifer Protection Venue Project.* The City Council adopted Resolution No. 2004-27-23 designating an Edwards Aquifer Protection Venue Project (“Edwards Venue Project”) under Chapter 334 of the Texas Local Government Code (“Code”). As required by the Code, the City forwarded a copy of the Resolution to the Texas Comptroller for her determination as to whether the implementation of the Edwards Venue Project would have a significant negative impact on state revenue. This determination is required prior to the City Council calling an election on the matter. The Comptroller determined that implementation of this Resolution would not have a significant fiscal impact on state revenue.

As such, City Council passed Ordinance No. 99608, which authorized an election to be held on May 7, 2005 to authorize the implementation of the Edwards Venue Project under the Code and the imposition of a one-eighth of one percent ( $\frac{1}{8}$  of 1%) sales and use tax. If approved, the Proposition provides for the planning, acquisition, establishment, development, construction or renovation of the Edwards Venue Project which includes the

acquisition of property for a conservation easement or open space preservation program intended to protect water in the Edwards Aquifer.

*Parks Development and Expansion Venue Project.* The City Council has also adopted Resolution No. 2004-29-25 designating a Parks Development and Expansion Venue Project (“Parks Venue Project”) under the Code. The City forwarded a copy of the Resolution to the Texas Comptroller for her determination in accordance with the Code and the Comptroller determined that implementation of this Resolution would not have a significant fiscal impact on state revenue.

The Parks Venue Project, if approved, provides for the planning, acquisition, establishment, development, construction or renovation of the Parks Venue Project which includes the acquisition of open space and linear parks along Leon Creek, Salado Creek, Medina River and San Antonio River, and for improvements and additions to the Municipal Parks and Recreation System. The City Council intends to call an election on the Park Venue Project to be held on May 7, 2005. If adopted, both the Edwards Venue Project and the Parks Venue Project will be placed on the ballot for approval by the voters, and the two Venue Projects will share in the use of the one-eighth of one percent (1/8 of 1%) sales and use tax. If both of these propositions are approved, the City and VIA will have a combined sales tax limitation of 8.125%.

***Collections and Equivalent Rates***

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

**Municipal Sales Taxes**

**Table 17**

<u>Fiscal Year Ended 9/30</u>	<u>Sales Tax Collected</u>	<u>Ad Valorem Tax Levy <sup>1</sup></u>	<u>Percent (%) of Ad Valorem Tax Levy</u>	<u>Net Taxable Assessed Valuation</u>	<u>Equivalent Tax Rate</u>
1996	\$103,032,541	\$155,347,338	66.32	\$26,793,724,971	\$0.38454
1997	110,034,458	164,201,161	67.01	28,320,799,143	0.38853
1998	118,991,708	170,587,464	69.75	29,422,284,674	0.40443
1999	126,472,730	181,204,963	69.80	31,253,551,025	0.40467
2000	135,130,522	193,159,815	69.96	33,315,478,862	0.40561
2001	136,810,787	208,917,594	65.49	36,033,321,329	0.37968
2002	140,084,739	229,030,010	61.16	39,587,584,280	0.35386
2003	138,962,225	240,299,754	57.83	41,535,547,008	0.33456
2004	147,085,652*	257,931,292	57.03	44,583,138,927	0.32991

\* Unaudited.

<sup>1</sup> Total Ad Valorem Tax Levy for debt service and maintenance and operations.

(The remainder of this page is intentionally left blank.)

**Comparison of Selected Sources of Revenues**

**Table 18**

Fiscal Year Ended 9/30	Taxes	Charges for Services	Miscellaneous	Fines and Forfeits	Licenses and Permits	Inter-Governmental	City Public Service (CPS) Electric & Gas Systems	San Antonio Water System (SAWS) <sup>1</sup>	Stormwater Drainage Fee <sup>1, 2</sup>	Total
1994	\$ 191,063,575	\$ 17,041,469	\$ 7,467,656	\$ 6,667,543	\$ 7,646,164	\$ 2,012,771	\$124,635,735	\$3,619,864	\$ 2,783,783	\$362,938,560
1995	202,220,554	16,670,522	9,764,240	8,262,390	8,530,428	2,016,305	119,237,659	4,775,015	3,330,991	374,808,104
1996	214,635,376	18,422,483	8,927,797	9,051,481	9,438,492	2,141,719	133,877,013	4,799,553	6,513,000	407,806,914
1997	228,059,883	18,666,543	9,601,800	8,475,837	9,627,427	2,346,577	136,077,928	4,375,869	13,114,803	430,346,667
1998	245,430,127	21,676,353	10,862,192	11,525,034	11,159,736	2,354,189	146,145,982	4,687,162	13,558,856	467,399,631
1999	261,392,418	21,726,181	12,705,684	11,838,121	12,164,099	2,526,778	145,170,683	4,785,430	14,245,127	486,554,521
2000	277,833,279	23,010,824	13,017,615	11,593,504	12,257,775	2,669,780	167,138,876	5,161,798	16,382,310	529,066,211
2001	291,378,953	23,211,576	14,249,362	11,116,047	12,683,156	2,865,885	182,411,012	5,528,890	16,796,534	560,241,415
2002	310,912,963	24,631,495	12,054,469	10,828,974	13,302,392	2,888,626	165,118,018	6,116,065	16,609,215	562,462,217
2003	320,518,083	27,283,429	9,810,913	11,282,396	13,912,258	2,878,131	204,026,870	6,449,286	21,049,293	617,210,659

<sup>1</sup> SAWS payments and the Stormwater Drainage Fee payments to the City commenced in fiscal year 1993.

<sup>2</sup> Beginning in fiscal year 1997, Stormwater Drainage Fee is reported in the Stormwater Operations Special Revenue Fund at Gross Collected Amounts.

**Expenditures for Selected Functions <sup>1</sup>**

**Table 19**

Fiscal Year Ended 9/30	General Government	Public Safety	Streets and Roadways	Health Services	Sanitation	Welfare	Culture and Recreation	Economic Development & Opportunity	Total
1994	\$ 36,862,536	\$ 206,389,581	\$ 8,347,017	\$ 9,494,977	\$ 2,572,816	\$ 7,250,532	\$ 33,342,495	\$ 3,898,488	\$ 308,158,442
1995	40,685,167	222,923,105	8,425,639	10,040,732	2,635,611	9,131,932	37,483,790	4,262,984	335,588,960
1996	42,529,874	237,255,653	8,918,131	10,573,920	2,773,727	9,171,600	41,489,469	4,561,839	357,274,213
1997	45,565,493	251,646,029	8,740,273	10,267,013	2,732,660	8,382,401	41,049,946	4,555,513	372,939,328
1998	44,617,078	267,566,794	9,162,860	10,753,132	2,780,539	10,232,506	42,809,012	4,783,117	392,705,038
1999	49,438,915	289,777,427	9,467,167	11,277,893	2,399,358	11,407,269	48,025,859	5,189,929	426,983,817
2000	55,180,174	305,859,236	9,909,813	12,299,792	2,600,995	12,857,131	52,938,397	5,864,158	457,509,696
2001	68,364,225	326,227,746	9,804,123	13,401,383	2,754,077	16,464,593	58,137,342	6,394,692	501,548,181
2002	56,154,675	350,755,902	10,179,816	13,933,748	2,653,746	16,991,511	59,454,085	7,330,135	517,453,618
2003	52,283,057	361,305,240	11,855,629	13,689,587	2,513,841	15,763,551	58,917,420	5,368,634	521,696,959

<sup>1</sup> Expenditures for selected functions do not include encumbrances.

## THE CITY

### Governmental Structure

The City was incorporated in 1837 and chartered in 1951. It has a Council-Manager form of government with ten Council members elected from single member districts and a Mayor elected at large, each serving two-year terms, limited to two consecutive terms as required by the City Charter. All members of the City Council stand for election at the same time. The City's geographic area covers approximately 448.41 square miles and is located in South Central Texas, 282 miles south of Dallas, 199 miles west of Houston, and 152 miles north of the U.S./Mexico border. It serves as the county seat for Bexar County (the "County"). According to the 2000 U.S. Census, the population of San Antonio is 1,144,646, ranking San Antonio as the eighth largest city in the United States and the second largest in the State.

### Services

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

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

Electric and gas services to the San Antonio area are provided by City Public Service ("CPS"), an electric and gas utility owned by the City that maintains and operates certain utilities infrastructure. This infrastructure includes a 16 generating unit electric system and the gas system that serves the San Antonio area. CPS' operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. CPS is obligated to transfer a portion of its revenues to the City. CPS revenue transfers to the City for the City's fiscal year ending September 30, 2003 were \$204,016,870. (See "CERTAIN SIGNIFICANT ISSUES AFFECTING THE CITY" herein and "SAN ANTONIO ELECTRIC AND GAS SYSTEM" in Appendix A attached hereto.)

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 stormwater services thereto and it manages and develops water resources in the San Antonio region. SAWS is in its 13th year as a separate, consolidated entity that addresses the City's water-related issues in a coordinated and unified manner. SAWS operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. SAWS is obligated to transfer a portion of its revenues to the City. SAWS revenue transfers to the City for the City's fiscal year ending September 30, 2003 were \$6,449,286. (See "CERTAIN SIGNIFICANT ISSUES AFFECTING THE CITY" herein and "SAN ANTONIO WATER SYSTEM" in Appendix A attached hereto.)

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

### Economic Overview

The City's economic strength is enhanced by a favorable business climate, which includes a low cost of living, and a friendly and inviting attitude toward commerce and industry. San Antonio is home to a variety of businesses and industries from small companies to large corporations, including public and private sector entities. Among the industries that contribute significantly to San Antonio's economy are domestic and international trade, convention and tourism, medical and health care, government employment, agribusiness, manufacturing, financial, telecommunications, insurance, and mineral production. The City's cultural and geographic proximity to Mexico provides favorable conditions for international business relations therewith. In addition to the favorable economic

climate, excellent weather conditions year round help to encourage and enhance the operation of many of San Antonio's most important industries.

The terrorist attacks which occurred on September 11, 2001, and subsequent events, have adversely impacted certain sectors of the United States economy, in particular the airlines industry. Although passenger traffic at San Antonio International Airport declined by 7.7% for the first seven months of 2002, the number of daily domestic flights has increased from 115 prior to September 11, 2001 to 117 currently. Passenger traffic is expected to resume to normal levels by the end of 2005.

The overall effect of the aforementioned actions may negatively impact statements in this Official Statement regarding receipt of revenues (including ad valorem taxes), employment, insurance coverages on the assets of the City, and other aspects of the City's economy. At this time, the full extent of such disruption and its effect upon the financing described herein cannot be determined.

### Employees

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

Employee	Fiscal Year Ended September 30									
	2004 <sup>1,2</sup>		2003		2002		2001		2000	
	Filled	Authorized	Filled	Authorized	Filled	Authorized	Filled	Authorized	Filled	Authorized
Police	1,940	2,033	1,916	2,025	1,865	2,013	1,940	1,978	1,857	1,963
Police Grant Funded	<u>29</u>	<u>30</u>	<u>39</u>	<u>41</u>	<u>42</u>	<u>51</u>	<u>33</u>	<u>52</u>	<u>32</u>	<u>42</u>
Total Police	<u>1,969</u>	<u>2,063</u>	<u>1,955</u>	<u>2,066</u>	<u>1,907</u>	<u>2,064</u>	<u>1,973</u>	<u>2,030</u>	<u>1,889</u>	<u>2,005</u>
Fire	1,427	1,441	1,443	1,442	1,401	1,469	1,417	1,436	1,349	1,394
Fire Grant Funded	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Fire	<u>1,427</u>	<u>1,441</u>	<u>1,443</u>	<u>1,442</u>	<u>1,401</u>	<u>1,469</u>	<u>1,417</u>	<u>1,436</u>	<u>1,359</u>	<u>1,394</u>
Total Police & Fire	<u>3,396</u>	<u>3,504</u>	<u>3,398</u>	<u>3,508</u>	<u>3,308</u>	<u>3,533</u>	<u>3,390</u>	<u>3,466</u>	<u>3,238</u>	<u>3,399</u>
Civilian	6,450	9,580	6,482	9,680	6,613	7,703	6,323	7,823	6,054	7,537
Civilian Grant Funded	<u>666</u>	<u>980</u>	<u>683</u>	<u>1,209</u>	<u>868</u>	<u>907</u>	<u>807</u>	<u>787</u>	<u>749</u>	<u>888</u>
Total Civilian	<u>7,116</u>	<u>10,560</u>	<u>7,165</u>	<u>10,889</u>	<u>7,481</u>	<u>8,610</u>	<u>7,130</u>	<u>8,610</u>	<u>6,803</u>	<u>8,425</u>
Total	<u>10,512</u>	<u>14,064</u>	<u>10,563</u>	<u>14,397</u>	<u>10,789</u>	<u>12,143</u>	<u>10,520</u>	<u>12,076</u>	<u>10,041</u>	<u>11,824</u>

<sup>1</sup> As of December 25, 2003.

<sup>2</sup> The adopted budget for fiscal year 2004 eliminated 137 civilian positions. The eliminated positions included 76 vacant positions and 61 filled positions. Of the 61 filled positions eliminated, 49 employees were placed in other authorized positions, 1 employee retired, and 11 employees elected not to accept employment offers.

### Employee Pension Plan and Benefits

The City's employees participate in a variety of defined pension plans. These plans and contributions made to such plans are further described in Note 8 in the City's Comprehensive Annual Financial Report. These plans are fully funded in accordance with State law.

## **City Manager Selection**

On September 10, 2004, through Ordinance No. 99703, the City Council accepted the resignation of the City Manager, Terry M. Brechtel. Ms. Brechtel's resignation was effective October 1, 2004. J. Rolando Bono, the previous Deputy City Manager, was appointed to serve as Interim City Manager through Ordinance No. 99821; and his terms and conditions of employment were adopted and approved by Ordinance No. 99850. Mr. Bono will continue to serve as Interim City Manager until such time as the City Council appoints a City Manager. The City Council is preparing to hire a professional firm to assist in a nationwide search for a new City Manager.

## **Financial Accounting and Financial Policies**

### ***Government-wide Financial Statements***

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

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

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

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

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

### ***Fund Accounting***

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets and other debits, liabilities, fund equity and other credits, revenues and expenditures, or expenses, as

appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The City has three types of Funds: Governmental Funds, Proprietary Funds, and Fiduciary Funds. The Fund Financial Statements provide more detailed information about the City's most significant funds, but not on the City as a whole. Major individual governmental funds and major enterprise funds are reported in separate columns in the Fund Financial Statements. Nonmajor funds are individually presented in the combining statements.

### ***Governmental Funds***

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

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

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

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

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

### ***Proprietary Funds***

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

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

### ***Fiduciary Funds***

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

### **Debt Management**

The City issues debt for the purpose of financing long-term infrastructure capital improvements. Some of these projects have multiple sources of funding which include debt financing. Infrastructure, as referred to by the City,

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

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

Utilization of comprehensive financial analysis and computer modeling in the debt management plan incorporates numerous variables such as sensitivity to interest rates, changes in assessed values, annexations, current ad valorem tax collection rates, self-supporting debt, and fund balances. The analytical modeling and effective debt management has enabled the City to maximize efficiencies through refundings and debt structuring. Strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its "AA+", "Aa2", and "AA+" bond rating by Standard & Poor's, A Division of the McGraw Hill Companies, Inc. ("S&P"), Moody's Investors Service, Inc. ("Moody's"), and Fitch Ratings ("Fitch"), respectively. The positive trend in the City's credit strength is evidenced by S&P's rating upgrade from "AA" to its current "AA+" in 1998 and by Fitch's rating upgrade in 1999 from "AA" to its current "AA+".

### ***Debt Authorization***

*General Obligation Bonds.* The City is authorized to issue bonds payable from ad valorem taxes pursuant to the City Charter, the general laws of the State, and ordinances adopted by the City Council. Such bonds must be authorized by the voters of the City at elections held within the City. The City currently has \$80,315,000 ad valorem tax-supported debt previously approved by its voters on November 4, 2003 that remains unissued. Additionally, the City has authority, pursuant to an election held on January 26, 1980, to issue \$16,660,000 in ad valorem tax-supported bonds, but it does not intend to issue these bonds and may not be legally able to do so. For the fiscal year to end September 30, 2004, the City will have \$668,386,140 general obligation bonds outstanding.

On March 18, 2004, the City sold \$33,570,000 City of San Antonio, Texas General Improvement Bonds, Series 2004" (the "2004 Bonds"). The 2004 Bonds were delivered on April 13, 2004. The 2004 Bonds were issued to provide funds to finance the construction of general improvements to the City, including streets and pedestrian improvements; drainage improvements; library improvements; parks and recreation improvements; public health and safety improvements. The 2004 Bonds represent the first installment of the \$115,000,000 bonds approved at an election held in the City on November 4, 2003.

On March 18, 2004, concurrently with the sale of the 2004 Bonds, the City sold \$13,245,000 "City of San Antonio, Texas Taxable General Improvement Refunding Bonds, Series 2004" (the "2004 Refunding Bonds"). The 2004 Refunding Bonds were issued to discharge and refund \$11,746,968 of previously issued tax-exempt general obligation bonds and certificates of obligation whose proceeds had been utilized to fund construction and improvements to the City's parking facilities. Refunding such obligations with the 2004 Refunding Bonds, which are taxable obligations, was undertaken to provide greater flexibility for the City to contract with private entities for use of space in those parking facilities. The refunding, which resulted in a gross loss of \$1,335,882.75 and net

present value loss of \$809,318.29, will produce savings of \$422,492.25 in fiscal year 2004, \$347,357.50 in fiscal year 2005, and \$150,171.25 in fiscal year 2006. The 2004 Refunding Bonds were delivered on April 13, 2004.

*Certificates of Obligation.* The City is authorized to issue certificates of obligation pursuant to the City Charter, applicable State laws, and ordinances adopted by the City Council. Certificates are issued for various purposes to include financing revenue producing capital improvements and for infrastructure support and development. For the fiscal year to end September 30, 2004, the City will have \$219,050,000 certificates of obligation outstanding, which comprises 24.68% of the total outstanding ad valorem tax-supported debt.

On March 18, 2004, the City sold \$29,525,000 "City of San Antonio, Texas Combination Tax and Revenue Certificates of Obligation, Series 2004" (the "2004 Certificates"). The 2004 Certificates were issued to provide funds for capital improvements and for other public purposes, to include constructing public safety improvements, including constructing new fire stations and renovating and improving existing fire stations, constructing drainage improvements, sidewalk improvements, bridge improvements, street improvements, and drainage incidental thereto, constructing improvements and renovations to existing municipal facilities, including the Tower of the Americas, acquiring, constructing, and renovating park facilities, constructing improvements for flood control, dams, landscaping and amenities along the San Antonio River, purchasing materials, supplies, machinery, land, and rights-of-way for authorized needs and purposes relating to public safety, drainage, street, parks, flood control, and public works purposes, and to pay the costs associated with the implementation of a new Enterprise Resource Management System, including development and installation costs relating thereto. The 2004 Certificates were delivered on April 13, 2004.

*Revenue Bonds.* The City is authorized to issue revenue bonds under the provisions of the City Charter, applicable State laws, and ordinances adopted by City Council. At fiscal year ending September 30, 2004, the City's outstanding revenue bonds will be: Airport System Revenue Bonds in the aggregate principal amount of \$182,415,000, Passenger Facility Charge and Subordinate Lien Airport System Revenue Bonds in the aggregate principal amount of \$35,995,000; Parking System Revenue Bonds in the aggregate principal amount of \$24,445,000; Municipal Drainage Utility System (Stormwater System) Bonds in the aggregate principal amount of \$43,115,000; and Henry B. Gonzalez Convention Center Expansion Project Revenue Bonds aggregating to \$208,712,411.50.

The airport, parking, drainage, and convention center revenue bonds are not secured by ad valorem taxes and are limited obligations of the City, payable solely from the gross revenues of the airport system, parking system, municipal drainage utility system, and hotel occupancy tax collections, respectively. The 2002 Passenger Facility Bonds are not secured by ad valorem taxes and are payable solely from the revenues generated by the City's collection of a passenger facility charge, which was approved by the Federal Aviation Administration and the City Council, with collection beginning on November 21, 2001.

*Revenue Refunding Bonds.* The City routinely reviews the possibility of refunding certain of its outstanding revenue bonds to effectuate interest cost savings.

On June 3, 2004, the City sold \$10,390,000 "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2004A" (the "Series 2004A Bonds"). On June 22, 2004, the City sold \$111,425,000 "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, Series 2004B (the "Series 2004B Bonds"). The Series 2004B Bonds included \$25,000,000 in bond proceeds to be used for the construction of permanent improvements relating to the expansion of the Henry B. Gonzalez Convention Center, Alamodome, and site acquisition for the potential future expansion of the convention center. The Series 2004A Bonds and the Series 2004B Bonds were delivered on June 29, 2004.

The Series 2004A Bonds and the Series 2004B Bonds were sold to effectuate a combined refunding of \$87,665,069 of certain outstanding "City of San Antonio, Texas Hotel Occupancy Bonds, Series 1996" (the "Series 1996 Bonds") obligations whose proceeds had been utilized to fund the City's Convention Center Expansion Project. Refunding such Series 1996 Bonds with Series 2004A Bonds and Series 2004B Bonds was undertaken to: (1) improve the credit quality for the outstanding Series 1996 Bonds; (2) maximize credit support for the proposed Convention Center Headquarters Hotel financing; and (3) preserve capacity for future Convention Center expansion

financing. The refunding, which resulted in net present value savings of \$9,547,411, will result in annual savings of \$800,000 in fiscal year 2004 and \$1.0 million per year for fiscal years 2005 through 2020.

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

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

### ***Long-Term Debt Planning***

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

The assumptions utilized in the Debt Plan include: (i) assessed valuation growth at 0.5% per year for existing base values and 1.00% per year for new improvements; (ii) projected annexations are added to the assessed valuations in the year they are scheduled to be on the tax rolls; (iii) tax collections are at 97.5%; (iv) the adopted debt service tax rate will remain constant at 21.15 cents in fiscal years 2005, 2006, and 2007 and increase incrementally 0.40 cents annually from fiscal years 2008 through 2011 to an estimated maximum debt service tax rate of 22.75 cents in fiscal year 2011 (the current debt service tax rate is 21.15 cents); (v) \$115,000,000 General Improvement Bonds authorized by the voters in the November 4, 2003 election, of which \$34,685,000 have been sold, \$31,990,000 is expected to be sold in fiscal year 2005, and \$48,325,000 is expected to be sold in fiscal year 2006, and (vi) the issuance of approximately \$52,115,000 Certificates of Obligation, which are scheduled to be sold by fiscal year 2011 for fire station improvements, Metropolitan Planning Organization ("MPO") streets and other street projects, drainage projects, parks and recreation projects, municipal facility improvements, and San Antonio River improvements. Based on these assumptions and the projected increase in the debt service tax rate to 22.75 cents, the estimated bond capacity in the Fall of 2008 is approximately \$175 million.

Alternatively, holding the debt service tax rate at a constant 21.15 cents and utilizing the other abovementioned assumptions, the estimated bond capacity in the Fall of 2008 is approximately \$150 million.

### ***New Money Issues***

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

The fiscal year 2005 debt plan includes the sale of the second installment of the 2003 authorized general obligation bonds in the principal amount of \$31,990,000. The general obligation bonds will be sold to finance improvements to streets and pedestrian, drainage, parks and recreation, libraries, and public health and safety. The fiscal year 2005 debt plan also includes the sale of \$5,425,000 of certificates of obligation. The certificates of obligation will be sold to fund fire station improvements, MPO streets and other street projects, and parks and recreation improvements. These issuances are anticipated to be sold in March 2005.

The Airport Master Plan Study, completed in January 1998, determined that certain capital improvements were needed to the Airport's airfield facilities in order to avoid congestion and reduce aircraft delays in the future; and the study found that the Airport's terminal gate capacity is insufficient to meet future demand. The Airport Capital

Improvement Plan (CIP) includes a comprehensive upgrade and expansion of airport facilities to include several runway and taxiway projects and the construction of two new terminal concourses that will replace Terminal 2. The CIP incorporates approximately \$425,592,600 construction program to be completed over a ten-year period. The anticipated sources of funding for the capital improvement plan include a combination of general airport revenue bonds, bonds to be paid from the receipt of a passenger facility charge, passenger facility charge revenues used on a current basis, grants and funds produced from operations. The City anticipates selling City of San Antonio, Texas Airport System Improvement Revenue Bonds and City of San Antonio, Texas Passenger Facility Charge Airport System Improvement Revenue Bonds in fiscal year 2005.

### ***Debt Service Tax Rate***

The combination of successful refundings and low interest rates for bond and certificate of obligation sales has resulted in a decrease in the projected maximum debt service tax rate of \$0.3049 per \$100 valuation prior to 1992, 1993, 1996, 1998, 2001, 2002, 2003, and 2004 refundings to a projected maximum debt service tax rate of \$0.2275 per \$100 in fiscal year 2011.

### **The Budget Process**

#### ***Fiscal Year 2005 Budget***

The process for developing the fiscal year 2005 proposed budget involved the following overall steps:

*Development of Inventory of City Services.* A first step in the development of the fiscal year 2005 Budget was the update of the organization Inventory of City Services (the "Inventory") to facilitate decision-making during the budget process. The Inventory was presented to the Council on April 29, 2004 and on May 13, 2004. Specifically, the Inventory is a complete listing and description of all City services provided by each City department. Over 180 separate and discrete services have been identified and cataloged in the Inventory. Where possible, dollar amounts reflecting the costs and/or revenues associated with each service are also provided.

*Bottom Line Strengthening Program.* Again, for a second year, the City Manager sought to obtain innovative ideas from City employees through a Bottom Line Strengthening (BLS) Program. Specifically, the goal of the BLS Program was to identify process improvements that would gain overall efficiencies, revenue generators, or effective changes in service delivery. It was anticipated that these ideas would result in near-term, permanent improvements to the City's fiscal situation through productivity improvements, cost reductions, or new revenues. The program engaged a broad range of employees randomly selected and placed into Action Teams each moderated by a member of the Management Team. Each Action Team was comprised of no more than 30 members and met twice over a six-week period in March and April 2004. From this process, recommendations with savings and new revenues totaling \$518,215 are included and highlighted in the fiscal year 2005 Adopted Budget.

*Public Input on Budget Priorities.* Budget development also involved the receipt of public input on budget priorities through two "Budget Open House" sessions that were conducted by the City Council on May 6 and May 20, 2004. The Budget Open House sessions resulted in the City Council being aware of issues important to citizens and community groups serving as input to the City Council's final setting of fiscal year 2005 Budget Priorities. The community input from the Budget Open House sessions, along with a list of proposed strategic issues and City programs was reviewed by the City Council at a separate meeting for subsequent use at the "City Council Goals and Objectives Worksession" described below.

*Five-Year Financial Forecast.* The next step was presentation by staff of the Five-Year Financial Forecast (the "Forecast"). The Forecast is a financial and budgetary planning tool that identifies emerging issues that will be encountered in the next five years and that will have a fiscal impact upon the City's program of services. In addition, the Forecast serves as a foundation for development of the proposed budget by projecting revenues and anticipated expenditures under a defined set of assumptions. The Forecast allows the City Council and staff to identify financial issues in sufficient time to develop a proactive strategy in order to address emerging strategic issues. The Forecast was presented to City Council on May 13, 2004. With respect to the General Fund, a shortfall of \$21.3 million was projected for fiscal year 2005. Higher expenditures compared to revenue projections were the

major contributing factors to the extent of the projected shortfall. The fiscal year 2005 expenditure projections were based upon the continuation of existing services at the fiscal year 2004 level with adjustments for inflation, rising employee health insurance costs, and added expenditures for mandates. The Forecast also assumed added wage increase-related costs from the recently approved collective bargaining agreement between the City and the San Antonio Police Officer's Association and the fiscal impact associated with the fourth year of a four-year collective bargaining agreement between the City and the International Association of Fire Fighters, Local 624. The five-year General Fund projection also projected a shortfall for fiscal year 2006 of \$27.84 million.

*City Council Goals and Objectives Worksession.* This year's budget process was improved in many ways including providing the Mayor and City Council with eight pre-proposed budget development goal-setting worksessions, scheduling an additional week for Mayor and City Council to consider the proposed budget, and restructuring the organizational analysis and City service delivery reviews with all city departments and offices. Integral to this year's budget process the fifteenth annual City Council Goals and Objectives Worksession. The worksession was held provided on May 14, 2004 immediately following the presentation of the Five Year Financial Forecast and provided a structured opportunity for the City Council to meet and determine its budget and policy priority issues for the coming budget deliberations. During the worksession, department heads and community stakeholders were available as resources to the City Council to help answer questions. During the worksession, two major themes were developed. One included listing the City Council's Key Success Factors (KSF). KSF are the underlying drivers that result in achieving the major goals set out by the Mayor and the City Council in the fiscal year 2005 budget and beyond. The following is a listing of the Key Success Factors that were developed by the Mayor and City Council:

- Leverage our economic vitality
- Prevent cost drivers (by addressing preventative goals)
- Fully utilize City resources
- Leverage San Antonio's distinctiveness
- Maximize San Antonio's human potential

The second major theme from the Goals and Objectives Worksession was to establish service priority areas that should be addressed with the fiscal year 2005 Proposed Budget. The City Council outlined both their individual and collective priorities for the fiscal year 2005 budget including the following Priority Areas:

- Infrastructure
- Economic Development
- Human Development
- Accountability
- Environment
- Neighborhoods
- Senior Services
- Health
- Public Safety
- Interlocal Cooperation

City staff followed the City Council's guidance from the Goals and Objectives Worksession as the basis for recommending redirections and reductions in the Proposed Budget and for proposing targeted added investments in Key Council priority areas.

*Proposed Budget Preparation.* The proposed budget document also reflects updated program information, goals and objectives and performance measures for each department. The Office of Management and Budget worked with departments to evaluate existing and proposed performance indicators which would help track the City's progress in the efficient and effective delivery of services to citizens and achieve stated goals and objectives. The performance indicators for each department are arranged in the balanced scorecard format. The performance measures are balanced in that they are grouped to reflect precisely each of the four key organizational aspects of each department: Customer Service, Financial Performance, Internal Processes Efficiency, and Employee Learning

& Growth. The performance measures are designed to demonstrate and validate the impact of proposed improvements to service delivery.

Additionally, departments met with the Office of Management and Budget and with members of the Management Team to review target budgets based on current service delivery requirements as well as to review preliminary fund schedules. Following those meetings, each department was specifically asked to prepare proposals for the redirection of resources and/or suggested program reductions from services identified by City Council, the City Auditor's Office and City staff for "finding a better way." Additionally, each department was asked to present proposals addressing applicable recommendations coming from the BLS. Since early June 2004, the City Manager and the Management Team have met with each department director to review the department's estimated commitments for fiscal year 2004, performance measures, funds schedules, capital and grant programs organization-wide policy issues addressed through fiscal year 2005 base budgets, proposed revenue enhancements, resource redirections, and program reductions.

The City Manager's proposed budget for fiscal year 2005 represents staff's professional recommendation on a program of revenues and expenditures that provide the highest level of service possible within available resources. Overall, proposed expenditures have been closely examined to ensure the most efficient use of resources and to identify opportunities for improving the effectiveness of service delivery. The proposed budget puts forth a balanced budget that eliminates the projected shortfall through reductions designed to provide continued City services with the least adverse impact on the City Council priorities and recommends targeted added investments in priority areas such as economic development Brooks City-Base, human development, code enforcement, and neighborhood infrastructure and maintenance.

*Fiscal Year 2005 Adopted Budget.* After receipt of the proposed budget, the City Council held a series of worksessions to review the proposed service program details. The budget worksessions provided a forum for public discourse on significant policy issues as well as an opportunity to review departmental service plans highlighting proposed program enhancements, reductions, and redirections. After considering all the recommendations and receiving input from citizens at two public hearings, City Council amended the budget by balancing program revenues and expenditures to make the proposed service plan more closely track the Council priority objectives.

## **Annexation**

Through annexation, the City has grown from its original size of 36 square miles to its current area, encompassing 448.41 square miles (full purpose annexations only) or 511.78 square miles (both full and purpose and limited purpose annexations only) and having a fiscal year 2005 total market valuation of \$51.741 billion<sup>1</sup>. 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 18.70 square miles of land to the City's total area. At that same meeting, the City Council also annexed effective January 5, 2003, six areas for limited purposes. Effective August 1, 2004, City Council annexed an additional area for limited purpose south of the Medina River. The areas annexed for limited purposes account for a total of 63.37 square miles of land within the City's corporate limits. Limited purpose annexation areas, although included in the total calculation of the City corporate limits, are excluded in the calculation of property values. (See "Limited Purposes Annexation" below).

### ***Limited Purpose Annexation***

The City annexed for limited purposes, effective January 5, 2003, six areas south of San Antonio and an additional area south of the Medina River, effective August 1, 2004. Limited purpose annexation allows the City to extend regulatory authority for the limited purposes of applying its planning, zoning, health, and safety ordinances to

---

<sup>1</sup> Based on Tax Year 2004 Net Taxable Assessed Valuation Certified by Bexar Appraisal District as of July 25, 2004.

specified areas. The City may not impose a property tax in such areas until the property is annexed for full purposes, which generally occurs within three years after limited purpose annexation.

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

### ***Annexation Plan***

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

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

### **Public Improvement District**

Pursuant to The Public Improvement District Assessment Act, Chapter 372, Texas Local Government Code, as amended, on April 29, 1999, the City Council created a Public Improvement District (“PID”) in the central business district. The purpose of the PID is to provide public improvement services to properties within the boundaries of the PID to include: (1) sidewalk sweeping and washing; (2) graffiti abatement; (3) landscaping/streetscaping services; (4) a marketing and promotional program; and (5) a public service representative program. On July 1, 1999, the City Council authorized the City to execute a contract with Centro San Antonio Management Corporation, a non-profit Texas corporation, to manage the PID programs. A 15-member Board of Directors of the PID meets at least quarterly to assure performance of Centro San Antonio Management Corporation. The supplemental services and improvements to be provided are detailed in the annual Service and Assessment Plan, which must be approved by the City Council. The fiscal year 2005 plan reflects a total budget of \$1,510,000, based on an assessment rate of \$0.11 per \$100 valuation. In addition to assessment revenues from private property, which are expected to yield approximately \$1,124,059 in fiscal year 2005, estimated additional funds are to be received from annual contributions from the City and City Public Service combined of \$93,668, from VIA Metropolitan Transit of \$30,000, from Bexar County of \$30,000, and from the General Services Administration of \$7,500. The PID will operate on these collected revenues and will not issue bonds. The PID is authorized for a term of five years through the end of fiscal year 2009.

### **GASB Statement No. 34 Implications for the City**

Beginning with fiscal year ending 2002, the City implemented Governmental Accounting Standards Board Statement No. 34, “Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments,” (“GASB Statement No. 34”). GASB Statement No. 34 requires the City to include a management’s discussion and analysis that will give readers an objective and easily readable analysis of the government’s financial performance for the year. In addition, capital assets, including infrastructure, was recorded and depreciated in the government-wide statement of net assets. GASB Statement No. 34 requires retroactive reporting of all major general infrastructure assets four years after the effective date of implementing GASB Statement No. 34. Although

the City is only required, beginning with fiscal year 2002, to report general infrastructure prospectively, the City elected to early-implement the infrastructure reporting requirements.

## **Investments**

Available investable funds of the City are invested as authorized and required by the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "Act"), and in accordance with an Investment Policy approved by the City Council. The Act requires that the City establish an investment policy to ensure that City funds are invested only in accordance with State law. The City established a written investment policy adopted September 11, 2003. The City's investments are managed by its Finance Director, who, in accordance with the Investment Policy, reports investment activity to the City Council.

## ***Legal Investments***

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) certificates of deposit issued by a state or national bank, savings bank, or a state or federal credit union, which is domiciled in the State, that are guaranteed or insured by the Federal Deposit Insurance Corporation, guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in the clauses (1) through (5) and (13) or in any other manner and amount provided by law for City deposits; (7) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), requires the securities being purchased by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer or a financial institution doing business in the State; (8) bankers' acceptances with the remaining term of 270 days or less, which will be liquidated in full at maturity, is eligible for collateral for borrowing from a Federal Reserve Bank, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (9) commercial paper with a stated maturity of 270 days or less and is rated at least "A-1" or "P-1" or the equivalent by either (i) two nationally recognized credit rating agencies or (ii) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (10) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and provide the City with a prospectus and other information required by the Securities and Exchange Act of 1934 or the Investment Act of 1940; (11) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years; invests exclusively in obligations described in the preceding clauses; are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and conforms to the requirements for eligible investment pools; (12) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or "AAA-m" or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days; (13) bonds issued, assumed, or guaranteed by the State of Israel; and (14) guaranteed investment contracts secured by obligations of the United States of America or its agencies and instrumentalities, other than prohibited obligations described in the next succeeding paragraph, with a defined termination date, and pledged to the City and deposited with the City or a third party selected and approved by the City.

Effective September 1, 2003, entities such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through

(5) and clause (13) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (5) and clause (13) above, clause (9) above and clauses (10) and (11) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to such investing entity or a third party designated such investing entity; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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

### ***Investment Policies***

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

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

*Additional Provisions.* Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt an ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in said ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the

business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, or other investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in mutual funds in the aggregate to no more than 80% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

### ***Current Investments***

At June 30, 2004, investable City funds in the approximate amount of \$868,186,737 currently are 75.08% invested in obligations of the United States, or its agencies and instrumentalities, and 23.94% invested in a money market mutual fund, with the weighted average maturity of the portfolio being less than one year. The remaining 0.98% of the City's portfolio includes a portion of the convention center debt service reserve fund of \$8,499,915, which is invested in a fully collateralized repurchase agreement that is fully secured by obligations of the United States or its agencies and instrumentalities. The investments and maturity terms are consistent with State law, and the City's investment policy objectives, which are to preserve principal, limit risk, maintain diversification and liquidity, and to maximize interest earnings.

The market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 99.96% of their book value. No funds of the City are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

### **Certain Significant Issues Affecting the City**

#### ***Water Supply***

The primary source of water for the City is the Edwards Aquifer. Usage of water from the Edwards Aquifer, including usage by the City of San Antonio, has steadily decreased since the Edwards Aquifer Authority was established in 1993. The Edwards Aquifer is also the primary source of water for the agricultural economy in the two counties west of San Antonio and is the source of water for Comal and San Marcos Springs in New Braunfels and San Marcos, respectively, which depend upon springflow for their tourist-based economy. Edwards Aquifer water from these springs provides the habitat for species listed as endangered by the U.S. Fish & Wildlife Service under the federal Endangered Species Act and provide base flow for the Guadalupe River. Water levels in the Edwards Aquifer are affected by rainfall or lack thereof, water usage region-wide, and discharge from the aforementioned springs. One unique aspect of the Edwards Aquifer is its prolific rechargeability and the historical balance between recharge and discharge in the form of well withdrawals and spring discharges.

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

Regional planning efforts to address these issues were undertaken in the mid-1980s, resulting in recommendations for new State legislation for management of the Edwards Aquifer. Failure to adopt this legislation in the 1989

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

The various litigations and regulatory efforts to manage withdrawals from the Edwards Aquifer resulted in passage of the Edwards Aquifer Authority Act in 1993 and its amendment in 1995 to allow its implementation. As more fully discussed under "LITIGATION" herein, litigation initiated by the Sierra Club against the City was filed prior to a Texas Supreme Court decision reversing a State District Court judgment that the Edwards Aquifer Authority legislation was unconstitutional. The Edwards Aquifer Authority began operation on July 1, 1996, and implementation of the State legislation will ultimately result in elimination of uncertainties concerning access to and use of Edwards Aquifer water by the City and all other Aquifer users.

The board of the Edwards Aquifer Authority has adopted rules for governing (1) critical period and demand management measures and (2) requirements for the issuance of permits for withdrawal of water from the Edwards Aquifer. Critical period management rules mandate staged reduction in water usage by limiting discretionary use with successive measures based upon Aquifer levels. The City currently has a similar critical period management ordinance, limiting discretionary water usage through primarily restricting outdoor water use and lawn watering. SAWS does not expect these rules to materially adversely affect revenues or operation or SAWS ability to supply water to its customers for primary needs. Further, as indicated elsewhere in this statement, SAWS has acquired through purchase or lease additional groundwater to ensure that its demands during critical period restrictions are met.

The Edwards Aquifer Authority reviewed over 1,000 applications for permits based on historical pumping of Edwards Aquifer water. The Edwards Aquifer Authority staff proposed either permit amounts or denials on all applications, in November 2000. To date, the Edwards Aquifer Authority Board has issued 856 (78%) of the total applied for permits. The remaining contested permits have been sent to the State Office of Administrative Hearing for adjudication.

SAWS pumped 168,906 acre-feet during 2003 and currently has permanent ownership of 196,033 acre-feet (159,000 as its base permit and an additional 37,033 acre-feet purchased). Additionally, SAWS has been active in participating in the lease market for Edwards Aquifer pumping rights and to date has leased another 31,991 acre-feet for 2004. The bulk of the lease terms are three to five years.

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

The City Council appointed a citizen's committee to develop a water policy to address the SAWS' and City's long-range water needs. The committee made its report of the Citizens' Committee on water policy in January 1997. Citizens' Committee conclusions include increasing the yield of the Edwards aquifer through additional recharge and other means, transporting water to San Antonio from other river basins and other groundwater sources, water reuse, and conservation.

### ***Water Reuse Program***

SAWS supplies reuse water to City Public Service (CPS), San Antonio's municipally owned electrical utility. The revenues derived from such agreement have been restricted in use to only reuse activities and are excluded from the calculation of Gross Revenues, and are not included in any transfers to the City's General Fund. Revenues derived from this agreement are approximately \$2 million each year.

SAWS has constructed a direct reuse, or recycled water, system that provides non-potable water to various customers now using Edwards Aquifer water. In 2003, SAWS served two golf courses, two grass farms, a university, a military base, a city landfill, a city baseball stadium, and others. Revenue from recycled water sales will be recorded as normal revenue of SAWS and will not have the restrictions of the reuse agreement with CPS.

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

### ***Electric and Gas Supply***

The CPS electric system serves a territory consisting of substantially all of Bexar County and small portions of the adjacent counties of Comal, Guadalupe, Atascosa, Medina, Bandera, Wilson, and Kendall. Certification of this CPS electric service area has been approved by the Public Utility Commission of Texas ("PUCT"). Effective January 1, 1997, the transmission grid in Texas was opened to wholesale competition by virtue of PUCT regulations implementing 1995 Texas legislation. Wholesale customers include cities and towns buying power for resale and as a result of the new regulations, the transmission grid is available on an open access basis to any power provider to supply these loads. CPS sells electricity at wholesale 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 the first three long-term wholesale customers in recent years. CPS became the wholesale electric provider of the City of Brady under a three-year contract commencing 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 City Council exercises original electric and gas rate regulatory jurisdiction over the CPS retail service areas, with appellate jurisdiction in the PUCT and Texas Railroad Commission for electric and gas rates, respectively, for areas outside the City. Pursuant to amendments made by the Texas Legislature in 1995 to the Texas Public Utility Regulatory Act ("PURA"), municipally-owned utilities, including CPS, became subject to the regulatory and rate jurisdiction of the PUCT relating to transmission of wholesale energy. The PURA amendments require the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers, and other transmission customers. (For further information, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS - Service Area and Rates" in Appendix A.)

The CPS electric system, like other municipal electric systems in the State, is adapting to changes in electric regulation brought about by the enactment of Senate Bill 7 ("SB 7") by the Texas Legislature in 1999. SB 7 provides for open competition in the provision of retail electric service in the State, which commenced on January 1, 2002. Municipal utilities, such as CPS, are not required to participate in the competitive retail market, although they may "opt-in" to retail electric competition. On April 26, 2001, the City Council passed a resolution stating that 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 City Public Service Board of San Antonio, Texas ("CPS Board") and the City Council, any decision to opt-in to competition would be based upon the adoption of resolutions of both the CPS Board and the City Council. If the City and CPS choose to opt-in, other retail electric energy suppliers would be authorized to offer retail electric energy in the CPS service area and the Electric Reliability Council of Texas ("ERCOT"). ERCOT is a synchronous interconnected electric system that operates wholly within Texas. (For further information, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS - Electric Utility Restructuring in Texas; Senate Bill 7" in Appendix A.)

Congress may also continue to consider legislation that would affect retail competition in the furnishing of electric energy. The ultimate effects of these and other developments in the restructuring of the electric industry, including

possible state or national legislation, cannot be predicted. CPS, however, will continue to implement organizational and systems changes to prepare for the possibility of participating in retail electric competition in Texas and will periodically advise the City regarding developments in the competitive market and the advisability of CPS' participation.

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

## LITIGATION

### General Litigation and Claims

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. This 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 \$8.9 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 City.

To view the City's CAFR (which includes audited financial statements for the fiscal year ending September 30, 2003, please refer to [www.sanantonio.gov/finance](http://www.sanantonio.gov/finance) and click on "CAFR". If requested of the Director of Finance at the above address, the City will provide the CAFR by electronic mail or upon payment of reasonable handling, mailing, and copying charges. The City, as permitted by SEC Rule 15c2-12, incorporates by reference these audited financial statements which have been filed with the SID and the NRMSIRs. In addition, the City provides the following updated information regarding cases not contained in the CAFR:

*Rogers, et al. v. City of San Antonio.* This case was filed on behalf of the City of San Antonio firefighters who are or were reservist members of the military. Plaintiffs allege they were denied various types of employment rights, benefits and pay because of their military status, in violation of the Uniformed Services Employment Rights Act. The City recently prevailed in the United States Fifth Circuit Court of Appeals. The Court substantially overturned an adverse judgment but the plaintiffs may still appeal. The City expects such appeal to fail. The City expects its exposure on remaining issues to be less than \$200,000.

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

*Dorothy Burnley v. City of San Antonio.* A City employee claimed a disability based on chronic allergies allegedly resulting from "sick building syndrome" and requested accommodation pursuant to the Americans with Disabilities Act. The City was unsuccessful in its motion for summary judgment and the case was tried to the jury. The jury awarded \$165,000 in damages and the Court awarded approximately \$31,000 in attorney's fees and costs. The Court has denied all post-trial motions and notice of appeal has been filed with the Fifth Circuit Court of Appeals.

Claudio Esparza and Minerva Esparza v. City of San Antonio. This case involves an automobile collision at an intersection. Plaintiffs claimed severe injuries and the case was tried to a jury. Although the jury found the Plaintiff driver partially negligent, the jury awarded significant damages. After the reduction for the Plaintiff driver's negligence, the jury award is approximately \$260,000 for both Plaintiffs. The Court denied post-trial motions and an appeal has been filed with the Fourth Court of Appeals. Initial legal briefs are due at the end of November 2004.

Matthew Jackson et al v. City of San Antonio. This is a Fair Labors Standards Act ("FLSA") lawsuit. It was brought as an opt-in class action, and 335 plaintiffs have opted in to the litigation. In general, they claim they were required to report for duty 15 minutes prior to their shift, that they had to work beyond the end of their shifts, and that they were not compensated for the time at the overtime rate, in violation of the FLSA. They claim that they were (and are) entitled to be paid at 1.5 times their regular hourly rate for off-duty assignments on City property, and they make several lesser allegations based on the FLSA as well. Plaintiffs made, and the City rejected, a settlement demand in excess of \$15 million. Damages are not yet measurable, but if the City is unsuccessful, damages will most likely be well in excess of \$1 million, plus reasonable and necessary attorney's fees.

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 City's West Avenue Landfill caused chromosomal damage to a fetus during the period of gestation, resulting in Plaintiff's contraction of acute lymphoblastic leukemia. Although the jury at trial entered a judgment of more than \$23 million against the City, the trial court immediately reduced this by \$6 million. On appeal, the Fourth Court of Appeals subsequently agreed with the City and reduced the judgment further by eliminating \$10 million in exemplary damages. The remaining issue is whether personal injuries are recoverable under the Plaintiff's theory of nuisance. The City believes they are not and that even if they are recoverable, damages are capped at \$250,000 under the Texas Tort Claims Act. The City is appealing to the Texas Supreme Court.

Sandra Trevino and Daniel Garcia, Sr., Individually and as Personal Representatives of the Estate of Daniel T. Garcia, Deceased v. City of San Antonio. This case involves an auto accident. The parties have commenced settlement discussions. However, if no settlement is reached, the case will proceed to trial. The property and personal injury damages in this type of case are capped by the Texas Tort Claims Act at \$250,000.00. The Plaintiff has also alleged civil rights violations, but there is a low probability that Plaintiff will prevail on that issue. If she does, however, those damages are not capped under Texas law. The Plaintiff's last demand to the City was \$680,000.00. Conclusion of the case is not anticipated until the 2005-2006 fiscal year.

Dolores Ytuarte v. City of San Antonio. This case involves an auto accident that resulted from a police pursuit. The damages in this case are capped by the Texas Tort Claims Act at \$250,000.00. The Plaintiff made a demand of \$250,000.00 during July 2004. The case is in the early stages of discovery and it is anticipated that it will not be concluded until fiscal year 2006. A trial date is scheduled for April 11, 2005.

Jose Trevino et al v. City of San Antonio. This case involves an auto accident where the damages are capped by the Texas Tort Claims Act at \$500,000.00 because two Plaintiffs were involved. The Plaintiff's husband is alleging damages as a bystander. No demand has been made by the Plaintiffs. A trial date of March 7, 2005 has been scheduled.

Mark Hartman, Independent Executor Of The Estate Of Donna O'Bar, Deceased And On Behalf Of Her Statutory Beneficiaries; Mark Hartman, Personal Representative Of The Estate of Richard Hartman, Deceased, And On Behalf Of His Statutory Beneficiaries; Brenda Pivonka, Individually And As Administratrix Of The Estate Of Jennifer Allensworth, Deceased, And Justin Hartman, Individually And As Sole Heir Of The Estate of Mallori Hartman, Deceased v. City of San Antonio. In 1998, the Plaintiffs' decedents, 4 individuals, drove into high water on Highway 87 (also known as Rigsby Avenue) at the Salado Creek bridge in San Antonio. This is a state-owned roadway and the City contends that the trial court has no jurisdiction. The Fourth Court of Appeals recently affirmed the trial court's denial of the City's Plea to the Jurisdiction and other pretrial motions. The City will consider a possible appeal to the Texas Supreme Court, but in any event, the City believes it will prevail on the merits of the case.

Brooks Hardee, et al v. City of San Antonio; Brooks Hardee et al v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio. These are similar lawsuits brought by the same developer/landowner under different entities. These particular lawsuits challenge the City's vested rights determinations for the landowner's projects and seek a declaration that the property is free from many of the City's development regulations and ordinances. The same Plaintiff/developer has multiple pending lawsuits against the City of San Antonio and the San Antonio Water System ("SAWS") most of these filed within the last year. There are approximately 13 related lawsuits brought by the same landowner/developer. These lawsuits all raise complex issues of fact and law and collectively, challenge the City's authority to regulate land development. However, the City's legal team is confident that many of the allegations are without merit. Nevertheless, it is proceeding carefully and deliberately to defend its regulations and its power to protect the public. The City has coordinated its defense with SAWS and hired a team of experienced litigators to challenge the allegations.

## TAX MATTERS

The delivery of the 2006 Forward Refunding Bonds is subject to the opinion of Fulbright & Jaworski L.L.P. and Escamilla & Poneck, Inc., Co-Bond Counsel to the City ("Co-Bond Counsel"), to the effect that interest on the 2006 Forward Refunding Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended, (the "Code"), to the date of initial delivery of the 2006 Forward Refunding Bonds of the owners thereof pursuant to section 103 of the Code and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The form of Co-Bond Counsel's anticipated opinion is included as Appendix B. The statutes, regulations, rulings, and court decisions on which such opinion will be based are subject to change.

Interest on all tax-exempt obligations, including the 2006 Forward Refunding Bonds, owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a financial asset securitization investment trust, a real estate investment trust (REIT), or a real estate mortgage investment conduit (REMIC). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code.

In rendering the foregoing opinion, Co-Bond Counsel will rely upon the verification report of Grant Thornton LLP, Minneapolis, Minnesota (see "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL CALCULATIONS") and upon the representations and certifications of the City made in a certificate of even date with the initial delivery of the 2006 Forward Refunding Bonds pertaining to the use, expenditure, and investment of the proceeds of the 2006 Forward Refunding Bonds and will assume continuing compliance with the provisions of the Ordinance by the City subsequent to the issuance of the 2006 Forward Refunding Bonds. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the 2006 Forward Refunding Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the 2006 Forward Refunding Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any "arbitrage profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the 2006 Forward Refunding Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the 2006 Forward Refunding Bonds.

Except as described above, Co-Bond Counsel will express no other opinion with respect to any other federal, State or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the 2006 Forward Refunding Bonds. Prospective purchasers of the 2006 Forward Refunding Bonds should be aware that the ownership of tax-exempt obligations such as the 2006 Forward Refunding Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in and a financial asset securitization investment trust, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-

exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Co-Bond Counsel's opinions are not a guarantee of a result, but represent their legal judgment based upon their review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinions of Co-Bond Counsel, and Co-Bond Counsel's opinions are not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the 2006 Forward Refunding Bonds is commenced, under current procedures the Service is likely to treat the City as the "taxpayer," and such owners of the 2006 Forward Refunding Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the 2006 Forward Refunding Bonds, the City may have different or conflicting interests from the owners. Public awareness of any future audit of the 2006 Forward Refunding Bonds could adversely affect the value and liquidity of the 2006 Forward Refunding Bonds during the pendency of the audit, regardless of its ultimate outcome.

### **Tax Accounting Treatment of Discount or Premium on Certain Bonds**

The initial public offering price of certain 2006 Forward Refunding Bond (the "Discount 2006 Forward Refunding Bonds") may be less than the stated redemption price at maturity (as defined in section 1272 of the Code and Treasury Regulations thereunder) of the Discount 2006 Forward Refunding Bonds. An amount equal to the difference between the initial public offering price of each Discount 2006 Forward Refunding Bond (assuming that at least ten percent of the Discount 2006 Forward Refunding Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes original issue discount to the initial purchaser of such Discount 2006 Forward Refunding Bond. A portion of such original issue discount, allocable to the holding period of such Discount 2006 Forward Refunding Bond by the initial purchaser, will, upon the disposition of such Discount 2006 Forward Refunding Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount 2006 Forward Refunding Bond, taking into account the semi-annual compounding of accrued interest, at the yield to maturity on such Discount 2006 Forward Refunding Bond. The allocation of such original issue discount will generally result in an amount being treated as interest that is different than the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

Such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by section 55 of the Code and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in and a financial asset securitization trust, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the sale or other taxable disposition of a Discount 2006 Forward Refunding Bond prior to stated maturity, the amount realized by such owner in excess of the basis of such Discount 2006 Forward Refunding Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount 2006 Forward Refunding Bond was held) is includable in gross income.

Owners of Discount 2006 Forward Refunding Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount 2006 Forward Refunding Bonds and with respect to the state and local tax consequences of owning and disposing of Discount 2006 Forward Refunding Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount 2006 Forward Refunding Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial offering price (as furnished by the Underwriters) of certain 2006 Forward Refunding Bonds (the “Premium 2006 Forward Refunding Bonds”), may be greater than the amount payable on such 2006 Forward Refunding Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium 2006 Forward Refunding Bond (assuming that at least ten percent of the Premium 2006 Forward Refunding Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium 2006 Forward Refunding Bond. The basis for federal income tax purposes of a Premium 2006 Forward Refunding Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium 2006 Forward Refunding Bond. The amount of premium that is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity. Purchasers of the Premium 2006 Forward Refunding Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium 2006 Forward Refunding Bonds for federal income purposes and with respect to the state and local tax consequences of owning and disposing of Premium 2006 Forward Refunding Bonds.

### **REGISTRATION AND QUALIFICATION OF 2006 FORWARD REFUNDING BONDS FOR SALE**

The sale of the 2006 Forward Refunding 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 2006 Forward Refunding Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the 2006 Forward Refunding Bonds been qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for qualification of the 2006 Forward Refunding Bonds under the securities laws of any jurisdiction in which the 2006 Forward Refunding Bonds may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the 2006 Forward Refunding 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, as amended,) provides that the 2006 Forward Refunding 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. With respect to investment in the 2006 Forward Refunding Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, (Chapter 2256, Texas Government Code, as amended,) requires that the 2006 Forward Refunding 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 2006 Forward Refunding Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The 2006 Forward Refunding 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 2006 Forward Refunding Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the 2006 Forward Refunding Bonds for such purposes. The City has made no review of laws in other states to determine whether the 2006 Forward Refunding Bonds are legal investments for various institutions in those states.

## LEGAL MATTERS

The City will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the 2006 Forward Refunding Bonds, including the unqualified approving legal opinions of the Attorney General of the State to the effect that the 2006 Forward Refunding Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the legal opinions of Co-Bond Counsel to the effect that the 2006 Forward Refunding 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 2006 Forward Refunding 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. Co-Bond Counsel have been retained by and only represents the City. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the 2006 Forward Refunding Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the 2006 Forward Refunding Bonds will also be furnished. In their capacity as Co-Bond Counsel, Fulbright & Jaworski L.L.P., San Antonio, Texas, and Escamilla & Poneck, Inc., San Antonio, Texas have reviewed the information appearing in this Official Statement under the captions "THE 2006 FORWARD REFUNDING BONDS" (except for the information under the caption "Defaults and Remedies," "Payment Record," and "Book-Entry-Only System," as to which no opinion is expressed), "TAX MATTERS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "LEGAL MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (except under the caption "Compliance with Prior Undertakings," as to which no opinion is expressed) to determine whether such information fairly summarizes the material and documents referred to therein and is correct as to matters of law. Co-Bond Counsel have not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Co-Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinions of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Co-Bond Counsel for services rendered in connection with the issuance of the 2006 Forward Refunding Bonds are contingent on issuance and delivery of the 2006 Forward Refunding Bonds. The legal opinion of Co-Bond Counsel will accompany the obligations deposited with DTC or will be printed on the definitive obligations in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton, L.L.P., and for the City by the City Attorney.

The various legal opinions to be delivered concurrently with the delivery of the 2006 Forward Refunding 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

***Financial Guaranty has supplied the following information for inclusion in this Official Statement. No representation is made by the City, the Co-Financial Advisors or the Underwriters as to the accuracy or completeness of this information.***

### **Payments Under the Policy**

Concurrently with the issuance of the 2006 Forward Refunding Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy for the 2006 Forward Refunding Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the 2006 Forward Refunding Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the 2006 Forward Refunding Bonds (the "Issuer"). Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal, accreted value or interest (as

applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policy) from an owner of 2006 Forward Refunding Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any 2006 Forward Refunding Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a 2006 Forward Refunding Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a 2006 Forward Refunding Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Policy is non-cancellable by Financial Guaranty. The Policy covers failure to pay principal (or accreted value, if applicable) of the 2006 Forward Refunding Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the 2006 Forward Refunding Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the 2006 Forward Refunding Bonds is accelerated, Financial Guaranty will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the 2006 Forward Refunding Bond, appurtenant coupon or right to payment of principal or interest on such 2006 Forward Refunding Bond and will be fully subrogated to all of the Bondholder's rights thereunder.

The Policy does not insure any risk other than Nonpayment by the Issuer, as defined in the Policy. Specifically, the Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure 2006 Forward Refunding Bonds, Financial Guaranty may be granted certain rights under the 2006 Forward Refunding Bond documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the 2006 Forward Refunding Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

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

In the event that Financial Guaranty is unable to fulfill its obligations under the Policy, the policy holder or bondholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

### **Financial Guaranty Insurance Company**

Financial Guaranty, a New York stock insurance corporation, is a direct, wholly-owned subsidiary of FGIC Corporation, a Delaware corporation, and provides financial guaranty insurance for public finance and structured finance obligations. Financial Guaranty is licensed to engage in financial guaranty insurance in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico and, through a branch, in the United Kingdom.

On December 18, 2003, an investor group consisting of The PMI Group, Inc. ("PMI"), affiliates of The Blackstone Group L.P. ("Blackstone"), affiliates of The Cypress Group L.L.C. ("Cypress") and affiliates of CIVC Partners L.P. ("CIVC") acquired FGIC Corporation (the "FGIC Acquisition") from a subsidiary of General Electric Capital Corporation ("GE Capital"). PMI, Blackstone, Cypress and CIVC acquired approximately 42%, 23%, 23% and 7%, respectively, of FGIC Corporation's common stock. FGIC Corporation paid GE Capital approximately \$284.3 million in pre-closing dividends from the proceeds of dividends it, in turn, had received from Financial Guaranty, and GE Capital retained approximately \$234.6 million in liquidation preference of FGIC Corporation's convertible participating preferred stock and approximately 5% of FGIC Corporation's common stock. Neither FGIC

Corporation nor any of its shareholders is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where it is domiciled, including Article 69 of the New York Insurance Law (“Article 69”), a comprehensive financial guaranty insurance statute. Financial Guaranty is also subject to the insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction, but generally require insurance companies to maintain minimum standards of business conduct and solvency, to meet certain financial tests, to comply with requirements concerning permitted investments and the use of policy forms and premium rates and to file quarterly and annual financial statements on the basis of statutory accounting principles (“SAP”) and other reports. In addition, Article 69, among other things, limits the business of each financial guaranty insurer, including Financial Guaranty, to financial guaranty insurance and certain related lines.

For the nine months ended September 30, 2004, and the years ended December 31, 2003 and December 31, 2002, Financial Guaranty had written directly or assumed through reinsurance, guaranties of approximately \$43.5 billion, \$42.4 billion and \$47.9 billion par value of securities, respectively (of which approximately 57%, 79% and 81%, respectively, constituted guaranties of municipal bonds), for which it had collected gross premiums of approximately \$250.7 million, \$260.3 million and \$232.6 million, respectively. For the nine months ended September 30, 2004, Financial Guaranty had reinsured, through facultative arrangements, approximately 0.1% of the risks it had written.

As of September 30, 2004, Financial Guaranty had net admitted assets of approximately \$3.015 billion, total liabilities of approximately \$1.877 billion, and total capital and policyholders’ surplus of approximately \$1.138 billion, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements of Financial Guaranty as of September 30, 2004, and the audited financial statements of Financial Guaranty as of December 31, 2003 and December 31, 2002, which have been filed with the Nationally Recognized Municipal Securities Information Repositories (“NRMSIRs”), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading “BOND INSURANCE,” or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the 2006 Forward Refunding Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

Financial Guaranty also prepares quarterly and annual financial statements on the basis of generally accepted accounting principles. Copies of Financial Guaranty’s most recent GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty’s telephone number is (212) 312-3000.

### **Financial Guaranty’s Credit Ratings**

The financial strength of Financial Guaranty is rated “AAA” by Standard & Poor’s, a Division of The McGraw-Hill Companies, Inc., “Aaa” by Moody’s Investors Service, and “AAA” by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies’ current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the 2006 Forward Refunding Bonds, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the 2006 Forward Refunding Bonds. Financial Guaranty does not guarantee the market price or investment value of the

2006 Forward Refunding Bonds nor does it guarantee that the ratings on the 2006 Forward Refunding Bonds will not be revised or withdrawn.

**Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the 2006 Forward Refunding Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the heading “BOND INSURANCE.” In addition, Financial Guaranty makes no representation regarding the 2006 Forward Refunding Bonds or the advisability of investing in the 2006 Forward Refunding Bonds.**

## **RATINGS**

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Division of the McGraw-Hill Corporation ("S&P"), and Fitch Ratings, Inc. ("Fitch") have assigned their municipal bond ratings of "Aaa," "AAA," and "AAA," respectively, to the 2006 Forward Refunding Bonds, as a result of a municipal bond insurance policy issued by Financial Guaranty Insurance Corporation. See "BOND INSURANCE" herein. The City's unenhanced general obligation debt is rated "Aa2," "AA+," and "AA+" by Moody's, S & P, and Fitch. An explanation of the significance of such ratings may be obtained from Moody's, S&P, or Fitch. The rating of the 2006 Forward Refunding 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 2006 Forward Refunding Bonds.

## **VERIFICATION OF ARITHMETICAL AND MATHEMATICAL CALCULATIONS**

The issuance of the 2006 Forward Refunding Bonds will be subject to delivery by Grant Thornton LLP, Minneapolis, Minnesota, certified public accounts (the "Accountants"), of a report of the mathematical accuracy of certain computations. The Accountants will verify from the information provided to them the mathematical accuracy as of the Settlement Date of the 2006 Forward Refunding Bonds of (i) the computations contained in the provided schedules to determine that the anticipated receipts from the cash deposits and any Federal Securities listed in the schedules provided by the Co-Financial Advisors (defined herein), to be held in the Escrow Fund, will be sufficient to pay, when due, the principal and interest requirements of the Refunded Obligations, and (ii) the computations of yield on the 2006 Forward Refunding Bonds contained in the provided schedules used by Co-Bond Counsel in its determination that the interest on the 2006 Forward Refunding Bonds is excludable from the gross income of the holders thereof. The Accountants will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the 2006 Forward Refunding Bonds. Such verification of accuracy of such mathematical computation will be based upon information and assumptions supplied by the City and the Co-Financial Advisors, and such verification, information and assumptions will be relied on by Co-Bond Counsel in rendering its opinion described herein.

## **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 2006 Forward Refunding Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the 2006 Forward Refunding 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, as amended, the City must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and

records audited by a certified public accountant and must file each audit report with the City Clerk. The City's fiscal records and audit reports are available for public inspection during the regular business hours of the City Clerk. Additionally, upon the filing of these financial statements and the annual audit, these documents are subject to the Texas Open Records Act, Texas Government Code, Chapter 552, as amended. Thereafter, any person may obtain copies of these documents upon submission of a written request to the City Clerk, City of San Antonio, Texas, 100 Military Plaza, San Antonio, Texas 78205, and upon paying the reasonable copying, handling, and delivery charges for providing this information.

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

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited information within the required time and audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the CAFR 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 2006 Forward Refunding Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the status of the 2006 Forward Refunding Bonds; (7) modification to rights of holders of the 2006 Forward Refunding Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the 2006 Forward Refunding Bonds; and (11) rating changes. (Neither the 2006 Forward Refunding Bonds nor the Ordinance make any provision for redemption, debt service reserves, or liquidity enhancement.) In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

### **Availability of Information from NRMSIRs and SID**

The City has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to holders of the 2006 Forward Refunding 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 (the "MAC") has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the MAC is 600 West 8<sup>th</sup> Street, Post Office Box 2177, Austin, Texas, 78768-2177, and its telephone number is (512)476-6947. The MAC has also received SEC approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the City. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and

utilized at [www.DisclosureUSA.com](http://www.DisclosureUSA.com) (“DisclosureUSA”). The City may utilize DisclosureUSA for the filing of information relating to the 2006 Forward Refunding Bonds.

### **Limitations and Amendments**

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the 2006 Forward Refunding 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 2006 Forward Refunding 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 (i) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorize such an amendment) of the outstanding Bonds consent to such amendment or (ii) a person that is unaffiliated with the City (such as nationally recognized Co-Bond Counsel) determined that such amendment will not materially impair the interest of the registered owners and Beneficial Owners of the 2006 Forward Refunding Bonds. The City may also repeal or amend the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling bonds in the primary offering of the 2006 Forward Refunding Bonds.

### **Compliance with Prior Undertakings**

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

## **FORWARD-LOOKING STATEMENTS**

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

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

## **UNDERWRITING**

The Underwriters have agreed, subject to certain conditions, to purchase the 2006 Forward Refunding Bonds from the City on the Settlement Date at a purchase price of \$35,134,069.47. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the 2006 Forward Refunding Bonds if any 2006 Forward Refunding Bonds are purchased. The 2006 Forward Refunding 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. (See "DELIVERY CONDITIONS" herein.)

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

## **CO-FINANCIAL ADVISORS**

Coastal Securities and Estrada Hinojosa & Company, Inc. (the "Co-Financial Advisors") are employed by the City in connection with the issuance of the 2006 Forward Refunding Bonds and, in such capacity, have assisted the City in the preparation of certain documents related thereto. The Co-Financial Advisors fee for service rendered with respect to the sale of the 2006 Forward Refunding Bonds is contingent upon the issuance and delivery of the 2006 Forward Refunding Bonds.

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

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

## **CERTIFICATION OF THE OFFICIAL STATEMENT**

At the time of payment for and delivery of the 2006 Forward Refunding 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 (1) the descriptions and statements of or pertaining to the City contained in this Official Statement, and any addenda, supplement, or amendment thereto, for the 2006 Forward Refunding Bonds, on the date of sale of the 2006 Forward Refunding Bonds and on the date of the initial delivery of the 2006 Forward Refunding Bonds, were and are true and correct in all material respects; (2) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (3) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (4) there has been no material adverse change in the financial condition of the City, since the date of the last financial statements of the City appearing in the Official Statement.

## **AUTHORIZATION OF THE OFFICIAL STATEMENT**

This Official Statement has been approved as to form and content and the use thereof in the offering of the 2006 Forward Refunding Bonds was authorized, ratified, and approved by the City Council on the date of sale, and the



**SCHEDULE I  
TABLE OF REFUNDED OBLIGATIONS  
CITY OF SAN ANTONIO, TEXAS**

**General Improvement and Refunding Bonds, Series 1996A**

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>
08/01/2009	5.00%	\$ 2,795,000 <sup>1</sup>	08/01/2006	100.00
08/01/2010	5.20%	2,955,000 <sup>1</sup>	08/01/2006	100.00
08/01/2011	5.00%	5,745,000 <sup>1</sup>	08/01/2006	100.00
08/01/2012	5.40%	6,070,000 <sup>1</sup>	08/01/2006	100.00
08/01/2013	5.45%	6,435,000 <sup>1</sup>	08/01/2006	100.00
08/01/2014	5.40%	6,860,000 <sup>1</sup>	08/01/2006	100.00
--	--	--	--	--
08/01/2016	5.00%	3,540,000 <sup>1,2</sup>	08/01/2006	100.00
		\$34,400,000		

<sup>1</sup> Partial amounts that remain outstanding.

<sup>2</sup> Includes partial mandatory sinking fund redemption amount due 08/01/2015.

**APPENDIX A**

**CITY OF SAN ANTONIO – GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION**

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

## APPENDIX A

### CITY OF SAN ANTONIO GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

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

#### Population and Location

The Census 2000, prepared by the U.S. Census Bureau, found a City population of 1,144,646. The City’s Department of Planning estimated the City’s population at 1,282,400 for the calendar year ending December 31, 2004. The U.S. Census Bureau ranks the City as the second largest in the State of Texas and the eighth 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 Census 2000. The City’s Department of Planning estimated Bexar County’s population at 1,558,800 for the calendar year ending December 31, 2004. The City is located in south central Texas approximately 75 miles south of the state capital in Austin, 140 miles northwest of the Gulf of Mexico, and approximately 150 miles from the U.S./Mexico border cities of Del Rio, Eagle Pass, and Laredo, respectively.

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

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

#### Area and Topography

The area of the City has increased through numerous annexations, and now contains approximately 511.78 square miles. The topography of San Antonio is generally hilly with heavy black to thin limestone soils. There are numerous streams fed with underground spring water. The average elevation is 788 feet above mean sea level.

#### Annexation

Through annexation, the City has grown from its original size of 36 square miles to its current area, encompassing 448.41 square miles (full purpose annexations only) or 511.78 square miles (both full purpose and limited purpose annexations), and having a fiscal year 2005 total market valuation of \$51.741 billion<sup>1</sup>. The City expects to continue to utilize the practice of annexation as a future growth and development management tool, as

<sup>1</sup> Based on Tax Year 2004 Net Taxable Assessed Valuation certified by Bexar Appraisal District as of July 25, 2004.

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 18.70 square miles of land to the City's total area. At that same meeting, the City Council also annexed, effective January 5, 2003 six areas for limited purposes. Effective August 1, 2004, City Council annexed an additional area for limited purposes south of the Medina River. The areas annexed for limited purposes account for a total of 63.37 square miles of land within the City's corporate limits. Limited purpose annexation areas, although included in the total calculation of the City corporate limits, are excluded in the calculation of property values. (See "Limited Purpose Annexation" below).

### ***Limited Purpose Annexation***

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

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

### ***Annexation Plan***

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

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

### **Form of Government and Administration**

The City's Home Rule Charter (the "City Charter"), providing for 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 ten 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 2005. 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 operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. CPS is obligated to transfer a portion of its revenues to the City. CPS revenue transfers to the City for the City's fiscal year ending September 30, 2003 were \$204,016,870.

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 13th year as a separate, consolidated entity that addresses the City's water-related issues in a coordinated and unified manner. SAWS operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. SAWS is obligated to transfer a portion of its revenues to the City. SAWS revenue transfers to the City for the City's fiscal year ended September 30, 2003 were \$6,449,286.

## **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 nonagricultural employment in the San Antonio MSA for September 2004 was 737,300, which is 9,800, or 1.35% more jobs than the September 2003 total of 727,500. 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 San Antonio Business Journal Book of Lists 2004, San Antonio's five largest private-sector employers ranked by number of employees are: USAA (United Service Automobile Association), Methodist Healthcare System, SBC Communications, Inc., Baptist Health System, and Citibank; and San Antonio's five largest publicly traded companies, ranked by revenues, are SBC Communications, Inc., Valero Energy Corp., Clear Channel Communications, Inc., Tesoro Petroleum Corp., and Harte-Hanks Inc.

### ***Healthcare & Bioscience Industry***

The healthcare and bioscience industry remains the largest industry sector in the San Antonio economy. The industry is diversified, with related industries such as research, pharmaceuticals, and manufacturing contributing approximately the same economic impact as health services. According to the *San Antonio's Healthcare and Bioscience Industry February 2004 Economic Impact Study* commissioned by the Greater San Antonio Chamber of Commerce, the total economic impact from this industry sector totaled approximately \$11.9 billion in 2002. The industry provided over 100,500 jobs, or approximately 14% of the City's total employment. The healthcare and bioscience industry's annual payroll in 2002 approached \$3.6 billion. The 2002 average annual

wage of San Antonio workers was \$31,332, compared to \$33,145 for healthcare and bioscience employees. These 2002 economic impact figures represent growth of 4% over the previous year, or approximately \$430 million. In addition, the industry grew by 22% from 1998 through 2002.

*Health Care.* The 900-acre South Texas Medical Center (the “Medical Center”) has ten major hospitals and nearly 80 clinics, professional buildings, and health agencies with combined budgets of over \$2.5 billion as of January 2004. As of January 2004, approximately 26,757 Medical Center employees provided care for over 3.64 million outpatients and approximately 101,871 inpatients. A survey based on 2002 data of 371,000 patients treated in the Medical Center with estimated billings of \$573 million, indicated that 30% or 111,000 came from surrounding counties. Physical plant values, not adjusted for inflation, representing the original investments in physical facilities and equipment (less depreciation) represent approximately \$1.7 billion, which is a \$42 million increase in 2003 over the previous year. The Medical Center has about 300 acres of undeveloped land still available for expansion. Capital projects already in progress total \$141 million, which represent a 26% increase in 2003 over the previous year. Capital projects planned for the years 2005 through 2009 will add an additional estimated \$169 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. The UT Health Science Center received the largest amount of research funding of any South Texas university or institution in fiscal year 2003, garnering \$189 million.

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 level one trauma center (the only one in the U.S. Army medical care system) and contains the world-renowned Institute of Surgical Research Burn Center. BAMC also conducts bone marrow transplants in addition to more than 600 ongoing research studies.

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

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 Tejada VA Outpatient Clinic (which serves veterans located throughout South Texas).

The two military medical care facilities and the Veterans Hospital partner in a variety of ways, including clinical research and the provision of medical care to military veterans. This partnership is unique and represents a valuable resource to San Antonio and the nation.

*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/Department of Molecular Medicine, the Cancer Therapy and Research Center’s Institute for Drug Development, The Southwest Oncology Group, and dozens of new biotechnology-related companies, whose work

involves various stages of the very complicated drug development process. The Park has over \$100 million invested in its facilities and equipment and generates more than \$200 million in economic activity for the City each year. The Park is owned and operated by the Texas Research 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. donated \$1.8 million to the Park for a 7,000 square foot, state-of-the-art teleconferencing building that links 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 bioscience research engine since its inception, with strong research groups in cancer, cancer prevention, diabetes, drug development, geriatrics, growth factor and molecular genetics, heart disease, stroke prevention, and many other fields. One of its latest achievements is the establishment of the Children's Cancer Research Center, endowed with \$200 million from the State of Texas's tobacco settlement. The UT Health Science Center, along with the 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 guideposts for numerous biotech startups, bringing new dollars into the area's economy. A notable example of the results of these firms' research and development is ILEX Oncology, Inc., which has developed eight of the last 11 cancer drugs approved for general use by the Federal Drug Administration.

### ***Hospitality Industry***

The City's diversified economy includes a significant sector relating to the hospitality industry, which ranks second in its local economic impact. A recent study by the Greater San Antonio Chamber of Commerce found that in 2002 the hospitality industry had an economic impact of nearly \$7.2 billion. The estimated annual payroll for the industry in 2002 was \$1.2 billion, and the industry employed over 80,000. In 2003, the City's overall performance for hotel occupancy increased by 0.3% and total room nights sold in the destination increased by 2.8%.

*Tourism.* During 2002, San Antonio attracted nearly 20 million visitors with direct spending across all industries in the City of \$4.8 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 San Antonio Spurs. San Antonio ranks ninth among U.S. destinations for overnight leisure travel, according to research commission by the San Antonio Convention and Visitors Bureau.

(The remainder of this page is intentionally left blank.)

*Conventions.* San Antonio is one of the top convention cities in the country, and the recent expansion of the Henry B. Gonzalez Convention Center has enabled the area to compete for more and bigger conventions. The City is proactive in attracting convention business through its management practices and marketing efforts. The following table shows both overall city performance as well as convention activity booked by the San Antonio Convention & Visitors Bureau for the years indicated:

Calendar Year	Hotel Occupancy (%) <sup>1</sup>	Room Nights Sold <sup>1</sup>	Convention Attendance <sup>2</sup>	Convention Room Nights <sup>2</sup>	Convention Delegate Expenditures (\$ Millions) <sup>2,3</sup>
1994	71.6	5,164,219	384,307	665,805	314.7
1995	68.2	5,255,310	400,751	744,954	328.1
1996	66.3	5,569,917	486,383	725,395	398.3
1997	64.5	5,747,771	417,492	670,039	341.9
1998	66.1	6,093,945	445,151	724,882	401.0
1999	65.2	6,219,742	406,539	678,014	366.2
2000	65.5	6,495,654	389,448	696,215	350.8
2001	63.1	6,361,879	419,970	712,189	378.3
2002	64.4	6,609,110	521,278	826,566	469.6
2003	64.6	6,794,915	424,951	709,081	382.8

<sup>1</sup> Source: Smith Travel Research, based on hotels in San Antonio.

<sup>2</sup> Reflects only those conventions booked by the Convention and Visitors Bureau.

<sup>3</sup> For the years of 1994 through 1997, the estimated dollar value is calculated in accordance with a 1993 Deloitte & Touche LLP study for the International Association of Convention and Visitor Bureaus (“IACVB”) which reflected the average expenditure of \$818.82 per convention and trade show delegate. Beginning in 1998, the estimated dollar value is calculated in accordance with the 1998 IACVB Foundation Convention Income Survey Report conducted by Deloitte & Touche LLP which reflected the average expenditure of \$900.89 per convention and trade show delegate.

### ***Military Installations***

The military represents a principal component of the City’s economy providing an impact of over \$5 billion annually. 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-created Brooks Development Authority on July 22, 2002, as part of the Brooks City-Base Project (“Brooks City-Base”). As of September 2003, the total Department of Defense military employment associated with the three active military installations and Brooks City-Base, approximates 80,500 military, civilian, and guard/reserve personnel with an annual aggregate payroll of over \$3 billion.

*Military Base Redevelopment.* On July 13, 2001, Kelly Air Force Base (“Kelly AFB”) officially closed and the land and facilities were transferred to the Greater Kelly Development Authority (“GKDA”), a City Council-created organization responsible for overseeing the redevelopment of the base into a business and industrial park. The new business park, known as KellyUSA, is focused on becoming the Port of San Antonio by: (1) establishing international air cargo operations; (2) developing a Kelly rail port for direct international rail operations including inland port distribution with the Port of Corpus Christi; (3) expanding aviation maintenance, repair, and overhaul (MRO) operations into a renowned international center of excellence for MRO. KellyUSA has facility assets of approximately \$1 billion and include multi-modal infrastructure, including an 11,400-foot runway for commercial air operations valued at \$1.8 billion. To further the redevelopment goals, GKDA has completed over \$105 million in new construction and facility upgrades at KellyUSA, including a new 123,000 square foot hangar for Boeing in 2001 and a new office building in 2000. As of September 2004, redevelopment efforts have resulted in the retention of 7,221 military jobs and the creation of about 5,140 new commercial jobs. GKDA has also executed leases totaling approximately 8.2 million square feet of the space with 63 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 their continued use. In 2004, GKDA is beginning “Phase II New Facility Development” at KellyUSA that encompasses \$364 million in capital projects financed by

City, State, federal and private sector funds. GKDA projects that Phase II will generate another 6,400 jobs and increase KellyUSA's economic impact on the community to \$4.3 billion annually.

Brooks City-Base 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. As of September 2004, the BDA is saving the Air Force over \$5 million a year in support costs while the Air Force is occupying 95 percent of available space at Brooks City-Base. The BDA has also leased out another 82,000 square feet to commercial tenants. Development projects underway or planned at Brooks City-Base include a \$24.5 million City/County Emergency Operations Center, \$10 million in storm drainage improvements, the construction of two new facilities for lease to a local pharmaceutical manufacturer, and the potential construction of facilities for a School of Pharmacy.

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, had been vacant for some time and were in a deteriorating condition. On June 21, 2001, FSHRP signed a 50-year lease with the Army to redevelop and lease these three properties to commercial tenants. In September 2003, the U.S. Army relocated U.S. Army South Headquarters from Puerto Rico to Fort Sam, bringing approximately 500 new jobs to San Antonio with an annual economic impact of approximately \$200 million. The Army negotiated a lease with the FSHRP to locate U.S. Army South and the Southwest Region Installation Management Agency in the old BAMC, for renovation on these historic facilities which was completed summer 2004. The continued success of this unique public-private partnership at Fort Sam is critical to assisting the Army in reducing infrastructure support costs, preserving historical assets, promoting economic development opportunities, and generating net cash flow for both the Army and FSHRP. This project supports the City's economic development strategy to promote development in targeted areas of the City, leverage military installation economic assets to create jobs, and assist our military installations in reducing base support operating costs. The Army intends to extend the public-private partnership initiative to include other properties at Fort Sam currently available for redevelopment.

The City, in partnership with the Greater San Antonio Chamber of Commerce, community volunteers, Bexar County, and community stakeholders, has also 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 above. The Task Force will continue to facilitate the success of these projects and to develop new partnership initiatives with the San Antonio military bases.

### ***Other Major Industries***

*Aerospace Industry.* The aerospace industry's annual economic impact to the City is about \$2.9 billion. This industry provides some 8,283 jobs, with employees earning total annual wages totaling over \$320 million. The aerospace industry continues to expand as the City leverages its key aerospace assets, which include San Antonio International Airport, Stinson Municipal Airport, KellyUSA, Randolph AFB and Lackland AFB, and training institutions. Many of the major aerospace industry participants have significant operations in San Antonio, such as Boeing, Lockheed Martin, General Electric, Pratt & Whitney, Raytheon, Cessna, San Antonio Aerospace – a division of Singapore Technologies, Southwest Airlines, American Airlines, Delta and Continental, FedEx, UPS,

and others. The industry in San Antonio is very diversified with continued growth in air passenger service, air cargo, maintenance repair and overhaul (“MRO”), and general aviation.

San Antonio International Airport (SAT) has added three new non-stop passenger routes in the past 12 months and currently has flights to 28 non-stop destinations, with seasonal charter service to Mexico available during the spring and summer. SAT is currently developing construction plans for a new Terminal B and Parking Garage, with groundbreaking expected respectively in the spring and summer 2005. SAT is also in the process of an Environmental Impact Statement for implementation of proposed airfield capacity enhancement projects recommended in the Airport Master Plan. 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. Implementation of the Master Plan recommendations and is currently in process pending the successful completion of an Environmental Assessment for certain airfield improvements.

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, having completed 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 integrator service primarily provided by UPS, FedEx, and Airborne Express. In fall 2001, the community established the June 2002, the innovative Alamo Area Aerospace Academy (“AAAA”) – a two-year training and internship program for high school juniors and seniors to prepare these students for a career in the aerospace industry and to help fill a critical workforce requirement. After three years, the AAAA has graduated 117 seniors from the program with 87 finding jobs with a local aerospace company.

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

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. Its 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 the IT industry’s estimated 11,500 employees totals approximately \$500 million. Not captured in this employment number is an additional 4,600 employees of the Air Intelligence Agency located in San Antonio, which is the premier IT agency for the Air Force and the Department of Defense. The success of the AAAA prompted the community to establish a similar academy for IT, which began in August 2002 with an enrollment of 81 high school juniors and increasing to 104 juniors and seniors in the 2003/2004 class. 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.

(The remainder of this page is intentionally left blank.)

*Manufacturing Industry.* Toyota Motor Manufacturing broke ground on their sixth North American manufacturing facility on October 17, 2003. Toyota will invest \$800 million in this facility, located on 2,000 acres in South San Antonio. Production is scheduled to begin in 2006, and at full production, the facility will produce 150,000 full-size Tundra trucks. With this project, Toyota will create 2,100 construction jobs, 2,000 direct jobs, and 5,300 spin-off jobs. At full operations, the payroll for the 2,000 workers at the facility will total between \$90 and \$100 million. It is estimated that the rate of return on the City of San Antonio's investment is 18.3%. In addition, Toyota is creating a Supplier Park on site that is expected to attract another 10 companies and another 1,000 manufacturing and assembly jobs to San Antonio.

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

## Growth Indices

### *San Antonio Electric and Gas Customers*

<u>For the Month of December</u>	<u>Electric Customers</u>	<u>Gas Customers</u>
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
2003	602,185	306,591

*Source: CPS.*

### *San Antonio Water System Average Customers per Fiscal Year*

<u>Fiscal Year Ended May 31 <sup>1</sup></u>	<u>Water Customers <sup>3</sup></u>
1994	257,733
1995	266,308
1996	269,405
1997	273,276
1998	270,897
1999	279,210
2000	285,887
2001 <sup>2</sup>	292,136
2002 <sup>2</sup>	298,215
2003 <sup>2</sup>	303,917

<sup>1</sup> On April 3, 2001, the SAWS Board of Trustees approved the changing of SAWS' fiscal year from a year-end of May 31 to December 31.

<sup>2</sup> For the 12 months ending December 31.

<sup>3</sup> Excluding SAWS irrigation customers.

*Source: SAWS.*

## Construction Activity

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

Calendar Year	Residential Single Family		Residential Multi-Family <sup>1</sup>		Other <sup>2</sup>	
	Permits	Valuation	Permits	Valuation	Permits	Valuation
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
2003	6,771	521,090,684	141	2,738,551	13,813	1,041,363,980

<sup>1</sup> Includes two-family duplex projects.

<sup>2</sup> 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					
	2003	2002	2001	2000	1999	1998
Amarillo	\$ 44,581,868	\$ 44,201,183	\$ 43,357,043	\$ 42,474,995	\$ 40,781,524	\$ 39,276,557
Arlington	46,483,314	42,293,256	65,948,096	65,264,427	60,092,585	57,095,137
Austin	105,044,871	110,208,923	117,393,240	117,818,293	104,915,700	94,261,113
Dallas	184,263,151	192,542,321	210,130,838	215,412,071	198,740,061	189,502,534
El Paso	48,949,656	47,465,776	46,876,210	45,970,014	43,603,400	41,414,498
Fort Worth	72,772,964	72,632,487	72,975,421	71,543,992	68,142,426	64,116,910
Houston	325,284,697	334,122,179	337,540,694	321,095,967	308,508,700	296,149,172
Irving	36,584,559	38,810,594	43,188,105	44,773,277	42,773,277	37,198,548
Plano	46,876,867	45,309,249	47,327,003	47,325,948	40,483,049	36,058,044
SAN ANTONIO	152,360,840	153,207,656	151,422,401	133,360,785	126,060,252	117,583,252

Source: State of Texas, Comptroller's Office.

## Education

There are 15 independent school districts within Bexar County encompassing, in the aggregate, 41 high schools, 69 middle/junior high schools, and 237 elementary schools; and there are an additional 23 charter school districts with a total of 47 schools at all grade levels. 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 90 accredited private and parochial schools at all education levels. In San Antonio, there are six accredited universities which include a medical school, a dental school, and a law school, and four public community colleges, which had a combined enrollment of 90,649 students for the fall 2003 semester.

Source: Texas Education Agency.

## Employment Statistics

The following table shows current employment estimates by industry in the San Antonio MSA for the period of September 2004, as compared to the prior periods of August 2004 and September 2003.

### *Employment by Industry*

<u>San Antonio MSA</u> <sup>1</sup>	<u>September 2004</u>	<u>August 2004</u>	<u>September 2003</u>
Natural Resources and Mining	2,300	2,300	2,300
Construction	41,200	42,200	40,200
Manufacturing	44,200	44,100	45,000
Trade, Transportation, and Utilities	130,600	130,400	129,900
Information	23,500	23,600	23,600
Financial Activities	60,600	60,500	59,200
Professional and Business Services	90,000	89,300	87,000
Educational and Health Services	99,600	98,300	98,200
Leisure and Hospitality	82,500	85,500	81,300
Other Services	27,900	28,100	27,000
Government	<u>134,900</u>	<u>130,700</u>	<u>133,700</u>
Total Nonagricultural	737,300	735,000	727,500

The following table shows civilian labor force estimates, the number of persons employed, the number of persons unemployed, and the unemployment rate in the San Antonio MSA, Texas, and the United States for the period of September 2004, as compared to the prior periods of August 2004 and September 2003.

### *Unemployment Information (all estimates are in thousands)*

<u>San Antonio MSA</u> <sup>1</sup>	<u>September 2004</u>	<u>August 2004</u>	<u>September 2003</u>
Civilian Labor Force	845.9	848.2	836.3
Number of Employed	806.7	806.4	788.8
Number of Unemployed	39.2	41.8	47.5
Unemployment Rate %	4.6	4.9	5.7

  

<u>Texas (Actual)</u> <sup>1</sup>	<u>September 2004</u>	<u>August 2004</u>	<u>September 2003</u>
Civilian Labor Force	10,986.7	11,020.2	10,953.1
Number of Employed	10,388.1	10,377.2	10,211.0
Number of Unemployed	598.6	643.0	742.1
Unemployment Rate %	5.4	5.8	6.8

  

<u>United States (Actual)</u> <sup>2</sup>	<u>September 2004</u>	<u>August 2004</u>	<u>September 2003</u>
Civilian Labor Force	147,186.0	148,166.0	146,166.0
Number of Employed	139,641.0	140,226.0	137,731.0
Number of Unemployed	7,745.0	7,940.0	8,436.0
Unemployment Rate %	5.1	5.4	5.8

<sup>1</sup> Source: Labor Market Information Department, Texas Workforce Commission (model-based methodology).

<sup>2</sup> Source: Bureau of Labor Statistics, U.S. Department of Labor (Current Population Survey).

**Employers with 500 or More Employees in the San Antonio Metropolitan Area (Includes Bexar, Comal, Guadalupe, and Wilson Counties)<sup>1</sup>**

Firm	Product/Service	Firm	Product/Service
<b>Construction:</b>			
Bexar Electric Company	Electrical Contractor	Urban Concrete Contractors	Exterior Concrete, Stucco
CCC Group, Inc.	Industrial Contractor	H.B. Zachry Company	General Contractor
Design Electric	Electrical Contractor		
<b>Finance, Ins., Real Estate:</b>			
American Funds Group	Mutual Funds & Investments	PacifiCare	Health Insurance
Argonaut	Insurance	Randolph-Brooks Federal Credit Union	Federal Credit Union
Bank of America	Banking/Financial	San Antonio Federal Credit Union	Federal Credit Union
Citigroup	Banking/Financial/Insurance	Security Service Federal Credit Union	Federal Credit Union
Frost National Bank	Banking/Financial	USAA	Insurance/Financial Services
The Hartford	Insurance	Washington Mutual Bank	Financial Services
Humana	Health Insurance	Wells Fargo	Financial Services
The Lynd Company	Insurance	World Savings	Savings Deposits And Loans
JP Morgan Chase	Banking/Financial		
<b>Government:</b>			
Bexar County	County Government	San Antonio Fire Department	Fire Department
Brooks City-Base	Military Installation & Ind. Park	San Antonio Housing Authority	Public Housing Assistance
City of San Antonio	Municipal Government	San Antonio Police Department	Police Department
Fort Sam Houston	Military Installation	Texas Dept. of Transportation	Road Construction/Maintenance
Lackland AFB/37th Training Wing	Military Installation	VIA Metropolitan Transit	Urban Public Transportation
Randolph Air Force Base	Military Installation		
<b>Manufacturing:</b>			
Alamo Concrete Products	Ready-Mix Concrete	Martin Marietta Materials SW, Inc.	Limestone, Asphalt & Concrete
Cardell Cabinetry	Cabinetry	Miller Curtain Company	Curtains & Draperies
Clarke American	Check Printing	Motorola	Industrial Electronics
DPT Laboratories, Inc.	Pharmaceuticals & Cosmetics	S.M.I. Texas	Steel Mfg. & Fabrication
Friedrich Air Conditioning Co.	Air Conditioning Systems	San Antonio Express-News	Newspaper Publisher
Frito-Lay, Inc.	Snack Foods	San Antonio Shoe, Inc. (SAS)	Men's and Ladies' Shoes
Kinetic Concepts, Inc.	Specialty Medical Products	Scooter Store, Inc.	Medical & Hospital Equipment
L & H Packing Company	Meat Processing	Sony Semiconductor San Antonio	Semiconductors
Lancer Corporation	Beverage Dispensing Equipment	Vulcan Materials	Paving Materials & Cement Prod.
<b>Medical:</b>			
Advanced Living Technologies	Skilled Nursing Care Facilities	Methodist Healthcare System	Hospital & Health Care
Allied Home Health Nursing Svcs.	Home Health Care	Methodist Specialty & Transplant Hosp.	Hospital & Health Care
Baptist Health System	Hospital & Health Education	Methodist Metropolitan Hospital	Hospital & Health Care
University Health System	Health Care And Trauma Services	Morningside Ministries, Inc.	Residential Care/Health Care
Brooke Army Medical Center	Military Health Care	Outreach Health Services	Home Health Care
Center for Health Care Services	Mental Health Case Management	San Antonio State Hospital	Mental Health Care Facility
Christus Santa Rosa Health Care	Hospital & Health Care	San Antonio State School	Mental Retardation Care Facility
Girling Health Care, Inc.	Home Health Care	South Texas Veterans Health Care Sys.	Hospital & Health Care
Guadalupe Valley Hospital	Hospital Services	Southwest General Hospital	Hospital & Health Care
Interim Healthcare San Antonio	Nurses Registry	University Health System	Hospital & Health Care
McKenna Memorial Hospital	Hospital & Health Care	University Physicians Group	Primary & Specialty Health Care
Medical Team, Inc.	Home Health Care	University Health Science Center at S.A.	Professional Health Education
Methodist Children's Hospital	Children's Hospital & Health Care	VNA and Hospice of South Texas	Health Care & Hospice Care
<b>Retail:</b>			
Aaron Rents and Sells Furniture	Office & Residential Furniture	H.E. Butt (H.E.B.) Grocery Company	Supermarkets/Gourmet Stores
Ancira Enterprises	Auto Dealerships	Holt Company of Texas	Construction Equipment
Dillard's Department Stores	Department Stores	QVC San Antonio, Inc.	Electronic Customer Service Ctr.
Eckerd's Drugs of Texas, Inc.	Drug Stores	R & L Foods, Inc.	Taco Bell, Pizza Hut, & KFC
Eye Care Centers of America, Inc.	Eyewear	Sun Harvest Farms, Inc.	Natural Foods Grocery Stores
Foley's Department Stores	Department Stores	Tansec Inc./Div. of Radio Shack	Electronics
Gunn Automotive Group	Auto Dealerships	Target Stores	Discount Stores

<sup>1</sup> January 2004, The Greater San Antonio Chamber of Commerce Largest Employer's Directory.

(Table continues on next page.)

**Employers with 500 or More Employees in the San Antonio Metropolitan Area (Includes Bexar, Comal, Guadalupe, and Wilson Counties) (continued)<sup>1</sup>**

Firm	Product/Service	Firm	Product/Service
<b>Services:</b>			
Administaff, Inc.	Professional Employer Org.	Parent/Child Inc.	Early Childhood Dev./Childcare
Advanced Temporaries, Inc.	Temporary Staffing	Peakload Temporary Services	Personnel Staffing
Advantage Rent-A-Car	Vehicle Rental	Pioneer Drilling Company	Oil & Gas Drilling
Air Force Village Foundation	Military Retirement Facility	Regal Cinemas	Movie Theaters
Alamo Community College District	Community College District	RK Group, Inc.	Catering
Alamo Heights School District	Public School District	San Antonio College	Community College
Allen Tharp & Associates	Food Service Consultant	San Antonio School District	Public School District
American Building Maintenance	Contract Janitorial & Maintenance	San Antonio Spurs LLC	Professional Basketball Team
Bill Miller Bar-B-Q Enterprises, Inc.	Restaurants & Catering	Schertz-Cibolo-Universal City S.D.	Public School District
Boeing Aerospace Support Center	Aircraft Maint. & Modification	Sears Teleservice Center	Customer Service Consultants
Cadbeck Staffing	Professional Employer Org.	SeaWorld of Texas, Inc.	Marine Life Entertainment
Calling Solutions, Inc.	Integrated Communications	Securitas Security Services USA, Inc.	Security Officer Services
Comal School District	Public School District	Seguin School District	Public School District
East Central School District	Public School District	Six Flags Fiesta Texas	Entertainment Theme Park
Edgewood School District	Public School District	Somerset School District	Public School District
Enterprise Rent-A-Car	Vehicle Rental	South San Antonio School District	Public School District
Floresville School District	Public School District	Southside School District	Public School District
Frontier Enterprises	Restaurant Headquarters	Southwest School District	Public School District
Goodwill Industries of San Antonio	Vocational Services	Southwest Research Institute	Research & Development
Harcourt Assessment, Inc.	Test Publisher	St. Mary's University	Private University
Harlandale School District	Public School District	St. Phillip's College	Community College
Hospital Klean of Texas, Inc.	Hospital Housekeeping	Staff Professionals Inc.	Personnel Staffing
Hyatt Hill Country Resort	Hotel Resort	Standard Aero US	Aircraft Engine Repair
Industry One Staffing	Personnel Staffing	Taco Cabana, Inc.	Restaurants
Judson School District	Public School District	Talent Tree, Inc.	Personnel Staffing
Little Caesar's of San Antonio, Inc.	Pizza Take Out Restaurants	Texas Department of Human Services	State Social Services
Lockheed Martin Kelly Aviation	Aviation Consultants	Treco Services, Inc.	Janitorial Contract Services
Luby's Cafeterias, Inc.	Cafeterias	Trinity University	Private University
Marriott Rivercenter Hotel	Hotel	University of Texas at San Antonio	Public University
McDonald's-Haljohn, Inc.	Fast Food Restaurants	University of The Incarnate Word	Private University
Mi Tierra Restaurant & Bakery	Restaurant & Bakery	VIP Temporaries	Personnel Staffing
MTC, Inc.	Restaurants	Waste Management, Inc.	Solid Waste Collection/Disposal
New Braunfels School District	Public School District	Waterpark Management, Inc.	Resort & Waterpark
North East School District	Public School District	Wendy's of San Antonio Inc.	Fast Food Restaurants
Northside School District	Public School District	Westaff	Personnel Staffing
Our Lady of the Lake University	Private University	YMCA of Greater San Antonio	Health & Fitness/Youth Centers
<b>Transportation, Comm., Utilities:</b>			
AT&T	Telecommunications	Southwest Airlines	Air Service & Transportation
City Public Service	Electric & Natural Gas Utility	Time Warner Cable	Cable TV & Internet Service
Clear Channel Communications	TV & Radio Stations, Advertising	Trans Met Inc.	Freight Transpiration
Qwest Communications	Telecommunications	U.S. Postal Service	Postal Services
San Antonio Water System	Water Utility	United Parcel Service	Parcel Delivery
SBC Communications Inc.	Telecommunications	Valero Energy Corporation	Crude Oil Refinery
SBC Southwestern Bell	Telecommunications	WorldCom	Telecommunications
<b>Wholesale:</b>			
Advantage Sales & Marketing	Packaged Goods/Food Broker	SYGMA Network, Inc.	Distributor
CARQUEST Auto Parts (Straus-Frank Co.)	Automotive Replacement Parts	Tyson Foods, Inc.	Food Service
Color Spot Nurseries/ Southwest Division	Nurseries		

<sup>1</sup> January 2004, The Greater San Antonio Chamber of Commerce Largest Employer's Directory.

## **San Antonio Electric and Gas Systems**

### ***History and Management***

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

Vacancies in membership on the CPS Board are filled by majority vote of the remaining members. New CPS Board appointees must be approved by a majority vote of the City Council. A vacancy, in certain cases, may be filled by the City Council. The members of the CPS Board are eligible for re-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 established by the City Council. New CPS Board members considered for approval by the City Council will be those whose residence is in a quadrant that provides such geographic representation.

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

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

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

### ***Service Area***

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

CPS is currently the exclusive provider of electric service within the service area, including the provision of electric service to some Federal military installations located within the service area that own their own distribution facilities. As discussed below under "Electric Utility Restructuring in Texas; Senate Bill 7", until and unless the City Council and the CPS Board exercise the option to opt-in to retail electric competition (called "Texas Electric Choice" by the PUCT), CPS has the sole right to serve as the retail electric energy provider in its service area. On April 26, 2001, the City Council passed a resolution stating that the City did not intend at that time to opt-in to the

deregulated electric market. The City Council has taken no additional action relating to this decision. Senate Bill 7 (“SB 7”), adopted by the Texas Legislature in 1999, 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”). ERCOT is a synchronous interconnected electric system that operates wholly within Texas. (See “Electric Utility Restructuring In Texas; Senate Bill 7.”)

In addition to the area served at retail rates, CPS sells electricity at wholesale prices to the Floresville Electric Light & Power System, the City of Hondo, the City of Castroville, and the City of Brady. Renewal contracts have been entered into with the first three long-term wholesale customers in recent years. CPS became the wholesale electric provider of the City of Brady under a three-year contract commencing 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 with retail gas, 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 in and around its service area.

### ***Retail Service Rates***

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 (“Municipal 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 Municipal 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 and CPS Board choose to opt-in to retail competition, CPS retail service electric rates are subject to appellate but not original rate regulatory jurisdiction by the PUCT in areas that CPS serves outside the City limits. To date, no 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 all gas utilities. Municipal 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 that CPS serves outside the City limits. To date, no appeal of CPS retail gas rates has ever been filed. In the absence of a contract for service, the TRC also has jurisdiction to establish gas transportation rates for service to State agencies by a Municipal Utility as well as rates for gas sale and for transport of State gas for school districts.

The City has covenanted and is obligated under the bond ordinances, as provided under the rate covenant, to establish and maintain rates and collect charges in an amount sufficient to pay all Maintenance and Operating Expenses of the EG Systems and to pay the debt service requirements on all revenue debt of the EG Systems. Rate changes over the past 14 years have consisted of a 4.0% combined electric and gas base rate increase effective January 31, 1991; a new Large Volume Gas rate effective July 31, 1992, which was offered to Large Gas Customers whose monthly gas usage exceeded 550 MCF per month and enabled them to reduce bills by approximately 8.8%; a Super Large Power (“SLP”) electric rate effective January 4, 1994, which reduced the cost of electricity to customers having loads greater than 5,000 KW per month and annual load factors greater than 41% by approximately \$0.0049 per kWh, a 10.2% reduction on the basic rate; and a 3.5% electric base rate adjustment approved by City Council on September 30, 2004, and made effective on the first day of the billing period in which the closing for CPS’ purchase of an additional interest in the South Texas Project (“STP”) occurs. The latter rate adjustment is intended to offset the additional costs associated with the STP purchase, which is expected to be completed during the first half of 2005. CPS projects that the net effect of the rate adjustment and fuel savings from

additional nuclear-fueled generation will be lower bills for CPS electric customers. CPS also offers a monthly contract for renewable energy service (currently this is wind generated electricity) under Rider E15, which became effective September 30, 2002. A rider to the SLP rate, the Economic Incentive Rider E16, became effective March 10, 2003, and offers discounts off the SLP demand charge for a period up to four years for new or added load of at least 10 MW. Under certain conditions, the discount may be extended up to an additional three years. Customers must also meet City employment targets and targets for purchases of goods or services from local businesses in order to qualify for the Economic Incentive Rider.

Each of CPS' retail and wholesale rates contains a fuel adjustment clause, which provides for current recovery of fuel costs. The adjustment is set at the beginning of each month.

### ***Transmission Access and Rate Regulation***

Pursuant to amendments made by the Texas Legislature in 1995 to the PURA ("PURA95"), Municipal Utilities, including CPS, became subject to the regulatory jurisdiction of the PUCT for transmission of wholesale energy. PURA95 requires the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers, and other transmission customers.

The 1999 Texas Legislature amended the PURA95 to expressly authorize rate authority over Municipal Utilities for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method. In general, the postage stamp method results in transmission payments to other transmission owners by a compact urban utility like CPS that exceed its receipts from other utilities for their use of its own transmission facilities. CPS' wholesale open access transmission charges are set out in tariffs filed at the PUCT, and are based on its transmission cost of service approved by the PUCT, representing CPS' input to the calculation of the statewide postage stamp pricing method. The PUCT's rule also provides that the PUCT may require construction or enlargement of transmission facilities in order to facilitate wholesale transmission service. In 2003, the Texas Legislature passed HB 2548, which amended Section 39.203(e) of the PURA. This new law authorizes the PUCT to require transmission owners such as CPS to construct and/or enlarge transmission facilities in order to ensure reliability or to mitigate transmission system constraints within ERCOT.

*Electric Utility Restructuring in Texas; Senate Bill 7.* During the 1999 legislative session, the Texas Legislature enacted SB 7, providing for retail electric open competition that began in 2002. SB 7 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 Municipal Utilities, such as the CPS electric system, as well as other provisions that 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 required IOUs to separate their retail energy service activities from regulated utility activities by September 1, 2000 and to unbundle their generation, transmission/distribution, and retail electric sales functions into separate units by January 1, 2002. An IOU may choose to sell one or more of its lines of business to independent entities, or it may create separate but affiliated companies, and possibly operating divisions, 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.

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 otherwise are 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 “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. REPs buy electricity from Power Generation Companies, power marketers, or other parties and may resell that electricity to retail customers at any location in Texas (other than within service areas of Municipal Utilities and Electric Co-ops that have not opened their service areas to retail competition). Transmission and Distribution Utilities and Municipal Utilities and Electric Co-ops that have chosen to participate in competition 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 contains specified emissions reduction requirements for certain older electric generating units which would otherwise be exempt from the Texas Commission on Environmental Quality (“TCEQ”, formerly the Texas Natural Resource Conservation Commission) permitting program by virtue of “grandfathered” status. Under SB 7, annual emissions of nitrogen oxides (“NO<sub>x</sub>”) from such units are to be reduced by 50% from 1997 levels, beginning May 1, 2003 and reported on a yearly basis. 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<sub>x</sub> reductions required for SB 7 have been met for the first compliance year and NO<sub>x</sub> emissions have been reduced by over 50% system-wide from baseline levels. CPS may require future additional expenditures for emission control technology.

Although SB 7 instituted many of the changes to environmental emission controls which affect grandfathered electric generating plants, another TCEQ regulation called Chapter 117 regulations is directed at all units, including CPS’ coal plants. These regulations require a 50% reduction in NO<sub>x</sub> emissions beginning May 1, 2005 and annual reporting. In addition, as a result of JK Spruce Plant Unit 2 (“JKS 2”) air permitting process, CPS has committed to tighter NO<sub>x</sub> emission limitations than what is required under Chapter 117 at the Calaveras Lake Site once the JKS 2 unit comes on line. It is possible that over the upcoming years the EPA, the State of Texas, and local air quality districts may issue even more stringent regulations governing emissions from many types of power plants. Changes to environmental emission controls may have the greatest effect on coal plants. For example, mercury emission limits have been proposed by EPA which may require new controls at the coal plants in the near future. In addition, new rules were published by EPA affecting CPS’ newer simple cycle combustion turbines, with regard to formaldehyde, and those turbines were tested for that pollutant as part of the compliance testing. Further statutory changes and additional regulations may change existing cost assumptions for electric utilities. While it is too early to determine the extent of any such changes, such changes could have a material impact on the cost of power generated at affected electric generating units.

### ***Response to Competition***

*Strategic Planning Initiatives.* CPS has a comprehensive corporate strategic plan that is designed to make CPS more efficient and competitive, while delivering value to customers and the City. Major parts of the plan include restructuring 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”) for the purposes of lowering the debt component of energy costs, maximizing the

effective use of cash and cash equivalent assets, and enhancing financial flexibility in the present and 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 approximately 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 lower interest costs, fund strategic initiatives, and increase 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 ("Kelly"). These facilities include both the area privatized and the portion of Kelly that remains under Air Force control, which is now a part of Lackland Air Force Base ("Lackland"). CPS is the full service electric and gas provider for the Kelly USA Business Park.

On July 22, 2002, the Brooks City Base Property was conveyed to the City. On October 1, 2002, CPS took ownership of the electric and gas infrastructures. Installation of all electric and gas metering was completed as of November 15, 2002. CPS is working on addressing health and safety code issues, and this process is approximately 91% completed. It is expected that this work will be completed by January 31, 2005. CPS is the full service provider for both the electric and gas systems.

On September 30, 2003, CPS acquired the electric utility system at the Camp Bullis ("CB") security training force installation. CPS crews have completed 99% of the new electric meter installation and have begun the process of evaluating the overhead distribution system to establish a long-term plan to bring the system to CPS' standards. As part of the transfer, CB became a full-service CPS customer for the next 50 years.

On December 1, 2003, CPS acquired the electric utility infrastructure at Fort Sam Houston, a U.S. Army base ("FSH") and became owner for the electric system at this installation. CPS crews have completed 89% of the installation of new electric meters and are evaluating the overhead distribution to establish a long-term plan to bring the system to CPS' standards. As part of the transfer, FSH became a full-service CPS customer for the next 50 years. CPS is already the owner and full service provider for the gas system at FSH.

CPS provides a variety of electric and gas services for Lackland under a General Services Administration contract. In June 2003, Lackland personnel met with CPS for a preliminary discussion regarding a sole source acquisition for gas and electric utility systems. The Air Force ("AF") and CPS had several more privatization discussion meetings between July and December 2003. In January 2004, CPS submitted an unsolicited proposal for the gas and electric utility infrastructures at the Lackland Annex at Camp Bullis and main Lackland. Proposals are currently under review by AF personnel. The AF has a target date of September 30, 2005 to review the feasibility of privatizing the utilities.

After CPS received unsuccessful bidder notification on February 24, 2003, from the Defense Energy Support Center regarding the Texas Regional Demonstration Project ("TRD"), Randolph Air Force Base ("Randolph") has not contacted CPS regarding any privatization efforts. CPS remains open to any future requests by Randolph to privatize their utility systems.

### ***Electric System***

*Generating System.* CPS operates 19 electric generating units, three of which are coal-fired and 16 of which are gas-fired. Some of the gas-fired generating units may also burn fuel oil, which provides greater fuel flexibility and reliability. CPS also has a 28.0% interest in the two-unit nuclear power plant called the South Texas Project (the "STP"). When both units of STP operate as planned, they supply approximately one-third of CPS' annual electric load. The nuclear units supplied 24.7% of the electric system load during fiscal year 2003-2004 and 30.2% of the load for the twelve months ended July 31, 2004. The purchase by CPS of an additional 12% interest in STP is pending.

STP is located on a 12,220-acre site in Matagorda County, Texas, near the Texas Gulf Coast, approximately 200 miles from San Antonio. AEP Texas Central Company ("AEP") has sold its generation facilities in ERCOT, including its interest in STP. CPS and Texas Genco, L.P. ("Texas Genco") exercised rights of first refusal and have committed to purchase AEP's interest. Texas Genco will purchase an additional 13.2% interest in

STP from AEP, bringing its ownership to 44%. CPS will use proceeds from its \$160 million bond issue scheduled to close on November 18, 2004 (the "Bonds") to purchase an additional 12% from AEP, bringing its ownership to 40%. (See "Recent Financial Transactions"). If either the Texas Genco or CPS purchase fails to close, the other has agreed to purchase the remaining AEP share of STP. Close of the purchase of CPS' portion of AEP's interest in STP is contingent upon receipt of two additional regulatory approvals, one from the U.S. Nuclear Regulatory Commission ("NRC"), for transfer of AEP's NRC licenses for STP, and another from the U.S. Internal Revenue Service ("IRS"), for an IRS Private Letter Ruling that the transfer of AEP's Decommissioning Funds is permitted without conditions or limitations thereon that are not reasonably acceptable to CPS. At this time, there appear to be no impediments in obtaining these regulatory approvals and CPS expects receipt of both of these regulatory approvals approximately four to six months following submittal of the respective applications to the NRC and IRS. Closing of the sale transactions are expected in the first half of 2005.

On September 30, 2004, CPS received approval for a change in the amount it charges for retail and certain wholesale rates. This \$41 million base rate adjustment was designed to support the issuance of the Bonds and the increase in CPS' share of operation and maintenance expenses at STP. (See "Retail Service Rates").

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

<u>Participants</u>	Following Proposed			
	<u>Current Ownership</u>		<u>Sale of AEP's Ownership</u>	
	<u>%</u>	<u>MW</u>	<u>%</u>	<u>MW</u>
Texas Genco, L.P.	30.8	770	44.0	1,100
City Public Service	28.0	700	40.0	1,000
AEP Texas Central Company	25.2	630	0.0	0
City of Austin - Austin Energy	<u>16.0</u>	<u>400</u>	<u>16.0</u>	<u>400</u>
	<u>100.0</u>	<u>2,500</u>	<u>100.0</u>	<u>2,500</u>

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

*Joint Operating Agreement.* CPS and Texas Genco entered into the Joint Operating Agreement ("JOA") effective July 1, 1996. The agreement provides that the two entities will jointly dispatch their generating plants (other than STP) in order to take advantage of the most efficient plants and favorable fuel prices to serve the combined loads of both entities. CPS and Texas Genco now share equally the benefits achieved through joint dispatch of their combined portfolio of power plants, and this arrangement is expected to continue through the term of the agreement that 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 83 substations strategically located on the high voltage 138/345 kV transmission system. Approximately 7,426 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 304 miles of three-phase distribution lines, 82 miles of three-phase Downtown Network distribution lines, and 2,685 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground distribution systems. Presently, 70,697 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 267 pressure regulating stations throughout the gas distribution system which reduce the pressure to between 9 psig and 59 psig for the distribution system. A Supervisory Control and Data Acquisition computer system ("SCADA") monitors the gas pressure and flow rates at many strategic locations within the supply pressure system, and most of the critical pressure regulating stations and isolation valves are remotely controlled by SCADA.

*Distribution System.* The gas distribution system consists of approximately 4,372 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 month of November 2002, CPS began recording unbilled revenue to correctly match monthly revenues (billed and unbilled) with the recorded monthly expenses.

## ***Recent Financial Transactions***

On July 30, 2003, CPS issued \$90,935,000 in Revenue Refunding Bonds, New Series 2003A with approval from the CPS Board and the City Council. CPS used the proceeds to advance refund \$95,980,000 in New Series 1994-A and New Series 1995 bonds. CPS will realize gross savings in future debt service payments of \$15.9 million.

On November 5, 2003, CPS issued \$350,490,000 in Revenue Refunding Bonds, New Series 2003 (Forward Delivery) with approval from the CPS Board and the City Council. CPS used the proceeds to current refund \$375,485,000 in New Series 1994-A bonds. CPS will realize gross savings in future debt service payments of \$32.9 million.

In both June and August of 2004, CPS restructured its New Series 2003A Bond Escrow to take advantage of favorable interest rates. CPS saved a combined \$1.1 million in debt service costs.

On November 18, 2004, CPS issued the Bonds with approval from the CPS Board and City Council. These Bonds are variable rate demand obligations. CPS will use the proceeds to partially fund the purchase from AEP of an additional 300 megawatts of STP nuclear power generation and for other EG Systems improvements.

(The remainder of this page is intentionally left blank.)

**City Public Service Operating Statement <sup>1</sup>**

	Fiscal Years Ended January 31				
	2004 <sup>2</sup>	2004	2003	2002	2001
Operating Revenues					
Electric	\$ 1,194,074,553	\$ 1,299,447,574	\$ 1,132,788,588	\$ 1,028,259,435	\$ 1,124,414,416
Gas	190,525,579	204,366,791	168,704,731	172,586,985	214,555,539
Total Operating Revenue	\$ 1,384,600,132	\$ 1,503,814,365	\$ 1,301,493,319	\$ 1,200,846,420	\$ 1,338,969,955
Less Unbilled Revenue <sup>3</sup>	9,799,516	(2,804,089)	58,384,716	-0-	-0-
Operating Revenue Net of Unbilled Revenue	1,374,800,616	1,506,618,454	1,243,108,603	1,200,846,420	1,338,969,955
Operating Expenses <sup>4,5</sup>	861,932,596	942,470,670	740,161,094	688,875,837	754,145,321
Net Operating Income	\$ 512,868,020	\$ 564,147,784	\$ 502,947,509	\$ 511,970,583	\$ 584,824,634
Non-Operating Income (Net) <sup>3,5</sup>	27,009,936	25,893,513	28,547,470	49,022,259	50,268,724
Available for Debt Service	\$ 539,877,956	\$ 590,041,297	\$ 531,494,979	\$ 560,992,842	\$ 635,093,358
Other Deductions:					
Depreciation	\$ (233,752,284)	\$ (228,940,920)	\$ (217,036,570)	\$ (188,998,839)	\$ (197,322,532)
Interest on Bonds, Other					
Interest and Debt Expense	(147,262,602)	(152,296,375)	(159,138,600)	(170,212,516)	(173,114,847)
Interest During Construction	2,654,300	3,072,931	6,776,744	7,060,613	12,593,131
Defeasance of Debt	-0-	-0-	(7,057,173)	-0-	(2,586,215)
Payments and Refunds to City	(191,345,677)	(206,056,680)	(172,235,562)	(168,134,295)	(185,005,847)
Total Other Deductions:	\$ (569,706,263)	\$ (584,221,044)	\$ (548,691,161)	\$ (520,285,037)	\$ (545,436,310)
Available for Debt Service Less Other Deductions	(29,828,307)	5,820,253	(17,196,182)	40,707,805	89,657,048
Unbilled Revenue <sup>3</sup>	9,799,516	(2,804,089)	58,384,716	-0-	-0-
Net Income	\$ (20,028,791)	\$ 3,016,164	\$ 41,188,534	\$ 40,707,805	\$ 89,657,048

<sup>1</sup> Unaudited.

<sup>2</sup> For the 12-months ended July 31, 2004.

<sup>3</sup> See *Implementation of New Accounting Policies*, herein.

<sup>4</sup> Excludes income and expense related to the Employee Health & Welfare Plans and Depreciation.

<sup>5</sup> Excludes investments fair value adjustment.

Source: CPS.

## **San Antonio Water System**

### ***History and Management***

In 1992, the City Council consolidated all of the City's water related functions, agencies, and activities into one agency. This action was taken due to the myriad of issues confronting the City related to the development and protection of its water resources. The consolidation provided the City with a singular, unified voice of representation when promoting or defending the City's goals and objectives for water resource protection, planning, and development with local, regional, state, and federal water authorities and officials.

Final City Council approval for the consolidation was given on April 30, 1992 with the approval of Ordinance No. 75686 (the "System Ordinance"), which created the City's water system ("SAWS"), a single, unified system consisting of the former City departments comprising the waterworks, wastewater, and water reuse systems, together with all future improvements and additions thereto, and all replacements thereof. In addition, the System Ordinance authorizes the City to incorporate into SAWS a storm water system and any other water related system to the extent permitted by law. To date, the City's storm water utility system has not been incorporated into SAWS.

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

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

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, condemnation proceedings, and the issuance of debt, 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 such services upon the customer's failure to pay for the same. The SAWS Board, to the extent authorized by law and subject to certain various exceptions, also has authority to make extensions, improvements, and additions to SAWS and to acquire by purchase or otherwise properties of every kind in connection therewith.

### ***Service Area***

SAWS provides water and wastewater service to the majority of the population within the corporate limits of the City and Bexar County, which totals approximately 1.4 million residents. SAWS employs approximately 1,600 personnel and provides maintenance of over 9,300 miles of water and sewer mains.

(The remainder of this page is intentionally left blank.)

**Historical Water Consumption (Million Gallons) <sup>1</sup>**

<u>Fiscal Year Ended</u>	<u>Daily Average</u>	<u>Peak Day</u>	<u>Peak Month</u>	<u>Metered Usage</u>	<u>Metered Water Revenue</u>
05/31/1999	159	308	July	53,520	\$ 74,317,726
05/31/2000	162	269	August	57,144	80,606,965
05/31/2001	155	267	July	53,047	73,166,293
12/31/2001 <sup>2</sup>	159	274	July	34,839	50,517,854
12/31/2001 <sup>3</sup>	159	274	July	58,097	74,521,211
12/31/2002 <sup>3</sup>	143	222	August	52,303	77,801,600
12/31/2003 <sup>3</sup>	150	303	August	50,576	81,188,187

<sup>1</sup> Unaudited.

<sup>2</sup> On April 3, 2001, the SAWS Board approved the changing of the fiscal year from a year-end of May 31 to December 31. Report is for the seven months ending December 31, 2001.

<sup>3</sup> 12 months ending December 31.

Source: SAWS.

**Water Consumption by Customer Class (Million Gallons) <sup>1</sup>**

	<u>2003 <sup>2</sup></u>	<u>2002 <sup>2</sup></u>	<u>2001 <sup>2</sup></u>	<u>2001 <sup>3</sup></u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Residential	27,760	28,372	29,003	19,397	28,694	31,008	29,496
Commercial	11,730	11,942	12,371	6,538	12,384	13,536	11,616
Apartment	7,794	7,791	7,718	4,641	7,783	8,148	8,136
Industrial	2,473	2,696	2,670	1,617	2,737	2,724	2,820
Wholesale	136	173	531	770	535	624	528
Municipal	<u>683</u>	<u>876</u>	<u>784</u>	<u>350</u>	<u>914</u>	<u>1,104</u>	<u>924</u>
	<u>50,576</u>	<u>51,850</u>	<u>53,077</u>	<u>33,313</u>	<u>53,047</u>	<u>57,144</u>	<u>53,520</u>

<sup>1</sup> Unaudited.

<sup>2</sup> 12 months ending December 31.

<sup>3</sup> On April 3, 2001, the SAWS Board approved the changing of the fiscal year from a year-end of May 31 to December 31. Report is for the seven months ending December 31, 2001.

Source: SAWS.

**SAWS System**

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

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

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

SAWS in 1992, management and operation of the waterworks system was under the control of the City Water Board. The SAWS' service area currently extends over approximately 561 square miles, making it the largest water purveyor in Bexar County. SAWS served more than 80% of the water utility customers in Bexar County and provides potable water service to approximately 306,300 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 2003, the waterworks system had in place 4,251 miles of distribution mains, ranging in size from 6 to 61 inches in diameter (the majority being between six and 12 inches), and 22,117 fire hydrants distributed evenly throughout the SAWS service area.

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

SAWS serves the residents of the City, 18 governmental entities, and other customers outside the corporate limits of the City. As Regional Agent, SAWS has certain prescribed boundaries that currently cover an area of approximately 403 square miles. SAWS also coordinates with the City of San Antonio for wastewater planning for the City's total planning area, Extra-territorial Jurisdiction ("ETJ"), of approximately 956 square miles. The population for this planning area is approximately 1.2 million people.

In addition to the treatment facilities owned by SAWS, there are six privately owned and operated sewage and treatment plants within the San Antonio ETJ. There are approximately 321,000 wastewater sewer connections within Bexar County. Of these, SAWS serves approximately just over 330,000 customers.

The wastewater system is composed of approximately 5,000 miles of mains; three major treatment plants (Dos Rios, Leon Creek and Salado Creek); and a smaller treatment plant (Medio Creek). The three major plants are activated sludge facilities and the small plant is an extended aeration plant. SAWS holds Texas Pollutant Discharge Elimination System ("TPDES") wastewater discharge permits, issued by the TCEQ for each of these four plants which have a combined treatment capacity of 225.7 million gallons per day ("MGD"). In addition, SAWS operates and maintains several small satellite facilities that vary in number and are temporary, pending completion of interceptor sewers that will connect the flow treated at such facilities to the wastewater system. The permitted flows from the wastewater system's four regional treatment plants represent approximately 98% of the municipal discharges within the ETJ.

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

*Chilled Water and Steam System.* SAWS owns and operates eight thermal energy facilities providing chilled water and steam services to governmental and private entities. Two of the facilities, located in the City's downtown area, provide chilled water and/or steam service to 23 customers. Various City facilities that include the Henry B. Gonzalez Convention Center and the Alamodome constitute approximately 75% of the downtown system's chilled water and steam annual production requirements. The remaining six thermal energy facilities, owned and operated by SAWS, provide chilled water and steam services to large industrial customers located in the Kelly USA industrial area on the City's west side. The system's chilled water producing capacity places it as one of the largest producers of chilled water in South Texas. The chilled water and steam services produced \$12,193,646 in gross revenues for the 2003 fiscal year. The system entered into an operating agreement with the Brooks Development Authority for the operation of the thermal plants at the Brooks City Base facilities.

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

along with SAWS, has the responsibility, pursuant to the “Authorization to Discharge under the National Pollutant Discharge Elimination System” (the “Permit”), for water quality monitoring and maintenance. The City and SAWS have entered into an interlocal agreement to set forth the specific responsibilities of each regarding the implementation of the requirements under the Permit. The approved annual budget for the SAWS share of program responsibilities for fiscal year 2004 is \$3,206,210, for which SAWS is reimbursed \$2,746,327 from the storm water utility fee imposed by the City.

### ***Water Supply***

Until recently, the City obtained 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 five to 30 miles in width, and stretching over 175 miles in length, beginning in Bracketville, Kinney County, Texas, in the west and stretching to Kyle, Hays County, Texas, in the east. The Edwards Aquifer receives most of its water from rainfall runoff, rivers, and streams flowing across the 4,400 square miles of drainage basins located above it.

Much of the Edwards Aquifer region consists of agricultural land, but it also includes areas of population ranging from communities with only a few hundred residents to the City and other urban areas with well over one million residents. 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 by Edwards Aquifer water and are utilized for commercial, municipal, agricultural, and recreational purposes, while at the same time supporting ecological systems containing rare and unique aquatic life.

The 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 management of the water in the Edwards Aquifer has been the subject of intense scrutiny that has led to both extensive litigation and federal and state agency initiation of regulatory action. In 1993, the Texas Legislature adopted the Edwards Aquifer Authority Act, which created a new regulatory agency to manage withdrawals from the Edwards Aquifer and to protect springflows. This agency, known as the Edwards Aquifer Authority, is charged with preserving and protecting the Edwards Aquifer in an eight-county region including all of Uvalde, Medina, and Bexar counties, plus portions of Atascosa, Caldwell, Guadalupe, Comal, and Hays counties.

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

SAWS' Water Resources 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	Actual Assessment
2001	\$ 0.0358	\$ 0.0358	\$ 0.0358
2002	0.0350	0.0708	0.0708
2003	0.0230	0.0938	0.0844
2004	0.0190	0.1128	0.1100
2005	0.0250	0.1378	0.1378

*Source: SAWS, approved by City Council.*

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 period 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.* SAWS has implemented an aggressive water conservation program, which has reduced pumping to 140 gallons per person per day in 2003 and will reach 132 gallons per person per day over the next five to ten years. This will be accomplished through a diverse set of programming 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. The Community Conservation Committee is a group of stakeholders appointed by the Board of Trustees to advise SAWS on water conservation issues. The Conservation Program is based on partnerships with stakeholders.

SAWS has also developed partnerships with local authorities, groundwater 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.

### **Short-Term Supply**

*Edwards Aquifer Acquisitions.* The Edwards Aquifer will always be the cornerstone of San Antonio's water supply and SAWS has spent approximately \$30.9 million to buy Edwards water since the inception of the Water Supply Fee in 2001. Under drought conditions, SAWS' pumping permit from the EAA is expected to provide approximately 135,000 acre-feet per year through 2007, and 120,000 acre-feet per year thereafter if further reductions are required. SAWS has also been proactive in acquiring permanent Edwards water rights. To this date

SAWS has purchased 38,000 acre-feet, under average conditions, (32,000 under drought conditions) of additional rights above the base permit amount and will continue to purchase available water rights.

*Leases.* SAWS will acquire approximately 50,000 acre-feet of additional Edwards Aquifer pumping rights (42,500 acre-feet under drought conditions) by purchase or lease of water rights from irrigators west of San Antonio and have spent about \$6.2 million in leases since the inception of the Water Supply Fee in 2001. SAWS is committed pursuant to SAWS Board policy not to acquire so much water from this source that it would undermine the agricultural economy of the region.

*Brush Management/Agriculture Conservation.* SAWS is committed to the conservation of irrigation water within the region as well as all irrigation water that is associated with various SAWS water resource development projects. Edwards aquifer water conserved by agriculture is mutually beneficial to all users. The Agricultural Conservation Program is categorized into three components: direct conservation, research & education, and regional partnership projects.

*Direct Conservation.* The most significant quantity of water to be conserved can be derived from improving the efficiency of agricultural irrigation systems.

*Research and Education.* SAWS, in partnership with regional interests, supports research and implementation of watershed activities (i.e., brush management) that increases watershed yield.

*Regional Partnership Projects.* Development of the Irrigation Technology Center (“ITC”) is moving forward. The ITC will be a unique world-class facility with four primary missions: 1) Develop design and performance standards for agricultural and landscape irrigation systems; 2) Establish an equipment testing and certification program; 3) Provide training and educational services for irrigators, agency, and industry personnel; and 4) Develop new and improved irrigation technologies, methods, and management practices. This new facility is now planned to be located at or near the newly planned Texas A&M campus to be located in Bexar County. SAWS support of the facility and the research will provide a direct benefit to all irrigation water use both agricultural and urban.

*Edwards Aquifer Optimization.* The Aquifer Optimization Program conducts sound scientific research to evaluate whether the pumping limits defined in Senate Bill 1477 can be increased without compromising the management goals of Senate Bill 1477. Key objectives include maintaining the endangered species and their habitats at Comal and San Marcos springs and providing flow from the springs for downstream users. Technical options must be identified and evaluated to increase available water in the Edwards Aquifer and to use the aquifer’s storage capacity more efficiently. This program is primarily the responsibility of the EAA, however, SAWS provides staff support to manage the Technical Advisory Group, as well as direct financial support. The Edwards Aquifer Optimization program consists of 14 long-range studies that are designed to increase our knowledge of how the aquifer works and determine the effects on ecosystems dependent on water from the Edwards. SAWS is working with the EAA to study the feasibility of “Recharge and Recirculation”.

*Water Recycling Program.* SAWS 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 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. 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.

*Aquifer Storage and Recovery (ASR).* In October 2002, TCEQ authorized SAWS to construct and operate a 60 million-gallon per day water injection and recovery facility in South Bexar County. The Edwards Aquifer has been identified as the source of supply to the South Bexar County ASR project. This storage technology has been successfully proven as an economical and environmentally sensitive alternative to surface water reservoirs in many instances across the nation. The ASR administration building, well field pipeline and treatment plant facilities are complete, they were operational in mid-2004. The second phase of the project will be completed in 2005. Phase II builds the infrastructure necessary to double the storage capacity to 22,500 acre-feet. In addition, to the storage capacity which will reduce drought impacts, SAWS will also be able to produce 6,400 acre-feet of non-Edwards groundwater.

*Trinity Aquifer.* SAWS introduced the first non-Edwards supply into its potable water system in February of 2002. This groundwater project is produced from the Lower Glen Rose/Cow Creek formation of the Trinity Aquifer in Northern Bexar County. Sustainability studies show that approximately 5,000 acre-feet per year can be sustained from this source. SAWS will continue to monitor and develop a sustainable yield on this source of supply. Production of Trinity water from both the Oliver Ranch and BSR properties is fully operational.

*Western Canyon Project (Canyon Reservoir).* SAWS has contracted with the Guadalupe-Blanco River Authority (“GBRA”) for 8,500 acre-feet of water from Canyon Lake to serve customers in the northern and northwestern portion of its service area. The annual volume from this project will decrease over time to a minimum annual supply of 3,900 acre-feet. This will be the first regional project to be delivered in the Comal, Kendall, and Northern Bexar County area. This project is scheduled to be completed and ready for delivery in late 2005. This project has endured numerous legal challenges which GBRA has successfully defended. The water treatment plant and intake structure construction contracts have been awarded. Final design of the raw water pipeline is approximately 90% complete. Pipeline construction bidding is expected to take place during the 4<sup>th</sup> quarter 2004.

*Regional Carrizo.* The Carrizo-Wilcox is one of the state’s major aquifers and an important groundwater resource in South Central Texas. SAWS completed an initial feasibility study on the Carrizo-Wilcox Aquifer, which is located between the Frio and San Marcos Rivers covering all or parts of Atascosa, Bexar, Frio, Gonzales, Guadalupe, Karnes, La Salle, Live Oak, McMullen, Medina, and Wilson Counties. The results of the study indicate that a potential groundwater supply project could be developed in Gonzales and Wilson Counties to provide the San Antonio region with approximately 55,000 acre-feet per year. The project will be developed in phases as approved by the SAWS Board. Western Gonzales County (approximately 22,000 af/yr) will be brought into San Antonio in approximately 2008. Phase II of the project (water from Wilson County) will provide approximately 11,000 af/yr in 2009. Phase III of the project is expected to bring in water (22,000 af/yr) from northeastern Gonzales County in approximately 2011.

*Edwards Recharge Initiatives.* SAWS as well as the South Central Texas Regional Planning Group have recently evaluated the most favorable structures for this region. The Nueces, San Antonio, and Guadalupe River Basins are favorable for development of recharge projects. Structures in the Nueces Basin are the most prolific in terms of recharge effectiveness. Once these structures are built, the sustained yield from this project will be over 13,000 acre-feet per year. SAWS is currently involved in two studies with the U.S. Army Corps of Engineers and other local sponsors. The studies involve the Cibolo Creek and the Nueces River watersheds, which include researching the feasibility of placing recharge structures within the watersheds. The studies are scheduled to be completed within five years. This project is programmed to come online in the 2013 timeframe.

## **Long-Term Supply**

*Simsboro Project.* SAWS signed a contract with ALCOA for the purchase of water from their Rockdale property located in Lee and Milam Counties in December 1998. A second contract with CPS to purchase water rights from CPS-owned lands in Bastrop County was also approved at that time. Combined water production from these two properties is expected to provide 55,000 acre-feet of water per year from the Simsboro Aquifer for 80 years or more starting in 2015.

*Lower Guadalupe Water Supply Project (LGWSP).* SAWS, the San Antonio River Authority (“SARA”), and GBRA have entered into an agreement to divert presently under-utilized surface water rights and unappropriated streamflow from the Guadalupe River together with groundwater from the Gulf Coast aquifer. Approximately

94,500 (SAWS-85,050 and SARA-9,450) acre-feet/yr of water will be provided initially under this contract. Water will be diverted at a point below the confluence of the Guadalupe River and San Antonio River, located approximately 133 miles southeast of San Antonio. A companion agreement between SAWS and SARA divided the rights and responsibilities of the purchasers in the above-mentioned Water Supply and Delivery Agreement with GBRA. The SAWS/SARA agreement provides that all water users within SARA's district and other water providers within Bexar County will have an opportunity to participate at their cost in the water supply made available from the Lower Guadalupe Water Supply Project.

This project is scheduled to come online in 2015 timeframe. The Concept Development Study was completed in October 2004 and work continues on the Groundwater Availability Report, environmental studies, and surface water permits.

*LCRA-SAWS Water Project.* The state's SB-1 regional planning groups have determined that additional water supplies are available in the Lower Colorado River Basin. Approximately 150,000 acre-feet may be available within the basin by the Lower Colorado River Authority. SAWS and LCRA signed the definitive agreement on February 27, 2002. The contract starts with a seven-year study period that began in 2002. Dollars will be programmed in the short-term to fund the necessary studies. If the project is determined to be feasible, then an implementation plan will be developed. If both the LCRA and SAWS Board approve the implementation plan then the contract will provide for an initial 50-year water supply transfer and a 30-year extension provision for the development and delivery of this supply. All six of the environmental/ groundwater/conservation feasibility studies were initiated in July 2004. This project is scheduled to come online within the 2035-2040 timeframe.

**Capital Improvement Plan**

The following is a proposed five-year Capital Improvement Program for SAWS. It is the intention of SAWS to fund the program with tax-exempt commercial paper, impact fees, system revenues, and future bond issues. SAWS has budgeted the following capital improvement projects during calendar year 2004:

- \$12 million is budgeted for the wastewater treatment program to repair/replace/upgrade treatment facilities;
- \$4 million is budgeted for the wastewater collection program to fix deteriorated components of the collection system;
- \$31 million is budgeted to replace sewer and water mains;
- \$27 million is budgeted for the governmental replacement and relocation program;
- \$9 million is budgeted to construct new production facilities; and
- \$94 million is budgeted for water supply development, water treatment, and water transmission projects for new sources of water.

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

	Fiscal Year Ended December 31,					Total
	2004	2005	2006	2007	2008	
Heating and Cooling	\$ 2,307,200	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,307,200
Water Delivery	44,466,871	43,562,400	40,987,601	44,100,448	46,936,960	220,054,280
Wastewater	65,533,128	66,348,800	67,718,093	65,247,840	62,748,000	327,595,861
Water Supply	94,789,920	126,816,800	138,313,890	135,424,168	85,275,190	580,619,968
Total Annual Requirements	<u>\$ 207,097,119</u>	<u>\$ 236,728,000</u>	<u>\$ 247,019,584</u>	<u>\$ 244,772,456</u>	<u>\$ 194,960,150</u>	<u>\$ 1,130,577,309</u>

Source: SAWS.

### ***Project Funding Approach***

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

	Fiscal Year Ended December 31,				
	2004	2005	2006	2007	2008
Revenues	\$ 14,924,016	\$ 18,211,566	\$ 27,387,302	\$ 31,623,542	\$ 35,641,799
Impact Fees	16,816,906	11,695,270	11,741,746	11,788,455	11,835,397
Debt Proceeds	175,356,197	206,821,164	207,890,535	201,360,459	147,482,954
Total	<u>\$ 207,097,119</u>	<u>\$ 236,728,000</u>	<u>\$ 247,019,583</u>	<u>\$ 244,772,456</u>	<u>\$ 194,960,150</u>

Source: SAWS.

### ***Recent Financial Transactions***

In June 2004, SAWS issued \$84,700,000 City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2004 for construction of additions to the system and to refund certain outstanding commercial paper notes. SAWS also issued \$10,635,000 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2004, and \$26,365,000 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2004-A through the Texas Water Development Board in July 2004 for construction of additions to the system and to refund certain outstanding commercial paper notes.

(The remainder of this page is intentionally left blank.)

**San Antonio Water System Summary of Pledged Revenues for Debt Coverage <sup>1</sup>**

	Fiscal Year Ended December 31		12 Months Ended	7 Months Ended	Fiscal Year Ended May 31		
	2003	2002	December 31, 2001	December 31, 2001 <sup>2</sup>	2001	2000	1999
<b>Revenues</b>							
Water System	\$ 65,163,910	\$ 58,873,352	\$ 79,451,701	\$ 52,803,937	\$ 77,044,280	\$ 82,485,798	\$ 80,975,392
Water Supply	76,044,416	76,167,052	36,684,084	23,537,496	21,863,709	11,919,369	2,056,493
Wastewater System	87,683,794	89,312,338	87,438,542	51,541,185	91,175,034	96,194,858	92,775,036
Chilled Water and Steam System	12,193,646	10,871,599	12,899,862	6,822,031	9,800,573	5,127,414	4,234,203
Non Operating Revenues <sup>3</sup>	6,992,664	7,547,353	15,103,714	12,249,485	7,341,296	8,468,123	5,494,022
Adjustments for Pledged Revenues	(5,591,341)	(6,985,130)	(5,911,934)	(3,770,167)	(4,334,051)	(6,749,142)	(3,733,765)
Total Revenues	<u>\$ 242,487,089</u>	<u>\$ 235,786,564</u>	<u>\$ 225,665,969</u>	<u>\$ 143,183,967</u>	<u>\$ 202,890,841</u>	<u>\$ 197,446,420</u>	<u>\$ 181,801,381</u>
Maintenance and Operating Expenses	<u>\$ 152,716,590</u>	<u>\$ 138,212,615</u>	<u>\$ 134,616,252</u>	<u>\$ 78,448,318</u>	<u>\$ 121,350,696</u>	<u>\$ 115,016,340</u>	<u>\$ 100,429,763</u>
Net Revenue Available for Debt Service	<u>\$ 89,770,501</u>	<u>\$ 97,573,949</u>	<u>\$ 90,049,717</u>	<u>\$ 64,735,649</u>	<u>\$ 81,540,145</u>	<u>\$ 82,430,080</u>	<u>\$ 81,371,618</u>
Maximum Annual Debt Service Requirements – Total Debt <sup>4</sup>	<u>\$ 76,075,114</u>	<u>\$ 66,267,591</u>	<u>\$ 65,767,934</u>	<u>N/A</u>	<u>\$ 66,994,372</u>	<u>\$ 62,099,234</u>	<u>\$ 49,385,448</u>
Maximum Annual Debt Service Requirements – Senior Lien Debt <sup>4</sup>	<u>\$ 61,511,375</u>	<u>\$ 61,511,375</u>	<u>\$ 55,236,354</u>	<u>N/A</u>	<u>\$ 56,293,054</u>	<u>\$ 53,566,454</u>	<u>\$ 49,385,448</u>
Debt Service for Period	N/A	N/A	N/A	<u>\$ 38,081,878</u>	N/A	N/A	N/A
Coverage of Total Annual Debt Service Requirements	1.18 X	1.47 X	1.38 X	N/A	1.22 X	1.33 X	1.65 X
Coverage of Senior Lien Annual Debt Service Requirements	1.46 X	1.59 X	1.65 X	N/A	1.45 X	1.54 X	1.65 X

<sup>1</sup> Unaudited.

<sup>2</sup> On April 3, 2001, the SAWS Board approved the changing of the fiscal year from a year-end of May 31 to December 31. Report is for the seven (7) months ending December 31, 2001.

<sup>3</sup> Beginning in 2001, capital contributions, including items such as impact fees, were recognized as non-operating income in accordance with GASB 34. The non-operating revenues have been re-stated to remove the capital contributions to conform to the Ordinance.

<sup>4</sup> As of the end of the fiscal year shown, excludes TECP, see “City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2004, Debt Information – Table 11 – Coverage and Fund Balances” for coverage ratio after issuance of the Bonds.

Source: SAWS.

## **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 scheduled service to San Antonio are America West, American, Atlantic Southeast, Comair, Continental, Continental Express, Delta, Midwest, Northwest, Southwest, and United. Mexicana, Aerolitoral, and Aeromar are Mexican airlines that provide passenger service to Mexico. The City is currently implementing portions of its Airport Master Plan, including designs allowing for an increase from 24 to 55 gates. It is estimated that current gate facilities are being used at 80% 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.

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. During 2001, a process was initiated to develop a new Airport Master Plan for the Airport which was completed in 2002. The Master Plan provides 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 Texas Department of Transportation accepted the Master Plan in 2002 and has recommended \$16.0 million in grant funding for capital improvements over the next ten to fifteen years.

(The remainder of this page is intentionally left blank.)

**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 require. 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:

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

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

<b>Improvement</b>	<b>Amount</b>
<b>International Airport</b>	
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
<b>Stinson Airport</b>	<u>5,900,000</u>
<b>Total</b>	<u><u>\$425,592,600</u></u>

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

The FAA issued a Record of Decision on August 29, 2001 approving the City’s initial PFC application. The City, as the owner and operator of the Airport, has received authority to “impose and use” PFCs at the \$3.00 level on five projects and to “impose only” PFCs on six other projects. On July 24, 2003, the City received approval from the FAA on its second application for “impose and use” authority on two projects, which were previously “impose only.”

The City began on November 21, 2001, collecting a \$3.00 PFC (less the \$0.08 air carrier collection charge) per paying passenger enplaned. A total of approximately \$102.5 million in PFC revenues will be required to provide funding for these projects at the Airport included in the CIP and are listed below.

The following projects have been approved as “impose and use” projects:

- Construct 30L Holding Apron
- Modify Wash Rack Apron
- Replace RON (remain overnight) Apron
- Implement Terminal Modifications
- Reconstruct Perimeter Road
- Construct New Concourse B
- Construct Concourse B Access 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 Aircraft Rescue and Firefighting Training Facility

*Terminal Renovations.* A comprehensive terminal renovation project was completed in 2003 to improve the quality of services provided to passengers at the San Antonio International Airport. The project, which cost approximately \$28 million included a completely new appearance to the building interiors and provided state-of-art terminal amenities. Included in the terminal renovations was complete redevelopment of the concessions program that provided high-quality retail and food establishments offering a mix of regional and national brands at street prices. Concession space was expanded from 30,000 square feet to over 40,000 square feet. Through the expansion and reconfiguration of concession space, 85% of retail shops and food outlets are now at airside locations. In total, 42 concession contracts were awarded. The new concessions program is also projected to increase revenues in the Airport from \$3.2 million in fiscal year 2002 to \$4.8 million in fiscal year 2004. On a per-boarding passenger basis, concession revenue is expected to go from \$0.99 in fiscal year 2002 to \$1.31 for fiscal year 2004. Following the Airport’s implementation of its new concessions program, it was recognized by the *Airport Revenue News’* 2004 “Best Concessions Poll.” The Airport’s concession program was voted for by a panel of judges in the Airport category with less than 4 million enplanements. San Antonio won two first place awards. The Airport was honored for having the Terminal with the “Most Unique Services” and the Best Overall Concessions Program. The publication noted the Airport’s high-tech business services, such as high-speed fax and internet, wireless capabilities and conference rooms. The Best Overall Concessions Program award is given to airports with a convenient customer-friendly layout, good visibility, attractive storefronts, and interesting themes.

*Parking Improvements.* 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 2006. It is estimated that 2,400 additional parking spaces will be required to satisfy projected demand over the next ten years. The City is coordinating the facility plan for the new parking improvements with the additional terminal facilities. The design contract for the parking improvements is expected to be awarded in early 2004, while construction of the new parking facilities is anticipated to start by 2005. The associated costs are included in the CIP.

*Cargo Improvements.* 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 and expanded in 2003. The East Cargo Area is specifically designed for use by all-cargo, overnight-express carriers. Custom-built cargo facilities in the East Cargo Area are leased to Airborne Express and Federal Express while Eagle Global Logistics (EGL) constructed a processing facility in the year 2000 and UPS is in the process of expanding its facilities. Additional land has been allocated to accommodate future growth and an expansion of

facilities are currently planned. Foreign trade zones exist at both cargo areas. Enplaned and deplaned cargo for 2003 totaled 128,367 tons.

### ***Airport Operations***

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

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

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

*Terrorist Attacks' Financial Impact on the Airport.* Heightened security requirements as a result of the terrorist attacks of September 11, 2001 on New York City and the Pentagon has had a negative 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 were approximately \$840,000 of which nearly \$400,000 came from federal sources. The remaining \$440,000 was funded through the Airport's Operating Fund. The portion of this expense for which the Airport is responsible is incorporated into airline rates and charges. Beginning in fiscal year 2004, operating costs will be reduced by approximately \$300,000 by incorporating in-house certain security functions previously outsourced.

The Department has worked closely with the Transportation Security Administration (the "TSA") to forge a new higher level of security for the traveling public. Department staff and the airlines assisted the TSA in transitioning to fully federalized security checkpoints. The process began in September 2002 and was completed on December 31, 2002. Implementation of the new regulations included the installation of explosive detection baggage screening equipment to meet the mandated 100% baggage screening process on December 31, 2002. The Airport's explosive detection screening equipment is currently located in the ticket lobby areas of the terminals. This was necessary in order to meet the required December 31, 2002 deadline. However, the Department is working with the TSA to relocate all baggage screening equipment behind the terminal in new baggage handling systems planned as part of the upcoming Terminal Expansion Project. TSA employs about 320 individuals at the International Airport to meet the new federal security requirements. The Aviation Department also utilizes three Explosive Detection Canine teams. The officers, assigned with their dogs, provide additional coverage for detection of explosive materials at the Airport in baggage makeup areas, concourses, parking, cargo, and aircraft.

*Financings.* On March 20, 2003, the City issued the following two series of refunding bonds payable from its collection of gross revenues of the airport system: \$8,175,000 "City of San Antonio, Texas Airport System Revenue Bonds, Series 2003-A" and \$3,255,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2003-B." The proceeds from the respective issuances of such bonds were used to refund certain of the City's outstanding debt obligations payable from the collection of gross revenues of the airport system.

On April 8, 2003, the City delivered \$50,230,000 "City of San Antonio, Texas Airport System Forward Refunding Revenue Bonds, Series 2003" to refund a portion of the "City of San Antonio, Texas Airport System Improvement Bonds, Series 1993" and to effectuate an interest savings equal to \$3,460,075. Such bonds were sold on April 19, 2001.

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

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

	Fiscal Year Ended September 30				
	1999	2000	2001	2002	2003
Gross Revenues <sup>1</sup>	\$ 38,128,184	\$ 41,523,081	\$ 42,928,794	\$ 42,377,654	\$ 43,879,875
Airline Rental Credit	<u>3,510,267</u>	<u>6,175,754</u>	<u>5,209,037</u>	<u>4,468,199</u>	<u>2,612,609</u>
Adjusted Gross Revenues	\$ 41,638,451	\$ 47,698,835	\$ 48,137,831	\$ 46,845,853	\$ 46,492,484
Expenses	<u>(21,449,007)</u>	<u>(21,585,826)</u>	<u>(23,612,635)</u>	<u>(22,296,698)</u>	<u>(25,363,607)</u>
Net Income	<u>\$ 20,189,444</u>	<u>\$ 26,113,009</u>	<u>\$ 24,525,196</u>	<u>\$ 24,549,155</u>	<u>\$ 21,128,877</u>

<sup>1</sup> As reported in the City of San Antonio's audited financial statements.  
 Source: City of San Antonio, Department of Finance.

**Total Domestic and International Enplaned Passengers - San Antonio International Airport**

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

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
1994	3,064,768	---	---
1995	3,058,536	(6,232)	(0.20)
1996	3,568,328	509,792	16.67
1997	3,484,141	(84,187)	(2.36)
1998	3,505,372	21,231	0.61
1999	3,538,070	32,698	0.93
2000	3,647,094	109,024	3.08
2001	3,444,875	(202,219)	(5.54)
2002	3,349,283	(95,592)	(2.77)
2003	3,250,741	(98,542)	(2.94)

Source: City of San Antonio, Department of Finance.

(The remainder of this page is intentionally left blank.)

***Total Enplaned/Deplaned International Passengers - San Antonio International Airport***

The total enplaned and deplaned for international passengers at the International Airport on a calendar year basis are shown below:

<u>Calendar Year</u>	<u>Total</u>	<u>Increase/ (Decrease)</u>	<u>Percent (%) Change</u>
1994	238,957	---	---
1995	141,645	(97,312)	(40.72)
1996	193,843	52,198	36.85
1997	200,965	7,122	3.67
1998	246,902	45,937	22.86
1999	229,397	(17,505)	(7.09)
2000	243,525	14,128	6.16
2001	219,352	(24,173)	(9.93)
2002	201,274	(18,078)	(8.24)
2003	159,576	(41,698)	(20.72)

***Air Carrier Landed Weight - San Antonio International Airport***

The historical aircraft landed weight at the International Airport in 1,000-pound units on a calendar year basis is shown below. Landed weight is utilized in the computation of the Airport's landed fee.

<u>Calendar Year</u>	<u>Total</u>	<u>Increase/ (Decrease)</u>	<u>Percent (%) Change</u>
1994	5,653,573	---	---
1995	5,273,701	(379,872)	(6.72)
1996	5,555,613	281,912	5.35
1997	5,530,247	(25,366)	(0.46)
1998	5,601,616	71,369	1.29
1999	5,778,407	176,791	3.16
2000	5,838,185	59,778	1.03
2001	5,546,561	(291,624)	(5.00)
2002	5,560,083	13,522	0.24
2003	5,390,981	(169,102)	(3.04)

*Source: City of San Antonio, Department of Aviation.*

\* \* \*

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

**APPENDIX B**  
**CO-BOND COUNSEL OPINION**

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

**Fulbright & Jaworski L.L.P.**  
300 Convent Street, Suite 2200  
San Antonio, Texas 78205

**Escamilla & Poneck, Inc.**  
711 Navarro, Suite 100  
San Antonio, Texas 78205

CITY OF SAN ANTONIO, TEXAS  
GENERAL IMPROVEMENT FORWARD REFUNDING BONDS  
SERIES 2006

City of San Antonio, Texas  
506 Dolorosa  
San Antonio, Texas 78205

Ladies and Gentlemen:

Attached as Appendix B to the hereinafter mentioned Official Statement of the City of San Antonio, Texas (the "Issuer") is our proposed form of legal opinion regarding, among other things, the authorization, issuance, validity and enforceability of the Issuer's General Improvement Forward Refunding Bonds, Series 2006 (the "Bonds") and the exclusion of interest on the Bonds from gross income for federal income tax purposes, subject to the conditions and qualifications stated therein. Assuming satisfaction by the Issuer and the Underwriters of their respective obligations to be satisfied in the Forward Delivery Bond Purchase Contract, dated December 2, 2004 between the Issuer and the Underwriters (the "Purchase Contract"), the issuance of the Bonds, the delivery of certifications in form satisfactory to Co-Bond Counsel as to factual matters relevant to such opinion, and no change in any other facts or circumstances which, in our view, affect or are material to our opinion (including, without limitation, the existence of any litigation), there is no currently applicable law, final regulation, rulings, or interpretation thereof which would prevent us from delivering our opinion on the Settlement Date (as defined in the Purchase Contract) in substantially the form attached as Appendix B to the final Official Statement of the Issuer dated December 2, 2004 relating to the Bonds.

Very truly yours,

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

**Fulbright & Jaworski L.L.P.**  
300 Convent Street, Suite 2200  
San Antonio, Texas 78205

**Escamilla & Poneck, Inc.**  
711 Navarro, Suite 100  
San Antonio, Texas 78205

**FINAL**

IN REGARD to the authorization and issuance of the “City of San Antonio, Texas General Improvement Forward Refunding Bonds, Series 2006” (the *Bonds*), dated December 1, 2004, in the aggregate principal amount of \$33,090,000, we have reviewed the legality and validity of the issuance thereof by the City of San Antonio, Texas (the *City*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof, and have stated maturities of August 1 in each of the years 2009 through 2016. The Bonds are not subject to redemption prior to stated maturity. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the ordinance authorizing the issuance of the Bonds (the *Ordinance*).

WE HAVE SERVED AS CO-BOND COUNSEL for the City solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas, the defeasance and discharge of the City’s obligations being refunded by certain proceeds of the Bonds, and with respect to the exemption of the interest on the Bonds from federal income taxes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the City. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the City’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED, and in rendering the opinions herein we rely upon, original or certified copies of the proceedings of the City Council of the City in connection with the issuance of the Bonds, including the Ordinance and the Escrow and Trust Agreement (the *Escrow Agreement*) between the City and JPMorgan Chase Bank, National Association, Dallas, Texas (the *Escrow Agent*); the special report of Grant Thornton LLP, Minneapolis, Minnesota, Certified Public Accountants (the *Accountants*); customary certifications and opinions of officials of the City; certificates executed by officers of the City relating to the expected use and investment of proceeds of the Bonds and certain other funds of the City, and to certain other facts within the knowledge and control of the City; and such other documentation, including an examination of the Bond executed and delivered initially by the City, which we found to be in due form and properly executed, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding obligations of the City enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from the levy of an ad valorem tax, within the limitations prescribed by law, upon all taxable property in the City.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that the Escrow Agreement has been duly authorized, executed, and delivered by the City and, assuming due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and binding obligation, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity), and that the outstanding obligations refunded, discharged, paid, and retired with certain proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement and the ordinance authorizing their issuance, and in accordance with the provisions of Chapter 1207, as amended, Texas Government Code. In rendering this opinion, we have relied upon the verification by the Accountants of the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

IT IS FURTHER OUR OPINION THAT, assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance and in reliance upon the representations and certifications of the City made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds and the report of the Accountants, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations.

WE CALL YOUR ATTENTION TO THE FACT THAT, with respect to our opinion in clause (2) above, interest on all tax-exempt obligations, such as the Bonds, owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a mutual fund, a financial asset securitization investment trust, a real estate mortgage investment conduit or a real estate investment trust. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

WE EXPRESS NO OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual

of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

**APPENDIX C**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

(THIS PAGE IS INTENTIONALLY LEFT BLANK)



Financial Guaranty Insurance Company  
 125 Park Avenue  
 New York, NY 10017  
 T 212-312-3000  
 T 800-352-0001

## Municipal Bond New Issue Insurance Policy

<b>Issuer:</b>	<b>Policy Number:</b>
	<b>Control Number:</b> 0010001
<b>Bonds:</b>	<b>Premium:</b>

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all



Financial Guaranty Insurance Company  
 125 Park Avenue  
 New York, NY 10017  
 T 212-312-3000  
 T 800-352-0001

## Municipal Bond New Issue Insurance Policy

---

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

*Frank Bivona*

SPECIMEN

**President**

**Effective Date:**

**Authorized Representative**

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

*[Signature]*

**Authorized Officer**



**Financial Guaranty Insurance Company**  
 125 Park Avenue  
 New York, NY 10017  
 T 212-312-3000  
 T 800-352-0001

**Endorsement**  
 To Financial Guaranty Insurance Company  
 Insurance Policy

---

**Policy Number:** \_\_\_\_\_ **Control Number:** 0010001

---

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.



**President**

**Effective Date:**

**Authorized Representative**

**Acknowledged as of the Effective Date written above:**



**Authorized Officer**  
**U.S. Bank Trust National Association, as Fiscal Agent**