

OFFICIAL STATEMENT
Dated March 4, 2010

NEW ISSUE—BOOK-ENTRY-ONLY

Ratings: Fitch: "AA"
Moody's: "Aa2"
S&P: "AA+"
(See "RATINGS" herein.)

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



\$9,090,000
CITY OF SAN ANTONIO, TEXAS
MUNICIPAL FACILITIES CORPORATION
LEASE REVENUE REFUNDING BONDS, SERIES 2010
(DEVELOPMENT & BUSINESS SERVICES CENTER PROJECT)

Dated Date: March 1, 2010

Due: August 15, as shown on the inside cover page

The captioned Bonds are being issued by the City of San Antonio, Texas Municipal Facilities Corporation (the "Corporation") pursuant to (i) Subchapter D of Chapter 431, Texas Transportation Code, as amended, and Chapter 1201, Texas Government Code, as amended and (ii) an Amended and Restated Trust Agreement, dated as of March 1, 2010, between the Corporation and The Bank of New York Mellon Trust Company, N.A, Dallas, Texas, as Trustee (the "Trustee") (the "Trust Agreement"). Proceeds of the Bonds will be used to refund certain outstanding obligations of the Corporation identified on Schedule I attached hereto (the "Refunded Obligations") and pay costs of issuance of the Bonds.

Interest on the Bonds will accrue from the dated date and will be payable on February 15 and August 15 of each year, commencing August 15, 2010, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued as fully registered obligations in book-entry-only form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds. So long as the Securities Depository is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as the Trustee, to DTC which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners. See "BOOK-ENTRY-ONLY SYSTEM" herein.

The principal of, premium, if any, and interest on the Bonds (together with the "Series 2001 Bonds" defined herein that are not being refunded with proceeds of the Bonds) are payable from Lease Payments to be made by the City to the Corporation pursuant to an Amended and Restated Lease Agreement, dated as of March 1, 2010, between the City and the Corporation (the "Lease"). The Lease Payments are due at such times and in such amounts as will be required to timely pay the principal of, premium, if any, and interest on the Bonds. As additional security for the Bonds, the Corporation will grant to the Trustee for the benefit of the registered owners of the Bonds (i) a first mortgage lien on the real property portion of the Project and will assign and pledge the Corporation's interest in the leases, rents, and certain other benefits from the Project, pursuant to a Mortgage (defined herein), and (ii) a first priority purchase money security interest in the personal property portion of the Project, pursuant to the Security Agreement (defined herein). See "THE BONDS – Security for the Bonds" and "Appendix A – Selected Provisions of the Financing Documents."

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

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

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

The Bonds are offered for delivery, when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of the State of Texas and the legal opinion of McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, as Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their Counsel, Fulbright & Jaworski L.L.P., San Antonio, Texas. (See "LEGAL MATTERS" herein.) It is expected that the Bonds will be available for delivery through the services of DTC on or about March 31, 2010.

M.E. ALLISON & CO., INC.

RBC CAPITAL MARKETS

\$9,090,000
CITY OF SAN ANTONIO, TEXAS
MUNICIPAL FACILITIES CORPORATION
LEASE REVENUE REFUNDING BONDS, SERIES 2010
(DEVELOPMENT & BUSINESS SERVICES CENTER PROJECT)

Maturity Schedule
(CUSIP No. ¹ Prefix: 796312)

Stated Maturity (Due August 15)	Principal Amount	Interest Rate	Initial Yield	CUSIP No. ¹ Suffix:
2010	\$ 125,000	1.00%	0.60%	AU0
2011	140,000	1.00	0.75	AV8
2012	905,000	1.50	1.00	AW6
2013	920,000	1.50	1.25	AX4
2014	930,000	2.00	1.60	AY2
2015	950,000	2.00	2.00	AZ9
2016	970,000	2.50	2.40	BA3
2017	990,000	3.00	2.70	BB1
2018	1,025,000	3.00	3.00	BC9
2019	1,050,000	3.00	3.20	BD7
2020	1,085,000	3.25	3.35	BE5

Redemption: The Bonds are not subject to optional redemption prior to stated maturity. The Bonds are subject to mandatory redemption under certain circumstances described herein. See “THE BONDS - Redemption Provisions” herein.

¹ CUSIP numbers were assigned to the 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 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 COUNCIL¹:

<u>Name</u>	<u>Years on City Council</u>	<u>Term Expires</u>	<u>Occupation</u>
Julián Castro, Mayor	9 Months	May 31, 2011	Attorney
Mary Alice P. Cisneros, District 1	2 Years, 9 Months	May 31, 2011	Small Business Owner
Ivy R. Taylor, District 2	8 Months	May 31, 2011	Professor
Jennifer V. Ramos, District 3	2 Years, 2 Months	May 31, 2011	Grant Writer
Philip A. Cortez, District 4	2 Years, 9 Months	May 31, 2011	Community Resource Advocate
David Medina, Jr., District 5	8 Months	May 31, 2011	Project Manager
Ray Lopez, District 6	9 Months	May 31, 2011	Retired
Justin Rodriguez, District 7	2 Years, 9 Months	May 31, 2011	Attorney
W. Reed Williams, District 8	9 Months	May 31, 2011	Retired
Elisa Chan, District 9	9 Months	May 31, 2011	Business Owner/Engineer
John G. Clamp, District 10	2 Years, 9 Months	May 31, 2011	Business Owner/Broker

¹All members of the City Council serve as directors of the Corporation. See "THE CORPORATION" herein.

CITY OFFICIALS:

<u>Name</u>	<u>Position</u>	<u>Years with City of San Antonio</u>	<u>Years in Current Position</u>
Sheryl L. Sculley	City Manager	4 Years, 4 Months	4 Years, 4 Months
Pat DiGiovanni	Deputy City Manager	4 Years	4 Years
A.J. Rodriguez	Deputy City Manager	1 Year, 8 Months	1 Year, 8 Months
Erik J. Walsh	Assistant City Manager	15 Years, 9 Months	4 Years, 1 Month
Penny Postoak Ferguson	Assistant City Manager	3 Years, 6 Months	3 Years, 6 Months
T.C. Broadnax	Assistant City Manager	3 Years, 3 Months	3 Years, 3 Months
Sharon De La Garza	Assistant City Manager	5 Years, 10 Months	1 Year, 11 Months
Peter Zanoni	Interim Assistant City Manager	12 Years, 11 Months	4 Months
Richard Varn	Chief Information Officer	2 Years, 9 Months	2 Years, 3 Months
Michael D. Bernard	City Attorney	4 Years, 5 Months	4 Years, 5 Months
Leticia M. Vacek	City Clerk	5 Years, 9 Months	5 Years, 9 Months
Ben Gorzell, Jr.	Chief Financial Officer	19 Years, 4 Months	3 Years, 9 Months
Maria Villagomez	Interim Director of Management and Budget	12 Years, 5 Months	4 Months

CONSULTANTS AND ADVISORS:

Bond Counsel

McCall, Parkhurst & Horton L.L.P., San Antonio, Texas

Certified Public Accountant

Grant Thornton LLP, San Antonio, Texas*

Co-Financial Advisors

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

*Grant Thornton LLP, the City's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein as Appendix C, any procedures on the financial statements addressed in that report. Grant Thornton LLP also has not performed any procedures relating to this Official Statement.

USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

The Co-Financial Advisors have provided the following sentence for inclusion in this Official Statement. The Co-Financial Advisors have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to the Corporation and 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.

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

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

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

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

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

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

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OFFICIAL STATEMENT
Relating to the
\$9,090,000
CITY OF SAN ANTONIO, TEXAS
MUNICIPAL FACILITIES CORPORATION
LEASE REVENUE REFUNDING BONDS, SERIES 2010
(DEVELOPMENT & BUSINESS SERVICES CENTER PROJECT)

INTRODUCTION

This Official Statement of the City of San Antonio, Texas Municipal Facilities Corporation (the “Corporation” or “Issuer”) is provided to furnish information in connection with the sale of the City of San Antonio, Texas Municipal Facilities Corporation Lease Revenue Refunding Bonds, Series 2010 (Development & Business Services Center Project) (the “Bonds”). The Bonds are being issued pursuant to the provisions of an Amended and Restated Trust Agreement, dated as of March 1, 2010, between the Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee (the “Trust Agreement”). The principal of, premium, if any, and interest on the Bonds [together with the “Series 2001 Bonds (defined below) that are not being refunded with proceeds of the Bonds (the “Unrefunded Series 2001 Bonds”)] are payable primarily from Lease Payments to be made by the City of San Antonio, Texas (the “City”) to the Corporation pursuant to an Amended and Restated Lease Agreement, dated as of March 1, 2010, between the City and the Corporation (the “Lease”). The Bonds are further secured by (i) a first mortgage lien on the real property portion of the “Project” (as defined below) and assignment of rents, revenues and income from the Project by the Corporation granted in favor of the Trustee pursuant to an Amended and Restated Deed of Trust and Assignment of Rents and Leases, dated as of March 1, 2010 (the “Mortgage”), and (ii) a first priority purchase money security interest in the personal property of the Project that is being refinanced with proceeds of the Bonds pursuant to an Amended and Restated Security Agreement between the Corporation and the Trustee, dated as of March 1, 2010 (the “Security Agreement”), all as further described herein under “THE BONDS - Security for the Bonds.” The Trust Agreement, the Lease, the Mortgage and the Security Agreement are collectively referred to herein as the “Financing Documents.” *Capitalized terms used in this Official Statement and not otherwise defined herein have the meanings assigned to such terms in APPENDIX A – “Selected Provisions of the Financing Documents.”*

This Official Statement contains descriptions of the Bonds and the Financing Documents 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 of San Antonio, Texas, 111 Soledad, 5th Floor, San Antonio, Texas 78205 and from the City’s Co-Financial Advisors, Coastal Securities, Inc., 600 Navarro, Suite 350, San Antonio, Texas 78205, and Estrada Hinojosa & Company, Inc., 1400 Frost Bank Tower, 100 West Houston Street, San Antonio, Texas 78205, upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of the final Official Statement will be filed with the Municipal Securities Rulemaking Board (“MSRB”) through its Electronic Municipal Market Access (“EMMA”) system. (See “CONTINUING DISCLOSURE OF INFORMATION” herein for information regarding the EMMA system and for a description of the City’s undertaking to provide certain information on a continuing basis.)

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

THE CORPORATION

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

Pursuant to its articles of incorporation and the bylaws of the Corporation, the Corporation is governed by an 11-member Board of Directors, composed entirely by those persons who are members of the City Council of the City

and whose terms of office are fixed and run coterminously with their respective terms of office as members of the City Council; provided, however, that any director may be removed from office at any time, for cause or at will, by the City Council of the City. The directors serve without compensation except for the reimbursement of expenses.

The Corporation currently has no assets other than its interest in the Project and its rights under the Lease, which will be assigned to the Trustee for the benefit of the registered owners of the Bonds and the Unrefunded Series 2001 Bonds upon the initial delivery of the Bonds.

The Corporation's obligation with respect to the payment of the principal of, premium, if any, and interest on the Bonds is a special, limited, and non-recourse obligation payable solely from the Lease Payments payable by the City pursuant to the Lease, and from proceeds from the sale or other lease of the Project. The Corporation has no authority to levy taxes. The Bonds do not constitute an obligation, either special, general, or moral, of the City, the State of Texas, or any other political subdivision thereof.

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

THE PROJECT

The "Series 2001 Bonds" (defined below under "PLAN OF FINANCING") were originally issued to finance the construction and equipping of a new municipal office facility for the City now known as the Development & Business Services Center (the "Center" or "Project") in order to provide a convenient, single source of information and assistance to private sector entities that are expanding, developing or relocating their business. The Center, which was completed and became operational in 2003, is centrally located on the south side of the City's Central Business District and is a two-story facility, encompassing approximately 75,000 gross square feet along with 300 parking spaces. The Center houses those governmental entities and representatives of various City Departments that provide services to private sector businesses. The Center provides space for approximately 200 employees of the City and other governmental entities. Offices include Building Inspections, Planning, Public Works/Land Development, Health and Fire Inspections/Fire Marshall, water, electric and gas utilities, Administration and Economic Development/Small Business Outreach.

PLAN OF FINANCING

Purpose

The Bonds are being issued for the purpose of refunding a portion of the Corporation's outstanding *City of San Antonio, Texas Municipal Facilities Corporation Lease Revenue Bonds, Series 2001* (the "Series 2001 Bonds") in order to lower the overall annual debt service requirements of the Corporation and the Lease Payments made by the City under the Lease, and to pay the costs of issuance of the Bonds. See Schedule I hereto for a detailed listing of the Series 2001 Bonds being refunded by the issuance of the Bonds (collectively, the "Refunded Obligations") and their redemption date at par.

Refunded Obligations

The principal and interest due on the Refunded Obligations are to be paid on the scheduled interest payment dates and the redemption date of such Refunded Obligations, from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Escrow Agent"). The resolution of the Corporation authorizing the issuance of the Bonds (the "Bond Resolution") and the Trust Agreement provide that from the proceeds of the sale of the Bonds, the Corporation will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Obligations on their redemption date. Such funds will be held by the Escrow Agent in a

special escrow account (the “Escrow Fund”) and used to purchase direct obligations of the United States of America (the “Federal Securities”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations.

Grant Thornton LLP, a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriters thereof the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest 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 Bonds. (See “VERIFICATION OF MATHEMATICAL COMPUTATIONS” herein.)

By the deposit of the Federal Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the Corporation will have effected the defeasance of all of the Refunded Obligations in accordance with the law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the report of Grant Thornton LLP, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Federal Securities and any cash held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the Corporation payable from the Trust Estate nor for the purpose of applying any limitation on the issuance of debt.

The Corporation 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 and interest on the Refunded Obligations, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payment.

Sources and Uses of Funds

Sources of Funds

Principal Amount of Bonds	\$9,090,000.00
Net Original Issue Premium	33,434.65
Accrued Interest	<u>18,257.29</u>
Total Sources of Funds	\$9,141,691.94

Uses of Funds

Deposit to Escrow Fund	\$8,939,102.44
Deposit to Interest & Sinking Fund	18,257.29
Cost of Issuance and Additional Proceeds	121,650.17
Underwriters’ Discount	<u>62,682.04</u>
Total Uses of Funds	\$9,141,691.94

INVESTOR CONSIDERATIONS

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

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

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

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

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

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

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

Remedies. Remedies provided for in the Financing Documents may be unenforceable as a result of the application of principles of equity or of state and federal laws relating to bankruptcy, other forms of debtor relief, and creditors' rights generally. The enforcement of certain remedies may be subject to applicable principles of public policy which may require that the City be given sufficient time to vacate the Project before the foreclosure remedy may be enforced.

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

There is no assurance that the Trustee will be able to sell or lease the Project after a termination of the Lease for an amount equal to the aggregate principal amount of the Bonds then outstanding plus accrued interest thereon. If the Project is sold or leased by the Trustee for an amount less than the aggregate principal amount of and

accrued interest on the Bonds, such partial payment would be the only remedy of the registered owners of the Bonds; upon such a partial payment, no registered owner will have any further claim for payment upon the Corporation, the Trustee, or the City.

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

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

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

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

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

THE BONDS

Legal Authority

The Bonds are being issued pursuant to provisions of applicable Texas law including the Act and the Public Securities Procedures Act (Chapter 1201, Texas Government Code, as amended).

General Description

Interest on the Bonds accrues from March 1, 2010, at the rates per annum shown on the inside cover page hereof, computed on the basis of a 360-day year consisting of twelve 30-day months, and is payable semiannually on February 15 and August 15 of each year, commencing August 15, 2010. The principal of and interest on the Bonds are payable in the manner described herein under “BOOK-ENTRY-ONLY SYSTEM.” In the event the Book-Entry-Only System is discontinued, the interest on the Bonds will be payable to the registered owner as shown on the security register maintained by the Trustee, as of the last business day of the month next preceding such interest payment date, by check, mailed first-class postage prepaid, to the address of such person on the security register or by such other method acceptable to the Trustee requested by and at the risk and expense of the registered owner.

Security for the Bonds

Note: As used in this subsection, the term “Bonds” shall mean, collectively, the Corporation’s Lease Revenue Refunding Bonds, Series 2010 (the “Series 2010 Bonds” for this section), to be issued by the Corporation as described in this Official Statement, and the Unrefunded Series 2001 Bonds (*i.e.*, the Series 2001 Bonds that will remain outstanding after the defeasance of the Refunded Obligations being accomplished with the issuance of the Series 2010 Bonds.)

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

Lease Payments. The City is required to pay to the Trustee, for deposit into the Payment Account of the Corporation, the Lease Payments from Appropriated Funds on August 15, 2010, and each February 15 and August 15 thereafter for so long as the Lease is in effect. The amount of each Lease Payment required under the Lease is equal to (i) an amount of money which, when added to the amount then on deposit in the Payment Account, will equal the amount of principal to become due on the Bonds, either pursuant to a mandatory (or optional) redemption or upon maturity of the Bonds, and interest to become due on the Bonds on the next Bond Payment Date, and (ii) the amount, if any, required to replenish the Reserve Account. See “Reserve Account” below. ***The obligations of the City under the Lease, including its obligation to pay the Lease Payments, constitute a current expense of the City in each fiscal year, and do not constitute an indebtedness of the City within the meaning of the laws of the State. Nothing in the Lease is to constitute a pledge by the City of any taxes or other money, other than Appropriated Funds for the current fiscal year, to the payment of Lease Payments due thereunder.***

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

Reserve Account. Pursuant to the Trust Agreement, there has previously been established and shall continue to be maintained an account (the “Reserve Account”) which is required to be funded in an amount equal to the Reserve Requirement. The Reserve Requirement is equal to \$590,000 (which amount is slightly greater than one-half of the average annual debt service on the Bonds). The amount currently on deposit in the Reserve Account (which was initially funded on the date of issuance of the Series 2001 Bonds with proceeds of the Series 2001 Bonds) is at least equal to the Reserve Requirement; consequently, no additional deposits shall be required to be made into the Reserve Account resulting from the issuance of the Series 2010 Bonds. Money within the Reserve Account is to be disbursed by the Trustee to pay principal of and interest on the Bonds to the extent that the amount on deposit in the Payment Account is not sufficient therefor. All interest or income received by the Trustee on the investment of money held in the Reserve Account is required to be transferred as received to the Payment Account. In the event that the amount on deposit in the Reserve Account is reduced to an amount less than the Reserve Requirement, upon receipt of notice from the Trustee, in accordance with its obligation under the Lease, the City is required to replenish the Reserve Account from Appropriated Funds to an amount equal to the Reserve Requirement within one year of receipt of such notice from the Trustee.

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

To the extent permitted by law as evidenced by an opinion of nationally-recognized bond counsel, a surety bond or insurance policy (a “Reserve Account Obligation”) may be deposited into the Reserve Account to satisfy all or a portion of the Reserve Requirement if the use of the Reserve Account Obligation will not cause the rating on the Bonds to be reduced or withdrawn. A Reserve Account Obligation must be provided by an issuer with a claims paying ability rated “AAA” or “Aaa” by Standard & Poor’s Ratings Services (“S&P”) and Moody’s Investors

Service (“Moody’s”), respectively. The obligation to reimburse the issuer of a Reserve Account Obligation for any claims or draws upon such Reserve Account Obligation, including expenses incurred in connection with such claims or draws, to the extent permitted by law, will be made from the deposits required to be made to the Reserve Account as provided in the Lease and the Trust Agreement. The Reserve Account Obligation will provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Reserve Account Obligation to reimbursement will be subordinated to the cash replenishment of the Reserve Account to an amount equal to the difference between the full original amount available under the Reserve Account Obligation and the amount then available for further draws or claims. In the event (a) the issuer of a Reserve Account Obligation becomes insolvent, (b) the issuer of a Reserve Account Obligation defaults in its payment obligations thereunder, or (c) the claims paying ability of the issuer of the Reserve Account Obligation falls below “AAA” or “Aaa” as rated by S&P or Moody’s, respectively, the obligation to reimburse the issuer of the Reserve Account Obligation will be subordinated to the cash replenishment of the Reserve Account.

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

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

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

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

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

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

Redemption Provisions

No Optional Redemption. The Bonds are not subject to optional redemption prior to stated maturity.

Mandatory Redemption in Whole upon Exercise of Purchase Option Due to Casualty Loss or Condemnation.

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

Notice of Redemption. If any of the Bonds are called for redemption, the Trustee will give written notice by first class (postage prepaid) mail not less than 30 days prior to the date fixed for redemption, in the name of the Corporation, of the redemption of such Bonds to the registered owner of each Bond to be redeemed in whole or in part at the address shown on the registration books at the close of business on a day not later than the fifth day preceding the date of mailing. The notice may state (1) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Trustee no later than the redemption date, or (2) that the Corporation retains the right to rescind such notice at any time prior to the scheduled redemption date if the Corporation delivers a certificate of an authorized representative to the Trustee instructing the Trustee to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys are not so deposited or if such notice is so rescinded. Any notice mailed as provided in the Trust Agreement shall be conclusively presumed to have been duly given, whether or not the owner of such Bonds actually receives the notice. Failure to give such notice by mail to any Bondholder, or any defect therein, shall not affect the validity of any proceedings for the redemption of other Bonds.

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

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York (“DTC”), while the 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 Corporation, the City, the Co-Financial Advisors, and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The Corporation and the City cannot and do not give any assurance that (i) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (iii) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States 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 Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for the Bonds in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for about 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's 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 is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, who will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of the 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 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 Bonds, except in the event that use of the book-entry system for the 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 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 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 Bonds, such as: redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 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 Trustee and request that copies of notices are provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the City or the Paying Agent/Registrar on the 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, the Trustee or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, 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 Trustee or the Corporation; 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 Bonds at any time by giving reasonable notice to the Corporation and the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

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

So long as Cede & Co. is the registered owner of the Bonds, the Corporation will have no obligation or responsibility to the DTC Participants or Indirect Participants, or to 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

With respect to this Official Statement, readers should understand that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to "Registered Owners" should be read to include the person for which the Direct Participant or Indirect Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System and (ii) except as described above, notices that are to be given to registered owners under the Ordinance are required to be given only to DTC.

Effect of Termination of Book-Entry-Only System

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

DEBT SERVICE SCHEDULE
\$9,090,000 LEASE REVENUE REFUNDING BONDS, SERIES 2010

TABLE 1

Fiscal Year Ended 9/30	Lease Revenue Refunding Bonds, Series 2010					Total Debt Service Requirement
	Outstanding 2001 Bonds ¹	Refunded Obligation Debt Service	Principal	Interest	Annual Debt Service	
2010*	\$ 1,178,785	\$ 210,116	\$ 125,000	\$ 99,807	\$ 224,807	\$ 1,193,476
2011	1,177,858	420,233	140,000	217,838	357,838	1,115,463
2012	1,180,233	1,180,233	905,000	216,438	1,121,438	1,121,438
2013	1,184,893	1,184,893	920,000	202,863	1,122,863	1,122,863
2014	1,181,493	1,181,493	930,000	189,063	1,119,063	1,119,063
2015	1,180,578	1,180,578	950,000	170,463	1,120,463	1,120,463
2016	1,181,828	1,181,828	970,000	151,463	1,121,463	1,121,463
2017	1,180,368	1,180,368	990,000	127,213	1,117,213	1,117,213
2018	1,181,153	1,181,153	1,025,000	97,513	1,122,513	1,122,513
2019	1,178,880	1,178,880	1,050,000	66,763	1,116,763	1,116,763
2020	1,183,500	1,183,500	1,085,000	35,263	1,120,263	1,120,263
	<u>\$12,989,569</u>	<u>\$11,263,275</u>	<u>\$9,090,000</u>	<u>\$1,574,687</u>	<u>\$10,664,687</u>	<u>\$ 12,390,981</u>

* As of March 31, 2010.

¹ Excludes the Bonds; includes the Refunded Obligations.

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THE CITY

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

The City's geographic area covers approximately 467 square miles (both full purpose and limited purpose annexations) and is located in South Central Texas, 282 miles south of Dallas, 199 miles west of Houston, and 152 miles north of the United States ("U.S.)/Mexico border. It serves as the county seat for Bexar County, which had a population of 1,392,931 according to the Census 2000. The United States Census Bureau cites the City's population to be 1,144,646 as of April, 2000. According to the United States Census Bureau, this ranks San Antonio as the seventh largest city in the United States and the second largest in the State of Texas. The City is located in south central Texas approximately 75 miles south of the state capital in Austin, 140 miles northwest from the Gulf of Mexico, and approximately 150 miles from the U.S./Mexico border cities of Del Rio, Eagle Pass, and Laredo.

Additional information with respect to the City, including financial information, is provided below and in APPENDIX B attached hereto. Selected portions of the City's Annual Financial Report for the fiscal year ended September 30, 2008, which has been selected by the City for inclusion herein, is attached as APPENDIX C hereto.

THE BUDGET PROCESS

Fiscal Year 2010 Budget

The FY 2010 Budget Process included several budgetary steps and input practices which allowed for more community and employee input. Each phase of the FY 2010 Budget Process is explained below.

Five-Year Financial Forecast. The Budget Process is guided with the development and presentation of the Five-Year Financial Forecast (the "Forecast"). The Forecast is a financial and budgetary planning tool that provides a current and long-range assessment of financial conditions and costs for City service delivery plans including the identification of service delivery policy issues that will be encountered in the next five years and that will have a fiscal impact upon the City's program of services. The Forecast also examines the local and national economic conditions that have an impact on the City's economy and ultimately, its budget. The Forecast is intended to provide the City Council and the community with an early financial outlook for the City, and to identify significant issues that need to be addressed in the budget development process. Future revenues and expenditures are taken into account in an effort to determine what type of surplus or deficit the City will face during the next five years. On April 29, 2009, the Forecast was presented to the City Council.

Public Input. Beginning in March 2009, the Budget Input Box gave citizens and employees the opportunity to offer their suggestions on how the City could increase efficiencies, generate revenues, and make effective changes to service delivery. Budget staff distributed 200 Budget Input Boxes to various locations in the City including public libraries, the City's office lobbies, Chamber of Commerce, and other venues. Information and access for this budget initiative was provided to citizens and City employees in English and Spanish. Budget Input Box resources were also available on the City's internet website. In addition, the FY 2010 Budget process continued with the City's Frontline Focus Initiative for the fourth year. This initiative is designed to engage employees from specific departments to identify process improvements that could be considered during the development of the FY 2010 Proposed Budget.

City Council Goal Setting Work Session. The Goal Setting Work Session for the annual budget is a formal mechanism for the City Council as a body to provide City staff with budget policy direction. This year's work session was held on June 24, 2009, and utilized a facilitator to guide City Council in their goals and priorities. Prior to the work session, the City Council was provided with a ballot that included 50 service issues and five revenue topics to be rated. The results of this rating process were discussed with City Council in order to provide City staff with a clear set of priorities to be included in the FY 2010 Budget.

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

FY 2010 Proposed Budget. After obtaining the priorities of the City Council, as well as conducting reviews of each City department, the City Manager presented the FY 2010 Proposed Budget to City Council on August 13, 2009. The Proposed Budget represented City staff's professional recommendation on how to utilize revenues and expenditures in order to achieve a balanced budget, while optimizing City service deliveries.

The FY 2010 Proposed Budget focused on the City's core services and addressed City Council budget priorities and community needs while maintaining financial strength despite the challenges presented by the current national and local economic environment. The Proposed Budget also included recommendations to address the FY 2011 Budget Plan.

Public Input on Budget Priorities. After the FY 2010 Budget was proposed on August 13, 2009, the City held District Community Budget Hearings in all ten City Districts between August 17 and August 31, 2009. In each community hearing, an explanatory video regarding the FY 2010 Proposed Budget was shown and citizens were given the opportunity to direct questions to their City Council Representative and City Officials. These District Community Budget Hearings were attended by over 600 individuals and over 150 speakers provided comments on the Proposed Budget. The City also held a Budget Public Hearing in which citizens/groups provided input. Additionally ten Work Sessions informing City Council on initiatives included in the Proposed Budget were held. The Public Hearing and Work Sessions resulted in the City Council being aware of issues important to citizens and community groups, while the District Community Budget Hearings allowed City Council to hear feedback from citizens on the FY 2010 Proposed Budget.

Fiscal Year 2010 Adopted Budget. After receipt of the Proposed Budget, the City Council held ten work sessions to review the proposed service program details and discuss potential City Council budget amendments. The budget work sessions provided a forum for public discourse on significant policy issues as well as an opportunity to review departmental service plans highlighting proposed program enhancements, reductions, efficiencies, redirections, and revenue adjustments. After considering all the recommendations and receiving input from citizens at a public hearing on September 1, 2009; the budget was adopted on September 17, 2009, including amendments added by the City Council. The FY 2010 General Fund Budget is balanced, eliminating a projected \$11 million shortfall, with a majority of reductions achieved through efficiencies and reduced overhead. The Budget focuses on the City's core mission and basic City services, and includes \$19 million in recurring reductions. Approximately 330 positions are eliminated in the Budget. No employee is laid off from the City as a result of the reductions. There are no cost of living increases included in the FY 2010 Budget for civilian, uniform, or retired employees. Other Budget highlights include no reduction in sworn personnel – Police Officers and Firefighters; no increase to Health Care Premiums in FY 2010; 50 new police officer positions, funded primarily through Federal Stimulus Funding; 29 new fire uniform positions; enhanced City streets through pavement preservation; property tax rate decreases for a third year to reflect the consolidation of clinical health services with the County University Health System; automated garbage collection conversion to be completed in 2010 with no increase in the Solid Waste Fee; and maintained Financial Reserves at nine percent.

The establishment and maintenance of appropriate budgeted financial reserves within the General Fund is critical to prudent financial management. The FY 2010 Proposed Budget maintains a nine percent reserve, or \$79.8 million, of General Fund expenditures.

REVENUES OF THE CITY

General Fund

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.

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

TABLE 2

	Fiscal Year Ended September 30				
	2009*	2008 ²	2007	2006	2005
Fund Balance - Beginning of Year	\$ 205,547,529	\$ 160,297,414	\$ 161,476,026	\$ 118,413,742	\$ 98,510,654
Revenues					
Taxes	\$ 476,858,859	\$ 468,494,837	\$ 430,451,032	\$ 399,359,902	\$ 367,030,243
Licenses and Permits	7,089,526	7,756,357	6,926,703	19,764,737	20,715,743
Intergovernmental	6,029,919	6,467,906	4,035,641	3,445,582	3,055,128
Revenues from Utilities	275,605,421	304,157,929	257,687,224	256,367,822	221,774,673
Charges for Services	42,799,773	43,010,464	25,220,809	35,276,831	33,622,089
Fines and Forfeits	13,110,500	12,248,623	15,114,609	10,947,472	12,025,344
Miscellaneous	<u>13,715,930</u>	<u>15,921,433</u>	<u>14,306,653</u>	<u>13,830,931</u>	<u>14,286,093</u>
Total Revenues	<u>\$ 835,209,928</u>	<u>\$ 858,057,549</u>	<u>\$ 753,742,671</u>	<u>\$ 738,993,277</u>	<u>\$ 672,509,313</u>
Expenditures ¹					
General Government	\$ 80,231,148	\$ 84,269,944	\$ 79,705,071	\$ 71,139,682	\$ 66,746,538
Public Safety	488,370,650	456,687,403	437,206,950	429,051,592	404,491,342
Streets and Roadways	12,088,398	11,476,555	10,759,958	10,769,261	10,477,765
Health Services	66,406,219	65,892,132	13,109,799	12,412,664	14,378,887
Sanitation	3,300,913	3,446,274	3,007,740	2,864,299	2,582,840
Welfare	43,928,492	46,712,271	42,124,122	23,504,261	21,578,358
Culture and Recreation	75,995,209	74,574,211	69,728,940	71,938,565	63,478,741
Economic Dev. and Opportunity	<u>3,113,889</u>	<u>3,142,690</u>	<u>3,505,293</u>	<u>4,067,281</u>	<u>4,552,704</u>
Total Expenditures	<u>\$ 773,434,918</u>	<u>\$ 746,201,480</u>	<u>\$ 659,147,873</u>	<u>\$ 625,747,605</u>	<u>\$ 588,287,175</u>
Excess of Revenues Over Expenditures	<u>\$ 61,775,010</u>	<u>\$ 111,856,069</u>	<u>\$ 94,594,798</u>	<u>\$ 113,245,672</u>	<u>\$ 84,222,138</u>
Other Financing Sources (Uses)					
Operating Transfers In	\$ 13,749,869	\$ 18,719,550	\$ 15,972,026	\$ 11,466,466	\$ 14,121,847
Operating Transfers Out	<u>(86,411,192)</u>	<u>(95,755,000)</u>	<u>(126,065,404)</u>	<u>(90,280,712)</u>	<u>(86,649,587)</u>
Total Other Financing Sources (Uses)	\$ (72,661,323)	\$ (77,035,450)	\$(110,093,378)	\$ (78,814,246)	\$ (72,527,740)
Add Encumbrances ¹	<u>11,622,854</u>	<u>10,429,496</u>	<u>13,713,122</u>	<u>8,630,858</u>	<u>8,208,690</u>
Fund Balance - End of Year	<u>\$ 206,284,070</u>	<u>\$ 205,547,529</u>	<u>\$ 159,690,568</u>	<u>\$ 161,476,026</u>	<u>\$ 118,413,742</u>

* Unaudited.

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

² The variance between the ending fund balance for FY 2007 and the beginning fund balance for FY 2008 is due to the Emergency Medical Services Fund being consolidated into the General Fund, as well as changes in status of component units.

Municipal Sales Taxes

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

Municipal Sales Taxes

TABLE 3

Fiscal Year Ended 9/30	Sales Tax Collected ¹	Ad Valorem Tax Levy ^{1,2}	Percent of Ad Valorem Tax Levy	Net Taxable Assessed Valuation ³	Equivalent Tax Rate
1999	\$126,472,730	\$181,204,963	69.80%	\$31,253,551,025	\$0.4047
2000	135,130,522	193,159,815	69.96	33,315,478,862	0.4056
2001	136,810,787	208,917,594	65.49	36,033,321,329	0.3797
2002	157,593,310	229,030,010	68.81	39,587,584,280	0.3981
2003	156,322,600	240,299,754	65.05	41,535,547,008	0.3764
2004	162,383,500	257,931,292	62.96	44,583,138,927	0.3642
2005	167,331,757	268,916,816	62.22	46,481,974,620	0.3600
2006	210,141,500	288,511,855	72.84	49,868,955,425	0.4214
2007	224,479,807	326,326,395	68.79	56,767,701,702	0.3954
2008	232,348,000	372,822,531	62.32	65,954,866,793	0.3523
2009*	221,745,867	405,009,920	54.75	72,541,141,480	0.3057

* Unaudited.

¹ Includes the City's General Fund component of sales tax. Beginning in fiscal year 2001, includes a 1/8 of 1% cent sales and use tax authorized by voters in a May 6, 2000 election, to fund various venue projects including \$45 million for park land acquisition and improvements over the Edwards Aquifer and \$20 million for linear parks along the Salado and Leon Creeks, for which collections reached their ceiling in fiscal year 2004. Beginning in fiscal year 2005, includes the Advanced Transportation District sales tax and the venue projects sales tax.

² Total Ad Valorem Tax Levy for debt service and maintenance and operations.

³ Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.

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Capital Leases

Debt Obligations – Capital Leases Payable

TABLE 4

The City has entered into various lease purchase agreements for the acquisition of various fire trucks, golf cars, printers and related components, an inventory theft detection system, self-contained breathing apparatus, hybrid vehicles, a mainframe computer, electrocardiograms, refuse collection containers, refuse collection trucks (diesel and compressed natural gas), brush grapppler trucks, brush tractor/trailer combinations, and personal protective equipment. Shown below is the gross value of the assets at September 30, 2009. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council. The following is a schedule of the projected remaining future minimum lease payments under these capital leases together with the net minimum lease payments as of September 30, 2009.

Description	Lease Termination Date	Minimum Lease Payment	Amount Representing Interest	Total Minimum Lease Payments
Refuse Collection Containers	11/1/2009	\$ 173,011	\$ 470	\$ 173,481
Self-Contained Breathing Apparatus	5/1/2010	183,998	2,869	186,867
Mainframe Computer System and Software	5/1/2010	233,164	3,635	236,799
One Platform Truck	8/1/2010	134,183	2,745	136,928
Electric Golf Cars	11/1/2010	572,131	16,756	588,887
One Pumper Truck, Four Aerial Trucks, and One Partial Aerial Truck	2/1/2011	1,124,262	42,514	1,166,776
Five Aerial Trucks	2/1/2011	1,076,009	40,514	1,116,523
13 Electrocardiograms	5/1/2011	58,687	2,347	61,034
154,587 Refuse Containers	8/1/2011	5,205,024	177,201	5,382,225
19 Pumper Trucks	11/1/2011	3,368,360	152,055	3,520,415
Library Theft Detection System Phase I	8/1/2012	621,240	37,021	658,261
Library Theft Detection System Phase II	2/1/2013	604,927	43,158	648,085
Hybrid Vehicles	5/1/2013	481,727	31,903	513,630
Automated Sideload and Manual Rearload Refuse Collection Trucks	11/1/2013	752,371	63,634	816,005
Library Theft Detection System Phase III	2/1/2014	651,362	61,664	713,026
770 Set of Personal Protective Equipment	2/1/2014	954,358	90,348	1,044,706
3 Printers & Related Components	5/1/2014	501,908	36,784	538,692
17 Refuse Collection Trucks, 5 Brush Grapppler Trucks, and 10 Brush Tractor/Trailers	11/1/2015	4,927,257	638,400	5,565,657
15 Automated Refuse Collection Trucks (CNG)	2/1/2016	3,550,500	532,977	4,083,477
42 Automated Refuse Collection Trucks	5/1/2016	<u>10,056,000</u>	<u>1,191,482</u>	<u>11,247,482</u>
Total		<u>\$35,230,479</u>	<u>\$3,168,477</u>	<u>\$38,398,956</u>

The adopted budget for fiscal year 2010 includes appropriations for lease purchase arrangements to acquire refuse collection trucks and refuse collection containers. The funding for these lease purchase arrangements to acquire refuse collection trucks and refuse collection containers occurred in January 2010.

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Tax Rate Distribution**TABLE 5**

Tax Rate	Fiscal Year Ended September 30				
	2010 ¹	2009 ¹	2008	2007	2006
General Fund	\$0.35419	\$0.35564	\$0.36080	\$0.36704	\$0.36704
Interest and Sinking Fund	0.21150	0.21150	0.21150	0.21150	0.21150
Total Tax Rate	\$0.56569	\$0.56714	\$0.57230	\$0.57854	\$0.57854

¹ FY 2010 and FY 2009 General Fund tax rate was reduced by \$0.00145 and \$0.00516, respectively, to offset a transfer of the San Antonio Metropolitan Health Department health clinics to the University Health System.

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

Assessed Valuation ¹**TABLE 6A**

Tax Year 2009 Actual Market Value of Taxable Property	\$84,734,253,568
Less:	
Residence Homestead Exemptions - Optional 65 or Older	\$ 4,306,002,599
Residence Homestead Exemptions - Disabled	121,787,744
Disabled/Deceased Veterans' Exemptions	183,830,026
Disabled Veterans' 100% Exemptions	218,202,261
Historical Property Exemptions	64,491,999
Freeport Goods Exemptions	570,641,228
Tax Abatement/Phase-In Exemptions	775,165,006
Residence Homestead Appraised Value 10% Limitations	236,574,897
Agricultural Productivity Loss	546,585,947
Pollution Control Exemptions	68,307,061
Low Income Housing Exemptions	59,406,443
Energy Exemptions	31,002,572
Absolute Value Exemptions	4,377,018,575
Pro-Rated Exemptions	7,776,036
Total Exemptions	\$11,566,792,394
Tax Year 2009 Net Taxable Assessed Valuation (100% of Actual Market) ²	\$73,167,461,174

¹ Based on Tax Year 2009 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 17, 2009.

² The City anticipates that the taxable assessed value of real property subject to the 65 years of age and older and disabled homeowners tax freeze totals approximately \$1,012,846,435, resulting in a fiscal year 2010 loss in ad valorem tax revenue of approximately \$5,729,571.

Debt Payable from Ad Valorem Taxes

TABLE 6B

The Outstanding Ad Valorem Tax Debt (at 2/1/10)	
General Obligation Bonds	\$ 728,695,000
Combination Tax and Revenue Certificates of Obligation	333,295,000
Taxable Combination Tax and Revenue Certificates of Obligation	80,000
Tax Notes	37,360,000
Total Gross Outstanding Ad Valorem Tax Debt (at 2/1/10)	\$ 1,099,430,000
General Improvement Refunding Bonds, Series 2010 (the “2010 Refunding Bonds” to be delivered 3/23/10)	\$ 156,255,000
Less: Obligations Refunded by the 2010 Refunding Bonds	\$ 161,340,000
Total Gross Outstanding Ad Valorem Tax Debt (at 3/23/10) ²	\$ 1,094,345,000
<i>Less: Self-Supporting Debt ^{2,3}</i>	<i>70,195,000</i>
Total Net Debt Payable from Ad Valorem Taxes (at 3/23/10)	\$ 1,024,150,000
Interest and Sinking Fund Balance at 9/30/09 ^{1,2}	\$ 83,707,085
Ratio of Gross Debt to Actual Market Value ⁴	1.29%
Ratio of Gross Debt to Net Taxable Assessed Value ⁴	1.50%
Ratio of Net Debt to Actual Market Value ⁴	1.21%
Ratio of Net Debt to Net Taxable Assessed Value ⁴	1.40%
Tax Year 2009 Actual Market Value of Taxable Property ⁴	\$84,734,253,568
Tax Year 2009 Net Taxable Assessed Valuation (100% of Actual Market) ⁴	\$73,167,461,174
Per Capita 2009 Net Taxable Assessed Valuation ^{4,5}	\$ 52,902
Per Capita Gross Debt ⁵	\$ 791
Per Capita Net Debt ⁵	\$ 740

¹ Unaudited.

² It is anticipated that the Certificates of Obligation, Series 2000C, in the principal amount of \$4,925,000, will be defeased on March 15, 2010, which will reduce this balance.

³ To maintain this debt as self-supporting, payments will be made from Solid Waste Management Fees, Advanced Transportation District Sales Tax Revenue, Police Confiscated Property Funds, Houston Street Tax Increment Financing Revenue, Brooks City-Base Tax Increment Financing Revenue, Witte Museum Parking Garage, and Parking System Revenue.

⁴ Based on Tax Year 2009 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 17, 2009.

⁵ Based on the City’s Department of Planning and Development Services estimated population of 1,383,072 as of December 31, 2009.

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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 "Investment Act"), and in accordance with an Investment Policy approved by the City Council. The Investment Act requires that the City establish an investment policy to ensure that City funds are invested only in accordance with State law. The City established a written investment policy adopted September 30, 2009. The City's investments are managed by the City's Department of Finance, which, 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, including letters of credit, of the United States or its agencies and instrumentalities; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) (a) certificates of deposit and share certificates issued by a depository institution that has its main office or branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or are secured as to principal by obligations described in clauses (1) through (5) and clause (13) or in any other manner and amount provided by law for City deposits, and in addition (b) the City is authorized, subject to certain conditions, to invest in certificates of deposit with a depository institution that has its main office or branch office in the State of Texas and that participates in the Certificate of Deposit Account Registry Service® network (CDARS®) and as further provided by Texas law; (7) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), requires the securities being purchased by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer or a financial institution doing business in the State; (8) bankers' acceptances with the remaining term of 270 days or less, which will be liquidated in full at maturity, is eligible for collateral for borrowing from a Federal Reserve Bank, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (9) commercial paper with a stated maturity of 270 days or less and is rated at least "A-1" or "P-1" or the equivalent by either (i) two nationally recognized credit rating agencies or (ii) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (10) no-load money market mutual funds registered with and regulated by the United States 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 United States Securities and Exchange Commission that have an average weighted maturity of less than two years; invests exclusively in obligations described in the preceding clauses; are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and conforms to the requirements for eligible investment pools; (12) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or "AAA-m" or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days; (13) bonds issued, assumed, or guaranteed by the State of Israel; and (14) guaranteed investment contracts secured by obligations of the United States of America or its agencies and instrumentalities, other than prohibited obligations described in the next succeeding paragraph, with a defined termination date, and pledged to the City and deposited with the City or a third party selected and approved by the City.

Entities such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (5) and clause (13) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (5) and clause (13) above, clause (9) above and clauses (10) and (11) above, or an authorized

investment pool; (ii) securities held as collateral under a loan are pledged to the City or a third party selected and approved by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pool is 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 fund’s investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type; (2) preservation and safety of principal; (3) liquidity; (4) marketability of each investment; (5) diversification of the portfolio; and (6) yield.

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

The City is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt an ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in said ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City’s investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City’s entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City’s investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, or other investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict

the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in mutual funds in the aggregate to no more than 80% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in no-load mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

Current Investments

At December 31, 2009, investable City funds in the approximate amount of \$1,251,171,642 were 90.74% invested in obligations of the United States, or its agencies and instrumentalities, 9.14% invested in a money market mutual fund, and 0.12% in a collateralized repurchase agreement, with the weighted average maturity of the portfolio being less than one year. The investments and maturity terms are consistent with State law and the City's Investment Policy objectives to satisfy cash flow requirements, preservation and safety of principal, liquidity and diversification, minimize risk, maximize yield, and proactive portfolio management.

The market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 100.07% of their book value. No funds of the City are invested in derivative securities; *i.e.*, securities whose rate of return is determined by reference to some other instrument, index, or commodity.

CERTAIN SIGNIFICANT ISSUES AFFECTING THE CITY

Water Supply

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

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

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

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

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

In 2007, the Texas Legislature passed Senate Bill 3 on the final day of the 80th legislative session, establishing a cap on annual pumping from the Edwards Aquifer of 572,000 acre-feet and placing restrictions into State statute regarding supply availability during drought periods, thus making these restrictions State law. SAWS currently has access to 40% of the 572,000 acre-feet available. In addition, to support ongoing efforts to identify and evaluate methods to protect threatened and endangered species, the Texas Legislature prescribed in detail a Recovery Implementation Program (“RIP”) for the Edwards Aquifer region. The RIP is being undertaken in coordination with U.S. Fish and Wildlife Service, and is intended to help the region meet the needs of endangered species, while respecting and protecting the legal rights of water users. The program consists of a facilitated, consensus-based process involving a broad cross-section of regional stakeholders. It will result in recommendations to the Edwards Aquifer Authority for future management of the Edwards Aquifer during periods of critical drought. Initial work of the RIP is to be completed by the end of 2012.

The City believes that implementation of SB 3 will reduce litigation threats to existing water usage from the Edwards Aquifer and contribute to certainty in the future. However, it may also result in additional future limitations on the City’s access to the Edwards Aquifer during periods of drought. Usage of water from the Edwards Aquifer, including usage by the City, has steadily decreased since the Edwards Aquifer Authority commenced its regulatory activities.

The City experienced significantly lower than normal rainfall totals during the period September 2007 through August 2009. This two-year period was the driest 24 months on record, with total precipitation of 24.8 inches, representing less than 38% of the normal total of 65.8 inches. The prolonged drought has begun to take a toll on SAWS’ primary water source, the Edwards Aquifer. On April 10, 2009, the City made an official declaration of Stage One Drought Restrictions. Stage One Drought Restrictions begin when the Edwards Aquifer daily level reading drops to 660 feet at the J-17 monitoring well. During Stage One Drought Restrictions, the System’s daily pumping allocation is reduced by 20%. Subsequently, on June 15, 2009, Stage Two Drought Restrictions were declared for the City of San Antonio and its extra-territorial jurisdiction areas. Stage Two of the City’s drought management plan is triggered when the J-17 monitoring well daily level reading drops to 650 feet or below. During Stage Two, state law mandates that pumpers, including SAWS, reduce the daily amount of water they pump from the aquifer by 30%.

During the first two stages of drought restrictions, the ratepayers of SAWS are asked to conserve water primarily through mandatory restrictions on landscape watering. During Stage One Drought Restrictions, a one-day-per-week landscape watering schedule is imposed. Watering with a sprinkler or irrigation system is allowed only before 10:00 a.m. and after 8:00 p.m. on the assigned day, as determined by the last number of the resident’s street address. During Stage Two Drought Restrictions, SAWS’ customers are limited to watering with a sprinkler, irrigation system or soaker hose from 3:00-8:00 a.m. and 8:00-10:00 p.m. on their assigned day.

In the four month period beginning September 2009, the City received over 22 inches of rainfall which led to the Edwards Aquifer rising. Once the aquifer stayed above 650 feet for more than 30 days, the City lifted Stage Two Drought Restrictions on October 12, 2009. The Edwards Aquifer continued to rise and stayed above 660 feet for more than 30 days, and on November 9, 2009, Stage One Drought Restrictions were lifted, with year-round watering restrictions remaining in effect.

In the event that the region were to slip back into drought conditions, San Antonio has two additional stages of drought restrictions. Stage Three begins when the aquifer daily level reading reaches 640 feet mean sea level at the J-17 monitoring well, while Stage Four can be declared at the discretion of the City Manager upon completion of a

30-day monitoring period following Stage Three declaration. Upon the implementation of Stage Three restrictions SAWS is required to reduce pumping by 35%. Landscape watering with a soaker hose, hose-end sprinkler or spray irrigation is only allowed every other week beginning on the second Monday after the declaration of Stage Three with the same time restrictions imposed as in Stage Two. Stage Four watering restrictions are the same as those established in Stage Three; however, additional restrictions on water use may be established at the discretion of the City Council. During Stage Four restrictions, SAWS must reduce the amount of water pumped from the aquifer by 40%. In addition, in Stage Four, a drought surcharge is assessed on all accounts for water used or assumed to be used for landscape irrigation. The surcharge rate is the highest volumetric rate assessed by SAWS and is assessed on any residential and irrigation account with monthly water usage exceeding 12,717 and 5,236 gallons, respectively. The surcharge rate is assessed in addition to the regular water and wastewater rates.

In addition to one of the nation's leading conservation programs and the water reuse program discussed below, SAWS has undertaken far-reaching efforts to develop new, diversified water supplies that will reduce future reliance on the Edwards Aquifer. These efforts include: (1) Development of an underground storage reservoir known as the Aquifer Storage and Recovery (ASR) Facility in the Carrizo Aquifer in southern Bexar County. The ASR Facility now holds an estimated 60,000 acre-feet of stored Edwards Aquifer water that may be used during periods of pumping limitations; (2) Development of a new groundwater supply from the Carrizo Aquifer in Gonzales County; (3) Development of a brackish groundwater desalination project that will draw upon brackish groundwater from the Wilcox Aquifer in Southern Bexar County and treat that water through a reverse-osmosis process for potable consumption; and (4) Initiation of a study to determine the long-term feasibility of an ocean desalination project.

SAWS regularly receives and evaluates proposals for new water supplies from a variety of public and private interests.

Water Reuse Program

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

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

Electric and Gas Supply

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

The City Council exercises original electric and gas rate regulatory jurisdiction over the CPS retail service areas, with appellate jurisdiction in the PUCT and Texas Railroad Commission for electric and gas rates, respectively, for areas outside the City. Pursuant to amendments made by the Texas Legislature in 1995 to the Texas Public Utility Regulatory Act ("PURA"), municipally-owned utilities, including CPS, became subject to the regulatory and rate jurisdiction of the PUCT relating to transmission of wholesale energy. The PURA amendments require the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power

marketers, independent power producers, and other transmission customers. (For further information, see “SAN ANTONIO ELECTRIC AND GAS SYSTEMS - Service Area and Rates” in Appendix B attached hereto.)

The CPS electric system, like other municipal electric systems in the State, is adapting to changes in electric regulation brought about by the enactment of Senate Bill 7 (“SB 7”) by the Texas Legislature in 1999. SB 7 provides for open competition in the provision of retail electric service in the State, which commenced on January 1, 2002. Municipal utilities, such as CPS, are not required to participate in the competitive retail market, although they may “opt-in” to retail electric competition. On April 26, 2001, the City Council passed a resolution stating that the City did not intend to opt-in to the deregulated electric market beginning January 1, 2002. SB 7 provides that “opt-in” decisions are to be made by the governing body or body vested with the power to manage and operate a municipal utility such as CPS. Given the relationship of the CPS Energy Board of San Antonio, Texas (“CPS Board”) and the City Council, any decision to opt-in to competition would be based upon the adoption of resolutions of both the CPS Board and the City Council. If the City and CPS choose to opt-in, other retail electric energy suppliers would be authorized to offer retail electric energy in the CPS service area and CPS would be authorized to offer retail electric energy in any other areas open to retail competition in the Electric Reliability Council of Texas (“ERCOT”). ERCOT is the independent entity that monitors and administers the flow of electricity within the interconnected grid that operates wholly within Texas. (For further information, see “SAN ANTONIO ELECTRIC AND GAS SYSTEMS - Electric Utility Restructuring in Texas; Senate Bill 7” in Appendix B attached hereto.)

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

Air Quality

On March 12, 2008, the United States Environmental Protection Agency (the “EPA”) revised the national ambient air quality standards (“NAAQS”) for ground-level ozone (the primary component for smog). This revision was part of a required review process mandated by the Clean Air Act, as amended in 1990. Prior to the revision, an area met the ground-level ozone standards if the three-year average of the annual fourth-highest daily maximum eight hour average at every ozone monitor (the “eight-hour ozone standard”) was less than or equal to 0.08 parts per million (ppm). Because ozone is measured out to three decimal places, the standard effectively became 0.084 as a result of rounding. For years 2005 through 2007 during which the old standard applied, San Antonio maintained average ozone readings of 0.082 ppm, and, therefore, has been compliant with historic EPA ground-level ozone standards.

The EPA’s March 2008 revision changed the NAAQS such that an area’s eight-hour ozone standard must not exceed 0.075 ppm rather than the previous 0.084. Thus in 2007, under the new standard, the City would not have complied with the federal requirements regarding ground-level ozone. Since 2007, however, San Antonio’s unofficial eight-hour ozone average has been falling. According to the Texas Commission on Environmental Quality (“TCEQ”), the three-year average in 2008 was 0.078 ppm, and as of June 9, 2009 it is 0.074 ppm for 2009.

The Clean Air Act requires the EPA to designate areas as “attainment” (meeting the standards), “nonattainment” (not meeting the standards), or “unclassifiable” (insufficient data to classify). As a result of the revisions to the NAAQS, states were required to make recommendations to the EPA no later than March 12, 2009 for areas to be classified attainment, nonattainment, or unclassifiable. Texas Governor Rick Perry submitted a list of 27 counties in Texas, including Bexar, that should be designated as nonattainment. Even if the 2008 data, as recorded above, is certified by the EPA, San Antonio would still be classified as an area of nonattainment under the revised NAAQS.

On January 6, 2010, EPA formally proposed a regulation that would lower the primary NAAQS for ozone to a level within a range of 0.060 to 0.070 ppm. This proposal will be subject to public comment soon. EPA currently plans to sign a final rule revising the ozone NAAQS standards by August 31, 2010. Under the Clean Air Act, the EPA has two years from the time it revises the NAAQS to complete the designation process. Therefore, if the EPA adheres to its published schedule, final designations for all areas must be issued no later than August 31, 2012, unless there is insufficient information to make such designations (in which case designations will be made by the EPA not later than August 31, 2012). If the EPA intends to issue a designation that deviates from a state’s recommendation, it must notify the state at least 120 days prior to promulgating the final designations. Following

the issuance of final designations, states are required to submit State Implementation Plans (“SIPs”) outlining how they will reduce pollution to meet the new standards. These SIPs will be due to the EPA by a date that it will establish under separate rule, but in no case will that date be later than three years after the EPA’s final designations (i.e. 2015 if the EPA makes its designations in 2012.) In conjunction with the revised NAAQS, EPA has proposed separate rules to address monitoring the new standard. Generally, the proposal from the EPA would require a greater number of EPA-approved monitors in both urban and non-urban areas and longer ozone monitoring seasons in many states. For Texas specifically, the proposal calls for year-round monitoring throughout the state. On July 16, 2009 the EPA proposed to revise its monitoring network design requirements for ozone to assist in implementation of the 2008 ozone NAAQS. The comment period closed on September 14, 2009. The EPA has not stated whether its decision to withdraw the 2008 ozone NAAQS will delay the release of the final ozone NAAQS monitoring rule.

Any state plan formulated to reduce ground-level ozone may curtail new industrial, commercial, and residential development in San Antonio and adjacent areas (the “San Antonio Area”). Examples of past efforts by the EPA and the TCEQ to provide for annual reductions in ozone concentrations in areas of nonattainment under the former NAAQS include imposition of stringent limitations on emissions of volatile organic compounds (“VOCs”) and nitrogen oxides (“NOx”) from existing stationary sources of air emissions, as well as specifying that any new source of significant air emissions, such as a new industrial plant, must provide for a net reduction of air emissions by arranging for other industries to reduce their emissions by 1.3 times the amount of pollutants proposed to be emitted by the new source. Studies have shown that standards significantly more stringent than those currently in place in the San Antonio Area and across the state are required to meaningfully impact an area’s ground-level ozone reading, which will be necessary to achieve compliance with the new eight-hour ozone standard. Due to the magnitude of air emissions reductions required, as well as the limited availability of economically reasonable control options, the development of a successful air quality compliance plan for areas of nonattainment within the state has proven to be extremely challenging and will inevitably impact a wide cross-section of the business and residential community.

Failure by an area to comply with the eight-hour ozone standards by the requisite time could result in the EPA’s imposing a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of emissions for which construction has not already commenced.

Other constraints on economic growth and development include lawsuits filed under the Clean Air Act by plaintiffs seeking to require emission reduction measures that are even more stringent than those approved by the EPA. From time to time, various plaintiff environmental organizations have filed lawsuits against TCEQ and EPA seeking to compel the early adoption of additional emission reduction measures, many of which could make it more difficult for businesses to construct or expand industrial facilities or which could result in travel restrictions or other limitations on the actions of businesses, governmental entities, and private citizens. Any successful court challenge to the currently effective air emissions control plan could result in the imposition of even more stringent air emission controls that could threaten continued growth and development in the San Antonio Area.

It remains to be seen exactly what steps will ultimately be required to meet federal air quality standards, how the EPA may respond to developments as they occur, and what impact such steps and any EPA action have upon the economy and the business and residential communities in the San Antonio Area.

LITIGATION

General Litigation and Claims

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and promotional practices; various claims from contractors for additional amounts under construction contracts; and property tax assessments and various other liability claims. The amount of damages in most of the pending lawsuits is capped under the Texas Tort Claims Act. Therefore, as of fiscal year ended September 30, 2009, the amount of \$18.497 million is included as a component of the Reserve for claims liability. The estimated liability, including an estimate of incurred but not reported claims, is recorded in the Insurance Reserve Fund. The status of such litigation ranges from early discovery stage to various levels of appeal of judgments both for and against the City. The City intends to defend vigorously against the lawsuits; including the pursuit of all appeals; however, no

prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the outcome of such lawsuits.

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

Brooks Hardee, et al. v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio; En Seguido, Ltd. v. City of San Antonio; VWC Ltd. v. City of San Antonio, et al.; Lakeside Joint Venture, et al. v. City of San Antonio. These are similar cases brought by the same developer/landowner under different entities. These cases raise complex issues of fact and law and, collectively, challenge the City's authority to regulate land development, including challenging the City's vested rights determinations for the landowner's projects. There are approximately six related cases still pending. 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.

CKW, Inc., et al. v. City of San Antonio, et al. In this case, multiple plaintiffs claim damages for alleged inverse condemnation, takings, and "constitutional damages" due to a road-widening project. This case is related to several other cases arising out of the same project. The matter is in discovery. A dispositive motion is being prepared. The claims aggregate well over \$100,000. This case is not yet set for trial.

Erin McCutcheon v. Sheryl Sculley, et al. Plaintiff was arrested by a San Antonio Police Department ("SAPD") officer for a public disturbance at a night club. Plaintiff, a minor, was intoxicated, and exhibited violent behavior. After being placed in the police cruiser, and in route to the detention facility, plaintiff kicked out one of the windows in the car. The officer pulled over the car and another officer arrived on the scene to assist. Plaintiff tried to exit the vehicle and the officers attempted to restrain her in the car. The plaintiff continued to act violently, kicking the officers, and they eventually used force to place her back in the vehicle. Plaintiff has filed suit against the officers, the City, and the night club, alleging use of excessive force by the officers. The City has been dismissed from the suit. Damages could exceed \$200,000.

Kopplow Development, Inc. v. City of San Antonio. Plaintiff contends that the construction of a regional stormwater detention facility was an inverse condemnation of its property by increasing the flood plain elevation on its property. The City also filed a statutory condemnation to acquire an easement involving plaintiff's property to construct and maintain part of the facility. This matter was tried in July 2008 resulting in a judgment against the City of approximately \$2 million and an adverse ruling to the City on plaintiff's claim of vested development rights. The City's motion for new trial was granted. After a retrial, the Court ruled that plaintiff does not have vested rights with respect to flood plain development, and the jury awarded approximately \$600,000 to plaintiff for the inverse condemnation and statutory condemnation. The City and plaintiff have appealed.

Shawn Rosenbaum, et al. v. City of San Antonio, et al. Plaintiff's decedent, Diane Rosenbaum, was operating her motorized wheelchair, crossing a parking area. Ms. Rosenbaum drove in front of a City brush truck, the driver of the truck struck her, causing the wheelchair to become stuck under the truck and Ms. Rosenbaum to be dragged across the parking area. Ms. Rosenbaum later died, allegedly as a result of this incident. This case is recently filed and discovery is ongoing. Damages in this matter are capped by the Texas Tort Claims Act at \$250,000.

Sayani v. City of San Antonio and City South Management Authority. Plaintiff contends that City and City South Management Authority ("CSMA") affected a taking of his property by allegedly improperly imposing zoning restrictions on his property without performing a takings analysis. Plaintiff seeks damages in loss of value to his property in an amount in excess of \$250,000.

Chacon, et al. v. City of San Antonio, et al. Plaintiffs are land owners who own property in an area that had been part of a limited purpose annexation by the City. The area was deannexed in March 2008 and CSMA took over responsibility for planning and zoning pursuant to State statute. Plaintiffs challenge both the City and CSMA's authority to enact and enforce zoning and planning regulations, alleging that these restrictions have devalued their property by limiting their ability to develop it. Plaintiffs seek damages in excess of \$4 million.

Daniel Thomas, et al. v. City of San Antonio, et al. Plaintiffs' decedent was involved in two vehicle accidents in a short period of time and fled the scene of the second one on foot, acting erratically. Two officers searched for him and found him in a field with little lighting. Plaintiffs' decedent pointed towards one officer with an unidentified object, claiming he had a gun and would shoot. After decedent refused commands to stop and drop the weapon, and in fear for their safety, the officers shot at decedent, killing him. Upon investigation, it was determined that decedent was holding a wallet in this hand. Plaintiffs filed suit against the City and the officers in their individual capacities. Discovery is ongoing. If liability is determined, damages could be in excess of \$250,000.

Galvan, et al. v. City of San Antonio, et al. Plaintiffs filed suit for wrongful death under State and federal laws related to the death of Sergio Galvan. During the course of an arrest, decedent became violent and, in response, the defendant officers used taser guns to subdue him. Decedent became unresponsive and was later pronounced dead. The trial court granted summary judgment in favor of all defendants in November 2008. Plaintiffs have appealed the judgment with respect to the defendant officers to the Fifth Circuit Court of Appeals. Briefing and oral argument has been completed. A second lawsuit was filed by different family members of the decedent, in State district court.

Sheridan, et al. v. City of San Antonio. Plaintiffs' decedent was killed by a hit-and-run driver while walking in the 3400 Block of Green Spring Drive at Moonlit Grove. Allegedly, a City of San Antonio recycling truck was seen at that corner to do its pick-up. Plaintiff has sued the City alleging one of its recycling trucks was the vehicle that hit decedent. This case is set for trial on May 17, 2010.

Smith, et al. v. Ybarra, et al. Plaintiffs' decedent was killed in a motor vehicle accident. Plaintiffs filed suit against the driver of the vehicle involved, as well as the City. As to the City, plaintiffs contend that paramedics did not render medical aid to decedent based on their mistaken belief that she was already dead. Damages could be up to \$250,000. This case was filed on December 16, 2009.

Vargas v. City of San Antonio, et al. Plaintiff alleges that a police officer improperly used a police vehicle to pin minor plaintiff against a utility pole, eventually leading to the amputation of his left leg. Plaintiff filed suit alleging excessive force. A new scheduling order has been filed and parties are awaiting a new trial setting.

Wissmann v. City of San Antonio. Plaintiff was involved in a motor vehicle accident with a police cruiser. Plaintiff claims injuries to her back, neck, both legs and body in general. If liability is determined, damages could be in excess of \$250,000. This case is set for trial on August 23, 2010.

KGME, Incorporated v. City of San Antonio. Plaintiff entered into a contract with the City to provide construction services. The Parties determined that work on portions of the contract had become impracticable and further work would cease. Plaintiff sued for Breach of Contract and Violations of the Prompt Payment Act (Texas Government Code, Chapter 2251). Damages could exceed \$250,000.00. This case is scheduled for trial on May 3, 2010.

Vasquez, et al. v. City of San Antonio Police Department. Plaintiffs were involved in a motor vehicle accident while being pursued by SAPD officers. Plaintiff filed suit on her behalf and on behalf of her minor child for injuries allegedly sustained in the accident. If liability is determined, damages could be in excess of \$250,000. This case has not been set for trial.

TAX MATTERS

Opinion

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

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the Corporation and the City, including information and representations contained in the Corporation's federal tax certificate, (b) covenants of the Corporation and the City contained in the documents authorizing the Bonds relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith, and (c) the verification report prepared by Grant Thornton LLP, certified public accountants. Failure by the Corporation or the City to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of the issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the Corporation and the City with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law reliance on the aforementioned information representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership, or disposition of the Bonds. A ruling was not sought from the Internal Revenue Service by the Corporation or the City with respect to the Bonds or the property financed or refinanced with the proceeds of the Bonds. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Corporation and the City as the taxpayer and the holders of the Bonds may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount Bonds

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year. Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering such initial owner is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see the discussion set forth below. In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

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

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original

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

Collateral Federal Income Tax Consequences

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

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

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds will be includable as an adjustment for “adjusted current earnings” to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

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

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a “market discount” and if the fixed maturity of such obligation is equal to or exceeds one year from the date of issue. Such treatment applies to “market discount bonds” to the extent such gain does not exceed the accrued market discount of such Bonds, although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price or, in the case of a bond issued at an original issue discount, the “revised issue price” (*i.e.*, the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local, and Foreign Taxes

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

LEGAL MATTERS

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

Certain legal matters will be passed upon for the Corporation and the City by the City Attorney. Certain legal matters will be passed upon for the Underwriters by their counsel, Fulbright & Jaworski L.L.P., San Antonio, Texas. The legal fee to be paid Counsel to the Underwriters is contingent on the issuance and delivery of the Bonds. Neither the Attorney General, Bond Counsel, the City Attorney, nor Counsel to the Underwriters has been engaged to investigate or verify, and accordingly neither will express any opinion concerning, the financial condition or capabilities of the City or the sufficiency of the security for, or the value or marketability of, the Bonds.

Fulbright & Jaworski L.L.P. represents the City from time to time in connection with matters unrelated to the issuance of the Bonds.

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

RATINGS

The Bonds are rated “AA+,” “Aa2,” and “AA,” by S&P, Moody’s, and Fitch, respectively. The “AA+” rating from S&P represents an upgrade from “AA.” An explanation of the significance of such ratings may be obtained from Fitch, Moody’s, and S&P. The respective ratings of the Bonds by Fitch, Moody’s, and S&P reflect only the views of said companies at the time the ratings are given, and the Corporation and the City make no representations as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by Fitch, Moody’s, or S&P if, in the judgment of said companies, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Lease, the Corporation and the City have made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The Corporation and the City are required to observe the agreement for so long as they remain obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and the Corporation will be obligated to file timely notice of specified material events, to the Municipal Securities Rulemaking Board (the “MSRB”) via the Electronic Municipal Market Access (“EMMA”) system at www.emma.msrb.org, as further described below under “Availability of Information.”

Annual Reports

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

The City will provide certain updated financial information and operating data to the MSRB 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 2-6 and in Appendix C. The City will update and provide this information within six months after the end of its fiscal year.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB’s Internet web site or filed with the United States Securities and Exchange Commission (the “SEC”), as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited information within the required time and audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix D 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 the MSRB.

Material Event Notices

The Corporation will provide timely notices of certain events to the MSRB. The Corporation will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. (Neither the Bonds, the Financing Documents nor the Bond Resolution make any provision for credit or liquidity enhancement.) In addition, the Corporation will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.” The Corporation will provide each notice described in this paragraph to the MSRB.

Availability of Information

Effective July 1, 2009 (the “EMMA Effective Date”), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the Corporation and the City in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

In relation to debt of the Corporation and the City issued prior to the EMMA Effective Date, the Corporation and the City remain obligated to make any required information filings, including material event notices, with the Texas state information repository (the “SID”) so long as they are required to do so pursuant to the terms of any undertakings made under the Rule. Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas (the “MAC”) was designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA’s website simultaneously with such posting. Until the Corporation and the City receive notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the Corporation and the City have determined, in reliance on guidance from the MAC, that making their continuing disclosure filings solely with the MSRB will satisfy their obligations to make filings with the SID pursuant to their continuing disclosure agreements entered into prior to the EMMA Effective Date.

Limitations and Amendments

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

The continuing disclosure agreement may be amended by the Corporation and the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Corporation and the City, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering, as well as such changed circumstances, and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Financing Documents and the Bond Resolution that authorize such an amendment) of the outstanding Bonds consent to such amendment or (b) a person

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

Compliance with Prior Undertakings

The Corporation and the City have complied in all material respects with all of their previous continuing disclosure agreements in accordance with the Rule.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, including, but not limited to the information under the headings “THE BONDS - Security for the Bonds” and “CERTAIN INVESTMENT CONSIDERATIONS AND RISK FACTORS,” and in any other information provided by the Corporation or the City that are not purely historical are forward-looking statements, including statements regarding the Corporation’s and 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 Corporation and the City on the date hereof, and the Corporation and the City assume no obligation to update any such forward-looking statements. The Corporation’s and the City’s actual results could differ materially from those discussed in such forward-looking statements.

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

CO-FINANCIAL ADVISORS

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

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

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Grant Thornton LLP, a firm of independent public accountants, will deliver to the Corporation, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Federal Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements of the

SCHEDULE I

Table of Refunded Obligations

SCHEDULE I
Table of Refunded Obligations
City of San Antonio, Texas
Municipal Facilities Corporation

Series	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Lease Revenue Bonds, Series 2001:					
Serials	08/15/2012	4.65%	\$ 760,000	08/15/2011	100.00
	08/15/2013	4.80%	800,000	08/15/2011	100.00
	08/15/2014	4.90%	835,000	08/15/2011	100.00
	08/15/2015	5.00%	875,000	08/15/2011	100.00
	08/15/2016	5.05%	920,000	08/15/2011	100.00
	08/15/2017	5.10%	965,000	08/15/2011	100.00
	08/15/2018	5.15%	1,015,000	08/15/2011	100.00
Term	08/15/2020	5.20%	2,190,000	08/15/2011	100.00
			\$8,360,000		

APPENDIX A

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

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APPENDIX A

SELECTED PROVISIONS OF THE FINANCING DOCUMENTS

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

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

SELECTED DEFINITIONS

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

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

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

Bond or Bonds - Any bond issued pursuant to the Trust Agreement, the forms of which are attached thereto as Exhibit A (with respect to the Series 2001 Bonds) and Exhibit A-1 (with respect to the Series 2010 Bonds) for the definitive bonds of such respective Series, and as Exhibit B (with respect to the Series 2001 Bonds) and Exhibit B-1 (with respect to the Series 2010 Bonds) for the Initial Bond of such respective Series therein defined.

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

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

Bond Payment Date - February 15 and August 15 of each year, commencing August 15, 2001 (with respect to the Series 2001 Bonds) and August 15, 2010 (with respect to the Series 2010 Bonds), and continuing for so long as any Bonds are Outstanding.

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

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

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

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

City Council - The City Council of the Lessee.

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

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

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

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

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

Escrow Agreement - the Escrow Agreement, dated as of March 1, 2010, between the Corporation and The Bank of New York Mellon Trust Company, N.A., pursuant to which the Corporation shall deposit a portion of the proceeds of the Series 2010 Bonds to defease the Refunded Bonds.

Escrow Fund - the Escrow Fund established pursuant to the Escrow Agreement.

Event of Default -

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

(ii) As used in the Lease:

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

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

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

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

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

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

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

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

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

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

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

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

Insurer - Municipal Bond Insurance Association, the provider of a municipal bond insurance policy to insure timely payment of principal and interest on the Series 2001 Bonds.

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

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

Lease - This *Amended and Restated Lease Agreement Relating to the City of San Antonio, Texas Development & Business Services Center Project*, dated as of March 1, 2010, by and between the Corporation and the City and any duly authorized and executed amendment thereto.

Lease Payment - (a) on August 15, 2002, and on each August 15 thereafter, while any Bonds are Outstanding under the Trust Agreement, (i) an amount of money equal to the full amount of the principal installment coming due on the Bonds on such date, either pursuant to a mandatory sinking fund redemption or upon maturity of the Bonds; and (b) on August 15, 2001, and on each Lease Payment Date thereafter, while any Bonds are Outstanding under the Trust Agreement, (i) an amount of money which, when added to the amount then on deposit in the Payment Account, will equal the amount of interest to become due on the Bonds on such Lease Payment Date, (ii) the amount of any interest on overdue principal and interest required to be paid pursuant to Section 3.11(a) of the Trust Agreement, and (iii) the amount, if any, required to replenish the Reserve Account in accordance with Section 6.05(b) of the Lease. Attached as Exhibit E-1 to the Lease is an initial schedule of Lease Payments to be in effect following the issuance of the Series 2010 Bonds.

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

Lessee - The City and its successors and permitted assigns.

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

Lessor - The Corporation, and its successors and permitted assigns.

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

Mortgage - The Amended and Restated Deed of Trust and Assignment of Rents and Leases, dated as of March 1, 2010, from the Corporation to Deborah A. Bennett, as mortgage trustee for the use and benefit of the Trustee.

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

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

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

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

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

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

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

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

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

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

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

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

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

Principal Office when used with respect to the Trustee - The office of the Trustee situated at 2001 Bryan Street, 9th Floor, Dallas, Texas 75201, at which the Trustee conducts its corporate trustee business.

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

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

Project Costs - All costs or payment of design, acquisition, construction, installation, and financing of the Project, including but not limited to acquisition of a site therefor; architectural, engineering, installation, and management costs; project coordination and supervisory costs; administrative costs; capital expenditures relating to design, construction, and installation; financing payments; sales tax, if any, on the Project; costs of feasibility, environmental,

appraisal, and other reports; inspection costs; permit fees; filing and recording costs; title insurance premiums; survey costs; Issuance Costs; fees and expenses of legal counsel to the Lessor and Lessee; and all other costs related to the Project or the financing thereof, authorized by the Act; provided; however, that the term Project Costs does not include any costs to operate and maintain the Project beginning one year after construction of the Project is completed.

Purchase Option Date - In the event of damage, destruction, or condemnation of the Project as described in Section 4.13 of the Lease, the date established pursuant to such Section 4.13.

Purchase Option Price - (a) If Lessee delivers to the Trustee and the Lessor, not less than 45 days prior to the Purchase Option Date on which the Lessee intends to exercise its option to purchase the Project, an opinion of Bond Counsel that State law permits the Lessee to acquire real property pursuant to a lease-purchase transaction (and such opinion is accompanied with a copy of applicable state law or a nonappealable court decision providing a clear basis for such opinion), the Purchase Option Price shall be an amount which will be sufficient to pay the principal of all Bonds then Outstanding and accrued interest thereon to the date fixed for redemption in accordance with Section 6.01(b) of the Trust Agreement, together with any other amounts then due or past due hereunder, including the fees and expenses of the Trustee, less the funds held by the Trustee in any account of the Trust Fund (other than the Rebate Account) as of the redemption date of the Bonds.

(b) If Lessee does not deliver an opinion described in clause (a) of this definition, the Purchase Option Price shall be an amount equal to the average of the fair market value of the Project determined by three independent appraisers not more than 45 days prior to the Purchase Option Date on which the Lessee intends to exercise its option to purchase the Project.

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

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

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

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

Refunded Bonds - The Series 2001 Bonds maturing on August 15 in the years 2012 through 2018, inclusive, and in the year 2020.

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

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

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

Reserve Requirement - means the amount required to be deposited and maintained in the Reserve Account while the Bonds are Outstanding, which amount, upon the issuance and delivery of the Series 2010 Bonds, is equal to \$590,000.

Security Agreement - The Amended and Restated Security Agreement, dated as of March 1, 2010, by and between the Corporation and the Trustee.

Series 2001 Bonds - the CITY OF SAN ANTONIO, TEXAS MUNICIPAL FACILITIES CORPORATION LEASE REVENUE BONDS, SERIES 2001, dated as of May 15, 2001, and issued in the original principal amount of \$14,465,000.

Series 2010 Bonds - the CITY OF SAN ANTONIO, TEXAS MUNICIPAL FACILITIES CORPORATION LEASE REVENUE REFUNDING BONDS, SERIES 2010 (DEVELOPMENT & BUSINESS SERVICES CENTER PROJECT), dated as of March 1, 2010, and issued in the original principal amount of \$9,090,000.

State - The State of Texas.

Term - The term of the Lease as determined pursuant to Article V thereof.

Trust Agreement - The Amended and Restated Trust Agreement Relating to the City of San Antonio, Texas Development & Business Services Center Project, dated as of March 1, 2010, between the Corporation and the Trustee, and any duly authorized and executed amendment thereto.

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

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

Trustee - THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., and its successors and permitted assigns.

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

Underwriter - With respect to the Series 2001 Bonds, A.G. Edwards & Sons, Inc. and Ramirez & Company, and with respect to the Series 2010 Bonds, M. E. Allison & Co., Inc. and RBC Capital Markets Corporation.

* * *

SELECTED PROVISIONS OF THE TRUST AGREEMENT

SECTION 4.01. TRUST FUND. There has previously been established with the Trustee, and is hereby confirmed and maintained, a special trust fund designated as the CITY OF SAN ANTONIO, TEXAS MUNICIPAL FACILITIES CORPORATION ONE STOP DEVELOPMENT CENTER PROJECT TRUST FUND, referred to herein as the "**Trust Fund**." The Trustee shall keep the Trust Fund separate and apart from all other funds held by it. Within the Trust Fund, there was established and is hereby confirmed and maintained, for the benefit of the Bondholders, the separate and distinct accounts more particularly described in this Article (excluding the Rebate Account). On the Closing Date for the Series 2010 Bonds, the Trustee agrees to accept and deposit or disburse the proceeds from the sale of the Series 2010 Bonds, plus accrued interest, if any, and less any Underwriter's discount on the Series 2010 Bonds, which amount shall thereafter be subject to and be administered pursuant to the terms of this Article.

SECTION 4.02. ESTABLISHMENT AND APPLICATION OF PROJECT ACCOUNT. (a) Within the Trust Fund, there was previously established a special account designated as the CITY OF SAN ANTONIO, TEXAS MUNICIPAL FACILITIES CORPORATION ONE STOP DEVELOPMENT CENTER PROJECT ACCOUNT, referred to herein as the "**Project Account**," and within the Project Account there was established a subaccount designated as the CITY OF SAN ANTONIO, TEXAS MUNICIPAL FACILITIES CORPORATION ONE STOP DEVELOPMENT CENTER PROJECT CITY CONTRIBUTION SUBACCOUNT, herein referred to as the "**City Contribution Subaccount**." The Project Account is hereby confirmed and maintained for the purpose of paying Issuance Costs relating to the Series 2010 Bonds and the Trustee shall continue to administer the Project Account as provided in this Article, but the City Contribution Subaccount no longer is required and shall be closed by the Trustee (and all funds on deposit therein, if any, shall be returned to the City).

(b) On the Closing Date for the Series 2001 Bonds, the Trustee (i) wire transferred **\$83,000.00** of Series 2001 Bond proceeds to the Insurer for the 2001 Bonds to pay bond insurance premium, (ii) deposited to the Project Account **\$13,579,427.35** from the proceeds from the sale of the Series 2001 Bonds, and (iii) deposited to the City Contribution Subaccount **\$1,350,125.25** of funds contributed by the City.

(c) On the Closing Date for the Series 2010 Bonds, the Trustee shall (i) deposit **\$8,939,102.44** of Series 2010 Bond proceeds into the Escrow Fund established pursuant to the Escrow Agreement to refund the Refunded Bonds, and (ii) deposit of Series 2010 Bond proceeds to the Project Account **\$118,000.00** to pay Issuance Costs.

(d) Disbursements to pay or reimburse the payment of the Issuance Costs for the Series 2010 Bonds shall be made by the Trustee from the Project Account only upon receipt of a Requisition Requesting Disbursement of Issuance Costs, substantially in the form attached hereto as Exhibit C, approved and executed by a City Representative and a Corporation Representative. Upon receipt of a fully executed and approved Requisition Requesting Disbursement of Issuance Costs and the required attachments, the Trustee may rely conclusively upon such requisitions. The Trustee shall have no liability on account of any disbursement from the Project Account in accordance with such requisitions provided that it has complied with the procedure required in this subparagraphs with respect to such requisitions.

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

SECTION 4.03. ESTABLISHMENT AND APPLICATION OF PAYMENT ACCOUNT. (a) Within the Trust Fund, there was previously established, and is hereby confirmed and maintained, a special account designated as the **CITY OF SAN ANTONIO, TEXAS MUNICIPAL FACILITIES CORPORATION ONE STOP DEVELOPMENT CENTER PROJECT PAYMENT ACCOUNT** (the "**Payment Account**"). The Payment Account shall be maintained by the Trustee until either the Lease Payments and all other amounts payable under the Lease are paid in full, or the Purchase Option Price and all other amounts payable under the Lease are paid in full, pursuant to the terms of the Lease. On the Closing Date for a series of Bonds, the Trustee shall deposit to the Payment Account proceeds of such series of Bonds representing an amount equal to the accrued interest on such series of Bonds, if any. Accrued interest, Lease Payments, and, subject to Section 5.12, all other funds derived from the lease, sale, sublease, or other disposition of the Project, payment of the Purchase Option Price, and such other amounts as may be paid to the Trustee as assignee of the Corporation pursuant to the Financing Documents (except money paid by the City pursuant to the Lease for deposit to the Reserve Account or the Rebate Account) and such amounts as are transferred by the Trustee upon closing of the Project Account or the Reserve Account shall be immediately deposited, as soon as practicable, by the Trustee in the Payment Account.

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

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

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

SECTION 4.04. ESTABLISHMENT AND APPLICATION OF INSURANCE AND CONDEMNATION ACCOUNT. (a) Within the Trust Fund, there was previously established, and is hereby confirmed and maintained, an account designated as the **CITY OF SAN ANTONIO, TEXAS MUNICIPAL FACILITIES CORPORATION ONE STOP DEVELOPMENT CENTER PROJECT - INSURANCE AND CONDEMNATION ACCOUNT** (the "**Insurance and Condemnation Account**"). Money received by the Trustee as the result of the damage and/or destruction of the Project (from Net Proceeds or otherwise) or as the result of a condemnation award shall be deposited into the Insurance and Condemnation Account.

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

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

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

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

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

SECTION 4.05. ESTABLISHMENT AND APPLICATION OF RESERVE ACCOUNT. (a) Within the Trust Fund, there was previously established, and is hereby confirmed and maintained, an account designated the **CITY OF SAN ANTONIO, TEXAS MUNICIPAL FACILITIES CORPORATION ONE STOP DEVELOPMENT CENTER PROJECT RESERVE ACCOUNT** (the "*Reserve Account*").

(b) On the Closing Date for the Series 2001 Bonds, an amount equal to the Reserve Requirement was deposited by the Trustee into the Reserve Account from the proceeds of the Series 2001 Bonds. On the Closing Date for the Series 2010 Bonds, the amount on deposit in the Reserve Account is at least equal to the Reserve Requirement after giving effect to the issuance of the Series 2010 Bonds and the refunding of the Refunded Bonds; consequently, not additional funds are required to be deposited into the Reserve Account. Funds within the Reserve Account shall be disbursed by the Trustee to pay Bond Payments to the extent the amount on deposit in the Payment Account is not sufficient therefor. In the event that the amount on deposit in the Reserve Account is reduced to an amount less than the Reserve Requirement, the Trustee shall give notice to the City and the Corporation of the amount required to replenish the Reserve Account to an amount equal to the Reserve Requirement, and in accordance with its obligation under the Lease, the City shall replenish the Reserve Account from available funds to an amount equal to the Reserve Requirement within one year of receipt of such notice from the Trustee.

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

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

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

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

(ii) The obligation to reimburse the issuer of a Reserve Account Obligation for any claims or draws upon such Reserve Account Obligation in accordance with its terms, including expenses incurred in connection with such claims or draws, to the extent permitted by law, shall be made from the deposits made to the Reserve Account as provided in this Section. The Reserve Account Obligation shall provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Reserve Account Obligation to reimbursement will be subordinated to the cash replenishment of the Reserve Account to an amount equal to the difference between the full original amount available under the Reserve Account Obligation and the amount then available for further draws or claims.

(iii) In the event the revolving reinstatement feature described in the preceding paragraph is suspended or terminated, the City, in accordance with Section 6.05(b) of the Lease, shall either (i) deposit into the Reserve Account, in accordance with this Section, an amount sufficient to cause the cash or investments credited to the Reserve Account to accumulate to the Required Reserve Amount, or (ii) cause the Corporation to replace such Reserve Account Obligation with another Reserve Account Obligation meeting the requirements of (1) and (2) above, within one year of such occurrence.

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

SECTION 4.06. ESTABLISHMENT AND APPLICATION OF REDEMPTION ACCOUNT. Within the Trust Fund, there is hereby established an account designated the **CITY OF SAN ANTONIO, TEXAS MUNICIPAL FACILITIES CORPORATION DEVELOPMENT & BUSINESS CENTER PROJECT REDEMPTION ACCOUNT** (the "*Redemption Account*"). Money to be used for redemption of the Bonds shall be transferred to the Redemption Account at the times and in the amounts required by Sections 4.02, 4.03, 4.04, and 4.05. Said money shall be set aside in the Redemption Account solely for the purpose of redeeming the Bonds in advance of their maturity and shall be applied on or after (if Bonds are submitted for payment after the date fixed for redemption) the date fixed for redemption to the payment of the principal of and interest on the Bonds to be redeemed upon delivery of the Bonds being redeemed to the Trustee. If there is not sufficient money available to pay in full all Trustee's fees and expenses and interest and principal then due on the Bonds to be redeemed, the Trustee shall apply the money on deposit in the Redemption Account first, to the payment of its reasonable fees and expenses, and second, to the payment of all interest due with respect to such Bonds, pro rata in proportion to the respective aggregate amount of the total amount of interest due, if necessary, and third, to the payment of the principal of such Bonds, pro rata in proportion to the respective amount of the total amount of principal due, if necessary. Any money remaining in the Redemption Account following redemption of, and payment of all principal and interest due with respect to all Bonds, shall be transferred to the City after the payment of the fees and expenses of the Trustee as provided in Section 7.06.

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

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

(c) Interest or income received by the Trustee on the investment of money held in the Payment Account shall be retained in that account for the purpose of making Bond Payments. On July 15, 2010 and on each January 15 and July 15 thereafter, the Trustee shall give written notice to the City, of the amount of the Lease Payment next due and the amount of such investment earnings on deposit in the Payment Account which may be applied as a credit to its next Lease Payment.

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

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

* * *

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

* * *

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

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

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

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

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

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

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

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

SECTION 5.02. REMEDIES UPON EVENT OF DEFAULT. (a) Upon the occurrence of an Event of Default, the Trustee shall have the right, to the extent permitted by law, at its option and without any further demand or notice, but subject to the consent of the Insurer, to take one or any combination of the following remedial steps to the extent permitted by law (provided that the right to terminate the Lease may only occur upon the occurrence of an Event of Default described in Section 5.01(b) which is caused by the City):

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SECTION 5.10. TERMINATION OF PROCEEDINGS. In the event the Trustee shall have proceeded to enforce any right under the Financing Documents and such proceedings shall have been discontinued or abandoned for

any reason, or shall have been determined adversely to the Trustee, then the Bondholders, the Corporation, and the Trustee shall be restored to their former positions and rights under the Financing Documents, and all rights, remedies, and powers of the Trustee shall continue as if no such proceedings had been taken.

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

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

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

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

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

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

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

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

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

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

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

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

* * *

SECTION 7.02. RIGHTS AND DUTIES OF TRUSTEE. (a) By executing and delivering this Trust Agreement, the Trustee accepts the duties and obligations of the Trustee expressly provided in this Trust Agreement, but only upon the terms and conditions set forth in this Trust Agreement, and no implied covenants shall be read herein against the Trustee;

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

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

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

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

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

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

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

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

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

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

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

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

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

SECTION 7.03. REMOVAL AND RESIGNATION. A bank or trust company authorized to provide corporate trust services, and which has been approved by the Insurer, may be substituted to act as successor trustee under this Trust Agreement, after payment in full of the current Trustee's fees and expenses upon written request of the Bondholders owning a majority in aggregate principal amount of the Bonds then Outstanding. Such substitution shall not be deemed to affect the rights or obligations of the Bondholders. Upon any such substitution, the Trustee agrees to assign to such substituted Trustee its rights under this Trust Agreement and the other Financing Documents and deliver all documents and funds held in connection with this Trust Agreement to such substituted Trustee. Any such successor shall have capital and surplus exclusive of borrowed capital aggregating at least \$50,000,000 and shall be subject to examination or supervision by a federal or state banking authority. The Trustee or any successor may at any time resign by giving mailed notice to all Bondholders, the City, and the Corporation of its intention to resign and of the proposed date of resignation, which shall be a date not less than 30 calendar days after such notice is deposited in the United States mail with postage fully prepaid, unless an earlier resignation date and the appointment of a successor Trustee shall have been or is approved in writing by the Bondholders owning a majority in aggregate principal amount of the Bonds Outstanding. In the event that a successor Trustee is not appointed within 30 calendar days after such notice is deposited in the United States mail, the Bondholders owning a majority in aggregate principal amount of the Bonds Outstanding or the resigning Trustee may petition the appropriate court having jurisdiction to appoint a successor Trustee. No resignation or removal of the Trustee and appointment of a successor Trustee shall become effective until acceptance of appointment by the successor Trustee.

* * *

SECTION 8.01. AMENDMENT. (a) The Corporation and the Trustee, without the consent of the Bondholders or the Insurer, may amend this Trust Agreement, the Lease, or other instruments evidencing the existence of a lien as shall not be inconsistent with the terms and provisions hereof for any of the following purposes:

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

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

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

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

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

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

(b) Exclusive of the aforementioned types of amendment and subject to the terms and provisions contained in this Section, and not otherwise, the Corporation and the Trustee, with the consent of the Insurer and the Bondholders owning not less than a majority in aggregate principal amount of the Bonds then Outstanding, shall have the right, from time to time, anything contained in this Trust Agreement to the contrary notwithstanding, to amend the terms or provisions contained in this Trust Agreement; provided, however, that nothing in this Section shall permit or be construed as permitting: (i) without the consent of each Bondholder so affected, an extension of maturity of the principal

of or the interest on any Bond, a reduction in the principal amount of any Bond, or a reduction in the rate of interest thereon; (ii) without the consent of all of the Bondholders, a privilege or priority of any Bond over any other Bond or a reduction in the aggregate principal amount of the Bonds required for consent to such amendment; or (iii) without the consent of all of the Bondholders, creation of any prior or parity liens on the Trust Estate.

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

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

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

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

* * *

SELECTED PROVISIONS OF THE LEASE AGREEMENT

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

* * *

SECTION 4.05. LESSEE'S NEGLIGENCE; LIABILITY INSURANCE. (a) LESSEE'S NEGLIGENCE. TO THE EXTENT PERMITTED BY THE LAWS OF THE STATE, THE LESSEE ASSUMES ALL RISKS AND LIABILITIES, WHETHER OR NOT COVERED BY INSURANCE, FOR LOSS OR DAMAGES TO THE PROJECT

AND FOR INJURY TO OR DEATH OF ANY PERSON OR DAMAGES TO ANY PROPERTY, WHETHER SUCH INJURY OR DEATH BE WITH RESPECT TO AGENTS OR EMPLOYEES OF THE LESSEE OR OF THIRD PARTIES AND WHETHER SUCH PROPERTY DAMAGE BE TO THE LESSEE'S PROPERTY OR THE PROPERTY OF OTHERS, IF SUCH INJURY, DEATH, LOSS, OR DAMAGE BE PROXIMATELY CAUSED BY THE NEGLIGENT CONDUCT OF THE LESSEE, ITS OFFICERS, EMPLOYEES, AGENTS, GUESTS, AND INVITEES. TO THE EXTENT PERMITTED BY THE LAWS OF THE STATE, THE LESSEE HEREBY ASSUMES RESPONSIBILITY FOR AND AGREES TO REIMBURSE THE LESSOR, FOR ALL LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, CLAIMS, ACTIONS, COSTS, AND EXPENSES OF WHATSOEVER KIND AND NATURE, IMPOSED ON, INCURRED BY, OR ASSERTED AGAINST THE LESSOR (EXCEPT THOSE DIRECTLY RESULTING FROM THE LESSOR'S OWN NEGLIGENCE OR WILLFUL MISCONDUCT) THAT IN ANY WAY RELATE TO OR ARISE OUT OF A CLAIM, SUIT, OR PROCEEDING BASED IN WHOLE OR IN PART UPON THE CONDUCT OF THE LESSEE, ITS OFFICERS, EMPLOYEES, AGENTS, GUESTS, AND INVITEES.

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

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

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

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

SECTION 4.07. WORKER'S COMPENSATION INSURANCE. (a) Worker's Compensation Insurance. During the Term of this Lease, to the extent required by State law, Lessee shall, from Appropriated Funds, carry Worker's Compensation Insurance covering all employees on, in, near, or about the Project and, upon request, shall furnish to the Lessor and the Trustee certificates evidencing such coverage throughout the Term of this Lease.

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

SECTION 4.08. REQUIREMENTS FOR INSURANCE POLICIES. (a) General Requirements. All policies of insurance or coverage required to be obtained pursuant to Sections 4.05, 4.06, and 4.07 may be carried under a separate policy or a rider or endorsement; shall be written by an insurance company approved by a Lessor Representative, with written notice to the Trustee; shall be taken out and maintained with insurance companies organized under the laws of one of the states of the United States and qualified and licensed to write insurance or coverage in the State of the types and in the amounts required and have A.M. Best ratings of at least A-VIII. A program or plan qualifying under the Interlocal Cooperation Act, Chapter 791, Title 7, Texas Government Code, shall be deemed to meet these requirements. Additionally, all such policies or coverage shall contain a provision that the insurer shall not cancel or revise coverage thereunder without giving written notice to Lessor, Lessee and Trustee at least 30 calendar days before the cancellation or revision becomes effective. All insurance required to be obtained pursuant to Sections 4.05 and 4.06 shall name the Lessor, the Lessee, and the Trustee as the insured parties and/or joint loss payees. Certificates, in a form on which the parties can rely as evidence of binding insurance or coverage, of any such insurance or coverage shall be deposited with the Trustee with a copy to the Lessor. At least 30 days before the expiration of any such policy, the Lessee shall furnish to the Lessor and the Trustee evidence that the policy has been renewed or replaced by another policy conforming to the provisions of this Article IV, unless such insurance is no longer obtainable, in which event the Lessee shall notify the Lessor and the Trustee of this fact.

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

* * *

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

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

(b) If title to or the temporary use of the Project or any part thereof, or the interest of Lessee, Lessor, or the Trustee in the Project or any part thereof, shall be taken under the exercise of the power of eminent domain by any governmental body or by any person, firm, or corporation acting under governmental authority, the Lessee shall have the rights and obligations specified in this Section with respect to the Net Proceeds of any condemnation award. The

Lessor and Lessee shall promptly deposit the Net Proceeds of any condemnation award with the Trustee for credit to the Insurance and Condemnation Account. If the Net Proceeds of any condemnation award are sufficient to replace the Project or any portion thereof taken, the Trustee shall disburse amounts from the Insurance and Condemnation Account for such replacement in accordance with Section 4.04 of the Trust Agreement. If the Net Proceeds of any condemnation award are insufficient to replace the Project or the portion thereof taken, the Lessee may deposit into the Insurance and Condemnation Account, from available funds, the amount needed for the replacement of the Project. If the City is unable to use 50% or more of the Project for municipal purposes as a result of such eminent domain proceeding or taking, the Lessee may exercise its option to purchase the Project in accordance with Article VII hereof, and, in such event, the Net Proceeds of any condemnation award which have been deposited in the Insurance and Condemnation Account shall be applied as a credit toward the Purchase Option Price. If the Net Proceeds are insufficient to pay in full the cost of the replacement of all or any portion of the Project, and the Lessee does not within 45 days of such deposit of Net Proceeds with the Trustee, purchase the Project or deposit into the Insurance and Condemnation Account an amount which together with the Net Proceeds so deposited with the Trustee will be sufficient to replace the Project or the portion thereof taken, the amount on deposit in the Insurance and Condemnation Account will be transferred to the Redemption Account by the Trustee and applied in accordance with the Trust Agreement. Regardless of the insufficiency of the Net Proceeds for the replacement of the Project, the Lessee shall remain obligated to continue to pay the Lease Payments from Appropriated Funds.

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

* * *

ARTICLE V TERM OF LEASE

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

- (a) upon the exercise by the Lessee of its option to purchase pursuant to Article VII of this Lease, and the payment of all amounts due and owing thereunder;
- (b) at the end of the Fiscal Year in which an Event of Nonappropriation occurs;
- (c) upon the occurrence of an Event of Default and the Lessor elects to terminate this Lease pursuant to Section 10.03; or
- (d) the payment by Lessee of all Lease Payments and all other amounts required to be paid by Lessee hereunder.

* * *

SECTION 6.02. LEASE PAYMENTS. During the term of this Lease, the Lessee shall pay to the Trustee for the account of the Lessor the Lease Payments from Appropriated Funds on the Lease Payment Dates. The Lessee further agrees to pay from Appropriated Funds other amounts related to the operation and maintenance of the Project, including without limitation, utility charges, ad valorem taxes (which shall be paid prior to their delinquency, except as provided in section 4.10 hereof) which are imposed on the Project, if any, the operating and maintenance costs of the Project, and the premiums of insurance policies relating to the Project, each in the amounts and at the times as provided herein or in the Trust Agreement. The Lessee agrees to pay, from Appropriated Funds, the fees for ordinary services and expenses of the Trustee based upon the Trustee's Fee Schedule attached as Exhibit E to the Trust Agreement. The Lessee shall be entitled to a credit against such Lease Payments, at the times and in the amounts set forth in, and determined in accordance with, the Trust Agreement, if any. The Lease Payments shall be payable in immediately available funds to the Trustee at its address specified in the Trust Agreement, or to such other person or entity and at such other address

as the Trustee may designate by written notice to the Lessee, in lawful money of the United States of America no later than 10:00 a.m. Eastern Standard Time on the date Lease Payments are due. All Lease Payments received by Trustee shall be applied in the manner required by the Trust Agreement.

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

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

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

SECTION 6.05. RESERVE ACCOUNT. (a) On the Closing Date for the Series 2001 Bonds, the Trustee deposited in the Reserve Account established in Section 4.04 of the Trust Agreement from proceeds of the Series 2001 Bonds an amount equal to the Reserve Requirement. No additional amount is required to be deposited in the Reserve Account upon the issuance of the Series 2010 Bonds. The Trustee will disburse funds within the Reserve Account in accordance with the terms of the Trust Agreement.

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

* * *

ARTICLE VII OPTION TO PURCHASE UPON DAMAGE, DESTRUCTION OR CONDEMNATION OF PROJECT

SECTION 7.01. WHEN AVAILABLE. In the event of damage, destruction, or condemnation of the Project, as further described in Section 4.13 hereof, the Lessee shall have the option to purchase the Lessor's interest in the Project on the Purchase Option Date for an amount equal to the Purchase Option Price; provided, however, if the Purchase Option Price is determined in accordance with the provisions of subparagraph (b) of the definition of the term "Purchase Option Price," and such Purchase Option Price is less than the amount required to pay all outstanding principal and unpaid interest on the Bonds on the Purchase Option Date selected by the Lessee, the Lessee shall not have the option to purchase the Lessor's interest in the Project.

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

SECTION 7.03. RELEASE OF LESSOR'S INTEREST. Upon Lessor's and Trustee's receipt of Lessee's notice of intention to exercise its option to purchase, the Lessor and the Trustee shall, concurrently therewith or as soon as

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

* * *

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

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

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

* * *

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

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

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

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

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

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

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

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

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

(b) In the event that the Trustee does not receive the Certificate of Appropriation from the Lessee within the time period required in Section 10.02 hereof, the Trustee shall promptly give written notice thereof to the Lessee and the Lessor. Thereafter, if the Lessee fails to deliver the Certificate of Appropriation within ten days of its receipt of the foregoing notice from the Trustee, the Trustee shall promptly give written notice to the Bondholders of its failure to timely receive the Certificate of Appropriation. The Trustee shall also give prompt written notification to the Bondholders of its receipt of a notice from the Lessee pursuant to paragraph (a) of this Section.

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

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

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

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

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

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

* * *

**ARTICLE XI
TITLE**

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

* * *

SELECTED PROVISIONS OF THE MORTGAGE

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

GRANTING CLAUSE FIRST

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

GRANTING CLAUSE SECOND

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

all tenant contracts, rental agreements, franchise agreements, management contracts, construction contracts, and other contracts, licenses, permits, and utility capacity now or hereafter affecting the Project or any part thereof.

* * *

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

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

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

(c) Subject to compliance to the extent applicable with Texas Property Code §51.002(d) providing that the debtor be given at least 20 days to cure a default before the entire debt is due and notice of sale is given, the Indenture Trustee may, at its option, declare all of the Indebtedness at once due and payable without demand, and request the Mortgage Trustee to sell the Mortgage Trust Estate. The Mortgage Trustee of this Mortgage shall then sell, or offer for sale, the Mortgage Trust Estate at public auction to the highest bidder for cash between the hours of 10:00 a.m. and 4:00 p.m. on the first Tuesday of any month, at the courthouse of any county in the State of Texas in which any part of the Mortgage Trust Estate is situated, after having given and posted notice of the earliest time at which the sale will occur, the place and the terms of said sale in accordance

with the laws of the State of Texas then in force and governing sales of real property under powers conferred by deeds of trust. The sale shall take place at the area of the county courthouse designated by the county commissioners for such sales, or, if no area has been designated by the county commissioners, in the area designated in the notice of sale. The Mortgage Trust Estate shall be sold by filing notice of the Mortgage Trustee's sale in accordance with the laws of the State of Texas and by posting, or causing to be posted, at least 21 consecutive days prior to the date of said sale, written or printed notice thereof at the courthouse door in each of the counties in which the Mortgage Trust Estate will be sold. A copy of the notice of such sale shall also be filed in the office of the County Clerk for the county in which the Project is situated at least 21 days preceding the date of said sale. A copy of the notice of such sale shall also be given by certified mail at least 21 days before the date of the sale to each debtor who, according to the Beneficiary's records, is obligated to pay any part of the debt secured by this Mortgage. The sale must begin at the time stated in the notice of sale as the earliest time at which the sale will occur or not later than three hours after that time. In no event shall the Mortgage Trustee be required to exhibit, present, or display at any foreclosure sale of the Mortgage Trust Estate any of the Mortgage Trust Estate that may be sold at such sale. The Beneficiary shall have the right to become the purchaser at any such sale held by any Mortgage Trustee or substitute or successor Mortgage Trustee, or by any receiver or public officer. Any Beneficiary purchasing at any such sale shall have the right to credit the secured Indebtedness owing to such Beneficiary upon the amount of its bid entered at such sale to the extent necessary to satisfy such bid, except as otherwise provided herein; or if such Beneficiary holds less than all of such Indebtedness, to prorate part thereof owing to such the Beneficiary, accounting in cash to all other Beneficiaries not joining in such bid for the portion of such bid or bids apportionable to such non-bidding the Beneficiary or Beneficiaries. The Issuer authorizes and empowers the Mortgage Trustee to sell the Mortgage Trust Estate, in lots or parcels or as a whole, and to execute and deliver to the purchaser or purchasers thereof good and sufficient deeds of conveyance thereto of the estate of title then existing on the Mortgage Trust Estate with covenant of general warranty. The Issuer agrees to accept proceeds of said sale, if any, which are payable to the Issuer as provided herein. Proceeds of sale of the Mortgage Trust Estate shall be applied in the following order:

- (i) to the payment of all necessary costs and expenses incident to the execution of said trust, including reasonable fees and expenses to the Mortgage Trustee and Indenture Trustee;
- (ii) to the payment of the principal, costs, and interest legally due and secured hereby, in such order and priority as set forth in Section 5.12 of the Trust Agreement;
- (iii) to the payment of any other indebtedness hereby secured; and
- (iv) the remainder, if any, to be paid to the Issuer or such other persons or entities entitled thereto by law.

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

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

(d) If an Event of Default occurs, the Beneficiary at its option may proceed with foreclosure in satisfaction of only that portion or installment of Indebtedness secured hereby as to which a default has occurred, either through the courts or by directing the Mortgage Trustee to proceed as if under a full foreclosure, conducting sale as hereinbefore provided, but without declaring the entire Indebtedness due, and provided that if said sale is made because of such default, such sale may be made subject to the unmaturing part

of such Indebtedness; such sale, if made, shall not in any manner affect the unmatured part of the Indebtedness secured by this Mortgage, but as to such unmatured part, this Mortgage shall remain in full force as though no sale had been made. Several sales may be made without exhausting the right of sale with respect to any unmatured part of said Indebtedness. The Beneficiary shall also have the right to sell the Mortgage Trust Estate for any other part of said Indebtedness, whether matured at the time or subsequently maturing, it being the purpose and intent hereof to provide for a foreclosure and the sale of the Mortgage Trust Estate for any matured portion of said Indebtedness without exhausting the power of foreclosure.

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

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

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

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

(i) In the event any foreclosure hereunder shall be commenced by the Mortgage Trustee or his substitute or successor, the Beneficiary may, at any time before the sale of the Mortgage Trust Estate, direct the said Mortgage Trustee to abandon the sale, and may then institute suit for the collection of the amounts due

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

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

* * *

SECTION 3.03. APPLICATION OF PROCEEDS. The Mortgage Trustee shall pay, distribute, and apply the proceeds of any disposition of the Mortgage Trust Estate to the Indenture Trustee for deposit and use as provided in the Trust Agreement. Said disposition shall forever be a bar against the Issuer, its legal representatives, successors and assigns, and all other persons claiming under any of them. It is expressly agreed that the recitals in each conveyance to the purchaser shall be full evidence of the truth of the matters therein stated, and all lawful prerequisites to said disposition shall be conclusively presumed to have been performed.

* * *

SELECTED PROVISIONS OF THE SECURITY AGREEMENT

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

(a) all machinery, equipment, or other property at any time installed or located on the real property described in Exhibit A hereto (exclusive of any such machinery, equipment or other property installed or located on such property by the City in accordance with the provisions of Section 4.15 of the Lease), and substitutions or replacements therefor, or which under the terms of the Trust Agreement is to become the property of the Issuer or is to be subjected to the lien of this Security Agreement, and, without limiting the foregoing, all of the property of the Issuer at any time installed or located on the real property described in Exhibit A attached hereto together with all machinery, apparatus, equipment, fittings, fixtures, whether actually or constructively attached to said property and including all trade, domestic, and ornamental fixtures and articles of personal property of every kind and nature whatsoever now or hereafter located in, upon, or under said property or any part thereof and used or usable in connection with any present or future operations of said property, including, without limiting the generality of the foregoing, all heating, air-conditioning, freezing, lighting, laundry, incinerating, and power equipment, gas and electric fixtures, engines, machinery, pipes, pumps, tanks, motors, conduits, switchboards, plumbing, lifting, cleaning, fire prevention, fire extinguishing, refrigerating, ventilating, and communications apparatus, safety equipment, boilers, ranges, furnaces, oil burners, or units thereof, appliances, air-cooling and air-conditioning apparatus, washers, dryers, water heaters, mirrors, mantels, vacuum cleaning systems, elevators, escalators, shades, awnings, screens, storm doors, and windows, stoves, wall beds, refrigerating plants, refrigerators, attached cabinets, partitions, ducts, and compressors, rugs and carpets and other floor coverings, draperies, furniture and furnishings, together with all building materials and equipment now or hereafter delivered to the property and intended to be installed therein, including but not limited to, lumber, plaster, cement, shingles, roofing, plumbing, fixtures, pipe, lath, wallboard, cabinets, nails, sinks, toilets, furnaces, heaters, brick, tile, water heaters, screens, window frames, glass, doors, flooring, paint, lighting fixtures and unattached refrigerating, and cooking, heating, and ventilating appliances and equipment, together with all additions and accessions thereto and replacements thereof (any and all such property described in this paragraph (a) being referred to herein as the "Equipment");

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

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

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

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

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

* * *

APPENDIX B

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

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APPENDIX B

CITY OF SAN ANTONIO GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

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

Population and Location

The Census 2000, prepared by the United States Census Bureau (“U.S. Census Bureau”), found a City population of 1,144,646. The City’s Department of Planning and Community Development estimated the City’s population to be 1,383,072 at December 31, 2009. The U.S. Census Bureau ranks the City as the second largest in the State of Texas and the seventh largest in the United States.

The City is the county seat of Bexar County, which had a population of 1,392,931 according to the Census 2000. The City’s Department of Planning and Development Services estimated Bexar County’s population to be 1,676,847 at December 31, 2009. The City is located in south central Texas approximately 75 miles south of the state capital in Austin, 140 miles northwest of the Gulf of Mexico, and approximately 150 miles from the United States (“U.S.”) / Mexico border cities of Del Rio, Eagle Pass, and Laredo.

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

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

¹ As of June 2003, the U.S. Office of Management and Budget redefined the MSA by increasing the number of counties from four to eight: Atascosa, Bandera, Kendall, and Medina Counties were added to its mainstays of Bexar, Comal, Guadalupe, and Wilson Counties. (The 2000 figure reflects the new 2003 redefined eight-county area.)

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

Area and Topography

The area of the City has increased through numerous annexations and now contains approximately 467 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 467 square miles (both full purpose and limited purpose annexations), and having a tax year 2009 total taxable value of \$73.2 billion. The City expects to continue to utilize the practice of annexation as a growth and development management tool, as well as an opportunity to enhance the City’s fiscal position.

Previous statistics have shown the City limits, through annexation, to be as high as 516 square miles. This included areas fully annexed into the City, as well as areas under "Limited Purpose Annexation." Between 2003 and 2005, approximately 70 square miles were taken into Limited Purpose Annexation. In 2007 and 2008, approximately 49 square miles were released from Limited Purpose Annexation, and the remaining 21 square miles annexed for full purposes. City regulations are extended, but City taxes are not assessed or collected within areas under Limited Purpose Annexation.

Three-Year Annexation Plan Process

By City Charter, City Council has the power to annex territory by passage of an ordinance. As of January 1999, state law mandates that municipalities prepare an annexation plan specifically identifying annexations that may occur beginning on the third anniversary of the date such plan was adopted. The City is required to maintain the annexation plan on the City's web site and notify property owners and public entities.

As of February 2008, the City has been engaged in a growth management study to estimate and analyze population growth, locate high growth areas, and identify areas adjacent to the City and within our extraterritorial jurisdiction that would be best served through annexation. These areas will be placed in a new City three-year annexation plan. At the present time, the City does not have a three-year annexation plan in place, but plans to draft a plan in FY 2010.

Governmental Structure

The City is a Home Rule Municipality that operates pursuant to the Charter of the City of San Antonio (the "City Charter"), which was adopted on October 2, 1951 and became effective on January 1, 1952. The City Charter provides for a council-manager form of government, whereby subject only to the limitations imposed by the Texas Constitution and the City Charter, all powers of the City are vested in an elective Council (the "City Council") which enacts legislation, adopts budgets, and determines policies. The City Council is comprised of 11 members, with ten members elected from single-member districts, and the Mayor elected at-large. Each member of the City Council serves two-year terms, and each member is limited to a maximum of four full terms. The office of Mayor is considered a separate office. The terms of all members of the City Council currently sitting in office expire on May 31, 2011. The City Council also appoints a City Manager who executes the laws and administers the government of the City, and serves as the City's chief administrative officer. The City Manager serves at the pleasure of City Council.

City Charter

The City may only hold an election to amend its City Charter every two years. Since its adoption, the City Charter has been amended on seven separate occasions: November 1974, January 1977, May 1991, May 1997, November 2001, May 2004, and November 2008. Significant amendments to the City Charter include the amendment passed in May 1991, which limited the service by the Mayor and the City Council members to two full terms, each of which is two years in duration. Two separate City Charter review committees sitting in the early and mid-1990's charged with conducting a comprehensive review of the City Charter, resulted in the passage of five propositions, each containing numerous amendments to the City Charter in May 1997.

The amendments to the City Charter that were adopted in 2001 included, among others, provisions creating the position of an independent City Internal Auditor and granting the City Manager the power to appoint and remove the City Attorney upon the City Council's confirmation.

At the May 2004 City Charter election, voters considered four propositions seeking to amend the City Charter as follows: Proposition 1 was to amend the provisions of the City Charter applicable to the term of office and term limits of members of the City Council; Proposition 2 was to amend the provisions of the City Charter applicable to compensation for members of the City Council and the Mayor; Proposition 3 was to amend the City Charter by establishing an independent Ethics Review Board; and Proposition 4 was to amend the City Charter to permit an individual member of the City Council to hire staff who serve at the will of the Councilmember. Of these four propositions, only Proposition 3 establishing an independent Ethics Review Board was approved by the voters.

City Council held a Special Election on November 4, 2008, on the question of whether the City should amend the City Charter by revising the terms of office for the Mayor or a member of the City Council to four full two-year terms of office, from two full two-year terms, but prohibit the current or former mayor or current or former member of the City Council from being elected to more than two full two-year terms. The proposition was passed by a majority of the qualified voters, and took effect December 1, 2008.

Services

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

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

Electric and gas services to the San Antonio area are provided by CPS Energy (“CPS”), an electric and gas utility owned by the City that maintains and operates certain utilities infrastructure. This infrastructure includes an 18 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, 2009 unaudited were \$265,459,226. (See “SAN ANTONIO ELECTRIC AND GAS SYSTEMS” herein.)

Water services are provided by the San Antonio Water System (“SAWS”), San Antonio’s municipally-owned water supply, water delivery, and wastewater treatment utility. SAWS is in its 18th year of operation as a separate, consolidated entity. SAWS operating and debt service requirements for capital improvements are paid from revenues received from charges to its customers. SAWS is obligated to transfer a portion of its revenues to the City. SAWS revenue transfers to the City for the City’s fiscal year ending September 30, 2009 unaudited were \$10,146,195. (See “SAN ANTONIO WATER SYSTEM” herein.)

Economic Factors

The City supports a favorable business environment and economic diversification which is represented by various industries, including domestic and international trade, convention and tourism, medicine and health care, government employment, manufacturing, information security, financial services, telecommunications, telemarketing, insurance, and oil and gas refining. Support for these economic activities is demonstrated by the City’s commitment to its ongoing infrastructure improvements and development, and its dedicated work force. Total employment in the San Antonio MSA for December 2009 was 904,700, which is 6,500 or 0.72% more jobs than that of the December 2008 total of 898,200. Education and health services, trade, transportation, and utilities, and professional and business services represent the largest employment “super” sectors in the San Antonio MSA. Healthcare, retail trade, leisure and hospitality, and education represent the largest industries in San Antonio.

Finance Industry

According to a study conducted by the Finance San Antonio Ad Hoc Committee, the finance industry is San Antonio’s largest economic generator with an annual economic impact of \$20.5 billion in 2004. The industry employs 50,469 people to whom it pays an average annual wage of \$52,612. Total wages paid in the industry amounted to \$2.66 billion in 2004. As a percent of total employment, the finance industry in San Antonio is the largest of any major metropolitan area in Texas. Compared to the growth in wages and employment in San Antonio overall, the finance industry experienced higher levels of average annual growth in these areas since 2001. Average annual growth in total wages paid by the finance industry for years 2001 through 2004 was 4.5%, compared to 4%

for all industries. Average annual growth in employment in the finance industry over this same time period was 2.18%, compared to 0.36% for all other industries.

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

On October 29, 2009, Nationwide selected San Antonio for consolidation and expansion involving two project phases. Over the past several months, San Antonio has competed with several other communities across the U.S. for a potential consolidation and expansion of Nationwide operations. The City, in partnership with the State and Bexar County, offered a competitive package of business incentives to retain the existing 932 jobs and compete for 838 new jobs. On October 29, 2009, Nationwide announced they had selected San Antonio over Raleigh, NC, Little Rock, AR and Tulsa OK for its consolidation and expansion.

The second largest sector in this industry is banking. Like insurance, San Antonio is also the home of many banking headquarters and regional operation centers such as Frost Bank, Broadway Bank, and USAA Bank. Companies with large regional operations centers in San Antonio include Wells Fargo, JPMorgan Chase, and Citigroup.

On February 9, 2010, Allstate Insurance Corporation (“Allstate”) announced its intent to locate a customer operations center and create 598 new full-time jobs in San Antonio. The core function of the customer operations center will support direct sales through calls to 1-800-ALLSTATE and sell additional insurance products to existing clients. Allstate is the nation’s largest publicly held personal lines insurer. Allstate employs an estimated 70,000 agents and support staff nationwide. The company was founded in 1931 as part of Sears Roebuck and Co. In 2009, the company ranked number 81 on the list of Fortune 500 Companies with annual revenues exceeding \$29 billion. Allstate’s main lines of insurance include automobiles, property, life, and retirement and investment products. Allstate has two other sales support centers located in Northbrook, Illinois (its headquarters) and Charlotte, North Carolina. Allstate intends to begin operations in San Antonio by May 2010.

Healthcare and Bioscience Industry

The healthcare and bioscience industry remains one of the largest industries in the San Antonio economy. The industry is diversified, with related industries such as research, pharmaceuticals, and manufacturing contributing approximately the same economic impact as health services. According to the *San Antonio’s Health Care and Bioscience Industry: Economic Impact Study* commissioned by the Greater San Antonio Chamber of Commerce, the total economic impact from this industry sector totaled approximately \$16.3 billion in 2007. The industry provided 116,417 jobs, or approximately 14.2% of the City’s total employment. The healthcare and bioscience industry’s annual payroll in 2007 approached \$4.8 billion. The 2007 average annual wage of San Antonio workers was \$38,251, compared to \$40,784 for healthcare and bioscience employees. These 2007 economic impact figures represent growth of 6.5% over the previous year, or approximately \$1 billion.

Health Care. The 900-acre South Texas Medical Center (the “Medical Center”) has ten major hospitals and nearly 80 clinics, professional buildings, and health agencies with combined budgets of over \$3.34 billion as of January 2009. Approximately 27,884 Medical Center employees provided care for over 4.88 million outpatients and over 103,605 inpatients. Physical plant values, not adjusted for inflation, representing the original investments in physical facilities and equipment (less depreciation) represent approximately \$2.274 billion. The Medical Center has about 300 acres of undeveloped land still available for expansion. Capital projects planned for the years 2009 through 2013 total approximately \$1.238 billion.

Central to the Medical Center is The University of Texas Health Science Center at San Antonio (the “UTHSC”) with its five professional schools awarding more than 63 degrees and certificates, including Doctor of Medicine, Doctor of Dental Surgery, and Doctor of Philosophy in nursing, allied sciences, and other fields. The UTHSC has over two million square feet of education, research, treatment, and administrative facilities with a faculty and staff of approximately 5,000. The UTHSC oversees the federally-funded Regional Academic Health

Center in the Rio Grande Valley with facilities in Harlingen, McAllen, Brownsville, and Edinburg. Another UTHSC South Texas campus is located in Laredo.

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

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

The Texas Research Park (the "Park") is the site for the University of Texas Institute of Biotechnology/Department of Molecular Medicine, the Cancer Therapy and Research Center ("CTRC"), and CTRC's Institute for Drug Development, The Southwest Oncology Group, and dozens of new biotechnology-related companies, whose work involves various stages of the very complicated drug development process. The Park has over \$140 million invested in its facilities. The Park is owned and operated by the Texas Research and Technology Foundation, whose mission includes building a world-class center for life-science research and medical education and promoting economic development through job creation.

The Southwest Foundation for Biomedical Research (the "Foundation"), which conducts fundamental and applied research in the medical sciences, is one of the largest independent, non-profit, biomedical research institutions in the U.S. and is internationally renowned. The Foundation has a full time staff of 85 doctoral level employees, a technical staff of 125, and an administrative and supporting staff of approximately 200 persons. Research departments include Departments of Genetics, Physiology and Medicine, Virology and Immunology, and Organic and Biological Chemistry. The Department of Laboratory Animal Medicine maintains the animal care facilities. The Foundation is also home to one of the few BSL-4 labs in the country, and its Genomics Computing is the world's largest computer cluster devoted to statistical genetic analysis.

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

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

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

In 2009, Medtronic, Inc. opened its new Diabetes Therapy Management and Education Center in San Antonio. Medtronic, located at the Overlook at the Rim, expects to hire 1,400 employees within its first five years. Based on analyses made by the San Antonio Economic Development Foundation, when fully staffed, the new operation is expected to generate more than \$750 million in economic benefit for San Antonio and Texas each year.

Military Health Care. San Antonio currently has two major military hospitals, each of which has positively impacted the City for decades. Brooke Army Medical Center ("BAMC") conducts treatment and research in a 1.5 million square foot facility at Fort Sam Houston Army Base, providing health care to nearly 640,000 military personnel and their families annually. BAMC is a Level I trauma center (the only one in the 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 I trauma center (the only one in the U.S. Air Force medical care system) that handles emergency medical care for approximately one-fourth of the City’s emergency patients. Wilford Hall provides medical education for the majority of its physician and dental specialists and other health professionals, conducts clinical investigations, and offers bone marrow and organ transplantation.

The San Antonio Military Medical Center (“SAMMC”) will be established as a result of the 2005 Base Realignment and Closure (“BRAC 2005”) and will combine Level 1 Trauma elements of Wilford Hall and BAMC. Wilford Hall will be renamed SAMMC-South and BAMC was renamed SAMMC-North. SAMMC-North will double its Level I trauma facility and will incorporate the Level I trauma missions from SAMMC-South. SAMMC-South will become an outpatient facility and will receive outpatient missions from SAMMC-North.

BRAC 2005 actions will have a major positive impact on military medicine in San Antonio resulting in \$3.1 billion in construction and the net gain of over 12,500 personnel in San Antonio by 2011. Currently, all U.S. Army combat medic training is conducted at Fort Sam Houston Army Base. As a result of BRAC 2005, all military combat medic training, Army, Air Force, Navy, Marines, and Coast Guard will be undertaken at the new Medical Education and Training Campus at Fort Sam Houston Army Base.

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

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

Hospitality Industry

The City’s diversified economy includes a significant sector relating to the hospitality industry. A study by the Greater San Antonio Chamber of Commerce found that in 2008 the hospitality industry had an economic impact of nearly \$11.0 billion. The estimated annual payroll for the industry in 2008 was \$1.99 billion, and the industry employed an estimated 106,311.

In 2009, the City’s overall performance for hotel occupancy decreased by 11.5%. However, this is considering room supply increased by 6.0%. Total room nights sold in the destination decreased by 6.2%. The average daily room rate decreased 10.6%, revenue per available room decreased 20.9%, and overall revenue decreased 16.2%.

Tourism. The list of attractions in the San Antonio area includes, among many others, the Alamo (and other sites of historic significance), the River Walk, and two major theme parks (SeaWorld San Antonio and Six Flags Fiesta Texas). D.K. Shifflet & Associates, Ltd. reported San Antonio attracted 25 million visitors in 2008. Of these, 11 million were overnight leisure visitors, placing San Antonio as one of the top U.S. destinations in Texas. Recent initiatives contributing to this success are the City’s new brand image, the upcoming JW Marriot San Antonio Hill Country Resort and Spa, the River Walk Expansion Project (Museum Reach expansion completed in May 2009; Mission Ranch to be completed in 2013), and new events like the Rock ‘n’ Roll Marathon, held in November 2009.

Conventions. San Antonio is one of the top convention cities in the country, and the opening of the 1,003-room Grand Hyatt Hotel along with the upcoming 1,002-room JW Marriot will allow the City to host more and larger conventions and meetings in the years to come. The City continues to be 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 and Visitors Bureau for the calendar years indicated:

Calendar	Hotel	Revenue per Available Room	Room	Convention	Convention	Convention Delegate Expenditures (\$ Millions) ^{2,3}
<u>Year</u>	<u>Occupancy</u> ¹	<u>(RevPAR)</u> ¹	<u>Nights Sold</u> ¹	<u>Attendance</u> ²	<u>Room Nights</u> ²	
2000	64.7%	55.34	6,549,812	389,448	696,215	350.8
2001	62.7%	54.10	6,486,944	419,970	712,189	378.3
2002	64.0%	56.26	6,741,011	483,452	693,921	435.5
2003	63.8%	53.98	6,903,131	429,539	613,747	387.0
2004	64.4%	55.80	7,022,152	491,287	621,640	510.5
2005	68.9%	63.02	7,569,655	503,601	699,932	523.3
2006	69.1%	69.14	7,699,411	467,426	736,659	485.8
2007	66.3%	69.67	7,635,949	455,256	647,386	473.1
2008	64.9%	70.93	7,756,481	563,164	691,525	607.5
2009	57.4%	56.08	7,249,737	399,408	660,736	474.5

¹ Data obtained from Smith Travel Research based on hotels in the San Antonio selected zip code reports dated March 2007, February 2009, and January 2010.

² Reflects only those conventions booked by the San Antonio Convention and Visitors Bureau.

³ Beginning in 1998, the estimated dollar value is calculated in accordance with the 1998 DMAI Foundation Convention Income Survey Report conducted by Deloitte & Touche LLP, which reflected the average expenditure of \$900.89 per convention and trade show delegate. January 2004 – September 2008 are based on an average expenditure of \$1,039.20 per convention and trade show delegate, and October 2008 – December 2009 are based on an average expenditure of \$1,188.05 per convention and trade show delegate.

Source: San Antonio Convention and Visitors Bureau.

Military Industry

The military represents a significant component of the City’s economy providing an annual economic impact for the City of over \$13 billion. Three major military installations are currently located in Bexar County, including Lackland Air Force Base (“Lackland AFB”), Fort Sam Houston Army Base (“Fort Sam”), and Randolph Air Force Base (“Randolph AFB”). In addition, the property of Brooks Air Force Base (“Brooks AFB”), a fourth major military installation, was transferred from the U.S. Air Force to the City-created Brooks Development Authority (“BDA”) in 2002, as part of the Brooks City-Base Project (“Brooks City-Base”). Furthermore, the military is still leasing over two million square feet of space at Port San Antonio, which is the former Kelly Air Force Base that was closed in 2001.

One of the most significant events in San Antonio’s recent economic history is the 2005 Base Realignment and Closure. BRAC 2005’s realignment of medical facilities resulted in a major positive impact on military medicine in San Antonio, with \$3.1 billion in construction and the addition of 12,500 jobs in San Antonio by 2011. This is up from the \$1.6 billion in construction and 11,500 personnel projected in 2007. Currently, all U.S. Army combat medic training is conducted at Fort Sam Houston.

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

With a stable tenant base of over 70 companies and today seven remaining Air Force agencies, the Port has over 8,500 workers which generate a payroll of over \$520 million a year. Two new announcements at the Port include the Boeing Company's decision to bring a portion of their 787 Dreamliner workload to the Port for follow-on refurbishment and testing following manufacturing. This new investment will potentially create another 400 aerospace jobs in FY 2010.

A decision in 2008 by the BRAC 2005 will consolidate 2,900 personnel at the Port. Additionally, the Air Force is investing \$60 million in the remodeling of the 450,000 square foot building they are preparing to occupy. Another announcement in 2009 was the expansion of Affiliated Computer Services, a Fortune 500 Company, which is adding an additional 300 employees.

Other major commercial employers at the Port include Boeing, Lockheed Martin, General Dynamics, Standard Aero, Pratt & Whitney, Chromalloy, Gore Design Completions, and EG&G. By the end of 2010, the tenant employee base will have grown to over 12,000 as a result of these expansions.

In February 2009, the Port opened an on-site U.S. Customs and Homeland Security facility to enable international air cargo to develop at Kelly Field Industrial Airport. Mexpress International, Inc. now provides air cargo service between Mexico and San Antonio on a three times per week basis.

In September 2009, Boeing Global Services and Support, San Antonio, Texas was awarded a \$150 million contract for programmed depot maintenance, unprogrammed depot level maintenance, and modifications installations on C/KC-135 series aircraft resulting in the retention of approximately 300-400 aerospace jobs at the Port.

With over 11 million square feet of industrial/commercial space, the Port is the largest commercial property leasing firm in San Antonio. In April 2007, the East Kelly Railport opened with a 360,000 square foot speculative building offered by a private developer that today is 100% occupied. Already proving to be a busy passageway, the East Kelly Railport saw a 30% increase in rail activity from 2007 to 2008 with revenues exceeding \$149,600 during the same period. The developer, Santa Barbara Development, has recently completed construction on a second 265,000 square foot speculative building.

Brooks City-Base. Brooks City-Base continues to draw private business investment. However, the military missions will be relocated over the next three to five years as a result of the BRAC 2005 recommendations. Of the 10 major missions currently located at Brooks City-Base, five will be relocated to either Fort Sam Houston or Lackland AFB accounting for approximately 800 personnel. While many of the military missions are being relocated from Brooks City-Base, private development is increasing. In addition, Brooks City-Base is continuing its goal of sustainability by creating a Tax Increment Reinvestment Zone ("TIRZ"). The TIRZ has been established and the City is planning to utilize the tax increments generated to assist in the New Braunfels Street Infrastructure Project Phases I through V.

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

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

In July 2008, Vanguard Health Systems, Inc. and its affiliate Baptist Health System purchased 28 acres at Brooks City-Base and have an option for an additional 20 acres under contract. Crews began site work on January 18, 2010 for the new Mission Trail Baptist Hospital at Brooks City-Base. This new hospital will replace the current Southeast Baptist Hospital. The new hospital will be completed in June 2011 and will have 81 beds but could be expanded up to 300 beds. Initially, the new hospital will employ 300 staff but will expand to 800 staff. This represents a significant economic investment in the community. Ultimately, the hospital will be part of a medical campus with one medical office building being constructed concurrently with the hospital and six additional buildings constructed under a phased timeline. Crews began site work on January 18, 2010 for the new Mission Trail Baptist Hospital at Brooks City-Base.

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

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

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

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

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

Fort Sam and Lackland AFB. Fort Sam is engaged in military-community partnership initiatives to help reduce infrastructure costs and pursue asset management opportunities using military facilities. In April 2000, the U.S. Army (the “Army”) entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. (“FSHRP”), for the redevelopment of the former Brooke Army Medical Center and two other buildings at Fort Sam. These three buildings, totaling about 500,000 square feet in space and located in a designated historic district, had been vacant for several years and were in a deteriorating condition. On June 21, 2001, FSHRP signed a 50-year lease with the Army to redevelop and lease these three properties to commercial tenants.

In September 2003, the Army relocated Army South Headquarters from Puerto Rico to Fort Sam, bringing approximately 500 new jobs to San Antonio with an annual economic impact of approximately \$200 million. The Army negotiated a lease with the FSHRP to locate U.S. Army South and the Southwest Region Installation Management Agency in the newly renovated historic facilities in the summer of 2004. The continued success of this unique public-private partnership at Fort Sam is critical to assisting the Army in reducing infrastructure support costs, preserving historical assets, promoting economic development opportunities, and generating net cash flow for both the Army and FSHRP.

Fort Sam is the recipient of major mission moves resulting from the BRAC 2005 and will bring to Fort Sam and the community:

- An internationally renowned teaching and research hospital;
- The largest school for training medical technicians in the world, 10,000 students at any one time and some 47,000 graduates per year;
- Management and Command Centers for Fifth Army, Sixth Army, Military Property Management and Military Health Care; and
- Jobs in six targeted industries, health care and health care education, communications, technology, intelligence, and security.

The potential economic impact from Fort Sam due to the BRAC 2005 expansion is tremendous and projected at nearly \$8.3 billion. The economic impact due to the enormous amount of construction taking place on post to accommodate the new missions accounts for approximately 80% of the impact (\$6.7 billion). While the construction impact will be relatively short-lived, once BRAC 2005 is completed the economic impact from Fort Sam will increase by nearly \$1.6 billion annually with additional annual sales tax revenue of \$4.9 million. After BRAC 2005 is completed, the increase in personnel and missions at Fort Sam could support the employment of over 15,000 in the community.

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.

San Antonio recently received funding for two large projects that serve all of the military branches. On September 11, 2007, it was announced that the Veterans Administration will build a new \$67 million Level I Polytrauma Center at the Audie L. Murphy Veterans Administration hospital campus. The expansion will begin in early 2009 and is estimated to be completed in April 2011. These hospitals are designed to be the most advanced in the world and are capable of providing state-of-the-art medical care to veterans with multiple serious injuries. San Antonio is also home to the National Trauma Institute (“NTI”), a collaborative military-civilian trauma institute involving SAMMC-North, SAMMC-South, University Hospital, the UTHSC, and the U.S. Army Institute of Surgical Research. The NTI coordinates resources from the institutions to most effectively treat the trauma victims and their families. The NTI received \$3.8 million in grants in FY 2008.

Congressional legislation for FY 2009 has been passed by the U.S. House of Representatives and by the U.S. Senate and provides \$610 million for Fort Sam.

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

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

In June 2009, the City established the Fort Sam Houston Community Development Office. The mission of this office is to work with the community and the military to revitalize the neighborhoods around Fort Sam Houston. The office will undertake initiatives in economic development, housing, public safety and transportation.

Other Major Industries

Aerospace. The aerospace industry’s annual economic impact to the City is about \$3.8 billion. This industry provides approximately 9,438 jobs, with employees earning total annual wages of over \$479 million. The aerospace industry continues to expand as the City leverages its key aerospace assets, which include San Antonio International Airport, Stinson Municipal Airport, Port San Antonio, Randolph AFB, Lackland AFB, and training institutions. Many of the major aerospace industry participants have significant operations in San Antonio such as Boeing, Lockheed Martin, General Electric, Pratt & Whitney, Raytheon, Cessna, San Antonio Aerospace – a division of Singapore Technologies, Southwest Airlines, American Airlines, Delta Airlines, Continental Airlines, FedEx, UPS, and others. The industry in San Antonio is diversified with continued growth in air passenger service, air cargo, maintenance, repair, overhaul, and general aviation.

San Antonio Aerospace LP (“SAA”) is a subsidiary of ST Aerospace, a global company headquartered in Singapore with over 7,000 employees worldwide, providing aircraft maintenance support services for commercial

and military aircraft. SAA currently leases 2,106,107 sq. ft. of ground space/hanger space at the San Antonio International Airport, in District 9 and specializes in commercial MRO work on large aircraft, including Northwest Airlines, Delta, and United Parcel Service.

SAA began operations in April 2002, after acquiring Dee Howard aircraft maintenance facilities through the bankruptcy court. They assumed a tax abatement agreement for an \$11.5 million investment and the creation of 500 jobs, which they have met. SAA decided to expand its MRO operations by investing \$16 million to construct an 80,000 sq. ft. maintenance hangar, an adjacent 61,500 sq. ft. warehouse and a 21,000 sq. ft. office building at the Airport. SAA will retain 570 existing jobs and is expected to hire 100 new employees.

Applied Research and Development. The Southwest Research Institute is one of the original and largest independent, nonprofit, applied engineering and physical sciences research and development organizations in the U.S., serving industries and governments around the world in the engineering and physical sciences field. Southwest Research Institute has contracts with the Federal Aviation Administration, General Electric, Pratt & Whitney, and other organizations to conduct research on many aspects of aviation, including testing synthetic jet fuel, developing software to assist with jet engine design, and testing turbine safety and materials stability. Southwest Research Institute occupies 1,200 acres and provides nearly two million square feet of laboratories, test facilities, workshops, and offices for more than 3,100 scientists, engineers, and support personnel.

Telecommunications Industry. AT&T, with 310,070 employees worldwide as of August 2008, had approximately 5,300 employees in San Antonio and is home to the company's Telecom Operations Group. In August 2009, AT&T announced that it will be opening a technical support center in San Antonio by next year for their U-verse service. The support center is estimated to create 200 jobs in San Antonio. AT&T's U-verse, a broadband, voice and digital cable services, was debuted here in San Antonio in 2006. Currently, AT&T serves over 16.3 wireless and wired broadband connections, including AT&T U-verse service. The City is partnering with Alamo Colleges to establish a customized training program to develop a pipeline of skilled workers to fill the new AT&T jobs.

Information Technology. A study conducted in 2008, indicates that the Information Technology ("IT") industry in San Antonio registered an overall economic impact of approximately \$8 billion and employs about 15,648 people with a total annual payroll of approximately \$882 million. These numbers only include the impact of IT-specific companies. There are also a substantial number of people employed in IT jobs in non-IT companies. For example, the study also found that there are approximately 4,800 IT workers employed in the 20 largest non-IT companies in San Antonio. The IT industry is particularly strong in the areas of information security and government contracting. The Center for Infrastructure Assurance and Security at UTSA is one of the leading research and education institutions in the area of information security in the country. In 2005, the U.S. National Security Agency re-designated the UTSA as a National Center of Excellence in Information Assurance for three academic years. Our Lady of the Lake University also received this designation over the past year. San Antonio is also home to the Air Intelligence Agency, which is the premier IT agency for the U.S. Air Force and the U.S. Department of Defense.

Manufacturing Industry. The manufacturing industry in San Antonio employed 52,786 people in 2006, according to an economic impact study. Workers earned an average annual wage of \$41,496, and the industry registered an economic impact of \$14.4 billion.

Toyota Motor Corp., one of the largest manufacturing employers in San Antonio with an estimated workforce of 1,850, announced that it will be expanding local production to include the Tacoma truck. Toyota is shifting its Tacoma manufacturing from Fremont, California to San Antonio and is expected to create an additional 1,100 new jobs. Toyota and its 18 on-site suppliers are located at the San Antonio's south side. Toyota also expects the suppliers to add about 1,000 jobs over the next two to three years, bringing the total number of jobs supporting Toyota's operations to approximately 5,500.

As a result of the recalls, the Toyota plant in San Antonio is suspending production of the Tundra for one week in March (the 15th) and one week in April (the 12th) to help bring inventory in line with demand. However, Toyota is not laying off any new employees and is continuing to ramp up employment to begin the Tacoma production.

Creative Industry. The creative industry in San Antonio had a \$3.38 billion economic impact, employed 26,744 people, and paid annual wages of over \$1 billion in 2006. Recognizing the overall impact of this industry, *The Cultural Collaborative: A Plan for San Antonio's Creative Economy*, was created and a strategic plan was developed to provide focus and initiative for the future of this industry. Seventy-eight percent of these strategies have either been fully implemented or are in the process of being implemented.

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

Growth Indices

San Antonio Electric and Gas Customers

For the Month of December	<u>Electric Customers</u>	<u>Gas Customers</u>
2000	575,461	305,181
2001	589,426	305,702
2002	594,945	306,503
2003	602,185	306,591
2004	617,261	308,681
2005	638,344	310,699
2006	662,029	314,409
2007	681,312	319,122
2008	693,815	320,407
2009	706,235	321,984

Source: CPS.

San Antonio Water System Average Customers per Fiscal Year

Fiscal Year <u>Ended May 31</u> ^{1,2}	<u>Water Customers</u> ³
2000	285,887
2001	293,299
2002	298,215
2003	303,917
2004	311,556
2005	320,661
2006	331,476
2007	341,220
2008	346,864
2009	350,860

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

² Beginning in year 2001, for the 12 months ending December 31.

³ Excluding SAWS irrigation customers.

Source: SAWS.

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Construction Activity

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

Calendar Year	Residential Single Family		Residential Multi-Family ¹		Other ²	
	Permits	Valuation	Permits	Valuation	Permits	Valuation
1999	5,771	\$398,432,375	404	\$157,702,704	9,870	\$ 911,543,958
2000	5,494	383,084,509	201	81,682,787	10,781	957,808,435
2001	6,132	426,766,091	449	142,506,920	12,732	1,217,217,803
2002	6,347	435,090,131	246	101,680,895	14,326	833,144,271
2003	6,771	521,090,684	141	2,738,551	13,813	1,041,363,980
2004	7,434	825,787,434	206	7,044,283	14,695	1,389,950,935
2005	8,207	943,804,795	347	5,221,672	20,126	1,772,959,286
2006	7,301	890,864,655	560	13,028,440	19,447	1,985,686,296
2007	4,053	617,592,057	29	4,715,380	13,268	2,343,382,743
2008	2,588	396,825,916	13	2,033,067	9,637	2,634,745,310
2009	2,085	311,550,111	50	5,692,447	6,933	2,441,910,564

¹ Includes two-family duplex projects.

² Includes commercial building permits, commercial additions, improvements, extensions, and certain residential improvements.
Source: City of San Antonio, Department of Development Services.

Total Municipal Sales Tax Collections – Ten Largest Texas Cities

Set forth below in alphabetical order is total municipal sales tax collections for the years indicated:

	2009	2008	2007	2006	2005
Amarillo ¹	\$56,514,269	N/A	N/A	N/A	N/A
Arlington	80,170,009	\$81,851,457	\$80,701,278	\$77,179,657	\$61,983,154
Austin	131,403,989	147,051,782	147,310,525	133,503,393	118,853,520
Corpus Christi	57,311,248	62,076,566	58,502,801	55,663,395	51,046,479
Dallas	205,447,327	227,067,964	223,708,825	217,223,165	199,585,955
El Paso	64,480,623	67,821,673	64,508,591	60,737,389	54,217,823
Fort Worth	97,877,323	106,259,648	98,863,541	92,739,620	83,754,760
Houston	489,009,133	504,416,610	471,684,021	440,687,609	380,871,932
Plano	N/A	64,180,104	63,267,699	62,015,005	53,036,662
Round Rock	58,694,318	69,435,651	66,891,894	60,128,584	50,114,815
SAN ANTONIO	202,966,327	215,808,945	209,599,573	195,966,662	161,951,337

¹ Amarillo ranks above Plano in the top 10 for 2009.

Source: State of Texas, Comptroller's Office.

Education

There are 15 independent school districts within Bexar County with a combined enrollment of 300,989 encompassing 55 high schools, 72 middle/junior high schools, 255 early education/elementary schools, 16 all grade level schools, 16 magnet schools, and 34 alternative schools as of October 2008. There are an additional 29 charter school districts with 67 open enrollment charter schools at all grade levels. In addition, Bexar County has 80 accredited private and parochial schools at all education levels. Generally, students attend school in the districts in which they reside. There is currently no busing between school districts in effect. The six largest accredited and degree-granting universities, which include a medical school, a dental school, a law school, and five public community colleges, had combined enrollments of 99,143 for Fall 2008.

Source: Texas Education Agency.

Employment Statistics

The following table shows current nonagricultural employment estimates by industry in the San Antonio MSA for the period of December 2009, as compared to the prior periods of November 2009 and December 2008.

Employment by Industry

<u>San Antonio MSA¹</u>	<u>December 2009</u>	<u>November 2009</u>	<u>December 2008</u>
Mining and Logging	3,500	3,500	3,900
Construction	51,800	52,100	53,200
Manufacturing	42,000	42,100	46,200
Trade, Transportation, and Utilities	150,800	149,400	153,000
Information	19,800	19,800	20,800
Financial Activities	66,900	66,800	66,800
Professional and Business Services	102,400	102,600	107,000
Education and Health Services	121,800	122,400	122,400
Leisure and Hospitality	98,300	99,000	97,100
Other Services	32,100	32,300	31,700
Government	<u>158,300</u>	<u>158,200</u>	<u>154,600</u>
Total Nonagricultural Employment	847,700	848,200	856,700

¹ Based on Labor Market Information Department, Texas Workforce Commission (model-based methodology).

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 December 2009, as compared to the prior periods of November 2009 and December 2008.

Unemployment Information (all estimates are in thousands)

<u>San Antonio MSA¹</u>	<u>December 2009</u>	<u>November 2009</u>	<u>December 2008</u>
Civilian Labor Force	971.2	974.5	948.6
Number of Employed	904.7	908.6	898.2
Number of Unemployed	66.5	65.9	50.4
Unemployment Rate %	6.8	6.8	5.3
<u>Texas (Actual)¹</u>	<u>December 2009</u>	<u>November 2009</u>	<u>December 2008</u>
Civilian Labor Force	12,078.7	12,101.2	11,788.6
Number of Employed	11,115.7	11,148.9	11,120.8
Number of Unemployed	963.0	952.3	667.9
Unemployment Rate %	8.0	7.9	5.7
<u>United States (Actual)¹</u>	<u>December 2009</u>	<u>November 2009</u>	<u>December 2008</u>
Civilian Labor Force	152,693.0	153,539.0	154,349.0
Number of Employed	137,953.0	139,132.0	143,350.0
Number of Unemployed	14,740.0	14,407.0	10,999.0
Unemployment Rate %	9.7	9.4	7.1

¹ Based on Labor Market Information Department, Texas Workforce Commission (model-based methodology).

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San Antonio Electric and Gas Systems

History and Management

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

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

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

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

Citizens Advisory Committee

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

City of San Antonio City Council members nominate ten of the 15 members, one representing each district. The other five members are at-large candidates interviewed and nominated by the CPS Citizens Advisory Committee from those submitting applications and resumes. The CPS Board of Trustees appoints all members to the committee. Members can serve up to three two-year terms.

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 retail electric service within this 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 Board exercise the option to opt-in to retail electric competition (called “Texas Electric Choice” by the PUCT), CPS has the sole right to provide retail electric services in its service area. On April 26, 2001, after a thorough feasibility study was conducted and reviewed, the City Council passed a resolution stating that the City did not intend to opt-in to the deregulated electric market beginning January 1, 2002, the date Texas Electric Choice became effective. Senate Bill 7 (“SB 7”), adopted by the Texas Legislature in 1999, provides that electric “opt-in” decisions are to be made by the governing body or the body vested with the power to manage and operate a municipal utility such as CPS. Given the relationship of the Board and the City Council, any decision to opt-in to electric competition would be based upon the adoption of resolutions by both the 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 service areas open to retail competition in ERCOT. ERCOT is the independent entity that monitors and administers the flow of electricity within the interconnected grid that operates wholly within Texas. (See “Electric Utility Restructuring in Texas; Senate Bill 7”). CPS has the option of acting the role of the “Provider of Last Resort” for its service Area in the event it and the City chose to opt-in.

In addition to the area served at retail rates, CPS sells wholesale electricity to the Floresville Electric Light & Power System, the City of Hondo, and the City of Castroville. These three wholesale supply agreements have remaining terms ranging from two to seven years until expiration. Additionally, CPS has one more year left on the term of several one-year to three-year wholesale supply agreements with various other municipalities and cooperatives. CPS will seek additional opportunities to enter into long-term wholesale electric power agreements in the future. The requirements under the existing wholesale agreements are firm energy obligations of CPS. CPS continues to pursue additional opportunities to enter into long-term wholesale electric power agreements when there is excess capacity available.

The CPS gas system serves the City and its environs, although there is no certificated CPS gas service area. In Texas, no legislative provision or regulatory procedure exists for certification of natural gas service areas. As a result, CPS competes against other gas supplying entities on the periphery of its service area. Pursuant to the authority provided by Section 181.026, Texas Utilities Code, among other applicable laws, the City has executed a license agreement (“License Agreement”) with the City of Grey Forest, Texas (“Licensee”), dated as July 28, 2003, for a term through May 31, 2028. Pursuant to this License Agreement, the City permits the Licensee to provide, construct, operate, and maintain certain natural gas lines within the boundaries of the City which it originally established in 1967 and to provide extensions and other improvements thereto upon compliance with the provisions of the License Agreement and upon the payment to the City of a quarterly license fee of 3% of the gross revenues received by the Licensee from the sale of natural gas within the Licensed Area (as defined in the License Agreement). Thus, in the Licensed Area, CPS is in direct competition with Grey Forest Utilities as a supplier of natural gas.

CPS also has 20-year Franchise Agreements with 30 incorporated communities in the San Antonio area. These Franchise Agreements permit CPS to operate its facilities in the cities’ streets and public ways in exchange for a franchise fee of 3% on electric and natural gas revenues earned within their respective municipal boundaries. Of these 30 agreements, 22 expire in 2010; the others expire in 2011, 2017, 2023, 2024, and 2029. In 2008, CPS and the City of Castroville, a current wholesale power customer, reached an agreement whereby CPS would operate and maintain the Castroville gas system. CPS is considering entering into agreements with several surrounding communities to operate and maintain their electric and/or gas systems.

Retail Service Rates

Under the Texas Public Utility Regulatory Act (“PURA”), significant original jurisdiction over the rates, services, and operations of “electric utilities” is vested in the PUCT. In this context, “electric utility” means an electric investor-owned utility. Since the electric deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT’s jurisdiction over electric investor-owned utility (“IOU”) companies primarily encompasses only the transmission and distribution functions. PURA generally excludes municipally-owned utilities (“Municipal Utilities”), such as CPS, from PUCT jurisdiction, although the PUCT has jurisdiction over electric wholesale

transmission rates. Under the PURA, a municipal governing body or the body vested with the power to manage and operate a Municipal Utility such as CPS has exclusive jurisdiction to set rates applicable to all services provided by the Municipal Utility with the exception of electric wholesale transmission activities and rates. Unless and until the City Council and CPS Board choose to opt-in to electric retail competition, CPS retail service electric rates are subject to appellate, but not original rate regulatory jurisdiction by the PUCT in areas that CPS serves outside the City limits. To date, no such appeal to the PUCT of CPS retail electric rates has ever been filed. CPS is not subject to the annual PUCT gross receipts fee payable by electric utilities. (See “Electric Utility Restructuring in Texas; Senate Bill 7” herein.)

The Texas Railroad Commission (“TRC”) has significant original jurisdiction over the rates, services, and operations of all natural gas utilities in the State. Municipal Utilities such as CPS are generally excluded from regulation by the TRC, except in matters related to natural gas safety. CPS retail gas service rates applicable to rate payers outside San Antonio are subject to appellate, but not original rate regulatory jurisdiction, by the TRC in areas that CPS serves outside the City limits. To date, no such appeal to the TRC of CPS retail gas rates has ever been filed. In the absence of a contract for service, the TRC also has jurisdiction to establish gas transportation rates for service to Texas State Agencies by a Municipal Utility. A Municipal Utility is also required to sell gas to and transport State-owned gas for “public retail customers,” including State agencies, State institutions of higher education, public school districts, United States military installations, and United States Veterans Affairs facilities, at rates provided by written contract between the Municipal Utility and the buyer entity. If agreement to such a contract cannot be reached, a rate would be set by the legal and relevant regulatory body.

The City has covenanted and is obligated under the Bond Ordinances, as provided under the rate covenant, to establish and maintain rates and collect charges in an amount sufficient to pay all maintenance and operating expenses of the Systems and to pay the debt service requirements on all revenue debt of the Systems, including the outstanding Previously Issued Parity Bonds, the Bonds, any Additional Senior Lien Obligations, the currently outstanding Junior Lien Obligations, Liquidity Facility Obligations, any Additional Junior Lien Obligations, the Notes and Inferior Lien Obligations, and to make all other payments prescribed in the Bond Ordinances.

Base rate changes over the past 18 years have consisted of a 4% combined electric and gas base rate increase effective January 31, 1991; a 3.5% electric base rate adjustment effective May 19, 2005 that was more than offset by a reduction in fuel costs, resulting from the purchase of an increased interest in STP 1 and 2 (defined herein); a 12.1% gas base rate adjustment effective June 26, 2006; and a 3.5% system average electric and gas base rate increase that became effective on September 1, 2008. The City Council approved the 3.5% base rate increase on May 15, 2008. CPS had initially requested a 5% system average electric and gas base rate increase. The City staff reviewed CPS’ rate case for several months and the City staff recommended to City Council that Council approve a 5% increase for gas and electric rates that would be implemented on June 1, 2008. City Council unanimously approved a 3.5% rate increase that took effect on September 1, 2008. CPS staff evaluated with its Board the impacts that the lower and delayed rate increase had on its business planning and budgeting process and made adjustments in its near-term plans to budget within the rate increases that were approved.

The 2005 electric rate adjustment was intended to cover the incremental costs to be incurred due to acquiring an additional 12% share in the STP. While base rates increased because of the acquisition of additional nuclear generation (the ownership interest in Units 1 and 2 was raised from 28% to 40%), the benefit from lower price nuclear power reduced customer bills overall. This acquisition was completed in May 2005. CPS also offers a monthly contract for renewable energy service (currently this is wind-generated electricity) under Rider E15 effective to 2008. The rate for Rider E15 was reduced to its current level effective on September 30, 2002. A rider to the SLP rate, the Economic Incentive Rider E16, became effective March 10, 2003, and offers discounts off the SLP demand charge for a period up to four years for new or added load of at least 10 megawatts (“MW”). Under certain conditions, the discount may be extended an additional three years. Customers that choose Economic Incentive Rider E16 must also meet City employment targets and targets for purchases of goods or services from local businesses in order to qualify. CPS also has rates that permit recovery of certain miscellaneous customer charges and for extending lines to provide gas and electric service to its customers. In May 2005, the Board adopted a change to its policies for both miscellaneous customer charges and line extensions, which became effective January 1, 2006, increasing charges that had not been raised since 1986. The City Council approved certain price changes in the CPS Board-approved policy; however, the City ordinances prevented recovery of increased line

extension charges from developers of affordable housing and the City delayed implementation of certain miscellaneous customer charges until April 1, 2006 (fees for disconnection, reconnection, and field notification).

In June of 2007, the City passed an ordinance authorizing the creation of a five-year pilot program to develop electric and gas value-added premium based optional services. The initial optional services are limited to a specified number of qualified customers and include a: (1) Fixed Bill Program, (2) Flat Rate Program, (3) Windtricity Rider, and (4) Load Factor Rate Program.

In May 2009, the City passed a mechanism to fund CPS' Save for Tomorrow Energy Plan ("STEP") energy efficiency and conservation program, which will largely be funded through changes in the electric fuel adjustment fee. Each of CPS' retail and wholesale rates contain an electric fuel adjustment or gas cost adjustment clause, which provides for current recovery of fuel costs. The fuel cost recovery adjustments are set at the beginning of each CPS billing cycle month.

On February 18, 2010, the City Council unanimously approved CPS' request for a 7.5% electric base rate increase and an 8.5% gas base rate increase, which is expected to result in a 4.2% bill impact per customer. The electric base rate increase was requested primarily as a result of increases in debt service resulting from CPS' capital plan that includes J.K. Spruce 2 ("JKS 2"), LM6000 Gas Combustion Turbine Peakers, and environmental upgrades to CPS' coal plants, which include fuel gas desulfurization scrubbers and selective catalytic reduction equipment. The 4.2% bill impact includes a reduction in fuel costs resulting from the JKS 2 plant that is expected to be available in 2010. CPS expects to continue to periodically seek electric and gas base rate increases that are intended to maintain debt coverage, debt to equity, and liquidity ratios.

Transmission Access and Rate Regulation

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

The 1999 Texas Legislature amended the PURA95 to expressly authorize rate authority over Municipal Utilities for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method which sets the price for transmission at the system average for ERCOT. CPS' wholesale open access transmission charges are set out in tariffs filed at the PUCT, and are based on its transmission cost of service approved by the PUCT, representing CPS' input to the calculation of the statewide postage stamp pricing method. The PUCT's rule, consistent with provisions in PURA §35.005(b), also provides that the PUCT may require construction or enlargement of transmission facilities in order to facilitate wholesale transmission service. Pursuant to P.U.C. Docket No. 31540, "Proceeding to Consider Protocols to Implement a Nodal Market in the Electric Reliability Council of Texas Pursuant SUBST. R. 25.501", the PUCT has made substantial progress in evaluating the shift from postage stamp pricing to nodal pricing for transmission transactions. Until the PUCT takes final action on nodal pricing, it will not be possible to predict the effects on CPS' transmission costs or its ability to recover costs from other participants in ERCOT.

Electric Utility Restructuring in Texas; Senate Bill 7. During the 1999 legislative session, the Texas Legislature enacted SB 7, providing for retail electric open competition. This began on January 1, 2002. SB 7 continues Texas electric transmission wholesale open access, which came into effect in 1997 and requires all transmission system owners to make their transmission systems available for use by others at prices and on terms comparable to each respective owner's use of its system for its own wholesale transactions. SB 7 also fundamentally redefines and restructures the Texas electric industry. The following discussion of SB 7 applies primarily to ERCOT.

SB 7 includes provisions that apply directly to Municipal Utilities such as the CPS, as well as other provisions that govern IOUs and electric co-operatives ("Electric Co-ops"). As of January 1, 2002, SB 7 allows retail customers of IOUs to choose their electric energy suppliers. SB 7 also allows retail customers of those Municipal Utilities and Electric Co-ops that elect, on or after that date, to choose their electric energy suppliers.

Provisions of SB 7 that apply to the CPS electric system, as well as provisions that apply only to IOUs and Electric Co-ops are described below, the latter for the purpose of providing information concerning the overall restructured electric utility market in which CPS and the City could choose to directly participate in the future.

SB 7 required IOUs to separate their retail energy service activities from regulated utility activities by September 1, 2000 and to unbundle their generation, transmission/distribution and retail electric sales functions into separate units by January 1, 2002. An IOU may choose to sell one or more of its lines of business to independent entities, or it may create separate but affiliated companies and possibly operating divisions. If so, these new entities may be owned by a common holding company, but each must operate largely independent of the others. The services offered by such separate entities must be available to other parties on non-discriminatory bases. Municipal Utilities and Electric Co-ops which open their service territories (“opt-in”) to retail electric competition are not required to, but may, unbundle their electric system components. (See “SAN ANTONIO ELECTRIC AND GAS SYSTEMS – Service Area” herein.)

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

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

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

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

As discussed above, Municipal Utilities and Electric Co-ops will also determine the rates for use of their distribution systems after they open their territories to retail competition, although the PUCT has established by rule the terms and conditions applicable to have access to those systems. SB 7 also permits Municipal Utilities and Electric Co-ops to recover their stranded costs through collection of a non-bypassable transition charge from their customers if so determined by such entities through procedures that have the effect of procedures available to IOUs under SB 7. Unlike IOUs, the governing body of a Municipal Utility determines the amount of stranded costs to be recovered pursuant to rules and procedures established by such governing body. Municipal Utilities and Electric Co-ops are also permitted to recover their respective stranded costs through the issuance of bonds in a similar fashion to the IOUs. Any decision by CPS as to the magnitude of its stranded costs, if any, would be made in conjunction with the decision as to whether or not to participate in retail competition.

A Municipal Utility that decides to participate in retail competition and to compete for retail customers outside its traditional service area will be subject to a PUCT-approved code of conduct governing affiliate

relationships and anti-competitive practices. The PUCT has established by a standard rule the terms and conditions, but has no jurisdiction over the rates, for open access by other suppliers to the distribution facilities of Municipal Utilities electing to compete in the retail market. If a Municipal Utility decides to participate in retail competition, its customers are subject to being charged a PUCT-approved System Benefit Fund fee per megawatt hour beginning six months prior to implementation of customer choice. The fee is a contribution to a statewide fund targeted at property tax replacement, low-income programs and customer education.

Among other provisions, SB 7 provides that nothing in that act or in any rule adopted under it may impair any contracts, covenants, or obligations between municipalities and bondholders of revenue bonds issued by municipalities and that nothing in that act may impair the tax-exempt status of municipalities or compel them to use facilities in a manner that violates any bond covenants or other exemption of interest or tax-exempt status. The bill also improves the competitive position of Municipal Utilities by allowing local governing bodies, whether or not they implement retail choice, to adopt alternative procurement processes under which less restrictive competitive bidding requirements can apply and to implement more liberal policies for the sale and exchange of real estate. Also, matters affecting the competitiveness of Municipal Utilities are made exempt from disclosure under the open meetings and open records acts and the right of municipal utilities to enter into risk management and hedging contracts for fuel and energy is clarified.

During its 79th Legislative Session in 2005, the Texas Legislature reviewed the mission and performance of the PUCT, as required by the Texas Sunset Act. This act provides that the Sunset Commission, composed of legislators and public members, periodically evaluate a state agency to determine if the agency is still needed, and what improvements are needed to ensure that tax dollars are appropriately utilized. Based on recommendations of the Sunset Commission, the Texas Legislature ultimately decides whether an agency continues to operate into the future.

The 79th Legislature in its review of the PUCT reauthorized the agency until 2011. Reforms were enacted to increase the accountability of ERCOT, including added regulatory scrutiny and governance changes that add independence while preserving input from industry experts. An “independent market monitor” selected by and reporting to the PUCT, was institutionalized to help guard against manipulation in the Texas wholesale electric market. No significant, direct impact on CPS is anticipated as a result of this legislation.

Post SB 7 Wholesale Market Design Developments. In the summer of 2003, the PUCT adopted rules requiring that ERCOT transition from a zonal to a nodal wholesale market and requiring that new protocols to accomplish this transition be submitted to the PUCT for review. Implementation of the nodal market will include, among other elements: direct assignment of the costs of local transmission congestion to market participants that cause the congestion; implementation of an integrated, financially binding day-ahead market; and nodal energy prices for resources and zonal energy prices for loads. Consistent with the rule, ERCOT and industry stakeholders have developed and submitted to the PUCT protocols and proposed energy load zones to implement these market design elements, together with an independent cost-benefit analysis (which indicated that the conversion would cost approximately \$260 million, while yielding approximately \$6 billion in benefits). The PUCT in 2005 reaffirmed its intent to implement the nodal market in ERCOT. In December 2005, the PUCT conducted a hearing on the nodal protocols submitted by ERCOT, and in April 2006 it issued an order approving the implementation of the nodal market. ERCOT has completed its process of design specification and is currently still in the implementation phase of its nodal systems. Market participants, including CPS, are also in the implementation phase for the upgrade of their systems necessary to operate in accordance with the nodal market protocols. Three municipalities have appealed approval of the protocols to the Travis County District Court, but the appeal has been abated because of the hereinafter described delay of the launch of the nodal market.

Since the PUCT’s action requiring the conversion, the transition by ERCOT from a zonal to a nodal wholesale market has experienced delays and increased cost projections. The original effective date of conversion (October 1, 2006) has twice been delayed (first to the end of 2008/beginning of 2009 and, most recently (as announced on November 26, 2008), to December 2010), and the anticipated cost has increased from approximately \$260 million to \$660 million. To accommodate this projected cost increase, ERCOT petitioned the PUCT on March 31, 2009 for an increase in the nodal surcharge assessed to energy generators from \$0.169 to \$0.226 per megawatt-hour for the remainder of calendar year 2009 and a nodal surcharge, effective January 1, 2010, with the rate

dependent upon the implementation date for the interim surcharge, effective until all nodal market program costs are recovered, currently expected to be in 2014.

On September 24, 2009, the PUCT approved a Non-Unanimous Stipulation that requires the \$0.169 interim nodal surcharge approved by the Commission to continue through December 31, 2009, and imposes a revised nodal surcharge of \$0.375 per megawatt-hour beginning January 1, 2010. Signatories to the Stipulation Agreement also agreed not to contest the allocation of the nodal surcharge to generators as previously approved by the Commission. (See “SAN ANTONIO ELECTRIC AND GAS SYSTEMS – Transmission Access and Rate Regulation” herein.)

These delays and cost increases have drawn criticism from certain Texas legislators, as well as from energy generators that will fund this conversion through payment of the increased nodal surcharge described above. The new cost/benefit analysis for this conversion, delivered in mid-December 2008, found the benefits of the nodal market still outweighed not completing the conversion, with the overall benefit, including benefits from improved generation siting, projected to be \$520 million.

Environmental Restrictions of Senate Bill 7 and Other Related Regulations. SB 7 contains specified emissions reduction requirements for certain older electric generating units, which would otherwise be exempt from the Texas Commission on Environmental Quality (“TCEQ”) permitting program by virtue of “grandfathered” status. Under SB 7, annual emissions of nitrogen oxides (“NOx”) from such units were reduced by 50% from 1997 levels, beginning May 1, 2003. These emissions have been reported on a yearly basis and CPS has met the requirements of its NOx cap for the applicable units for the past three compliance years. CPS has final Electric Generating Facility (“EGF”) State permits from the TCEQ for its four older electric generating plant sites, comprising 11 gas-fired units. CPS may require future additional expenditures for emission control technology.

Although SB 7 instituted many of the changes to environmental emission controls which affect grandfathered electric generating plants, another TCEQ regulation, Chapter 117, is directed at all units in the state, including CPS’ coal plants. These regulations required a 50% reduction in NOx emissions statewide beginning May 1, 2005 and system-wide on an annual basis. The first reporting period for CPS’ power plants subject to the Chapter 117 cap was for the compliance period May 1, 2005 to April 2006. CPS has met the Chapter 117 cap for each compliance period since that time. As a result of the JKS 2 air permitting process, CPS has committed to tighter NOx emission limitations than what is required under Chapter 117 at the Calaveras Lake site once the JKS 2 unit comes on line. The final Clean Air Interstate Rule has imposed even more NOx restrictions on CPS power plants. Changes to environmental emission controls may have the greatest effect on coal plants. Further statutory changes and additional regulations may change existing cost assumptions for electric utilities. Such changes could have a material impact on the cost of power generated at affected electric generating units.

SB 7 established the State’s goal for renewable energy in 1999 but made no special provisions for transmission to interconnect renewable resources. The rapid development of wind power in west Texas since 2001 has shown that wind farms can be built more quickly than traditional transmission facilities. This timing difference poses a dilemma for planning, as it is difficult to know whether a new line will be needed if the generation facilities do not yet exist. A wind farm is difficult to finance if there is no certainty that sufficient transmission will be available to deliver generated electricity. Senate Bill 20, enacted by the Texas Legislature in 2005 (“SB 20”), authorized the PUCT to regulate in this area, and specifically authorized the PUCT to identify an area with sufficient renewable energy potential, known as competitive renewable energy zones (“CREZs”) and pre-designate the need for transmission facilities serving the area even if no specific renewable generation projects exist or are under construction. The designation of CREZs in regions with developable renewable resources would be partially based on financial commitments of wind project developers desirous of building in the CREZ. In July 2008, the PUCT voted to create five CREZs in west Texas and the Panhandle. In August 2008, the PUCT further decided that an additional 18,456 MW of wind energy from the five CREZs would be delivered into ERCOT via transmission lines estimated to cost ERCOT rate payers a minimum of \$4.93 billion. The PUCT awarded the construction of those transmission lines to existing transmission service providers (“TSPs”) in whose service areas the lines will be located and new entrants seeking to become TSPs. Under the statewide transmission costs allocation process, CPS will pay approximately 7% of these construction costs.

According to ERCOT, about 5.1% of the electricity generated in Texas during 2008 came from renewable energy resources, up from 3.3% for all of 2007. Within the ERCOT power region, renewable resources provided

3.5% of peak-period generation during 2008 (up from 2.8% in 2007), and 6.3% of off-peak generation (up from 3.7% in 2007). Significant amounts of wind energy have created challenges for those who manage the ERCOT system. On February 26, 2008, ERCOT implemented the second stage of its emergency grid procedures (out of 4 stages) following a sudden drop in the system frequency. The drop in system frequency was attributed to a combination of events including a drop in wind energy production at the same time the evening electricity load was increasing, accompanied by multiple power providers, other than CPS, falling below their scheduled energy production. The loss of wind energy also resulted in congestion in certain parts of the ERCOT transmission system. Implementing the stage two emergency procedures stabilized ERCOT system frequency. Other than interruptible loads, no other customers in the ERCOT region lost power due to the event. Because of the challenges associated with scheduling wind energy, ERCOT has chosen to count only 8.6% of nameplate wind capacity toward ERCOT's reserve margin requirements.

The Legislature increased the State's renewable energy goal in 2005 with the enactment of SB 20. As amended by SB 20, PURA directs that the cumulative installed renewable capacity in the State must total 2,280 MW by January 1, 2007; 3,272 MW by January 1, 2009; 4,264 MW by January 1, 2011; 5,256 MW by January 1, 2013; and 5,880 MW by January 1, 2015. Further, the PUCT is directed to establish a target of 10,000 MW by January 1, 2025. The legislation includes a target of 500 MW from renewable resources other than wind power. In addition, SB 20 requires the PUCT to designate CREZs to expedite transmission planning. In addition, on April 2, 2008, ERCOT filed a report with the PUCT concerning wind power and the transmission facilities that may be necessary to transfer the electric power across the State. No actions taken during the 81st Session of the Texas Legislature, which adjourned on June 1, 2009, in this regard impact CPS.

Response to Competition

Strategic Planning Initiatives. CPS has a comprehensive corporate strategic plan that is designed to make CPS more efficient and competitive, while delivering value to its various customer groups and the City. On August 22, 2005, the Board approved a new strategic plan, developed by a cross-functional team. The plan built on the CPS mission, vision, and core values as well as long-term goals adopted in 2004 as part of the strategic process. The strategic plan has evolved to formulate plans for its wholesale, retail, transmission and distribution, gas, and shared services business units. Each plan is the responsibility of the business unit and will focus on market tactics, organizational development, business information, process improvement, legal/regulatory issues and financial accomplishment. The senior executive for each business unit has accountability for development and delivery of the plan. The Board reviewed and approved business unit plans, consistent with the corporate strategy, during the 2008, 2009 and 2010 review cycles. An update to the plans will be presented to the Board for approval during the 2011 Strategic and Financial Plan presentation.

Major initiatives and key action plans necessary to accomplish the objectives and meet or exceed the targets are also included in each plan. Status reports on strategies, risks and market changes are provided to the Board and senior management on a regular basis. An oversight team, appointed by senior management, ensures consistency with the corporate vision and directs the resolution of cross-business unit issues. Vision 2020 was completed in 2008, outlining CPS' long-term view, focused on the key business drivers for the coming decade: customer relationships, employee relationships, external relationships, carbon constraints and the environment, technology and innovation, and financial integrity. In furtherance of Vision 2020, CPS and the City hosted a Sustainability Workshop in April 2009 and CPS continues to work with City and community leaders in the development of sustainability initiatives to improve the overall quality of life in San Antonio.

Debt and Asset Management Program. CPS has developed a debt and asset management program ("Debt Management Program") for the purposes of lowering the debt component of energy costs, maximizing the effective use of cash and cash equivalent assets and enhancing financial flexibility. An important part of the Debt Management Program is debt restructuring through the prudent employment of variable rate debt and possible interest rate swap contracts. The program also focuses on the use of unencumbered cash and available cash flow, when available, 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. CPS has a Debt Management Policy ("Policy") providing guidelines under which financing and debt transactions are managed. The Policy focuses on financial options intended to lower debt service costs on outstanding debt; facilitate alternative financing methods to capitalize on the present market conditions and optimize capital structure;

and maintain favorable financial ratios. The Policy limits CPS' gross variable rate exposure to 25% of total outstanding debt.

Electric System

Generating System. CPS operates 15 electric generating units, three of which are coal-fired and 12 of which are gas-fired. In addition, CPS has 3 gas units in "mothball" status that could be brought back into operation if needed. Some of the gas-fired generating units may also burn fuel oil, which provides greater fuel flexibility and reliability. With the acquisition of an additional 300 MW purchased from AEP Texas Central Company ("AEP TCC"), on May 19, 2005, CPS has a 40% interest in STP's two nuclear generating units. The nuclear units supplied 33.8% of the electric system load for the ten month period ended October 31, 2009.

New Generation/Conservation. One of CPS' strongest aspects of operational and financial effectiveness has been the benefit it has derived from its diverse and low-cost generation portfolio, which is currently comprised of coal; nuclear; gas; various renewables such as wind, methane and a modest portion of solar; as well as purchased power. Continued diversification is a primary objective of the CPS management team. Accordingly, this team periodically assesses future generation options that would be viable for future decades. This extensive assessment of various options involves projections of customer growth and demand; technological viability; upfront financial investment requirements; annual asset operation and maintenance costs; and environmental impacts.

The rapid cost escalation during the 2006 to 2008 timeframe of all physically constructed infrastructure projects eased somewhat in 2009. CPS continues to monitor proposed regulatory charges that could raise the costs of operating plants, such as those that have been proposed for units that use carbon-based fuels.

To mitigate the pressure on new generation construction requirements, CPS management is expanding its efforts towards community-wide energy efficiency and conservation. These mitigation efforts are referred to as the "5th Fuel" and are very important to CPS' strategic energy plans and specifically to its new generation needs. CPS currently plans to implement energy efficiency and conservation measures designed to save approximately 425 MW of electrical capacity by the year 2020. CPS management has received approval from its Board on a more aggressive goal that could save as much as 771 MW and City Council has approved a funding mechanism for this program. Additionally, CPS management has explored and continues to cooperatively develop opportunities with City Council for potential changes in ordinances, codes and administrative regulations focused on encouraging commercial and residential utility customers, builders, contractors and other market participants to implement energy conservation measures.

In December 2009, CPS completed an updated assessment of generation resource options. This assessment included updated fuel prices, updated wholesale electric market forecasts and updated electric peak demand forecast which incorporated the most recent economic, demographic and historical demand data for the CPS service territory. Additionally this assessment included updated demand reductions due to the STEP energy efficiency and conservation program. Based on the updated demand forecast and the current CPS generation resource portfolio, it is expected that a new generation resource will be needed by the summer of 2023 to meet the needs of the CPS service territory.

Before a commitment would be made to construct the next generation facility, CPS management will pursue several objectives. These objectives include the pursuit of additional public input; expanded community education about the long-term energy and conservation needs of the San Antonio community; continued option analyses and evaluations, including CPS' own formalized cost estimates; additional Board approval to move forward; and expanded presentations to the City Council, which governs the related rate increases and bond issuances required to support any generation construction project.

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

Ownership
Effective February 2, 2006

<u>Participants</u>	<u>Percent (%)</u>	<u>MW</u>
NRG Energy	44.0	1,188
CPS	40.0	1,080
City of Austin-Austin Energy	<u>16.0</u>	<u>432</u>
	100.0	2,700

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

STP Units 1 and 2 each have a 40-year NRC license that expires in 2027 and 2028, respectively. In August 2006, the Strategic Teaming and Resource Sharing (“STARS”) alliance notified the NRC that one of their members intended to submit a license renewal application in the fourth quarter of 2010. On June 18, 2008, STP Nuclear Operating Company sent a letter to the NRC naming STP as the STARS member who intended to submit an application in the fourth quarter of 2010.

During the twelve-months ended July 31, 2009, the STP Units 1 and 2 operated at approximately 107.4% and 97.2% of net capacities, respectively. Unit 1 and Unit 2 completed normal refueling outages in the spring of 2008 and in the fall of 2008, respectively. Unit 2 was taken offline on September 16, 2009 for maintenance of the plant’s extraction steam system, and successfully returned to full power operation on September 29, 2009. During outages scheduled for the fall of 2009 and the spring of 2010, both STP Units will replace the reactor vessel heads.

Used Nuclear Fuel Management. Under the Nuclear Waste Policy Act, 42 U.S.C. 10101, et seq. (“NWP”), the DOE has an obligation to provide for the permanent disposal of high-level radioactive waste, which includes used nuclear fuel at United States commercial nuclear power plants such as STP. To fund that obligation, all owners or operators of commercial nuclear power plants have entered into a standard contract under which the owner(s) pay a fee to DOE of 1.0 mill per kilowatt hour (1M/kWh) electricity generated and sold from the power plant along with additional assessments. In exchange for collecting this fee and the assessments, DOE undertook the obligation to develop a high-level waste repository for safe long-term storage of the fuel and, no later than January 31, 1998 to transport, and dispose of the used fuel. That date came and went and no high-level waste repository has been licensed to accept used fuel.

According to the filings in one recent suit brought against DOE, at least sixty-six cases have been filed in the Court of Federal Claims against DOE related to its failure to meet its obligations under the NWP by the existing owners or operators of nuclear facilities seeking damages related to ongoing used nuclear fuel storage costs. On August 31, 2000, in *Maine Yankee Atomic Power Company, et al. v. US*, the United States Court of Appeals for the Federal Circuit affirmed that DOE has breached its obligations to commercial nuclear power plant owners for failing to live up to its obligations to dispose of used nuclear fuel. Subsequent to that decision, DOE has settled with certain commercial nuclear power plant owners and agreed to provide funds to pay for storage costs while DOE continues to develop a permanent high-level waste repository. STP has recently received a voluntary dismissal of litigation to cover its long-term storage costs and is negotiating to obtain a reasonable settlement that would provide for those costs in light of a decision in related litigation by another utility that had not yet been forced to incur significant damages because of DOE’s breach. STP owners will work with STP to develop a strategy to recover any additional spent fuel storage costs from DOE at the appropriate time.

Until DOE is able to fulfill its responsibilities under the NWP, the NWP has provisions directing the NRC to create procedures to provide for interim storage of used nuclear fuel at the site of a commercial nuclear reactor. Currently, STP has adequate space in its on-site spent fuel storage pools to provide for storage of all of its

used fuel. If DOE is unable to take the used fuel from STP, some time late in the next decade STP management expects to start the process of planning, licensing, and building an on-site independent spent fuel storage facility (“ISFSI”). That ISFSI is expected to have sufficient capacity to provide safe interim storage for used nuclear fuel from the current and future reactors at the STP site.

Additional Nuclear Generation Opportunities. This section describes some of the initial investigation, study and analysis that CPS management undertook to explore one type of possible generation infrastructure, additional nuclear capacity. CPS received Board approval to participate in the early development phase of two nuclear projects, with third-party co-owners; however, recent event hereinafter described have superseded this initial approval.

The first possible nuclear project was scoped as the development of two additional reactors at the current STP site. These new units have been referred to preliminarily as STP Units 3 and 4. The second possible nuclear project would be a new two-unit facility tentatively located in Victoria County, which is also located in south Texas. Either or both projects, if fully developed by CPS, would have delivered a portion of its power for use by CPS customers in the ERCOT market. In June 2009, CPS management provided the Board its formal assessment and recommendations concerning these options compared to other possible new generation types. Management also provided its first public estimate of the cost of the first possible project at \$13 billion, inclusive of financing costs. Reports of higher cost estimates, however, resulted in reconsideration of the advisability of participating in the STP 3 and 4 projects and, ultimately, in CPS’ decision to limit participation in further development of STP Units 3 and 4. In a settlement being negotiated with NRG and the other participants in the development of STP Units 3 and 4, CPS will receive a 7.625% ownership interest in combined STP Units 3 and 4 without making any additional contribution to the cost of development. CPS will also receive two \$40 million payments, conditioned upon a loan guarantee award to NRG/NINA, as well as a contribution of \$10 million to its residential emergency assistance program trust, which provides emergency bill payment assistance to low-income customers. A detailed timeline of events concerning this matter and the recent settlement of the STP 3 and 4 lawsuit are provided in the following pages:

- Regarding the first project, in June 2007, STPNOC signed a technical services agreement with Toshiba Corporation (“Toshiba”), a major Japanese manufacturer of heavy electrical equipment and developer of advanced boiling water reactors (“ABWR”) in Japan. Under this agreement, Toshiba agreed to perform early engineering and procurement work for STP Units 3 and 4 (the “Project”). STPNOC is in the process of reserving the major, long-lead components for the Project. STPNOC has already made a reservation for the Unit 3 reactor pressure vessel forgings. Rights and obligations in the agreements with GE-Hitachi Nuclear Company (“GE-H”), Toshiba and other vendors for long-lead equipment and services are now shared with CPS under the terms of the NRG-CPS Supplemental Agreement.
- On September 20, 2007, NRG and CPS signed the South Texas Project Supplemental Agreement (“Supplemental Agreement”) under which CPS elected to participate in the preliminary development of two new nuclear units at the STP nuclear power station site, STP Units 3 and 4, pursuant to the terms of the current participation agreement among the STP owners. CPS could own up to 50% of the Project. The Supplemental Agreement provides for CPS to reimburse NRG for its pro rata share, based on its ownership percentage, of initial project costs incurred and to pay its pro rata share of future development costs. The Supplemental Agreement also provides CPS and NRG with preferred rights of first refusal in the event of certain types of transfers of either NRG’s or CPS’ interests in STP.
- Also on September 24, 2007, CPS, subsidiaries of NRG, and the STPNOC filed a combined construction and operating license application (“COLA”) with the NRC to build and operate the Project. The COLA for the Project was the first complete application for new commercial reactors to be filed with the NRC in nearly thirty years. In the COLA, the owners propose to use ABWR technology, which has been proven in four operating units in Japan. The total projected rated capacity of STP Units 3 and 4 is expected to be about 2,600 MW. On November 29, 2007, the NRC announced that it had accepted the COLA for review.
- In order to develop the COLA and to provide on-going licensing support, STPNOC had entered into an interim services agreement with General Electric Company (“GE”). Subsequent to entering into that agreement, GE entered into a joint venture in which it transferred its nuclear business to GE-H. GE assigned its responsibilities under the interim services agreement to GE-H. Despite its obligations in the

interim services agreement, GE-H suspended licensing support for the COLA soon after it was filed with the NRC.

- Subsequently, CPS and NRG determined that they would continue the Project with Toshiba Corporation, an experienced developer of ABWR units in Japan. Project development continued under a technical services agreement with Toshiba Corporation's United States subsidiary Toshiba International Corporation while the parties negotiated a definitive engineering, procurement and construction ("EPC") contract.
- On September 24, 2008, STPNOC submitted a revised COLA to the NRC reflecting CPS and NRG's intention to develop STP Units 3 and 4 with Toshiba. The COLA revision also reflected the establishment of a new NRG-Toshiba Corporation partnership, called NINA, which is 88% owned by NRG and 12% owned by Toshiba Corporation. In addition to STP Units 3 and 4, NINA has proposed to develop up to two additional two-unit ABWR projects in the United States. NINA has placed its ownership interest in STP Unit 3 into a wholly-owned subsidiary, NINA STP 3, LLC, and its interest in STP Unit 4 into a wholly-owned subsidiary, NINA STP 4, LLC. In addition, Toshiba Corporation has established a United States subsidiary to develop ABWRs, called Toshiba America Nuclear Energy ("TANE"). The updated COLA reflects the relationships among the developers, CPS and NINA and the new NINA, TANE, NINA STP 3, LLC and NINA STP 4, LLC entities. On February 10, 2009, the NRC issued a schedule for completing its review of the COLA. The NRC projects to issue the final Safety Evaluation Report in September 2011. Currently, CPS staff projects that the COLA will be received early in calendar year 2012. Receipt of the NRC-approved COLA is a condition precedent to starting significant project construction.
- On September 29, 2008, CPS filed with the United States Department of Energy ("DOE") a Phase I application for a loan guarantee related to the development of the Project. Following DOE's evaluation of all Phase I applications DOE ranked the Project third out of 14 nuclear loan guarantee project applications that were submitted. On December 19, 2008, CPS filed with DOE a Phase II loan guarantee application. In a letter dated February 9, 2009, DOE informed CPS that the Project is one of five nuclear projects for which DOE is conducting due diligence as part of its process for potentially offering loan guarantees. Subsequently, DOE narrowed the list of nuclear project candidates for DOE loan guarantees to four projects, including the Project. Under current legislation, should the DOE ultimately approve an applicant's filing, such a loan guarantee could be used to guarantee financing up to 80% of the debt for the applicable project. DOE's ability to issue guarantees is limited by appropriations. Currently, there is \$18.5 billion set aside for loan guarantees associated with new nuclear project development in the United States through federal fiscal year 2011. As this loan guarantee program only provides guarantees for taxable financing, non-taxable entities such as CPS will evaluate financing alternatives, from foreign and domestic resources and through issuance of taxable and tax-exempt debt, as may be available for a project of this type. The next step in the process for qualified projects is to draft a term sheet and engage DOE staff in negotiations.
- On November 5, 2008, STPNOC and DOE executed a Standard Contract in which DOE undertook the obligation to provide for permanent disposal of the used nuclear fuel from the proposed STP Units 3 and 4.
- On January 21, 2009, the Board approved increasing the project development budget for STP Units 3 and 4 to \$276 million (from \$206 million). On February 24, 2009, CPS and its project co-owner authorized STPNOC, as their agent, to enter in to an EPC contract with Toshiba Corporations United stated subsidiary, Toshiba America Nuclear Energy.
- On February 24, 2009, STPNOC, as agent for CPS and NINA, executed an Engineering, Procurement and Construction (EPC) Agreement with Toshiba's wholly-owned U.S. subsidiary, Toshiba America Nuclear Energy (TANE) that provides terms and conditions under which STP Units 3 and 4 will be designed and constructed. The EPC Agreement has terms and conditions comparable to those for fossil-fired generating plants and has limits of liability and other provisions that are scaled to a project of this size. Toshiba has provided parent company guarantees for TANE's performance.

- Following notice published on February 21, 2009, three individuals and three groups joined to file one Petition to Intervene on April 21, 2009, which contained 28 contentions. As a result of NRC Licensing Board decisions issued on August 27, 2009 and September 29, 2009, rulings have been issued admitting five of the original 28 contentions for further consideration. STPNOC, as agent for owners, plans to file supporting information as required to address any open issues and STPNOC staff believe these contentions can be resolved without formal hearings. The project schedule already has time built into it for hearings as part of the COLA process; however, it is unclear whether contentions may result in hearings and whether hearings will affect the timing for issuance of the COLA. Interveners subsequently filed seven additional contentions related to one of their original contentions, which was rendered moot by filings with the NRC. It is not clear when the NRC Licensing Board will rule on the new contentions.
- On August 31, 2009, the Board approved increasing the Project development budget for STP Units 3 and 4 to \$376 million (from \$276 million).
- On October 13, 2009, the Board approved selection of STP Units 3 and 4 as the next baseload generation resource and, in support thereof, approved a request to ask the City to approve \$400 million in bonds to support the Project at the City Council's October 29, 2009 meeting.
- On October 27, 2009, amid reports that CPS had knowledge that costs of the project might be significantly higher than previously reported, the City Council's vote on the bonds was postponed.

Nuclear Cost Issue and CPS Internal Investigation. Following the postponement of the City Council's vote, the Board undertook an investigation to determine whether CPS management had knowledge of an increase in a preliminary cost estimate for STP 3 and 4 and why that information was not communicated to the Board. Specifically, the Board asked the CPS Chief Audit & Ethics Officer to investigate and answer the following questions: (1) Who knew what information, by when, and who did they inform?; (2) Was there malicious intent to withhold information?; (3) Was there a failure to exercise prudent judgment and/or a failure to communicate in a timely manner?; and (4) Did the individuals understand their roles and accountabilities?

An outside law firm was hired to assist in the investigation, which took approximately four weeks to complete and involved the reviews of internal documents, interviews of numerous individuals and the preparation of a written report that was publicly disclosed on December 7, 2009. The results of this investigation were reported to the Board in late November and early December 2009 and, based on that report, the Board adopted a resolution finding that there was a failure of communication from certain members of CPS executive management to the Board and the City Council regarding the "revised cost estimate" that was publicly disclosed in October 2009; that the failure of communication resulted in substantial part from a good faith belief that the "revised estimate" was not a formal estimate supported by data but, instead, was communicated as part of the ongoing negotiation process expected to lead to a contractually required formal cost estimate due on or about December 31, 2009, pursuant to the terms of the EPC Agreement; and that there was no malicious intent on the part of any member of the management team in connection with the failure of communication. The investigation report also concluded that no member of management instructed any other employee to conceal or withhold any information from the Board and that lack of information flowing to the Board was, at worst, due to a difference of opinion about what information should be deemed material and deserving of the Board's attention.

During the course of the investigation, several changes occurred in the Board and personnel:

- Shortly after the Board initiates its investigation, two senior CPS staff members involved in the Project were placed on administrative leave pending results of the investigation.
- On November 26, 2009, Interim General Manager, Steve Bartley, resigned; a severance agreement with Mr. Bartley has now been finalized.
- On November 30, 2009, the Board adopted a resolution accepting the findings and results of the investigation, and reinstating the two senior staff members who had been placed on administrative leave.

- Also on November 30, 2009, Jelynn LeBlanc-Burley was named Acting General Manager and the Board accelerated its search for a new General Manager & CEO to replace Milton Lee upon his previously-announced retirement in 2010.
- On December 15, 2009, Deputy General Counsel, Robert Temple resigned; a severance agreement with Mr. Temple has now been finalized.
- During the course of the public controversy surrounding the investigation, the Mayor and certain City Council members called for the resignation of Board Chair, Aurora Geis and long-time trustee Steve Hennigan. Ms. Aurora Geis resigned effective January 14, 2010, and Mr. Charles E. Foster, a retired AT&T executive, was selected to replace her on the Board.
- On January 22, 2010, Mr. Charles E. Foster was elected Chairman of the Board.
- Mr. Hennigan continues to serve on the Board; his term ends in January 2011.

While the Project's cost controversy was being investigated, CPS was exploring all its options regarding participation in or withdrawal from the Project. One of the steps it took to clarify its rights under the existing project agreements, including the EPC Agreement, was to seek judicial clarification regarding the consequences of unilaterally withdrawing. The resulting lawsuits are being dismissed, subject to final execution of documents reflecting a settlement reached between CPS and NINA in late February 2010.

This litigation involved the following causes of action:

- On December 6, 2009, CPS filed a declaratory judgment action in State District Court in Bexar County seeking clarification of its rights under existing contracts with NINA and NRG regarding the parties' development of and participation in the Project.
- In mid-December 2009, CPS and NINA/NRG commenced discussions about a way to achieve a reasonable business solution to the litigation. CPS also continued its previously-initiated effort to sell some or all of its interest in the Project.
- On December 23, 2009, NINA filed an Answer to the CPS petition and also filed a counterclaim alleging breach of contract and requesting declaratory relief, a temporary injunction and forfeiture of CPS' interest in the project.
- On December 23, 2009, CPS responded to NINA's counterclaim by filing an amended petition asserting additional causes of action against NINA, NRG and Toshiba including tortious interference with contract, fraud, negligent misrepresentation, and business disparagement, among others. The amended claim sought exemplary and punitive damages of up to \$32 billion.

Only CPS' declaratory judgment action was pursued in court to date. The court found that CPS would not forfeit its interest upon withdrawal, but would continue to be a tenant in common even if it ceased funding development of the Project. However, with both sides still interested in a business solution for all remaining matters, a settlement was pursued. CPS and NINA/NRG have now reached a business agreement in principle to resolve their differences in the Project. By the terms agreed upon with NINA, CPS will receive a 7.625% ownership interest in the Project, an interest expected to entitle CPS to approximately 200 MW of power, depending on the output of the units, once they reach commercial operation (expected to occur in 2017-2018). Based on the latest load forecast, CPS does not anticipate needing this power or any additional base load generation until 2023. This interest in the Project will satisfy almost 40% of that need and is expected to contribute to meeting whatever carbon requirements may be imposed by federal legislation. CPS will, therefore, not need to make a decision regarding additional base load generation until perhaps 2015, but at that time will consider natural gas combined cycle units, natural gas peaking units, renewable energy, nuclear generation, and other conventional and nonconventional technologies that may or may not be currently available. The time period between 2015 and 2023, when the power will be needed, will be used for planning and construction.

- In addition to the Project, CPS has also explored another nuclear project with Exelon. In December 2007, CPS and Exelon signed an agreement granting CPS an option to participate in a possible joint investment in a nuclear-powered electric generation facility in southeast Texas (“Exelon Project”). Preliminary plans indicated that the Exelon Project would be located in Victoria County and would involve the development of two GE-H Economic Simplified Boiling Water Reactors (“ESBWR”), nominally rated at 1,520 megawatts each. Under this agreement, CPS has the option to acquire between a 25% and a 40% ownership in the Exelon Project. On September 3, 2008, Exelon filed a COLA with the NRC to build and operate Victoria County Station Units 1 and 2. On October 30, 2008, the NRC docketed the COLA for a detailed review. Subsequently Exelon determined that it was unable to reach commercial terms with GE-H. Exelon announced on November 24, 2008, that they intended to select another technology, other than the ESBWR, for the Exelon Project. On December 18, 2008, the NRC placed on hold the review of Exelon’s COLA. On March 27, 2009, Exelon announced that it selected Hitachi’s ABWR design for the Exelon Project and that it planned to revise the COLA and its DOE Loan Guarantee application accordingly. The Exelon Project failed to qualify for the initial round of DOE loan guarantees. It appears that Exelon will delay development of the Exelon Project but will continue to pursue an Early Site Permit for the Victoria County location. CPS will continue to monitor the Exelon Project, but has taken no steps to pursue it given its resolution of the STP 3 and 4 Project.

City of San Antonio v. Toshiba Corporation, NRG Energy, Inc., and Nuclear Innovation North American, LLC, et al.

On December 6, 2009, CPS filed a lawsuit in Bexar County, Texas seeking declaratory relief relating to a series of agreements it entered into with Defendants regarding development of STP Units 3 and 4, two new nuclear generation units in Bay City, Texas on the site where STP 1 and 2 currently operate. CPS asked the court to determine the rights and obligations of both parties should either party withdraw from the STP 3 and 4 project. On December 23, 2009, NRG and NINA answered and counterclaimed, alleging that CPS had breached the contract and requesting declaratory and injunctive relief. On the same day and in response to Defendants’ counterclaim, CPS filed an amended petition in which it added several causes of action including fraud, conspiracy, and tortious interference with contract. On January 5, 2010, the parties entered into a scheduling order setting the trial date of January 25, 2010 on the parties’ declaratory relief actions (“Phase 1”). During the course of pretrial discovery and motions, CPS dismissed Toshiba as a defendant from the lawsuit and NRG/NINA dismissed all their claims and counterclaims against CPS. At the end of a week long court proceeding, on January 29, 2010, the court granted CPS’ request for declaratory relief, ruling, among other things, that upon withdrawal from the Project, the withdrawing party does not forfeit its interest. No scheduling order or trial date was set for the parties’ remaining claims that were scheduled to be heard in Phase 2 of the lawsuit concerning the \$32 billion in damages sought by CPS.

On February 17, 2010, CPS and NRG/NINA announced a settlement of this litigation and a resolution of the question of CPS’ ownership in the STP 3 and 4 Project. CPS will receive a 7.625% ownership interest in combined STP Units 3 and 4 without making any additional contribution to the cost of development, with NINA owning the remaining 92.375%. CPS will withdraw its pending application for a DOE loan guarantee and support the NRG/NINA loan guarantee applications. CPS will also receive two \$40 million payments, conditioned upon a loan guarantee award to NRG/NINA for the Project, as well as a contribution of \$10 million (over a four year period) to its residential emergency assistance program trust, which provides emergency bill payment assistance to low-income customers. Finally, all pending litigation will be dismissed. The dismissal of the litigation will take place as soon as all settlement documents are finalized and executed, which is expected to occur before the end of February.

Qualified Scheduling Entity. CPS operates as an ERCOT Level 4 QSE representing all of CPS’ assets and load. The communication with ERCOT and the CPS power plants is monitored and dispatched 24 hours per day/365 days a year. Functions are provided from the QSE primary and backup facilities. QSE functions include load forecasting, day ahead and real time scheduling of load, generation and bilateral transactions, generator unit commitment and dispatch, communications, invoicing and settlement.

The QSE will update systems and prepare personnel to accommodate the newly designed ERCOT “Nodal” Market design. The new market design will vastly change the procedures to dispatch generation and schedule

bilateral transactions. CPS is currently designing new processes and systems to continue to operate as a QSE in the new market.

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

Distribution System. The distribution system is supplied by 76 substations strategically located on the high voltage 138 kV transmission system. The central business district of the City is served by nine underground networks, each consisting of four primary feeders operated at 13.8 kV, transformers equipped with network protectors, and both a 4-wire 120/208 volt secondary grid system and a 4-wire 277/480 volt secondary spot system. This system is well designed for both service and reliability.

Approximately 7,570 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 348 miles of three-phase equivalent distribution lines, 83 miles of three-phase Downtown Network distribution lines, and 3,649 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground residential distribution systems. At October 31, 2009, the number of street lights in service was 77,040. 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 266 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 (“SCADA”) computer system 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 4,841 miles. The system consists of 2 to 16-inch steel mains and 1-1/4 to 8-inch high-density polyethylene (plastic) mains. The distribution system operates at pressures between 9 psig and 59 psig. All steel mains are coated and cathodically protected to mitigate corrosion. The vast majority of the gas services are connected to the distribution system, and the gas normally undergoes a final pressure reduction at the gas meter to achieve the required customer service pressure. Critical areas of the distribution system are remotely monitored by SCADA.

Implementation of New Accounting Policies

For the fiscal year ended January 31, 2009, CPS implemented:

- GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. This Statement provides guidance that explains when pollution remediation-related obligations should be reported and how pollution remediation costs and liabilities should be determined. Disclosure requirements are presented in Note 17 – Pollution Remediation Obligation.
- GASB Technical Bulletin 2008-1, Determining the Annual Required Contribution Adjustment for Postemployment Benefits. This technical bulletin provides guidance that allows the annual required contribution (“ARC”) adjustment for other postemployment benefits (“OPEBs”) to be based on actual amounts associated with the amortization of past contribution deficiencies and excesses included in the ARC in cases in which those amounts are known by the actuary. No impact resulted from the guidance provided under this Technical Bulletin.

In addition to the two GASB items described above, CPS changed its method of accounting for the Decommissioning Trusts beginning in FY 2009. Under the new method, a pro rata share of total decommissioning costs (as determined by the most recent cost study) has been recognized as a liability. In subsequent years, annual decommissioning expense and an increase in the liability will reflect the effects of inflation and an additional year of plant usage.

Additionally, due to requirements under the Code of Federal Regulations governing nuclear decommissioning trust funds, guidance under Financial Accounting Standard (“FAS”) 71, Accounting for the Effects of Certain Types of Regulation, has been followed. Under this guidance, the zero fund net assets approach to accounting for the Decommissioning Trusts (“Trusts”) has been retained. In accordance with FAS 71, the cumulative effect of activity in the Trusts has been recorded as a regulatory liability reported on the balance sheets as net costs refundable through future rates since any excess funds are payable to customers. Going forward, prolonged unfavorable economic changes could result in the assets of the Trusts being less than the estimated decommissioning liability. In that case, instead of an excess as currently exists, there would be a deficit that would be reported as net costs recoverable through future rates. This amount would be receivable from customers.

Current-year activity in the Trusts has been reported in the no operating income (expense) section of the Statements of Revenues, Expenses and Changes in Fund Net Assets as net costs recoverable (refundable) through future rates. There was no impact to fund net assets as a result of this change in accounting method. Prior-year amounts have been reclassified to conform to current-year presentation.

Other than the aforementioned changes, there were no additional significant accounting principles or reporting changes implemented in the fiscal year ending January 31, 2009. Other accounting and reporting changes that occurred during the prior reporting year continued into the fiscal year ending January 31, 2009.

Recent Financial Transactions

On December 23, 2008, CPS issued \$158.0 million of tax-exempt New Series 2008A Revenue Refunding Bonds to refund \$165.3 million par value of the tax-exempt new Series 1998A Bonds.

On March 12, 2009, CPS issued \$442.0 million of tax-exempt New Series 2009A Revenue Refunding Bonds to refund \$450.0 million of commercial paper notes. Subsequently, on March 13, 2009, CPS issued \$260.0 million of Tax Exempt Commercial Paper Notes.

On May 21, 2009, City Council authorized CPS to issue approximately \$375.0 million in tax-exempt or taxable bonds. On June 12, 2009, CPS issued \$375.0 million of Taxable New Series 2009C Direct Subsidy – Build America Bonds, which will be used for general system improvements.

On July 30, 2009, CPS issued \$207.9 million of tax-exempt New Series 2009D Revenue Refunding Bonds to refund the remaining \$227.7 million par value of the tax-exempt New Series 1998A Bonds.

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CPS Historical Net Revenues and Coverage

	Fiscal Years Ended January 31, (Dollars in Thousands)				
	2005	2006	2007	2008	2009
Gross Revenues ¹	\$1,473,254	\$1,754,927	\$1,822,230	\$1,943,313	\$2,191,323
Maintenance & Operating Expenses	882,509	1,057,035	1,104,037 ²	1,177,337	1,408,349
Available For Debt Service	<u>\$ 590,745</u>	<u>\$ 697,892</u>	<u>\$ 718,193</u>	<u>\$ 765,976</u>	<u>\$ 782,974</u>
Actual Principal and Interest Requirements:					
Senior Lien Obligations ³	<u>\$ 245,984</u>	<u>\$ 256,442</u>	<u>\$ 271,931</u>	<u>\$ 290,954</u>	<u>\$ 309,855</u>
Junior Lien Obligations ⁴	<u>\$ 4,386</u>	<u>\$ 10,964</u>	<u>\$ 15,006</u>	<u>\$ 15,179</u>	<u>\$ 11,190</u>
Actual Coverage-Senior Lien	2.40x	2.72x	2.64x	2.63x	2.53x
Actual-Senior and Junior Lien	2.36x	2.61x	2.50x	2.50x	2.44x

¹ Calculated in accordance with the ordinances.

² FY 2007 restated for ease of comparability to FY 2008 due to the implementation of GASB 45.

³ Net of accrued interest where applicable.

⁴ Series 2003 Junior Lien Obligations were issued May 15, 2003. Series 2004 Junior Lien Obligations were issued November 18, 2004. Actual interest payments.

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San Antonio Water System

History and Management

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

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

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

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

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

Service Area

SAWS provides water and wastewater service to the majority of the population within the corporate limits of the City and Bexar County, which totals approximately 1.6 million residents. SAWS employs approximately 1,700 personnel and maintains over 9,900 miles of water and sewer mains. The tables that follow show historical water consumption and water consumption by class for the fiscal years indicated.

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Historical Water Consumption (Million Gallons) ⁽¹⁾

Fiscal Year	Gallons of Water Production ^(b)	Gallons of Water Usage	Gallons of Water Unbilled	Average Percent Unbilled	Gallons of Wastewater Treated	Total Direct Rate			
						Water		Sewer	
						Base Rate ^(c)	Usage Rate ^(d)	Base Rate ^(e)	Usage Rate ^(f)
2008	67,523	58,828	8,695	12.88%	50,347	\$6.56	\$19.92	\$7.37	\$9.14
2007	55,043	49,511	5,532	10.05%	49,218	6.56	19.59	7.37	9.14
2006	63,388	57,724	5,664	8.94%	53,268	6.56	19.69	7.37	9.14
2005	58,990	55,005	3,985	6.76%	49,287	6.11	18.42	7.33	9.10
2004	51,231	49,366	1,865	3.64%	49,593	5.61	15.47	6.60	8.19
2003	55,039	50,576	4,463	8.11%	49,669	5.61	13.20	5.70	7.14
2002	52,691	51,850	841	1.60%	52,180	5.61	11.97	5.70	7.14
2001 ^(a)	36,883	34,716	2,167	5.88%	29,561	5.61	9.19	5.70	7.14
2001	57,243	53,047	4,196	7.33%	52,344	5.61	9.19	5.70	7.14
2000	60,021	57,144	2,877	4.79%	53,016	5.61	6.20	5.70	7.14

⁽¹⁾ Unaudited.

^(a) Seven months ended December 31, 2001. In 2001, the SAWS Board of Trustees approved a change in the fiscal year-end from May 31st to December 31st.

^(b) Pumpage is total potable water production less Aquifer Storage and Recovery recharge.

^(c) Rate shown is for 5/8" meters.

^(d) Represents standard (non-seasonal) usage charge for monthly residential water usage of 7,788 gallons per month. Includes water supply and EAA fees.

^(e) Minimum service availability charge (includes charge for first 1,496 gallons).

^(f) Represents usage charge for a residential customer based on winter average water consumption of 6,178 gallons per month.

Source: SAWS.

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

	Fiscal Year Ended December 31									
	2008	2007	2006	2005	2004	2003	2002	2001 ^(a)	2001	2000
Water Sales ^(b):										
Residential Class	33,026	26,651	33,162	30,917	27,054	27,624	28,227	19,398	28,621	31,008
General Class	20,296	19,166	20,232	19,769	18,851	19,464	20,155	13,444	23,042	25,512
Wholesale Class	108	90	114	121	98	137	173	347	535	624
Irrigation Class	5,398	3,604	4,216	4,198	3,364	3,350	3,295	1,527	848	0
Total Water	58,828	49,511	57,724	55,005	49,367	50,575	51,850	34,716	53,046	57,144
Wastewater Sales:										
Residential Class	28,148	27,384	28,857	25,293	25,421	24,860	25,564	13,594	26,472	26,124
General Class	19,609	18,670	21,152	21,414	20,952	21,418	22,319	13,209	21,516	22,980
Wholesale Class	2,590	3,164	3,259	2,580	3,220	3,391	4,297	2,758	4,356	3,912
Total Wastewater	50,347	49,218	53,268	49,287	49,593	49,669	52,180	29,561	52,344	53,016
Conservation - Residential Class ^(c)	3,948	2,432	4,276	3,613	2,634	2,636	2,742	2,757	1,460	3,629
Recycled Water Sales	16,559	14,148	14,835	14,048	13,626	13,642	13,761	4,654	13,292	0

⁽¹⁾ Unaudited.

^(a) Seven months ended December 31, 2001. In 2001, the SAWS Board of Trustees approved a change in the fiscal year end from May 31st to December 31st.

^(b) Water Supply and EAA fees are billed based on the gallons billed for water sales.

^(c) Gallons billed for conservation are included in the gallons billed for water sales.

Source: SAWS.

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SAWS System

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

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

Waterworks System. The City originally acquired its waterworks system in 1925 through the acquisition of the San Antonio Water Supply Company, a privately owned company. Since such time and until the creation of SAWS in 1992, management and operation of the waterworks system was under the control of the City Water Board. The SAWS’ waterworks system currently extends over approximately 627 square miles, making it the largest water purveyor in Bexar County. SAWS serves more than 80% of the water utility customers in Bexar County. As of December 31, 2009, SAWS provided potable water service to approximately 352,000 customer connections, which includes residential, commercial, multifamily, industrial, and wholesale accounts. To service its customers, the waterworks system utilizes 28 elevated storage tanks and 30 ground storage reservoirs, of which 9 act as both, with combined storage capacities of 166 million gallons. As of December 31, 2009, the waterworks system had in place 4,866 miles of distribution mains, ranging in size from four to 60 inches in diameter (the majority being between six and 12 inches), and 26,599 fire hydrants distributed evenly throughout the SAWS service area.

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

SAWS serves a substantial portion of 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 424 square miles. SAWS also coordinates with the City for wastewater planning for the City’s total planning area, ETJ, of approximately 1,214 square miles. The population for this planning area is approximately 1.6 million people. As of December 31, 2009, SAWS provided wastewater services to approximately 395,100 customers.

In addition to the treatment facilities owned by SAWS, there are six privately owned and operated sewage and treatment plants within the City’s ETJ.

The wastewater system is composed of approximately 5,085 miles of mains and three major treatment plants, Dos Rios, Leon Creek, and Medio Creek. All three plants are conventional activated sludge facilities. SAWS holds Texas Pollutant Discharge Elimination System wastewater discharge permits, issued by the TCEQ for 187 million gallons per day (MGD) in treatment capacity and 46 MGD in reserve permit capacity. The permitted flows from the wastewater system’s three regional treatment plants represent approximately 98% of the municipal discharge within the City’s ETJ.

SAWS has applied to the TCEQ to expand its Certificates of Convenience and Necessity (“CCN”) or service areas for water and sewer from the existing boundaries to the ETJ boundary of the City. When the TCEQ grants a CCN to a water or sewer purveyor, it provides that purveyor with a monopoly for retail service. By

expanding the CCN's to the ETJ, developments needing retail water and sewer service within the ETJ must apply to SAWS. Service can then be provided according to SAWS standards and small, undersized systems can be avoided. SAWS' CCN application for water consists of 12 separate applications that cover approximately 64,000 acres and the applications for sewer consisted of eight separate applications that cover approximately 407,000 acres. Of the water applications, five applications have been finalized consisting of approximately 8,100 acres, which is now included in SAWS' CCN, five applications should be finalized within the next year totaling 20,000 acres, with the remaining two applications totaling 36,500 acres still under review. Of the sewer applications, five applications should be finalized within the next year, totaling 220,000 acres, with the remaining three applications totaling approximately 187,000 acres still under review. The expansion of the CCN to the ETJ supports development regulations for the City. Within the ETJ, the City has certain standards for development. These standards somewhat insure the City that areas developed in the ETJ and then annexed by the City, will already have some City development regulations in place.

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 water recycling program is designed to provide 35,000 acre-feet per year of recycled water to commercial and industrial businesses in San Antonio. This system was originally comprised of two north/south transmission lines. In 2008, an interconnection of these two lines was constructed at north end of the lines, providing additional flexibility with respect to this valuable water resource. Currently, approximately 111 miles of pipeline deliver highly treated effluent to 82 customers consisting of golf courses, parks, and commercial and industrial customers throughout the city. The system was also designed to provide baseflows in the upper San Antonio River and Salado Creek, and the result has been significant and lasting environmental improvements for the aquatic ecosystems in these streams.

Chilled Water and Steam System. SAWS owns and operates six thermal energy facilities providing chilled water and steam services to governmental and private entities. Two of the facilities, located in the City's downtown area, provide chilled water and/or steam service to 23 customers. Various City facilities, that include the Convention Center and Alamodome, constitute approximately 75% of the downtown system's chilled water and steam annual production requirements. The remaining four thermal energy facilities, owned and operated by SAWS, provide chilled water and steam services to large industrial customers located at the Port. SAWS' chilled water-producing capacity places it as one of the largest producers of chilled water in south Texas. SAWS also operates and maintains the thermal energy plants at Brooks City-Base under an agreement with the Brooks Development Authority.

Stormwater System. In September 1997, the City created its Municipal Drainage Utility and established its Municipal Drainage Utility Fund to capture revenues and expenditures for services related to the management of the municipal drainage activity in response to Environmental Protection Agency-mandated stormwater runoff and treatment requirements. The City, along with SAWS, has the responsibility, pursuant to the "Authorization to Discharge under the National Pollutant Discharge Elimination System" (the "Permit"), for water-quality monitoring and maintenance. The City and SAWS have entered into an interlocal agreement to set forth the specific responsibilities of each regarding the implementation of the requirements under the Permit. The approved annual budget for the SAWS share of program responsibilities for FY 2010 is \$4,809,147, for which SAWS is reimbursed \$3,758,241 from the stormwater utility fee imposed by the City.

Water Supply

In May 2009, the System completed a comprehensive analysis of its existing water supply projects and developed a series of conservation and water resource strategies that will enable it to provide adequate water supplies, even during critical drought periods; postpone dependence on more costly resources, when possible; promote greater use of non-Edwards Aquifer supplies in the long-term; fulfill the needs of San Antonio customers, and recognize the reality that future water supplies must be affordable.

These strategies are outlined in the 2009 Water Management Plan. The 2009 Plan is a continuation of the process that began in 1996 to develop a 50-year plan. In 1996, the City Council appointed a 34-member citizens committee to develop strategic policies and goals for water resource management. The Citizens Committee on Water Policy report, entitled "A Framework for Progress: Recommended Water Policy Strategy for the San Antonio Area," was unanimously accepted by City Council, becoming the foundation for the System's "Water Resources

Plan.” On November 5, 1998, the City Council accepted the Water Resources Plan “Securing Our Water Future Together” as the first comprehensive widely supported water resource plan for San Antonio. The 1998 Plan established programs for immediate implementation, as well as a process for developing long-term water resources. In October 2000, the City Council created a permanent funding mechanism (known as the Water Supply Fee) for water supply development and water quality protection through Ordinance No. 92753. The Water Supply Fee provides a specific fund for the development of water resources.

In August 2005, SAWS’ Board of Trustees unanimously approved the 2005 Update. The 2005 Update is a comprehensive review of the assumptions governing population and per capita consumption projections in Bexar County through 2050. The 2005 Update includes an analysis of each water supply alternative available for meeting future needs and demonstrates SAWS’ commitment to obtaining additional water supplies. The projected capital cost of the water supply approved in the 2005 Update originally totaled more than \$2 billion; however, more recent cost re-estimates have increased this amount to more than \$3 billion. As a result of some of the identified cost increases, other potential changes in the projects, and changes in personnel, a new Water Supply Task Force was assembled in June 2008 to review, evaluate, and update SAWS’ Water Resource plan. This task force completed its review in early 2009. After a comprehensive public outreach period, the Board of Trustees and the City Council of San Antonio approved the 2009 Water Management Plan in May 2009.

The 2009 Water Management Plan outlines a diversified foundation of San Antonio’s water supply. While the Edwards Aquifer will always be the cornerstone of San Antonio’s water supply, the System has already successfully developed several alternative water sources, such as Canyon Lack, the Trinity Aquifer, and the Carrizo Aquifer. The System’s recycled water program provides highly treated wastewater to CPS and other industrial customers who would otherwise use potable water. The System’s underground Aquifer Storage and Recovery reservoir allows us to collect unused Edwards Aquifer water during wet years and use it in times of drought.

As of December 31, 2009, the System utilizes the following water supplies, Edwards Aquifer, 251,411 acre-feet (“af”) which represents 60% of the System’s total supply, Aquifer Storage and Recovery underground storage, 65,000 af or 15% of total supply, Recycle Water to CPS, 50,000 af or 12% of total supply, Recycle Water to other customers, 35,000 af or 8% of total supply, Canyon Lake, 9,300 af or 2% of total supply, Carrizo Aquifer, 6,400 af or 2% of total supply, and Trinity Aquifer, 3,500 af or 1% of total supply.

Edwards Aquifer

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

Much of the Edwards Aquifer region consists of agricultural land, but it also includes areas of population ranging from communities with only a few hundred residents to the City, which serves as a home for well over one million residents. In 2009, the Edwards Aquifer supplies 90% of the potable water for municipal, domestic, industrial, and commercial needs for the SAWS service area. Naturally occurring artesian springs, such as the Comal Springs and the San Marcos Springs, are fed by Edwards Aquifer water and are utilized for commercial, municipal, agricultural, and recreational purposes, while at the same time supporting ecological systems containing rare and unique aquatic life.

The Edwards Aquifer is recharged by seepage from streams and by precipitation infiltrating directly into the cavernous, honeycombed, limestone outcroppings in its north and northwestern areas. Practically continuous recharge is furnished by spring-fed streams, with stormwater runoff adding additional recharge, as well. The historical annual recharge, from 1934 to the present, to the reservoir is approximately 684,700 acre-feet. The average annual recharge over the last four decades is approximately 797,900 acre-feet. The lowest recorded recharge was 43,000 acre-feet in 1956, while the highest was 2,485,000 acre-feet in 1992. Recharge has been increased by the construction of recharge dams over an area of the Edwards Aquifer exposed to the surface known

as the recharge zone. The recharge dams, or flood-retarding structures, slow floodwaters and allow much of the water that would have otherwise bypassed the recharge zone to infiltrate the Edwards Aquifer.

In 1993, the Texas Legislature created the Edwards Aquifer Authority (“EAA”) to manage groundwater withdrawals from the Edwards Aquifer through a permitting system and to provide for appropriate springflow during drought periods. As a consequence of the EAA’s permitting regime, SAWS’ access to Edwards Aquifer supplies is now limited to its historic use plus any additional supplies SAWS can acquire by lease or purchase. All Edwards Aquifer supplies are subject to regulation, with more stringent use limitations applied during periods of drought.

In 2007, the Texas Legislature passed Senate Bill 3, which established a new pumping cap and placed restrictions on supply availability during drought periods into State statute. Senate Bill 3 established a regional pumping cap of 572,000 acre-feet. As of December 31, 2009, through permitting, purchases, and leases, SAWS has access to 251,411 acre-feet of Edwards Aquifer water rights, which is approximately 44% of the regional pumping cap. Senate Bill 3 incorporates restrictions on supply availability during drought periods into State statute, thus making these restrictions State law. Under current law, when aquifer levels or springflow fall to certain trigger points, pumping allocations are reduced by 20% to 40% depending on the severity of the drought. In February 2009, City Ordinances were updated to ensure that restrictions on water usage commence in close proximity to the occurrence of these restrictions on pumping. In addition, to support ongoing efforts to identify and evaluate methods to protect threatened and endangered species, the State Legislature prescribed in detail a Recovery Implementation Plan (“RIP”) for the Edwards Aquifer region. The RIP, which will be undertaken in coordination with U.S. Fish and Wildlife Service, is intended to help the region meet the needs of endangered species, while respecting and protecting the legal rights of water users. The process could result in additional reductions on pumping during periods of drought.

As part of its Water Management Plan for 2009, the System will continue its effort to maintain the extent of its leased water (37,000 acre-feet) through lease renewal or purchase during the period 2009–2034. In addition, the System will seek to add 2,000 acre-feet per year through purchases beginning in 2009 and continuing through 2014.

The Plan also identifies the potential lease or purchase of an additional 11,700 acre-feet of Edwards Aquifer water in the period between 2014 and 2034 if alternate water sources such as the Regional Carrizo or additional Brackish Groundwater are not available as expected.

Throughout 2009, SAWS has been very active in acquiring additional Edwards Aquifer water rights through either lease or purchase. During 2009, a total of more than 26,000 acre-feet of Edwards Aquifer permits were added to SAWS’ inventory. While some of the permits acquired through lease will not be accessible until 2010 and 2011, SAWS’ total inventory of Edwards permitted rights will stand at over 263,100 acre-feet as of December 31, 2009, with more than 220,000 acre-feet of this amount owned by SAWS and the remainder leased.

Edwards Aquifer Recharge Initiatives

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

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

The 2009 Water Management Plan calls for the System to continue to cooperate with other Regional entities to complete the studies and construct a Recharge Project to produce over 13,400 acre-feet of water by 2020.

Recharge and Recirculation

SAWS partnered with EAA to fund the Recharge and Recirculation: Edwards Aquifer Optimization Program, Phase III and IV Report. This report indicates that considerable potential exists to extend the concept of recharge of the Edwards Aquifer to the idea of applying recharge at specific places in the Aquifer where, because of the geologic characteristics of these locations, this recharge will provide long-term enhancement of Edwards Aquifer water levels and springflow.

Increased Edwards Aquifer levels and springflow during drought periods could decrease the necessity of declaring drought restrictions by the Edwards Aquifer Authority through increased (higher) aquifer water levels and provide minimum springflow to help protect endangered species. SAWS could be rewarded for building a Recharge and Recirculation Project by receiving access to increased Edwards Aquifer water during drought periods.

Costs and extent of the water resources that will be available from the Project are undetermined at this time, but the potential is high enough that the Recharge and Recirculation Project is included as a project for consideration in the 2014–2034 mid-term period in the 2009 Water Management Plan.

Trinity Aquifer Projects

SAWS reached a milestone in February 2002 with the introduction of the first non-Edwards drinking water supply from the Lower Glen Rose/Cow Creek formation of the Trinity Aquifer in northern Bexar County. The System has wholesale contracts with Massah Corporation (“Oliver Ranch”) and Sneckner Partners, Ltd. (“BSR Water Company”) for delivery of up to 5,000 acre-feet per year of non-Edwards groundwater from the Trinity Aquifer from two properties located in north-central Bexar County. The construction cost to produce and deliver this water supply is approximately \$15.8 million. Initial delivery of water from the Oliver Ranch project began in February 25, 2002 with BSR Water Company wells 1 and 2 production commencing in July 2003. The BSR Water Company project was fully operational in June 2004 with the connection of BSR Water Company wells 3 and 4 to SAWS’ distribution system.

In 2007, production from Oliver Ranch and BSR Water Company projects was 3,126 acre-feet, while in 2008, production from these combined projects totaled 3,422 acre-feet. As a result of the severe drought conditions experienced across the region the first eight months of the year, 2009 production totaled 1,739 acre-feet. The 2009 Water Management Plan identifies that 3,500 acre-feet of water will be obtained from Trinity Aquifer sources in normal rainfall years. In severe drought, the 2009 Water Management Plan acknowledges that the Trinity Aquifer water may not be available.

Lower Colorado River Authority Project

The Lower Colorado River Authority-San Antonio Water System (“LCRA-SAWS”) Water Project was conceived to develop and make available up to 150,000 acre-feet per year of surface water supplies for San Antonio in 2025 while firming up water supplies in the Colorado River Basin. In 2001, legislation was passed to authorize LCRA to sell water outside its statutory boundary to SAWS. SAWS and LCRA executed a definitive agreement (2002) outlining LCRA’s and SAWS’ obligations. The agreement calls for a multi-year study period, at the end of which both SAWS and LCRA will determine whether or not to proceed with implementation of the project. SAWS and LCRA are now entering the sixth year of the study period to assess the environmental, engineering, and cost impacts. Finalization of studies and obtaining appropriate permits for the project are expected to be complete between 2013 and 2015.

Throughout the study period, SAWS and LCRA evaluate the Project’s viability on an ongoing basis. Specific legislative criteria (Texas Water Code § 222.030) must be met before any water is transferred from the Colorado River basin. Among other requirements, the project must provide for beneficial inflow sufficient to maintain the ecologic health and productivity of the Matagorda Bay System; protect and benefit the lower Colorado River Basin; raise the highland lake levels; and provide for a broad, public, and scientific review process. In 2008, research activities focused on development of bay health species and inflow criteria; water quality; instream flow criteria; agricultural conservation; groundwater development; socioeconomic considerations; waterfowl; surface water availability modeling; the identification of a preferred alternative site for the location of an off-channel storage

facility and river intake facility; the transportation system, treatment, and integration system from the LCRA basin boundary to San Antonio; and project permitting.

In December 2008, the LCRA Board of Directors adopted several water supply planning guidance resolutions which led to a conclusion by LCRA that there would be no firm water supply available for San Antonio from the planned project. In a series of meetings and letters over the next four months, SAWS conveyed to LCRA SAWS' belief that this action by the LCRA Board was inconsistent with the Definitive Agreement between the parties. On May 5, 2009, SAWS' Board of Trustees declared LCRA in breach of the 2002 Definitive Agreement and directed SAWS staff to pursue all available remedies for the breach. The parties conducted formal mediation on August 5, 2009, but the mediation was unsuccessful. SAWS filed suit against LCRA on August 24, 2009, in the 200th Judicial District Court of Travis County, Texas. The cause number is D-6N-09-002760, styled *City of San Antonio, Acting by and Through the San Antonio Water System vs. Lower Colorado River Authority, et al.* LCRA filed a Plea to the Jurisdiction and Original Answer on September 25, 2009, asserting full or partial governmental immunity from suit and generally denying that it has breached the Definitive Agreement. On February 1, 2010, the district judge ruled in favor of LCRA by granting LCRA's Plea to the Jurisdiction and dismissing the System's lawsuit. As of February 2, 2010, SAWS is evaluating its appellate options.

During the course of the study and planning periods since 2002, SAWS incurred certain costs with respect to the design of the pipeline which was to be utilized to transport water from the LCRA basin boundary to San Antonio. These costs totaling \$2.7 million were recorded as an asset on SAWS' balance sheet. Given the uncertain nature of this project at the current time, SAWS is currently in the process of evaluating any potential impairment to this asset. Should it ultimately be determined that this asset has suffered a permanent, unrecoverable impairment it will be written down to its fair value, which is likely to be \$0.

The 2009 Water Management Plan calls for one or more of several Water Resources Projects to provide at least 75,600 acre-feet of water to meet SAWS' long-term water needs in approximately 2060. In addition to the LCRA-SAWS Project, Seawater Desalination, an additional Aquifer Storage and Recover project, and other Water Supplies were listed as options.

Bexar County Aquifer Storage and Recovery

An Aquifer Storage and Recovery ("ASR") project involves injecting ground or surface water into an aquifer, storing it, and later retrieving it for use. Essentially, it accomplishes storage that is traditionally provided through surface water reservoirs without the concern of evaporation. The ASR is primarily designed to optimize use of water from the Edwards Aquifer and may be expanded to inject water from currently planned water supply projects. In December 2002, the Evergreen Underground Water Conservation District and SAWS approved an Aquifer Protection and Management Agreement. This agreement ensures operation of the ASR site if the property is annexed into the district, manages groundwater production, and commits SAWS to monitoring water levels and mitigation of potential negative impacts.

SAWS began a study of an ASR project in 1996, acquired 3,200 acres in southern Bexar County, and has completed construction of Phase I of the \$125 million ASR project and the approximately \$60 million "integration facilities" to transport this water into SAWS' distribution system. Phase I of the project was dedicated on June 18, 2004 and gives SAWS the ability to inject or recover up to 30,000 acre-feet of Edwards Aquifer water per year.

In 2006, the ASR was an integral component of SAWS' drought management strategy. Approximately 5,800 acre-feet of supplies were withdrawn primarily during the hot, dry summer months in order to reduce peak demand during the drought period. Effective scheduling and use of this additional inventory enabled SAWS to ensure its compliance with the EAA's rules for groundwater withdrawals.

In 2008, SAWS continued capital improvements to complete Phase II of the project, which involved well field expansion through the completion of 13 additional wells, the addition of a 7.5 million gallon tank, and the addition of various pumping facilities, among other improvements. The \$55 million Phase II expansion was completed in 2009 and effectively doubled SAWS' ability to inject or recover Edwards Aquifer to 55,000 acre-feet per year. While underway, SAWS has continued to store water in the ASR. During July 2008, ASR was again recovered and returned to SAWS' distribution system when the Edwards Aquifer Authority implemented water

restrictions. SAWS' ASR facility was recognized in 2007 by the National Groundwater Association as the "2007 Outstanding Groundwater Project."

In the 2009 Water Management Plan, ASR's role has been expanded with the decision to transition this facility to a long-term storage reserve. In addition, the 2009 Water Management Plan refers to expansion of ASR storage capability as a long-term strategy to optimize available water resources. A study commenced in 2009 to determine the total storage capability of the current ASR site and options for additional sites that would increase the ASR storage capability two times or more. By the end of December 2009, SAWS had amassed rent storage of more than 65,000 acre-feet of water that will be used in long-term drought situations to help meet SAWS water needs. SAWS will continue to store water when it is available and recover water when required during drought.

Western Canyon Project

SAWS, Comal and Kendall County participants, and the Guadalupe-Blanco River Authority ("GBRA") are working together on the Western Canyon Project for the delivery of water from Canyon Lake Reservoir. GBRA is required through a contract to divert, treat and deliver the water to a certain point into SAWS' delivery system. SAWS will initially receive over 9,000 acre-feet per year for service to northern Bexar County. Over time, this amount will decline to 4,000 acre-feet, as GBRA's in-district participants in the project complete infrastructure necessary to enable them to obtain supplies and growth allows the participants to utilize their full allotment of reserved water.

SAWS began receiving water from this project in April 2006. In 2006, SAWS received 4,957 acre-feet of supplies from this project. In 2007, SAWS produced approximately 7,597 acre-feet of supplies from this project, in addition to completing the addition of a storage tank and integration pipeline to facilitate delivery of this supply into the SAWS distribution system. In 2008, 8,943 acre-feet was delivered from this project. In 2009, SAWS received 8,734 acre-feet of water from this project. Pursuant to the terms of the contract with GBRA, this contract will terminate in 2037, with an option to extend until 2077 under new payment terms.

Brackish Groundwater Desalination Project

Such a project is well suited for the south central Texas region, which contains more than 300,000,000 acre-feet of brackish groundwater. Hydrologic research on the sustainability of supply and water quality parameters began in December 2005. The 2009 Water Management Plan calls for completion of a brackish water desalination plan to produce 11,800 acre-feet of potable water per year by 2014. The plan will rely on brackish water pumped from Bexar County. The plan also makes provision for the Project to include other water from Wilson and Atascosa Counties to provide at least an additional 11,700 acre-feet by 2034, depending on how other mid-range Projects develop.

In 2007 and 2008, the System continued its hydrogeologic evaluation on four (4) test sites in the saline portions of the Edwards and Wilcox Aquifers in Atascosa and Bexar Counties. The hydrogeologic evaluation involves the construction of test and monitoring wells that will provide an indication of the firm supply of water available for the project and the impacts of the System's production on the Carrizo-Wilcox Aquifer system. The data obtained from the tests and monitoring wells will support the evaluation of various pre-treatment, treatment, and concentrate management strategies.

The majority of feasibility work for the brackish groundwater desalination project was completed in 2008. Raw water quality is favorable for development of a desalination facility that would be sustainable for over 50 years. The treatment plant would be a Reverse Osmosis plant and is projected to be located in southern Bexar County on property currently owned by the System. Water from the desalination plant would be integrated by pipeline for distribution into the northwest portion of San Antonio. Pilot testing of the reverse osmosis membranes (required for facility permitting) is currently underway. It is currently anticipated that concentrate disposal will be accomplished using deep well injection. Further data will be developed in preparation for required permitting of the concentrate injection wells through the Texas Commission on Environmental Quality.

This technical analysis is being accompanied by an evaluation of the potential benefit and feasibility of applying innovative procurement methods. In 2007, SAWS supported efforts to enable Design Build to be used for

brackish groundwater and wastewater projects. During the 80th Legislative Session, the Texas Legislature passed HB 1886, which authorized design build for water and wastewater projects.

Carrizo Aquifer Projects

The 2009 Water Management Plan includes the Regional Carrizo Project to obtain 11,687 acre-feet from the Carrizo Aquifer in Gonzales County in time to meet mid-term needs of the System.

Development of the Carrizo Aquifer project depends upon issuance of permits for groundwater drilling, production, and transport from local groundwater conservation districts. The System submitted an initial, consolidated permit application for production and transportation permits for 11,687 acre-feet to the Gonzales County Underground Water Conservation District (the "GCUWD") in June 2006. Pursuant to GCUWD rules, production permits have a term of five years, after which a renewed permit may be issued upon application, subject to the notice and hearing requirements applicable to permit applications. The applications were declared administratively complete on July 12, 2006 and contested by several parties on October 10, 2006.

Throughout 2007, 2008, and continuing through 2009, SAWS participated in several public hearings and multiple mediation sessions as part of the contested case hearing process. The contested case hearing took place October 5-13, 2009 and December 4, 2009 in Gonzales, Texas. Resolution is anticipated in early to mid-2010 with construction activities commencing soon after permits are issued.

SAWS is also exploring the possibility of partnering with other agencies that either produce or will produce water in Gonzales County. These efforts would explore transporting water from Gonzales County to Bexar County or near Bexar County in order to share costs and reduce the cost of obtaining water for all participants. Discussions are on-going.

Local Carrizo Water Supply Project

A provision of the 2002 Water Resource Protection and Management Agreement with the Evergreen Underground Water Conservation District gives SAWS the ability to withdraw up to 2 acre-feet of Carrizo Aquifer water per surface acre of land owned or leased (controlled). This equates to approximately 6,400 acre-feet of Carrizo Aquifer production per year. Thus, in 2006, SAWS initiated the Local Carrizo Program at the ASR site with dual goals in mind. The first was to provide SAWS with access to approximately 6,400 acre-feet of Carrizo Aquifer water, while the second was to counter the natural south-southeast drift of the stored Edwards Aquifer water away from the ASR wellfield with water wells drilled north-northwest of the stored Edwards Aquifer water.

The approximately \$17 million Local Carrizo Water Supply program is comprised of two phases: an ASR onsite phase and an ASR offsite phase. The onsite began production in August 2008, with production of 383 acre-feet in 2008. Total production during 2009 was 5,934 acre-feet.

The offsite phase is anticipated to be completed by July 2010. While this additional phase will reduce the effects of this naturally occurring movement of water and provide increased operational flexibility of recovering the stored water, no additional production capacity accompanies the offsite phase.

Other Potential Water Supply Projects

The System periodically receives unsolicited proposals for new water supply projects. Recent proposals have included large groundwater projects in Val Verde, Kinney, and Uvalde Counties to the west of San Antonio, Comal County north of San Antonio, and Brazos, Burleson, Lee, Leon, Milam, and Robertson Counties northeast of San Antonio. Each of these projects would include a requirement for construction of both production facilities and transmission infrastructure. Each project would have to be undertaken within the regulatory constraints of local groundwater conservation district rules. The proposals generally vary in terms of ownership, permitting, construction, financing and operational responsibilities.

The 2009 Water Management Plan calls for a request for qualifications ("RFQ") solicitation to occur in early 2010 to provide an opportunity for these and other potential water providers to present the characteristics of

their projects in a common form for SAWS' consideration. The RFQ response will allow SAWS to identify projects that can help meet mid- to long-term water needs.

Ocean Desalination

In 2009, the Water Management Plan includes the development of an ocean desalination project as one of the options to meet SAWS' long-term water needs of 75,600 acre-feet. Beginning in 2009, the feasibility study will be initiated to identify potential sites, pipeline routes, permitting requirements, construction challenges, and partnership opportunities. Communications and outreach activities were undertaken in 2009 and will continue through 2010 prior to and after an RFQ is issued to select a consultant to begin a feasibility/conceptual study regarding siting of a desalination facility. Partnering opportunities will be explored during the outreach phase and will continue to be explored in the future. Ocean desalination appears to be the most expensive source of new water resources. The study will provide some certainty to cost estimates for informed consideration in the future.

Water Reuse 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 has developed a water reuse program utilizing the wastewater stream. Currently, approximately 23,000 acre-feet are under contractual commitment and 12,600 acre-feet are online. SAWS delivers 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. Reuse water is delivered for industrial processes, cooling towers, and irrigation, which would otherwise rely on potable quality water. Combined with the 45,000 – 50,000 acre-feet per year used by CPS, this is the largest reuse water project in the country. SAWS has a contract with CPS through 2030 for the provision of such reused water. The revenues derived from the CPS contract have been excluded from the calculation of gross revenues, and are not included in any transfers to the City.

Integration Pipeline

The 2009 Water Management Plan addresses the operating challenge of co-locating the Brackish Groundwater Project, Regional Carrizo outlet, Local Carrizo and Aquifer Storage and Recovery Projects at a single site (Twin Oaks in Southern Bexar County) by expediting the Integration Pipeline Project. It will bring water to the Western part of the City to match the System's current capability to bring water to the Eastern part of the City. The Project is scheduled for completion by 2014.

Conservation

Beginning in 1994, SAWS progressively implemented aggressive water conservation programs, which have reduced total per capita water production and use by 43.2%, going from 213 gallons-per-capita-per day ("gpcd") in 1994 to approximately 121 gpcd in 2004. Given these accomplishments, the 2005 Update to SAWS' fifty-year Water Resource Plan set a new goal for conservation that includes the provision to reduce per capita consumption to 116 gpcd during normal-year conditions and 122 gpcd during dry-year conditions by 2016. As SAWS has experienced three more dry years (2005, 2006, and 2008) and one more wet year (2007) since the adoption of these goals, an evaluation of these per capita usage goals for both normal and dry-year conditions is being preformed as part of the Water Supply Task Force review of SAWS' Water Resource Plan. The goal for normal conditions remains 116 gpcd by 2016, with 126 gpcd in dry years and 106 gpcd in wet years.

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

Indoor Residential Conservation

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

“Toilet Retrofits,” which involve the distribution of high-efficiency toilets, provide a substantial water savings for San Antonio. SAWS sponsors activities like the “Season to Save Community Challenge,” which tests the idea that non-profit organizations are effective at motivating ratepayers to participate in resource management programs. In 2007, the System distributed 27,000 high-efficiency toilets (HET)/low flow toilets (LFT), in 2008, 25,000 HET/LFT were distributed and in 2009, 19,000 HET/LFT were distributed.

“Plumbers to People” provides leak repairs and retrofits to qualified low-income homeowner customers. SAWS, in cooperation with the City's Department of Community Initiatives - Center for Working Families, qualifies applicants based on the current Federal Assistance Guidelines. Only leaks that result in a loss of potable water are eligible for repair under the program. Water Conservation is achieved by quickly repairing leaks that would otherwise continue due to the cost of repairs. Analysis of program costs and water savings indicate that this affordability program is also one of our most effective at conserving water at a reasonable cost per unit.

Outdoor Residential Conservation

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

“Irrigation Check-Ups” provide SAWS' ratepayers with a free analysis of their in-ground irrigation system. Trained conservation technicians visit homes to review each component of irrigation systems to determine maintenance needs to make suggestions for improving efficiency. Customers are invited to participate in the review process to get the maximum benefit from the site visit. A report that outlines any necessary maintenance repairs, suggestions for design improvements and how much water the system uses is provided to customers. The consultation visit includes suggestions on rebate incentive amounts available for making suggested design improvements. These check-ups result in an average 9% drop in consumption for residential customers.

“WaterSaver E-Newsletter” is a free information service provided to customers who want expert advice on how to take care of their Texas landscape. It includes timely lawn irrigation advice that is based on current weather conditions. Local horticulture experts provide weekly articles on seasonal landscape care. Plants that thrive in San Antonio are featured. A gardening expert responds to regularly submitted questions. In addition, gardening related events are highlighted in an events calendar. This weekly communication is currently going to 9,000 customers. Master Gardener volunteers help to promote the free service and subscriptions are regularly growing.

Commercial and Industrial Programs

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

“Commercial Retrofit Program” allows businesses with older, high-flow toilets to replace them by receiving free fixtures from SAWS. The facility needing a retrofit is analyzed to determine which fixtures should be changed and what new product will best meet the needs of the site. Fixtures targeted for change include toilet, showerheads, faucet aerators, urinals, ice machines and restaurant spray valves. Plumbing services to install the fixtures may be provided by SAWS if it is determined that the amount of water saved is high enough to offset the additional expense. Four-star hotels around San Antonio have completed these retrofits and had high customer ratings for their quality. The water consumption at hotels that are retrofitted reduces by 20% or more after retrofits are complete.

“Restaurant Certification Program” is the result of SAWS’ working with the San Antonio Restaurant Association. Participating restaurants receive replacement spray valves for their kitchen, have older toilets replaced, and learn about other ways they can reduce their water bills. The program has been very popular with restaurants. To date, 1,268 restaurants have been certified, with the replacement of 2,322 high-flow pre-rinse spray valves and 726 high-flow toilets. Total water savings associated with this program equates to 610 acre-feet per year. A list of the Certified WaterSavers Restaurants is available on SAWS’ website.

“Large-scale Retrofits Program” allows large-scale water users to apply on a case-by-case basis for a rebate for installation of water conserving equipment. The rebate may be for up to one-half of the cost of the retrofit, depending on the amount of water to be saved and other factors. The program requires a pre-audit, a pre-inspection, and ongoing verification of water savings. Examples of retrofit projects are diverse and include reclaim of air conditioning condensate, a change in process water usage, or retrofit to a non-water use technology.

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

Water Quality

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

Research on the Edwards Aquifer is conducted as part of the Edwards Aquifer Optimization program. This is a comprehensive program that identifies and evaluates technical options to increase available yield from the Edwards Aquifer and to attempt to use the aquifer’s storage capacity more efficiently. In 2007, SAWS continued its investigative studies concerning the freshwater/saline-water interface of the Edwards Aquifer. The goal of these studies is to gain a better understanding of the hydrogeologic framework, chemical and hydraulic characteristics, and ground water flowpaths of the freshwater-saline water interface of the Edwards Aquifer. In the fall of 2007, SAWS commenced an evaluation of the hydrogeology and water balance of San Marcos Springs, in support of the scientific efforts to be initiated for the Edwards Aquifer Recovery Implementation Program and continues into 2009. The goal of this study is to define and characterize sources for recharge and local flowpaths to San Marcos Springs. In addition, the study will determine local influences and contributions to the San Marcos Springs from the Edwards Aquifer, and Trinity Aquifer, as well as from streams and rivers in the area.

Water Supply Fee

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

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

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

Source: SAWS, approved by City Council.

On November 17, 2005, the City Council approved a fee of \$0.1487 per 100 gallons. Effective January 13, 2009, the per 100-gallon fee was increased to \$0.1529, which will remain in effect until amended by City Council.

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Capital Improvement Plan

The following is a proposed five-year Capital Improvement Program for SAWS. It is the intention of SAWS to fund the program with tax-exempt commercial paper, impact fees, system revenues, and future bond issues. SAWS budgeted the following capital improvement projects during calendar year 2010:

- \$8.7 million for the wastewater treatment program to repair, replace, or upgrade treatment facilities;
- \$65.4 million for the wastewater collection program to fix deteriorated components of the collection system, and provide capacity for future growth;
- \$20.3 million to replace sewer and water mains;
- \$54.5 million for the governmental replacement and relocation program;
- \$27.8 million to construct new and fix deteriorated components of the production facilities;
- \$9.0 million for the water distribution program to fix deteriorated components of the distribution system, and provide capacity for future growth; and
- \$99.9 million for water supply development, water treatment, and water transmission projects for new sources of water.

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

	Fiscal Year Ended December 31,					Total
	2010	2011	2012	2013	2014	
Water Supply	\$ 100,971,787	\$ 102,011,490	\$ 95,804,426	\$ 165,378,445	\$ 92,048,300	\$ 556,214,448
Water Delivery	78,137,301	58,912,200	47,161,726	55,047,848	52,829,779	292,088,854
Wastewater	118,507,888	147,826,262	143,976,992	113,842,621	135,798,806	659,952,569
Heating and Cooling	100,000	250,000	100,000	1,600,000	100,000	2,150,000
Total	\$ 297,716,976	\$ 308,999,952	\$ 287,043,144	\$ 335,868,914	\$ 280,776,885	\$ 1,510,405,871

Source: SAWS.

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,					Total
	2010	2011	2012	2013	2014	
Revenues	\$ 19,171,463	\$ 78,801,738	\$ 31,840,901	\$ 39,409,741	\$ 64,071,559	\$ 233,295,402
Impact Fees	42,131,297	30,000,000	32,000,000	34,000,000	34,000,000	172,131,297
Debt Proceeds	236,414,216	200,198,214	223,202,243	262,459,173	182,705,326	1,104,979,172
Total	\$ 297,716,976	\$ 308,999,952	\$ 287,043,144	\$ 335,868,914	\$ 280,776,885	\$ 1,510,405,871

Source: SAWS.

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San Antonio Water System Summary of Pledged Revenues for Debt Coverage ⁽¹⁾
(\$000)

Year	Gross Revenues ^(c)	Operating Expenses ^(d)	Net Revenue Available	Revenue Bond Debt Service ^(b)				Maximum Annual Debt Service Requirements			
				Principal	Interest	Total	Coverage	Total Debt	Coverage	Senior Lien Debt	Coverage ^(e)
2008	\$387,516	\$208,774	\$178,742	\$27,360	\$69,860	\$97,220	1.84	\$98,840	1.81	\$86,140	2.08
2007	347,391	188,180	159,211	24,880	67,785	92,665	1.72	102,880	1.55	86,138	1.85
2006	374,831	179,903	194,928	22,415	62,947	85,362	2.28	91,175	2.14	78,373	2.49
2005	332,669	173,490	159,179	16,505	54,987	71,492	2.23	94,992	1.68	78,373	2.03
2004	264,782	153,860	110,922	7,735	52,205	59,940	1.85	84,941	1.31	67,203	1.65
2003	242,488	152,743	89,745	5,515	44,614	50,129	1.79	76,075	1.18	61,511	1.46
2002	240,375	134,977	105,398	25,045	39,589	64,634	1.63	66,268	1.59	61,511	1.71
2001 ^(a)	136,235	78,448	57,787	0	20,345	20,345	n/a		n/a		n/a
2001	207,225	121,351	85,874	23,760	36,661	60,421	1.42	66,994	1.28	56,293	1.53
2000	197,446	115,016	82,430	18,990	35,231	54,221	1.52	62,099	1.33	53,566	1.54

⁽¹⁾ Unaudited.

^(a) Seven months ended December 31, 2001. In 2001, the SAWS Board of Trustees approved a change in the fiscal year end from May 31st to December 31st.

^(b) Details regarding outstanding debt can be found in the notes to the financial statements. All bonded debt is secured by revenue and is included in these totals.

^(c) Gross Revenues are defined as operating revenues plus nonoperating revenues less revenues from the City Public Service contract and interest on Project Funds.

^(d) Operating Expenses reflect operating expenses before depreciation as shown on the Statement of Revenues, Expenses, and Changes in Equity.

^(e) SAWS bond ordinance requires the maintenance of a debt coverage ratio of at least 1.25x the annual debt service on outstanding senior lien debt.

n/a Not applicable due to short period.

Source: SAWS.

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The Airport System

General

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

The International Airport, located on a 2,600-acre site that is adjacent to Loop 410 freeway and U.S. Highway 281, is eight miles north of the City's downtown business district. The International Airport consists of three runways with the main runway measuring 8,502 feet and able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 24 second-level gates. Presently, the following domestic air carriers provide service to San Antonio: AirTran, American, American Eagle, Chautauqua, Continental, Continental Express, Delta, Delta Connection/ASA, Delta Connection/Comair, Frontier, Mesa, Southwest, United, United Express/Skywest, and US Airways. Aero Mexico Connect and Mexicana are Mexican airlines that provide passenger service to Mexico.

An Airport Master Plan for the International Airport was completed in 1998 for the purpose of facilitating Airport expansion in anticipation of meeting projected demand. The Airport Master Plan design allows for an increase from 24 to 46 gates. In May 2009, work began on a new Master Plan for the International Airport. The Master Plan will guide future development through 2030 and beyond. Scheduled for completion in late 2010 and Federal Aviation Administration ("FAA") review for approval in early 2011, the Master Plan will define how the City can meet future regional aviation needs while preserving flexibility and optimizing our aviation facilities to enhance opportunities for expanded air service.

The International Airport is considered a medium hub facility by the Federal Aviation Administration ("FAA"). For the calendar year ended December 31, 2009, the International Airport enplaned approximately 3,905,439 passengers. Airport management has determined that of the Airport's passenger traffic, approximately 91% is origination and destination in nature (which is important because it demonstrates strong travel to and from the City, independent from any single airline's hubbing strategies).

Stinson Municipal Airport, located on approximately 375 acres, is approximately 6 miles south of the City's downtown business district. Stinson was established in 1915 and is one of the country's first municipally owned airports. It is the second oldest continuously operating general aviation airport in the U.S. and serves as the general aviation reliever to San Antonio International Airport. An Airport Master Plan for Stinson was initiated in March 2001 to facilitate the development of Stinson and to expand its role as a general aviation reliever to the International Airport. The Texas Department of Transportation ("TxDOT") accepted the Master Plan in 2002 and has recommended \$16.0 million in grant funding for capital improvements over the next ten to fifteen years. The expansion of Stinson's facilities is also needed to take advantage of new, complementary business opportunities evolving with the synergy between Brooks City-Base, Port San Antonio, and Stinson. A Target Industry Study was completed in 2003 as part of the master planning process. The study helped facilitate development of Stinson properties through the identification of industries and businesses considered to be compatible for locating at Stinson.

Capital Improvement Plan

In order to meet future airport capacity requirements, the Airport Master Plan for the International Airport is currently being updated. This update will make recommendations to expand terminal and airfield capacity in an orderly manner to coincide with projected growth in passenger volume and aircraft operations. In FY 2002, the City commenced implementation of a ten-year "Capital Improvement Plan" (the "CIP"). As part of the overall CIP, the FY 2010 through FY 2015 Capital Plan, including the Air Transportation Program, commenced in 2006. Included in the program are projects planned or currently under construction at the Airport and Stinson. The six-year program totals \$212 million. The projects are consistent with the current Airport Master Plan and are necessary to accommodate the expected continued growth in the aircraft and passenger activity at the Airport and to replace or rehabilitate certain facilities and equipment at the Airport and Stinson. The CIP addresses both terminal and airfield improvements, including the addition of Terminal B and the removal of the existing Terminal 2, as well as roadway improvements, airfield improvements, residential acoustical treatment and other building and drainage

improvements. The anticipated sources of funding for the Airport’s CIP for fiscal years 2010 through 2015 are as follows:

<u>Funding Sources</u>	<u>Anticipated Funding</u> (\$000)
Grants	
AIP Grants	\$108,751
Passenger Facility Charges (“PFC”)	
Pay-As-You-Go	21,278
PFC Secured Bonds	2,942
Other Funding	
Unissued Bonds	<u>79,595</u>
Total	<u>\$212,566</u>

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

<u>Improvement</u>	<u>Amount</u> (\$000)
International Airport	
Terminal/Gate Expansion	\$78,769
Airfield Improvements	55,946
Parking	8,000
Acoustical Treatment	60,000
Other Projects (i.e., Building and Drainage Improvements)	9,121
Stinson Airport	<u>730</u>
Total	<u>\$212,566</u>

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

The FAA issued a “Record of Decision” on August 29, 2001 approving the City’s initial PFC application. The City, as the owner and operator of the Airport, received authority to impose a \$3.00 PFC and to collect, in the aggregate, approximately \$102,500,000 in PFC revenues. On February 15, 2005, the FAA approved an application amendment increasing the PFC funding by a net amount of \$13,893,537. On February 22, 2005, the FAA approved the City’s application for an additional \$50,682,244 in PFC collections to be used for eleven new projects. On June 26, 2007, the FAA approved two amendments to approved applications increasing the PFC funding by a net amount of \$121,611,491 for two projects and \$67,621,461 for four projects. On October 4, 2007, the FAA issued a “Final Agency Decision” for a PFC application to be used for four new projects and increased the impose authority by an additional \$24,625,453. Additionally, the FAA approved the increased collection rate from \$3.00 to \$4.50 effective October 1, 2007.

On October 1, 2007, the City began collecting a \$4.50 PFC (less an \$0.11 air carrier collection charge) per paying passenger enplaned. A total of approximately \$381 million in PFC revenues will be required to provide funding for the projects included in the Airport’s CIP. The City has received PFC “impose and use” authority, meaning that it may impose the PFC and use the resultant PFC revenues for all projects, contemplated to be completed using bond proceeds. The estimated PFC collection expiration date is March 1, 2019.

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

- Replace Remain Overnight Apron
- Rehabilitate Terminals 1 & 2
- Reconstruct Perimeter Road
- Construct New Concourse B
- Acoustical Treatment Program
- Construct Elevated Terminal Roadway
- Upgrade Central Utility Plant
- Construct Apron – Terminal Expansion
- Install Utilities – Terminal Expansion
- Replace Two Airport Fire & Rescue Vehicles
- Conduct Environmental Impact Statement
- Reconstruct Terminal Area Roadway
- Install Noise Monitoring Equipment
- Install Terminal and Airfield Security Improvements
- Install Airfield Electrical Improvements
- PFC Development and Administration Costs
- Terminal 1 Modifications
- RSAT Airfield Improvements
- Runway 3-21 Extension
- Extend Taxiway R

Airport management is in the process of refreshing its PFC funding authorization to increase the amount of PFC funding that may be used in the current capital program. The Airport management is coordinating PFC Program amendments with the airlines, the FAA and the public, which will increase the authorization by \$114,444,125. This will increase the overall PFC authorization to collect from \$380,958,549 to \$495,402,674. Approval of the amendments is expected in May 2010.

Projects that will be funded with the additional PFC proceeds include Noise Attenuation, Construction of Terminal B, New Utilities Plant Expansion, Terminal 1 Modifications, and Taxiway R Extension.

Terminal Expansion. The terminal expansion project will include an eight-gate Terminal B, a new consolidated baggage handling system and a new central utility plant. Terminal B will replace Terminal 2, which is obsolete and will be demolished. Site work for the new Terminal B occurred on June 17, 2008. The present Terminal 1 will be redesignated as Terminal A. There are plans in the development stages for Terminal C.

Airfield Improvements. Implementation of the Master Plan Airfield Recommendations required an Environmental Impact Statement (“EIS”) to assess the environmental impacts associated with the capacity enhancing runway/taxiway projects. Public involvement throughout the process is essential to the successful completion of these projects. Airport Master Plan projects included as part of the EIS include extension of Runway 3/21 and Taxiways N and Q; reconstruction and upgrade of Runway 12L/30R and associated taxiways from general aviation to air carrier dimensions of approximately 8,500 feet by 150 feet; as well as the installation of an instrument landing system. With a determination from the FAA that the Runway 12L/30R project was not yet critical to airfield capacity and that the required length of extension for Runway 3/21 was 1,000 feet rather than 1,500 feet proposed by the Master Plan, the EIS was reclassified as an environmental assessment (“EA”) for the remaining work. The final public meeting for the EA was held on August 28, 2007 and a finding of no significant impact was received. In 2008, Taxiway’s G and N were widened and airfield lighting was enhanced as part of the ongoing apron improvements. In 2009, the extension of runway 3/21 began; completion will be accomplished in stages with an anticipated completion date of late 2011.

Parking Improvements. As of the Fall 2009, the International Airport operates and maintains approximately 8,668 public parking spaces and 1,263 employee parking spaces for a total of 9,931 parking spaces. A parking study had been developed in 2001 for the International Airport by AGA Consulting, Inc. The study indicated that projected peak period demand for Airport parking would exceed the available supply by the end of

2006; this peak period actually arrived in 2005. It was estimated that an additional 2,400 parking spaces would be required to satisfy projected demand over the next ten years. In February 2007, construction began to build an adjacent extension of the five-story long-term garage, which was completed in June 2008.

Cargo Improvements. The International Airport has two designated cargo areas: the West Cargo Area, which was constructed in 1974 and refurbished in 1990, and the East Cargo Area, which was completed in 1992 and expanded in 2003. The East Cargo Area is specifically designed for use by all-cargo, overnight-express carriers. Custom-built cargo facilities in the East Cargo Area are leased to DHL, UPS, and Federal Express, while Lynx constructed a processing facility in the year 2000. UPS is in the process of expanding its facilities by reloading from the West Cargo Area to the East Cargo Area. Foreign trade zones exist at both cargo areas. Enplaned and deplaned cargo for 2009 totaled 259,814,742 pounds.

Airport Operations

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

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

The passage of the Aviation and Transportation Security Act in November of 2001, created the Transportation Security Administration (“TSA”). The Department has worked closely with the TSA to forge a higher level of security for the traveling public. TSA employs about 300 individuals at the International Airport to meet the federal security requirements.

The number of based aircraft and volume of aircraft operations at the Airport has been relatively constant over the past few years. Material growth in aircraft operations and number of base aircraft is expected to increase over the next few years as additional common use hangars and T-hangars are constructed and come online.

Because of its potential growth, the TxDOT Aviation Division approved grant funds for various projects at Stinson. To accommodate the demand for services at Stinson, a \$4.8 million terminal expansion project added approximately 24,000 square feet of additional concession, administrative, education, and corporate aviation space to the existing 7,000 square-foot terminal building. With Airport System funds, the Stinson Terminal Building was completed in November 2008. The terminal expansion project adds administrative offices, classrooms, concession, retail space, and conference rooms to accommodate and attract new business. In November 2007, the Environmental Assessment for the runway extension and related airfield projects were approved when the TxDOT Aviation Division issued a “Finding of No Significant Impact.” The runway project will be dedicated and available for use in March 2010 and will provide a usable runway length of at least 5,000 feet. The additional runway length will allow Stinson to serve additional types of general aviation aircraft to include operators of corporate jets. The expansion, along with a runway extension and other infrastructure improvements, will allow for the growth of existing tenants as well as create opportunities for new business to locate at Stinson. Palo Alto Community College moved its Aviation Program to Stinson in the expanded terminal space in June 2009.

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

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

	Fiscal Year Ended September 30				
	2005	2006	2007	2008	2009*
Gross Revenues ¹ :	\$47,180,690	\$52,785,593	\$56,682,447	\$65,187,888	\$61,248,835
Airline Rental Credit	<u>5,322,516</u>	<u>7,988,304</u>	<u>8,831,771</u>	<u>5,040,274</u>	<u>4,429,593</u>
Adjusted Gross Revenues	\$52,503,206	\$60,773,897	\$65,514,218	\$70,228,162	\$65,678,428
Expenses	<u>(26,411,104)</u>	<u>(29,471,313)</u>	<u>(32,583,693)</u>	<u>(41,585,794)</u>	<u>(40,476,525)</u>
Net Income	<u>\$26,092,102</u>	<u>\$31,302,584</u>	<u>\$32,930,525</u>	<u>\$28,642,368</u>	<u>\$25,201,903</u>

* Unaudited

¹ As reported in the City's audited financial statements.

Source: City of San Antonio, Department of Finance.

Total Domestic and International Enplaned Passengers - San Antonio International Airport

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

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
2000	3,647,094	---	---
2001	3,444,875	(202,219)	(5.54)
2002	3,349,283	(95,592)	(2.78)
2003	3,250,911	(98,372)	(2.94)
2004	3,498,972	248,061	7.63
2005	3,713,792	214,820	6.14
2006	4,002,903	289,111	7.78
2007	4,030,571	27,668	0.69
2008	4,167,440	136,869	3.40
2009	3,905,439	(262,001)	(6.29)

Source: City of San Antonio, Department of Aviation.

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Total Enplaned and Deplaned International Passengers - San Antonio International Airport

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

Calendar <u>Year</u>	<u>Total</u>	Increase/ <u>(Decrease)</u>	Percent (%) <u>Change</u>
2000	243,525	---	---
2001	219,352	(24,173)	(9.93)
2002	201,274	(18,078)	(8.24)
2003	159,576	(41,698)	(20.72)
2004	191,254	31,678	19.85
2005	185,992	(5,262)	(2.75)
2006	199,138	13,146	7.07
2007	197,585	(1,553)	(0.78)
2008	177,219	(20,366)	(10.31)
2009	139,286	(37,933)	(21.40)

Source: City of San Antonio, Department of Aviation.

Air Carrier Landed Weight - San Antonio International Airport

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

Calendar <u>Year</u>	<u>Total</u>	Increase/ <u>(Decrease)</u>	Percent (%) <u>Change</u>
2000	5,838,185	---	---
2001	5,546,561	(291,624)	(5.00)
2002	5,559,018	12,457	0.23
2003	5,391,301	(167,717)	(3.02)
2004	5,416,555	25,254	0.47
2005	5,650,228	233,673	4.32
2006	5,946,232	296,004	5.24
2007	6,098,276	152,044	2.56
2008	6,209,192	110,916	1.82
2009	5,487,537	(721,655)	(11.62)

Source: City of San Antonio, Department of Aviation.

* * *

APPENDIX C

The information contained in Appendix C consists of selected portions of the City's Annual Financial Report for the fiscal year ended September 30, 2008 selected by the City of San Antonio for inclusion herein, and is not intended to be a complete statement of the City's financial condition. Reference is made to the Comprehensive Annual Financial Report for further information.

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CITY OF SAN ANTONIO

P.O. BOX 838884
SAN ANTONIO, TEXAS 78283-3886

CITY SERVICES (continued)

The City provides a vast array of municipal services. The full range of services provided 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 use, and hotel occupancy tax receipts; grants; user fees; bond proceeds; tax increment financing; and other sources.

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

ECONOMIC CONDITIONS AND OUTLOOK

As a community, San Antonio has positioned itself for long-term growth and prosperity by successfully following a strategy to diversify its economy and improve quality of life for all citizens. The City's economic strategy focuses on further development of major industries, including domestic and international trade, convention and tourism, medical and health care, government employment, manufacturing, information security, financial services, telemarketing, telecommunications, finance and insurance, oil and gas refining, and the military. The City is also undertaking ongoing infrastructure improvements, neighborhood revitalization, and workforce development initiatives, as well as providing assistance to businesses of all sizes. Both government and citizens are actively committed to increasing the caliber of educational and economic opportunities, expanding arts and leisure choices, revitalizing older neighborhoods, and planning for overall growth in the City. The City's cultural and geographic proximity to Mexico provides favorable conditions for international business relations therewith. Also enhancing San Antonio's business appeal is the high quality of life the City offers and a cost-of-living that is well below the national average. 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.

Economic indicators tell the story of a healthy 2008 for San Antonio, albeit one affected by the slowdown in the larger economy. Employment grew by 2.2% in the San Antonio metropolitan area in fiscal year 2008, while unemployment in the same area increased from 4.1% in fiscal year 2007 to 4.2% in fiscal year 2008. Sales and use tax revenue grew by 3.8% from fiscal year 2007 to 2008. According to the business cycle index - a composite index measuring current economic activity - the San Antonio economy continued its string of consecutive month-to-month growth in fiscal year 2008. While the national housing market suffered substantial declines, the housing market in San Antonio held steady in fiscal year 2008. It is expected that San Antonio will continue to experience flatter growth in housing in fiscal year 2009. Also, in contrast to other regions with a large tourism industry that are seeing a slowing in their tourist business, San Antonio's tourist business is expected to have a comparatively strong year.

San Antonio's strong growth was fueled by several targeted industry projects in 2008. Fred Loya Insurance began construction of a \$10.0 million regional claims center. This consolidation and expansion will create 500 new jobs for the community. Healthways, Inc. established a customer care service center which will create 200 new jobs with a total investment of over \$4.0 million. The center will hire nurses to provide patient consultation after patients are released from the hospital. The Tindall Corporation established a new facility in San Antonio that will design, manufacture, and erect precast, prepressed concrete products and building systems. Tindall's new facility represents \$25.0 million in real and personal property improvements as well as 250 new jobs at their new facility. Fiscal year 2008 also saw KLN Steel Products Company, a manufacturer of high quality furniture for institutional applications, expand its firm. KLN's expansion will bring an additional 500 jobs and \$20.0 million in capital investment to the City of San Antonio.

March 30, 2009

To the Honorable Mayor and City Council:

It is my pleasure to present the City of San Antonio's (City) Comprehensive Annual Financial Report (CAFR) for the fiscal year-ended September 30, 2008. These financial statements were prepared by the City's Finance Department and audited by the public accounting firm of Grant Thornton, LLP. As reflected in the Independent Auditors' Report, the City's financial statements are presented fairly in all material respects in accordance with U.S. generally accepted accounting principles. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the City.

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

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

CITY SERVICES

The City is a home rule city that was incorporated in 1837 and chartered in 1951. The City Charter provides for a Council-manager form of government, subject only to the limitations imposed by the Texas Constitution and the City Charter, all powers of the City are vested in an elective Council (the "City Council") which enacts legislation, adopts budgets and determines policy. The City Council is comprised of 11 members, with ten members elected from single-member districts, and the Mayor elected at-large. An amendment to the City Charter was passed at the November 4, 2008 election, which revised the terms of the office of the Mayor or a member of the City Council to four full two-year terms of office, from the existing two full two-year terms, but prohibit the current or former Mayors or current or former members of the City Council from being elected to more than two full two-year terms. The City Council also appoints a City Manager who executes the laws and administers the government of the City, and serves as the City's Chief Administrative Officer. The City Manager serves at the pleasure of the City Council.

The City is located in South Central Texas, approximately 75 miles south of the state capital of Austin and serves as the county seat for Bexar County. San Antonians enjoy first-rate medical services, a convenient and efficient airport, an excellent highway system, mild weather, and superb recreation choices, including championship golf courses, theme parks, historical attractions, museums, professional sporting attractions, and a lively performing arts environment. As of September 30, 2008, the City's geographic area was approximately 467 square miles; this is down from fiscal year 2007 due to the de-annexation of a portion of the south side to City South Management. The United States Census Bureau cites the City as the second most populated city in the State of Texas with 1,328,984 citizens and is ranked as the seventh most populated city in the country.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Economic impact analysis initiated by the Greater San Antonio Chamber of Commerce in the manufacturing and health care and bioscience industries also illustrates strengthening targeted industries. In 2006, the manufacturing industry contributed a total of \$14.4 billion to the local economy, a healthy 13.0% increase from the last study for 2005. According to the Greater Chamber, the industry has grown by about 50.0% over the past decade. Individuals employed in the manufacturing industry earned on average \$41,496 in 2006. This is approximately 13.0% above the 2006 average of \$36,699 for all workers in San Antonio. The 2006 study represents the latest data available from the Chamber at time of submission. Additionally, the health care and bioscience industry registered equally impressive figures contributing a total of \$16.3 billion to the local economy for 2007, a healthy \$1.0 billion increase from 2006, and double the amount from 1997. There are 116,417 jobs in this sector, roughly one in seven jobs in San Antonio.

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

Base Realignment and Closure (BRAC) and Fort Sam Houston

One of the most significant events in San Antonio's recent economic history is the 2005 Base Realignment and Closure (BRAC). BRAC will have a major positive impact on military medicine in San Antonio resulting in \$2.3 billion in construction and the addition of 12,500 jobs in San Antonio by 2011. This is up from the \$1.6 billion in construction and 11,500 personnel projected in 2007. Currently, all U.S. Army combat medic training is conducted at Fort Sam Houston. As a result of BRAC 2005, all military combat medic training - Army, Air Force, Navy, Marines and Coast Guard - will be undertaken at the new Medical Education and Training Campus at Fort Sam Houston known as the San Antonio Military Medicine Center (SAMMC). Wilford Hall Medical Center will transfer its Level 1 trauma facility to Brooke Army Medical Center (BAMC). This will double BAMC's trauma and burn capabilities and will be renamed SAMMC-North. Wilford Hall Medical Center will receive outpatient missions from BAMC, become an outpatient facility, and will transform into SAMMC-South. In addition, San Antonio will receive new medical research missions. The U.S. Army Institute for Surgical Research located next to BAMC will double in size as a result of new BRAC missions and will be renamed Battlerfield Health and Trauma. The new mission will continue its cutting edge research in the areas of robotics, prosthetics and regenerative medicine.

Port San Antonio

Port San Antonio (the Port) is a multi-modal logistics platform and aerospace complex that is home to over 74 tenants including world-renowned aerospace leaders such as Boeing, Lockheed Martin, Standard Aero, two divisions of Chromalloy Gas Turbine Corporation, Gore Design Completions and Pratt Whitney.

Port San Antonio has a \$3.3 billion economic impact resulting in 22,763 direct and indirect jobs in San Antonio in 2007, according to a study by the University of Texas San Antonio. The direct economic impact of Port San Antonio in 2007 was \$1.5 billion, most of which came from the Port's 74 tenants. The Port also directly employed 8,529 workers last year. As part of the local community's ongoing efforts to revitalize the Port San Antonio area, the U.S. Air Force recently transferred title of 1,017 acres of land to the Port that were previously part of Kelly AFB. The deed for this transfer was signed on September 30, 2008. This transfer of more than 1,000 acres represents the single largest land transfer to the Port since Kelly's closure in 1995. The Air Force transferred a total of 1,446 acres of land to the Port, with an additional 440 acres slated to be conveyed by the end of 2010. The land was previously used for military housing and other base facilities. Now the land will be marketed for commercial development.

The 2007 opening of the East Kelly Railport, a \$35.0 million redevelopment project, has transformed the City into an international transportation distribution center. The number of rail cars passing through the East Kelly Railport increased from 2,007 in 2007 to 3,026 in 2008 (January-September). Rail revenues grew from \$150,680 in 2007 to \$250,320 in 2008 (January-September). Over the past year, the Port increased its global presence in terms of shipping. In 2007, the majority (71.0%) of goods moved in or out of the Port was domestic. In 2008, domestic movements accounted for only 3.0% of all activity, with most goods either coming from or being shipped to China. The Port is one of three activated Foreign Trade Zones in San Antonio's network of 10 general-purpose sites.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Brooks City-Base

Brooks City-Base (BC-B) continues to foster the development of its business and technology center on the south side of San Antonio through its aggressive business attraction and retention efforts. Recognized as one of the most innovative economic development projects in the United States, BC-B is a 1,246 acre campus with approximately 350 acres available for immediate development.

In 2007, DPT Laboratories, Inc., a major pharmaceutical company, moved into its \$24.0 million build-to-suit research and development warehouse production facility. The joint City/County Emergency Operations Center opened its \$24.5 million operations facility in winter 2007. BC-B broke ground on a new thoroughfare, which will connect the center with the major roadways surrounding the business and technology campus. The \$47.0 million South New Braunfels Avenue extension will enhance access to BC-B for future development. Brooks City-Base will also become the site of a new Baptist Hospital for southeast San Antonio.

Currently, approximately 18 private-sector, non-profit, and governmental tenants occupy space on the Brooks City-Base campus. This accounts for about 3,800 employees, of which 2,100 are Air Force military and civilian employees and 1,700 are employed at the City-Base Landing retail center.

Aerospace Industry Development

San Antonio International Airport (SAT) has a total of 34 nonstop destinations, which does not include seasonal charter service to Mexico available during the spring and summer. During calendar year 2007, SAT handled a record number of passengers. At final count 8,075,437 people made their way through the gates in 2007, a number which had never been reached in the history of SAT. This marked the third year in a row that SAT had set an all-time record for the total number of passengers.

According to the U.S. Department of Transportation SAT ranks 5th out of the 50 busiest airports across the country in on-time departure percentage. The percentage at SAT was 81.0% for calendar year 2007, while the national average was 8 points lower at 73.0%. The news is even more impressive when you consider the fact that for the third year in a row, SAT handled more passengers than ever before.

SAT is now permanently designated as an "Airport of First Landing." Sometimes referred to as "Landing Rights" status, this designation means that private aircraft flying from foreign countries will be able to fly directly into San Antonio without having to clear U.S. Customs at other airports. This designation will significantly enhance business, commerce and trade relationships throughout Mexico.

December 12, 2007 marked the opening of the first of three major improvement projects at SAT. SAT officially opened the first 1,200 spaces in its new Long-Term Parking Garage. The additional 1,600 spaces were opened to the public on June 17, 2008. The new facility offers more than 2,800 spaces and will bring the airport's total parking inventory to approximately 9,000 spaces. In addition to the new parking garage, the airport expansion program includes the construction of two new terminal facilities and a new roadway system.

On February 25, 2008, AirTran Airways announced that it would enter the San Antonio market with four daily nonstop flights to Atlanta's Hartsfield-Jackson Airport. AirTran Airways launched its first flight from San Antonio on June 11, 2008.

On June 17, 2008, a groundbreaking ceremony was held launching the construction of a new terminal facility. "Terminal B" is a seven-gate facility that will replace the aging Terminal 2 and will be occupied by current tenants of Terminal 2. The new facility is part of an overall expansion program that calls for a new long-term parking garage and a new two tier roadway system.

July 4, 2008 marked the launch of free WiFi service for all SAT customers. What used to cost \$6.95 per day is now offered free of charge. Both terminal facilities at SAT are giant "hot-spots" for laptop users. The coverage area will eventually include the Cell Phone Waiting Parking Lot and Strinson Municipal Airport.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Aerospace Industry Development (Continued)

Stinson Municipal Airport (Stinson) is at an occupancy rate of 100.0% and has a tenant waiting list for the facilities. To accommodate the demand for services at Stinson, a \$4.8 million terminal expansion project will add approximately 24,000 square feet of additional concession, administrative, education, and corporate aviation space to the existing 7,000 square feet terminal building. The Stinson groundbreaking ceremony was held on May 31, 2006 for the terminal expansion project. The expansion, along with a runway extension and other infrastructure improvements, will allow for the growth of existing tenants as well as create opportunities for new business to locate at Stinson. Palo Alto College will move their Aviation Program to Stinson in the expanded terminal space. The terminal expansion project was completed November 2008.

International Trade and Outlook

The International Affairs Department was created to provide a clear entrance or "front door" to City programs and services in order to achieve global trade, attract foreign investment, offer protocol guidance and establish San Antonio as the "Center of International Excellence".

In fiscal year 2008 the International Affairs Department continues to create wealth for local companies through effective global business development and lasting relationships. In doing so, it has identified and served over 669 companies that conduct business internationally. The department also conducts the Export Leaders Program, a unique training program that is designed to help San Antonio companies become successful in international markets. This unique municipal program has graduated 91 companies and has generated \$91.8 million in exports. An additional tool to foster international trade is the department's web portal that serves as a catalyst for business and cultural exchanges.

As of August 31, 2008, the North American Development Bank (NADB) is participating in the development and financing of 115 environmental infrastructure projects, with approximately \$688.3 million in loans and grants. These projects are estimated to cost a total of \$2.6 billion to build and will benefit an estimated 11.9 million border residents throughout the 10 states that comprise the U.S. - Mexico border region.

San Antonio continues to develop itself as an Inland Port for imports and exports with Mexico, India, China, Japan, Spain, Latin America and other regions of the world. This is accomplished through transportation, manufacturing and logistics facilities; professional services and value-added services involved in processing, marketing and moving freight within the South Texas Region. Over the past 15 years, the City led the nation by establishing three commercial trade offices in Mexico's principal cities and in Tokyo, Japan; which has generated over \$170.0 million in bilateral trade since their inception.

For 24 years, the International Affairs Department's Trade Representative in Japan has attracted multi-million dollar operations to San Antonio including Toyota, Takata Seat Belt, Sony Corporation, MyCom International, Hyatt Hill Country Resort (a major Japanese investment joint venture), Colin Medical Equipment, and Higuchi to name a few. The Trade Representative continues to promote Japanese investment in San Antonio by conducting trade missions to cities throughout Japan.

Community Development

Community development projects continue to play an important role in San Antonio's economic success. Targeted redevelopment, neighborhood revitalization, and smart growth strategies are shaping the way San Antonio is growing and its citizens are living. The City has initiated efforts to redevelop portions of the community and influence the pattern of development of new areas, such as the far South Side. Leveraging the economic momentum surrounding the Toyota manufacturing plant and Texas A&M University San Antonio campus development, the City South Management Authority (CSMA) continues to guide growth through development tools which focus on New Urbanism or place-making through shaping the form of the built environment. CSMA has supported the adoption by City Council of amendments to the Unified Development Code for the Form Based Development Code and Form Based Zoning District in the City South area. CSMA and the City executed the Interlocal Agreement for Zoning and Plan Amendments providing zoning and plan amendment services through the City.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Community Development (Continued)

In 2007, San Antonio moved one step closer to becoming the first major Texas city to possess both a University of Texas and a Texas A&M University degree granting campuses. The Texas A&M University System accepted a donation of 696 acres of land from Triple L Management Company to develop a new San Antonio campus. To help the University raise enrollment to 1,500 Full-Time Equivalent (FTE) students, the University has launched the A&M San Antonio Foundation with a goal of raising \$8.0 million in scholarships. Triple L Management has supported the fund with a \$1.0 million commitment. The fall 2008 enrollment reached almost 900 FTE students, with the projected minimum requirement of 1,500 students by 2009, to qualify for \$40.0 million in tuition revenue bonds to finance a permanent campus.

Other community development efforts such as the Westside Development Corporation (WDC) are an example of the ongoing commitment to revitalization and targeted redevelopment. The WDC is a multi-council district collaboration focused on revitalization of San Antonio's inner-city Westside. The WDC focus area is one of the most densely populated and economically distressed areas in San Antonio. In 2007, the WDC Board of Directors hired a full-time executive director, completed a three-year strategic plan, and completed a comprehensive market analysis. WDC staff has been actively providing development assistance since its inception. Currently, the WDC is assisting three redevelopment projects and four potential employers to locate property for business expansion in the near Westside of San Antonio.

Initially funded as the Downtown Development Office in fiscal year 2008, the Center City Development Office (Office) was created to assist in the development of the San Antonio's downtown. Still in its infancy, this office is beginning to shape its roles within the downtown community as well as the areas immediately surrounding downtown.

The Office will perform various roles to include managing and facilitating downtown development projects, initiating and implementing public/private partnerships, and identifying appropriated financial incentives and the area as well as the River Commission, and Empowerment Zone and Downtown Advisory Boards.

One of the Office's most important roles will involve the communication and coordination with stake holders, appropriate departments, and external organizations. They will act as liaisons and provide coordination with organizations such as San Antonio for Growth on the Eastside (SAGE), Westside Development Corporation (WDC) and the Downtown Alliance.

Hospitality Industry

The City's diversified economy includes a significant sector relating to the hospitality industry. A recent study by the Greater San Antonio Chamber of Commerce released in 2008 (for period 2006), found that the hospitality industry had an economic impact of nearly \$10.5 billion. The estimated annual payroll for the industry was \$1.88 billion, and the industry employed more than 100,000 workers.

San Antonio's hospitality industry attracted 26 million visitors in 2006, and 11 million were overnight leisure visitors, placing San Antonio as one of the top leisure destinations in Texas. This industry contributed more than \$125.0 million in taxes and fees to the City of San Antonio, and more than \$222.0 million to all local governments combined. San Antonio continues to rank high as a top leisure and convention/group meeting destination. Recent initiatives contributing to this success are the City's new brand image, the upcoming JW Marriott San Antonio Hill Country Resort and Spa, the Riverwalk Expansion Project and new events like the Rock 'n' Roll Marathon held in November 2008. In addition, the Hill Country bordering San Antonio is a burgeoning region of championship golf resorts, culinary treats and vineyards. Orbitz recently ranked the Texas Hill Country as the second fastest-growing destination for wine and culinary enthusiasts. Tourism helped San Antonio rank as Second-Most Recession Proof City in the United States, according to a survey conducted by Forbes.com in 2008. The list of attractions in the San Antonio area includes, among many others, the Alamo (and other sites of historic significance), Riverwalk and two major theme parks (SeaWorld of Texas and Six Flags Fiesta Texas). San Antonio is also one of the top convention cities in the country, and the opening of the new Grand Hyatt Hotel will allow the City to host more and larger conventions and meetings in the years to come. The City continues to be proactive in attracting convention business through its management practices and marketing efforts.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Hospitality Industry (Continued)

According to Smith Travel, in 2007, while the City's overall performance for hotel occupancy decreased slightly by 3.0%, hotel room supply increased by 3.5%. Average daily rate (ADR) increased by 4.6%; revenue per available room (REVPAR) increased by 1.4%; and total room nights sold in the destination increased by 0.3%. In 2008, from January through August, hotel occupancy decreased by 0.7% while room supply increased by 5.4%. Room nights sold increased by 4.7%, ADR increased by 4.4% and REVPAR increased by 3.6%. Overall hotel revenue growth for San Antonio was up 9.2% for the first eight months of 2008.

Convention, Sports and Entertainment Facilities

The City's hospitality industry is an integral part of the local economy and the Convention, Sports and Entertainment Facilities (CSEF) are significant to the progression of the sector. Convention Facility revenues increased to more than \$1.4 million above budget in 2007-2008 due to increased catering commissions from the 2008 NCAA Men's Final Four, Golden Jubilee and other short-term bookings.

The 2007 Valero Alamo Bowl and Dr. Pepper Big 12 Championship combined to bring more than 105,750 out-of-town visitors to San Antonio and generated a direct economic impact of \$73.1 million for the City in December 2007, according to a survey conducted by Strategic Marketing Services and SportsEconomics. An Alamodome record sports crowd of 66,166 for the 2007 Valero Alamo Bowl between Penn State and Texas A&M translated into a bowl record with a direct economic impact for San Antonio of \$42.6 million.

San Antonio is one of the most popular convention destinations in the country and the addition of the \$285.0 million, 1,003-room Grand Hyatt Hotel adjoining the Convention Center will afford the City greater opportunities to host larger conventions and meetings in the future.

The CSEF hosted more than 41,000 out-of-town visitors during the NCAA Men's Final Four. In addition, the NCAA Hoop City experienced record attendance with more than 62,000 visitors and resulted in unprecedented economic impact for the City, including spending within the Alamodome and organizational spending by teams, media, and corporations, the total new incremental direct spending by visitors and business in the State due to the 2008 Final Four and related events was nearly \$51.1 million. New incremental indirect spending amounted to more than \$39.4 million in the State. Total economic impact due to the Final Four and related activities was approximately \$90.4 million. In preparation for the Final Four, the Alamodome received \$6.4 million in improvements designed to enhance the facility's appearance. Enhancements included a new roof, exterior paint and cable lighting as well as a pedestrian shade structure which provides access from the Convention Center to the Alamodome. The City received a \$6.5 million rebate via the State's Sporting Event Trust Legislation. These upgrades will assist the City in enticing future, high profile clients, and improve fan's experiences with state-of-the-art technology.

San Antonio has been selected by the NCAA to serve as an inaugural member in its new "NCAA Championship City" pilot program. The program will feature multiple host opportunities of NCAA Division I, II and III men's and women's championships through 2012. The centerpiece of the pilot program is a long-term agreement between the NCAA and each host city to bring a wide array of championships and ancillary events to the area over the course of several years.

The CSEF served as the site of the 2008 Golden Jubilee, a religious gathering of 35,000 Ismaili Muslims and their spiritual leader Prince Karim Aga Khan. During the event, the CSEF caterer served more than 200,000 meals in 60 hours. The gathering was the City's largest three-day event since the 1968 HemisFair.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Downtown Development Projects

The City hosted a two-day San Antonio Federal Empowerment Zone Conference in July 2008 at the Drury Plaza Hotel and the Henry B. Gonzalez Convention Center. Over 100 attendees from other Empowerment Zone (EZ), Enterprise Communities, and Renewal Communities attended the conference to receive legislative updates and learn about best practices in other communities. In addition, workshops provided small businesses information on how to utilize the tax credits associated with the program. Included in the conference was a bus tour of two of the three EZ developable sites, Brooks City-Base and Port San Antonio. San Antonio was designated a Round III EZ in 2002 and received the largest allocation of \$230.0 million in EZ Bonds. Pamela Glekas Spring, Director of the Office Community Renewal for HUD was the featured keynote speaker for the Conference. Ms. Glekas Spring recognized San Antonio as the most successful EZ Community for utilizing a total of \$170.0 million in EZ Bonds for the Drury Plaza Hotel and the Grand Hyatt Hotel. An additional allocation of \$25.0 million in Empowerment Zone facility bond capacity was set aside to support the \$113.0 million mixed-use Plaza San Lorenzo project continuing development along Houston Street. The remaining \$35.0 million in EZ bonds must be reserved and issued prior to the program's expiration on December 31, 2009. Just across Houston Street from the Plaza San Lorenzo with its back on the River, a 260-room Embassy Suites broke ground in 2008 and construction is moving forward.

The Vidorra is downtown's first true high rise condominium project. Located just north of Sunset Station, this 138-unit, 20-story building will enjoy some of the best views in the City. The Vidorra is a \$60.0 million, 14-story, 246-unit rental apartment complex located in the western half of downtown, across from Market Square and Milam Park. This building includes retail on the ground floor, three levels of structured parking and apartments above. Both residential projects are currently under construction and are scheduled to open in 2009.

A \$10.0 million renovation of Main Plaza was completed this year, in the historic center of San Antonio, with San Fernando Cathedral and many of our local government facilities adjacent to the plaza. The renovation includes the expansion of the plaza and the addition of new landscaping, fountains and public restrooms. Another important project currently underway is the Riverwalk improvements. This project will extend the existing Riverwalk pedestrian amenities north almost two miles to the old Pearl Brewery, which is also in the middle of being renovated. One of the unique features is a lock and dam at Brooklyn that will allow the Riverboats to travel the full length of the improvements. This ambitious project will be completed in 2011.

Joint Planning and Operations Council

In response to the charge of the 2004 City of San Antonio/Bexar County Citizen's Commission on City/County Service Integration to investigate opportunities for integrating services, and in an effort to reduce system duplications and enhance coordination of care, the San Antonio Metropolitan Health District (SAMHD) and University Health System (UHS) engaged in a formal process to enhance collaboration. A Joint Planning and Operations Council (JPOC) composed of senior staff from both SAMHD and UHS was formed to plan and implement service integration efforts.

Under the Direction of City and County leadership SAMHD and UHS staff negotiated an amendment to their existing interlocal agreement to transfer clinical preventative health services (prenatal care, family planning, well-child screenings, breast and cervical cancer screenings, senior health screenings, and refugee health services) as of February 4, 2008. This transition involved the transfer of 125 SAMHD staff positions, the lease of space in 10 SAMHD public health clinics, the redirection of \$1.8 million in grant funds managed by SAMHD, and a contract for approximately \$4.2 million in City's General Fund for the initial service period through December 31, 2008.

Since the February transition of services the JPOC has continued to coordinate services between SAMHD and UHS and implement changes to solidify the transition. These efforts include offsetting adjustments to City and UHS tax rates in line with the Truth in Taxation Laws, long-term leases and transfer agreements for 10 City public health clinic facilities, and upgrading and standardization of clinic procedures. Evaluative data to date shows clinics continue to provide a high standard of care to patients throughout the community.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Haven for Hope

In January 2005 City Council adopted a 10-year plan to end chronic homelessness. On February 13, 2006, Mayor Phil Hardberger committed to accelerating implementation of the City's 10-year Plan to End Chronic Homelessness and the development of a homeless campus. In order to address these issues he established the Mayor's Homeless Council and appointed then-Councilmember Patti Radle and NuStar Energy Chairman of the Board, Bill Greehey, as co-chairs. This unified vision officially set an aggressive timeline for development of the Campus.

The Haven for Hope campus is located within one and one half miles from central downtown, comprised of multiple buildings on approximately 16 acres. Once complete it will serve 800 men, women and families living in residential buildings with an additional 500 people in the outdoor courtyard. The Campus will be a well designed, attractively landscaped, and secure property offering a range of services, to members and surrounding neighborhood residents, including medical, dental, education, job training, childcare, legal services and more.

The projected investment for the Haven for Hope Campus is \$74.0 million. The City will invest approximately \$15.0 million on land acquisition, environmental remediation and demolition. The remaining funding will come from Bexar County (\$10.0 million) and private fundraising efforts. The campus will also provide 100 new jobs, save taxpayers an estimated \$40.0 million annually, and revitalize the surrounding neighborhood.

Haven for Hope will work with the new Public Safety Triage facility which opened on April 15, 2008. This facility has already seen success in helping chronic serial inebriants, many of whom are homeless. Several hundred inebriants have avoided jail by being admitted to the sobering unit where they can take advantage of a detoxification program followed by intensive outpatient care. Significant savings have been realized in the criminal justice system and emergency room care and many of the people admitted have been referred to other services to treat their addiction and mental health issues.

FINANCIAL INFORMATION

Accounting System and Budgetary Control

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

Budgetary compliance is a significant tool for managing and controlling governmental activities, as well as ensuring conformance with the City's budgetary limits and specifications. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Levels of budgetary control, that is the levels at which expenditures cannot legally exceed appropriated amounts, are established by function and activity within individual funds. The City utilizes an encumbrance system of accounting as one mechanism to accomplish effective budgetary control. Encumbered amounts lapse at year-end and are generally appropriated as part of the following year's budget. Another budgetary control is the monthly revenue and expenditure reports detailing budget and actual balances with variances that are generated and reviewed by the Office of Management and Budget, Finance and the City Manager's Office prior to submission to City Council. As part of the annual review and close-out process, City Council will approve desired budget adjustments and carryforwards for the next fiscal year.

FINANCIAL INFORMATION (Continued)

Accounting System and Budgetary Control (Continued)

Each year the City prepares a five-year financial forecast (Forecast) prior to the adoption of the annual operating budget. The Forecast is a financial and budgetary planning tool that provides a current and long-range assessment of financial conditions and costs for City services. The Forecast includes the identification of service delivery policy issues that will be encountered in the next five years and that will have a fiscal impact upon the City's program of services. The Forecast also examines the local and national economic conditions that have an impact on the City's economy and ultimately, its budget.

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 enables the City Council and staff to identify financial issues in sufficient time to develop a proactive strategy in order to address emerging strategic issues.

After obtaining the priorities of City Council, as well as conducting reviews of each City department, the proposed City budget is presented to City Council. The proposed budget represents the City staff's professional recommendation on how to utilize revenues and expenditures in order to achieve a balanced budget, while optimizing City service deliveries. After obtaining public input on the proposed budget, a two year balanced plan is adopted. The City's budget incorporates a strategy to increase the financial reserves to 10.0% by fiscal year 2010. The establishment and maintenance of appropriate reserves within the General Fund is critical to prudent financial management.

The City also 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 City's long-term financial planning along with the City's healthy economy and positive business climate are evidenced by the recent upgrade by Standard & Poor's to 'AAA' from 'AA+' on the City's general obligation and taxable general improvement refunding bonds. Standard & Poor's based the increase on the City's "deep and increasingly diverse economy, strong financial management policies, very strong financial performance and position, and moderate overall debt burden."

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

Fiscal Management and Administrative Topics

Pension and Postemployment Retirement Benefits

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

The City provides postemployment health benefits to all non-uniformed City retirees, and for all uniformed fire and police retirees who retired prior to October 1, 1989. The cost of the program is reviewed annually, with costs funded jointly on a pay-as-you-go basis. The City also provides retirement health care benefits for eligible fire and police retirees under the Fire and Police Retiree Health Care Fund. Contribution and benefits levels are established by State statute with the Health Care Fund Board's ability to modify benefits within certain parameters. For additional information on the City's postemployment health benefits, see Note 9, Postemployment Retiree Benefits.

FINANCIAL INFORMATION (Continued)

Fiscal Management and Administrative Topics (Continued)

Active Employee Health Benefits Program

In fiscal year 2008, the City's Self-Insured Employee Health Benefits Program achieved a positive ending fund balance of \$18.1 million and established a reserve of \$7.4 million. These savings are primarily attributed to increased medical provider and prescription discounts resulting from a change in Third Party Administrator (TPA) vendor contracts, effective January 1, 2008. The new TPA contract provides additional cost containment elements not found in previous TPA contracts including: a negotiated out-of-network savings program, comprehensive disease management activities, and an aggressive subrogation and recovery program. In addition to a change in TPA vendors, the City implemented significant plan design changes in 2008 which have resulted in additional savings to the health benefits fund.

The overall cost sharing ratio achieved for civilian medical claims for fiscal year 2008 was 85.0%/15.0%, with the City contributing 85.0% of total claims cost. The City continues to move toward its target of achieving 80.0% City and 20.0% employee benefits cost sharing ratio by fiscal year 2010. This cost sharing target is an integral part of our Total Compensation approach to employee pay and benefits designed to attract and retain employees. These plan design changes and increased provider discounts have resulted in a medical claims trend for all City self-funded medical plans of 2.4% for fiscal year 2008, well below the national average of 5.0% for employer sponsored health plans (HRET and Kaiser Family Foundation, Employee Health Benefits, 2008 Annual Survey).

The City's Employee Wellness Program continues to progress toward full implementation of the strategic plan created in 2007. Components of this strategic initiative implemented in fiscal year 2008 include the implementation of a customized smoking cessation program and the opening of a dedicated City Employee Health and Wellness Center for convenient access to primary health care and preventative screenings. These initiatives are expected to drive a significant return on investment by reducing absenteeism, as well as lowering the number of emergency and urgent care visits made by employees, while increasing productivity in the workplace. This program delivers the added benefit of providing employees with early detection of chronic diseases and support programs designed to assist them in managing these potentially high-cost conditions. In addition to changes in the Medical plan benefits, the City changed Life Insurance carriers and negotiated a 33.0% reduction in the basic term life premiums paid by the City.

In fiscal year 2009, the City will continue to build on the cost saving strategies that are already in place, while seeking out opportunities to further strengthen the financial position of the Fund into the future.

Risk Management Programs

The City's Liability and Workers' Compensation Funds operate under the direction of the Risk Management Division within the Human Resources Department. Programs are reviewed continuously to reduce liability exposure, minimize losses, and strategize to reduce the frequency of injuries, illnesses, and the cost of workers' compensation. Insurance policies are purchased by the City to cover standard risks associated with commercial property coverage for its buildings, airport liability, boilers and machinery, commercial crime, medical professional insurance, and public official bonds. Excess insurance policies are also purchased to cover large liability and workers' compensation exposures.

In addition, the City engages an actuary to review the City's self insurance funds. Such reviews estimate outstanding losses, project the ultimate losses, and recommend overall funding each year. Contributions to the City's self-insurance funds include department assessments from the General Fund, Special Revenue Funds, and other Proprietary Funds. Another actuary was also engaged with the City to prepare its actuarial valuation to comply with GASB Statement No. 45.

FINANCIAL INFORMATION (Continued)

Fiscal Management and Administrative Topics (Continued)

Cash and Investment Management

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

The City is authorized to use demand accounts, time accounts, and other permissible investments including obligations of the U.S. Treasury and U.S. Agencies, direct obligations of the State of Texas or its agencies and instrumentalities, Certificates of Deposit and Share Certificates, Repurchase Agreements, Securities Lending, Banker's Acceptance, Commercial Paper, Mutual Funds, Guaranteed Investment Contracts, and Investment Pools. The City's investment portfolio does not include any derivative products. It is not the City's policy to use derivative products in its portfolio, nor does the City leverage its investments. For additional information on cash and investments, see Note 3, Cash and Cash Equivalents and Investments.

Debt Administration

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

Strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time, improving its bond rating by Standard & Poor's (S&P) to AAA, Moody's Investors Service, Inc. (Moody's) to Aa1 and maintaining rating by Fitch at AA+, on the City's general obligation and certificates of obligation debt. For additional information on the City's long-term debt, see Note 6, Long-Term Debt.

OTHER INFORMATION

Independent Audit

State statutes require that an annual audit by an independent certified public accountant be conducted. The City selected the accounting firm Grant Thornton, LLP. In addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996, OMB Circular A-133, *Audit of State and Local Government and Nonprofit Organizations and State of Texas Single Audit Circular*. The Independent Auditors' Report on the basic financial statements, Management Discussion and Analysis (MD&A) (required supplementary information), required disclosures, and schedules are included in the Financial section of this CAFR. The Independent Auditors' Report, along with other required reports and schedules mandated by the Single Audit Act Amendments of 1996, and OMB Circular A-133, and the *State of Texas Single Audit Circular* are in separate documents.

OTHER INFORMATION (Continued)

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year-ended September 30, 2007. This was the 32nd consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report satisfies both U.S. generally accepted accounting principles and applicable legal requirements.

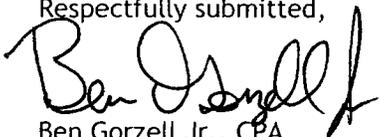
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Office of Management and Budget received the Annual Distinguished Budget Award from the Government Finance Officers Association, recognizing outstanding achievement in preparation of the 2008 Operating and Capital Budget.

Acknowledgments

The preparation of the City of San Antonio, Texas Comprehensive Annual Financial Report for the fiscal year ended September 30, 2008, was made possible by the dedication and hard work of the Finance Department, particularly the staff of the Accounting Division, Financial Reporting Section. Each member of the department has my sincere appreciation for their contributions to the preparation of this document. In closing, please accept my sincere gratitude to the Mayor and City Council, City Manager, Deputy City Managers, Assistant City Managers, and their staff, for their continued support.

Respectfully submitted,



Ben Gorzell Jr., CPA
Director, Finance Department

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Antonio
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2007

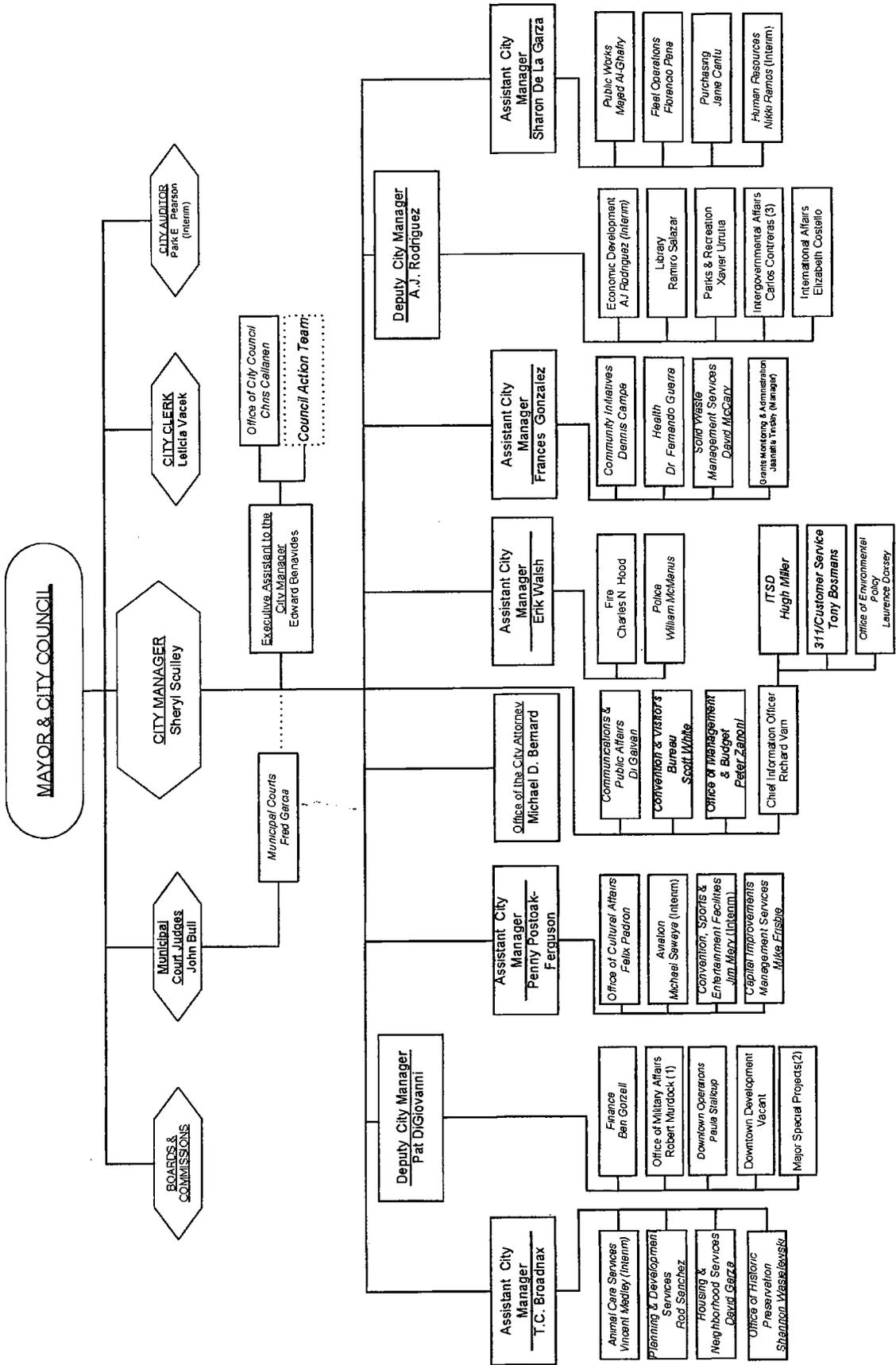
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

CITIZENS OF SAN ANTONIO



(1) BRAC Plan Development
 (2) Special Projects include: Federal Court, Police Headquarters, City Hall Leasing, Downtown Parking and River North
 (3) Legislative Program



Comprehensive Annual Financial Report
Year-Ended September 30, 2008

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

CITY COUNCIL

Phil Hardberger

Mayor

Mary Alice P. Cisneros

District 1

Sheila D. McNeil

District 2

Jennifer V. Ramos

District 3

Philip A. Cortez

District 4

Lourdes Galvan

District 5

Delicia Herrera

District 6

Justin Rodriguez

District 7

Diane G. Cibrian

District 8

Louis E. Rowe

District 9

John G. Clamp

District 10

EXECUTIVE LEADERSHIP TEAM

Sheryl L. Sculley

City Manager

Pat DiGiovanni

Deputy City Manager

A.J. Rodriguez

Deputy City Manager

Frances A. Gonzalez

Assistant City Manager

Erik J. Walsh

Assistant City Manager

Penny Postoak Ferguson

Assistant City Manager

T.C. Broadnax

Assistant City Manager

Sharon De La Garza

Assistant City Manager

Richard Varn

Chief Information Officer

Michael Bernard

City Attorney

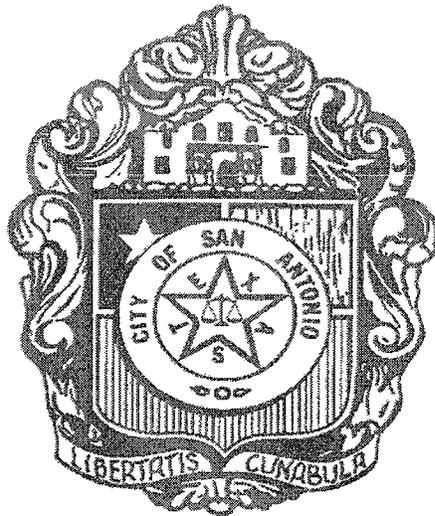
Member of The Government Finance Officers
Association of the United States and Canada

City of San Antonio, Texas



Independent Auditors' Report

Comprehensive Annual Financial Report
Year-Ended September 30, 2008





Independent Auditor's Report

Audit • Tax • Advisory

Grant Thornton LLP
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www.GrantThornton.com

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas (the City), as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of San Antonio Fire and Police Pension Fund, San Antonio Fire and Police Retiree Health Care Fund, San Antonio Health Facilities Development Corporation, San Antonio Industrial Development Authority, San Antonio Housing Trust Finance Corporation, and San Antonio Public Library Foundation, blended component units, which represent 68%, 73% and 44%, respectively, of the assets, net assets and revenues /additions, of the aggregate remaining fund information. We also did not audit the San Antonio Water System, City Public Service of San Antonio, and the other non major discretely presented component units which represent 100% of the assets, net assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Main Plaza Conservancy, Municipal Golf Association – San Antonio, SA Energy Acquisition Public Facilities Corporation, San Antonio Educational Facilities Corporation, San Antonio Health Facilities Development Corporation, San Antonio Industrial Development Authority, San Antonio Housing Trust Finance Corporation, San Antonio Public Library Foundation, and City Public Service of San Antonio were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.



In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As discussed in Note 17 to the financial statements, the net assets of the governmental activities, aggregate remaining funds and the component units as of September 30, 2007 have been restated.

The Management's Discussion and Analysis on pages 1 through 13 and the Budgetary Comparison Schedule – General Fund on page 157, and Schedules of Funding Progress on pages 158 - 161 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, the combining financial statements and schedules, capital assets used in the operation of governmental funds, and the statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements and schedules and capital assets used in the operation of governmental funds have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Grant Thornton LLP

Dallas, Texas
March 30, 2009

City of San Antonio, Texas



***Management's Discussion and Analysis
(Required Supplementary Information)
(Unaudited)***

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of San Antonio (City) presents the following discussion and analysis of the City's financial performance during the fiscal year-ended September 30, 2008. This discussion and analysis is intended to assist readers in focusing on significant financial issues and changes in the City's financial position, and identifying any significant variances from the adopted budget. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the financial statements provided in this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the City exceeded its liabilities by \$2,694,476 (net assets). Of this amount, \$194,244 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$904,700, an increase of \$75,378 compared to the restated fiscal year 2007 fund balance. The total unreserved fund balance of \$478,904 is available for spending at the government's discretion. Of this amount, \$91,499 is designated and \$387,405 is undesignated fund balance.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$190,775 or 25.9% of the total General Fund expenditures.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

The *statement of activities* presents information showing how the government's net assets changed during the fiscal year. Changes in net assets are recorded when the underlying event giving rise to the change occurs regardless of the timing of the cash flows. Therefore, revenues and expenses reported in this statement for some items will not result in cash flows until future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). Governmental activities include general government, public safety, public works, sanitation, health services, culture and recreation, convention and tourism, conservation, urban redevelopment and housing, welfare, and economic development and opportunity. The business-type activities of the City include the airport system, parking system, and environmental services.

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

Fund Financial Statements

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

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

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

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

The City maintains five individual governmental fund types for financial reporting purposes. The governmental fund types are General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds, and Permanent Funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Categorical Grant-In Aid, and the Debt Service Fund, all of which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation labeled "Nonmajor Governmental Funds." Individual fund data for each nonmajor governmental fund is provided in the form of combining statements elsewhere in this report.

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

Information is presented separately in the proprietary funds statement of net assets and in the proprietary funds statement of revenues, expenses, and changes in fund net assets for the Airport System Fund, which is considered to be a major fund. The Internal Service Funds are combined into a single aggregated presentation in the proprietary fund financial statements. Data from the other enterprise funds are combined into a single, aggregated presentation labeled "Nonmajor Enterprise Funds." Individual fund data for each nonmajor enterprise fund and each internal service fund are provided in the form of respective combining statements elsewhere in this report.

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

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

Other information - In addition to the basic financial statements and the accompanying notes, this report also presents the required supplementary information of (a) the City's General Fund budgetary comparison schedule that demonstrates compliance with its budget, and (b) schedules of funding progress related to pension and postemployment plans. The Debt Service Fund, various Special Revenue Funds and specific Permanent Fund budgets, which are legally adopted on an annual basis, are also included in the CAFR as supplementary schedules within the Combining Financial Statements and Schedules.

Government-Wide Financial Statement Analysis

The following tables, graphs and analysis discuss the financial position and changes to the financial position for the City as a whole as of and for the year-ended September 30, 2008.

	Net Assets				
	Year-Ended September 30, 2008				
	(With Comparative Totals for September 30, 2007 Restated)				
	Governmental Activities		Business-Type Activities		Total Primary Government
	2008	2007 (Restated)*	2008	2007	2008 (Restated)*
Current and Other Assets	\$ 1,224,028	\$ 1,138,798	\$ 338,995	\$ 245,495	\$ 1,583,023
Capital Assets	3,335,579	3,198,188	417,333	344,861	3,752,912
Total Assets	4,559,607	4,336,986	776,328	590,356	5,335,935
Current and Other Liabilities	379,171	333,615	44,844	51,634	424,015
Long-term Liabilities	1,802,279	1,674,050	415,165	252,307	2,217,444
Total Liabilities	2,181,450	2,007,665	460,009	303,941	2,641,459
Net Assets:					
Investments in Capital Assets,					
Net of Related Debt	2,092,623	2,024,576	208,894	201,846	2,301,517
Restricted	122,537	120,591	76,178	61,559	198,715
Unrestricted	162,997	184,154	31,247	23,010	194,244
Total Net Assets	\$ 2,378,157	\$ 2,329,321	\$ 316,319	\$ 286,415	\$ 2,694,476
* Certain amounts have been restated as discussed in Note 17, Prior Period Restatement.					

For the year-ended September 30, 2008, total assets exceeded liabilities by \$2,694,476. The largest portion of the City's net assets, \$2,301,517 (85.4%) represents its investment in capital assets less any related debt used to acquire those assets that are still outstanding, and includes assets such as land, infrastructure, improvements, buildings, machinery and equipment.

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

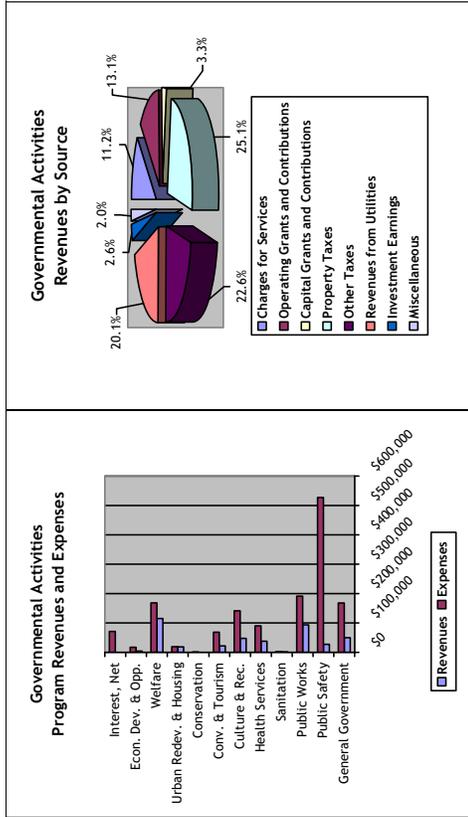
Of the total net assets, \$198,715, 7.4%, represents resources that are subject to external restrictions on how they may be used. The remaining \$194,244, 7.2%, represents unrestricted net assets, which can be used to meet the government's ongoing obligations to citizens and creditors.

	City of San Antonio, Texas					
	Changes in Net Assets					
	Year-Ended September 30, 2008					
	(With Comparative Totals for September 30, 2007 Restated)					
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007 (Restated)*	2008	2007	2008	2007 (Restated)*
Program Revenues:						
Charges for Services	\$ 169,107	\$ 165,460	\$ 156,920	\$ 133,431	\$ 326,027	\$ 298,891
Operating Grants and Contributions	198,736	186,381			198,736	186,381
Capital Grants and Contributions	49,577	57,891	36,987	23,188	86,564	81,079
General Revenues:						
Property Taxes	379,457	326,342			379,457	326,342
Other Taxes	341,976	327,990			341,976	327,990
Revenues from Utilities	304,545	257,687			304,545	257,687
Investment Earnings	39,463	54,027	12,010	11,099	51,473	65,126
Miscellaneous	30,299	26,530	12	1,973	30,311	28,503
Total Revenues	1,513,160	1,402,308	205,920	169,691	1,719,080	1,571,999
Expenses:						
Governmental Activities:						
General Government	168,215	118,881			168,215	118,881
Public Safety	527,075	456,375			527,075	456,375
Public Works	191,518	143,172			191,518	143,172
Sanitation	3,000	2,878			3,000	2,878
Health Services	90,220	91,432			90,220	91,432
Culture and Recreation	141,661	128,450			141,661	128,450
Convention and Tourism	68,584	155,285			68,584	155,285
Conservation	1,068				1,068	
Urban Redevelopment and Housing	19,226	20,575			19,226	20,575
Welfare	168,461	153,704			168,461	153,704
Economic Development and Opportunity	17,329	19,167			17,329	19,167
Interest on Long-Term Debt, Net	71,103	48,114			71,103	48,114
Business-Type Activities:						
Airport System			80,505	64,482	80,505	64,482
Parking System			10,382	8,525	10,382	8,525
Environmental Services			82,002	68,072	82,002	68,072
Total Expenses	1,467,460	1,338,033	172,889	141,079	1,640,349	1,479,112
Change in Net Assets	45,700	64,275	33,040	28,612	78,740	92,887
Special Items (1)	8,320	(8,320)				
Transfers	(5,184)	(6,404)	5,184	6,404		
Net Change in Net Assets	48,836	57,871	29,904	35,016	78,740	92,887
Beginning, Net Assets as restated	2,329,321	2,271,450	286,415	251,399	2,615,736	2,322,849
Ending, Net Assets	\$ 2,378,157	\$ 2,329,321	\$ 316,319	\$ 286,415	\$ 2,694,476	\$ 2,615,736
*Certain amounts have been restated as discussed in Note 17, Prior Period Restatement.						
(1) Debt and capital project activity moved from governmental activities to business-type activities. See Note 1, Summary of Significant Accounting Policies, "Special Items" for more information.						

The City's total revenues were \$1,719,089 for fiscal year-ended September 30, 2008. Revenues from governmental activities totaled \$1,513,160 and revenues from business-type activities totaled \$205,929. General revenues represented 64.4% of the City's total revenue, while program revenues provided 35.6% of revenue received in fiscal year 2008.

Expenses for the City totaled \$1,640,349. Governmental activity expenses totaled \$1,467,460, or 89.5% of total expenses.

Governmental Activities



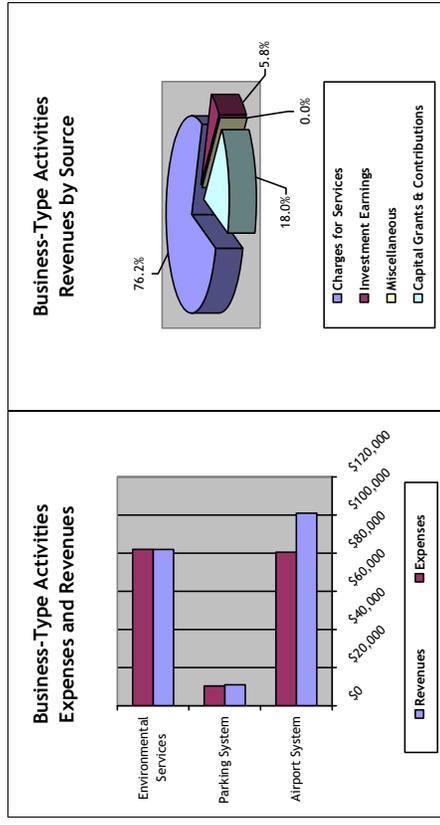
Governmental Activities increased the City's net assets by \$48,836. The reason for the change is as follows:

- Grants and Contributions revenues increased by \$4,041 primarily due to \$10,511 in hurricane activities recognized during the year, a one-time \$6,081 increase in the Hotel Occupancy Tax from contributions from the State for the NCAA Men's Final Four, as well as the addition of a blended component unit, the San Antonio Library Foundation, which increased capital grants by \$2,129. Additional project increases of \$5,446 and \$635 in Public Works and General Government, respectively, also assisted in the growth of revenues from grants and capital projects. These increases were mitigated primarily by a decrease in contributions of \$15,678 in the Capital Projects funds for the Convention Center Hotel Corporation due to the project's completion of the Grand Hyatt Hotel.
- Revenues from Property Taxes increased by \$53,115 due to an increase in the overall taxable value, increased collection, reappraisals, annexations and new construction. Even though tax rates were reduced from \$0.58 to \$0.57 per \$100 valuation in fiscal year 2007 and 2008, respectively, taxable values increased from \$56,767,701 in fiscal year 2007 to \$65,954,867 in fiscal year 2008, resulting in additional revenues of \$50,339 in current property taxes.
- Other Taxes, which includes sales and use taxes, increased \$13,986, of which \$8,272 of that increase was from sales and use tax due to continued growth, increased economic development throughout the City, and increased tourism. Hotel occupancy taxes also increased by \$4,536 due to an increase in tourism and convention business.
- CPS Energy revenues increased by \$45,256 due to higher natural gas prices and an increase in consumers. SAWS revenues also increased by \$1,215 due to a drier summer season resulting in increased water usage and an overall increase in consumers causing an increase in Revenues from Utilities of \$46,858.
- Investment Earnings decreased by \$14,564 due to a significant decrease in yields within the market during the fiscal year and lower cash and investment holdings as a result of lower average investment balances.

- An increase of \$49,334 of General Government expenses is primarily attributed to Capital Project activity increasing by \$28,709 due to a purchase of Right Away acquisitions for the Edwards Aquifer Land Acquisition and Parks Expansion and an increase of \$1,456 due to an increase in projects initiated in fiscal year 2008 compared to fiscal year 2007. General Government activity saw an additional increase of \$18,267 due to implementing GASB Statement No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.
- Public Safety expenses increased by \$70,700 primarily due to an increase in personal services of \$54,189 due to the hiring of 80 police officers and 96 firefighters during fiscal year 2008, and an increase in fuel costs of \$3,436.
- Public Works expenses increased by \$48,346 due to the increase in public works projects after the passage of the 2007 \$550,000 bond initiative as well as an increase in the City's contractual street maintenance program.
- Culture and Recreation expenses increased by \$13,211 due to increased personal services of \$3,353 in the Convention and Visitors Facilities Fund; increased General Fund expenditures for the library and parks in the amount of \$4,099 and \$886, respectively. The library increase includes a \$994 increase in charges for phone and computer services and an \$830 increase in expenses for a new book identification and security system.
- Convention and Tourism expenses decreased by \$86,701, primarily due to a decrease in expenses associated with the Grand Hyatt Hotel, which was completed in fiscal year 2008.
- Welfare expenses increased in fiscal year 2008 by \$14,757 due to an increase of grant funded expenditures in fiscal year 2008 of \$7,153 and an increase in the General Fund in personal services of \$2,166 and other expenditures of \$1,525 related mostly to fuel costs and direct welfare payments.
- Interest on Long-Term Debt, Net increased by \$22,989 due to an increase in interest expense as a result of additional issuances obtained during 2008, as well as a modification to the effective interest calculation on the amortization of unamortized bond issuance costs, discounts and premiums.

Business-Type Activities

Program revenues for the City's Business-Type Activities totaled \$193,907, which is \$37,288 higher than the previous fiscal year. The remaining revenues were a result of interest earnings and other miscellaneous items. Expenses for Business-Type Activities were \$172,889 compared to prior year's expenses of \$141,079.



Business-Type Activities increased the City's net assets by \$29,904, primarily because of the following:

- Charges for Services increased \$23,489 primarily because the Airport System experienced an increase in revenues in the amount of \$10,829 as a result of increased concession and parking revenues, due to continued growth in passenger travel through San Antonio International Airport and the Airport's construction and opening of a new parking garage in fiscal year 2008 to keep up with that growth. Environmental Services revenues also increased by \$11,908 due to an increase in customers served as well as a fee increase to cover costs of the automated conversion of trucks, new waste containers and solid waste services.
- A \$13,799 increase in Capital Grants and Contributions in the Airport System was primarily attributed to a \$9,144 increase in reimbursement from grant funded capital projects due to the Airport's ongoing expansion project, as well as an increase of \$4,717 in passenger facility charge revenues due to increased passenger travel at San Antonio International.
- While yield amounts are lower than the prior year, Investment Earnings increased by \$911 due to larger cash balances maintained in the funds as a result of operations and bond sales that took place in fiscal year 2008.
- Airport System expenses increased by \$16,023 primarily due to increased personnel costs and contractual services associated with the growth of both San Antonio International and Stinson Airports.
- Parking System expenses increased by \$1,857, which is a result of higher personnel costs and increase repair and maintenance costs of parking facilities and assets.
- Environmental Services expenses increased by \$13,930, due to additional expenses associated with the ongoing implementation of the automated garbage collection services, which are scheduled to be completed in fiscal year 2010.

Financial Analysis of Governmental Funds

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

Revenues from taxes increased by \$67,101, which is primarily attributable to: (1) a \$27,618 or 13.5% increase in property tax and related penalties and interest revenues in the General Fund, (2) a \$6,957 or 3.6% increase in sales and use tax revenues in the General Fund, (3) a \$17,992 or 15.1% increase in property tax and related penalties and interest revenues in the Debt Service Fund, (4) a \$4,521 or 7.1% increase in occupancy taxes and related penalties and interest revenues in the Nonmajor Governmental Funds, and (5) a \$3,560 or 73.4% increase in property tax revenue in the Tax Increment Reinvestment Zone Fund. The increases in property taxes are a result of increased property valuation, increased collections, new construction, and annexation; while the increase in sales and use taxes and occupancy taxes are a result of continued growth and room capacity, as well as expanded tourism and convention business.

The total fund balance of the General Fund at year-end was \$205,548, an increase of \$45,251 from the total restated fund balance of \$160,297 in fiscal year 2007. The total unreserved General Fund balance for fiscal year 2008 is \$190,775, which represents \$82,994 in designated and \$107,781 in undesignated fund balances. The undesignated fund balance, which represents amounts available for additional appropriations in the General Fund at the close of the fiscal year, increased by \$26,876 from the previous year's restated balance. In addition, the City's financial reserves were increased \$20,050 in fiscal year 2008. This reserve, which is recorded in the designated unreserved balance, will be utilized for unforeseen operational or capital requirements, extraordinary occurrences such as natural disasters or other similar events, to assist the City in managing fluctuations in available General Fund resources and to stabilize the budget.

The total fund balance of the Debt Service Fund at year-end was \$105,948, an increase of \$3,642 from the total fund balance of \$102,306 in fiscal year 2007. The entire fund balance is reserved for payment of debt service.

The Categorical Grant-in Aid Fund has a total deficit fund balance of \$7,873. The City engaged in a grant reconciliation effort that began in fiscal year 2006 and continued into fiscal year 2008. The City's departmental fiscal staff was required to validate data in the City's financial system relating to grants. With this effort, the City determined that it spent dollars in excess of the grant allocations while providing more services to the community. These deficits have been incorporated into the City's annual budget process and are scheduled to be funded over the next four years from general revenues.

General Fund Budgetary Highlights

General Fund	Variances in Budget Appropriations (Budgetary Basis)		
	Original Budget	Final Budget	Actual Results
General Government	\$ 95,325	\$ 113,531	\$ 84,270
Public Safety	463,611	467,555	456,687
Public Works	11,290	11,301	11,477
Health Services	63,178	63,908	65,892
Sanitation	3,113	3,465	3,446
Welfare	44,136	47,962	46,712
Culture and Recreation	76,202	77,095	74,574
Economic Development and Opportunity	3,561	3,707	3,143
Transfers to Other Funds	92,143	95,290	95,755
Total	\$ 852,550	\$ 883,814	\$ 841,956

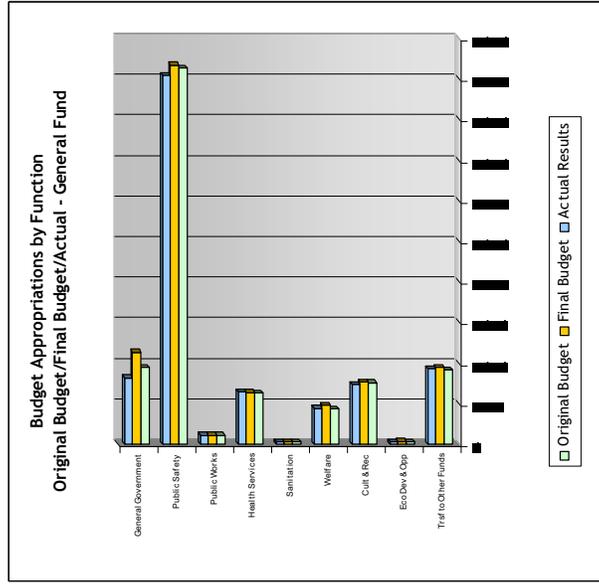
Changes in original budget appropriations to the final amended budget appropriations were a \$31,255 increase in appropriations. This increase can be summarized by the following discussion:

- General Government has an \$18,206 increase composed of \$12,650 of budget carryforwards and a \$5,556 increase in budget. Of the \$12,650 of budget carryforwards, \$10,769 is nondepartmental and one time projects carryforwards while the remainder is carryforwards for other departments. The \$5,556 budget increase is made up increases in special projects and nondepartmental appropriations of \$4,645, other budget increases and decreases in various departments resulting in a net budget increase of \$9,532, less the recovery of indirect costs from applicable program activities.
- Of the \$3,944 increase in Public Safety, \$750 is due to budget carryforwards and \$3,194 to budget increases. The \$3,194 in budget increases is primarily due to an increase in personal services within the Police Department of \$1,210 and within Fire of \$1,140.
- Of the \$3,826 increase in Welfare, \$3,516 is due to budget carryforwards and \$310 is due to a budget increase. Because much of the Welfare budget is spent on contracts with cost reimbursement payments, a larger percentage of the budget is encumbered at year-end than other program activities.
- The \$3,147 increase in transfers is due to \$1,294 in budget carryforwards and \$1,853 in new appropriations. The majority of the new appropriations come from the transfer of \$2,000 from the designated reserve loss fund's balance to the streets Endowment Reserve Fund, to properly track the interest earnings on that \$2,000 for street endowment while the \$2,000 corpus is retained in the total loss fund's balance.

Final budgeted appropriations for the General Fund were \$883,814, while actual expenditures were \$841,956 creating a positive variance of \$41,858. Significant variances are as follows:

- General Government had a \$29,261 positive variance, which is due to the fact that indirect costs charged and recovered from other departments are netted against actual related expenditures. These indirect cost's recoveries (\$8,621 in fiscal year 2008) were not included in the budget. The City budgeted the annual cost of living adjustment in the General Government function while actual payouts were charged to both General Government and Public Safety in line with the City's personnel components. Salary reserves represented \$10,585 in fiscal year 2008. Public Safety typically receives 70% of the total estimate.
- Public Safety had a \$10,868 positive variance, which is primarily due a reduction of expenses in the amount of \$5,977 for a rebate of flexible benefit contributions made to the City's self insurance funds. Also, reimbursement of various expenditures were recognized for Hurricanes Dolly and Ike for \$1,569.
- Health Services had a \$1,984 negative variance, which is primarily due to higher than budgeted personal services expenditures associated with keeping personnel to complete the transition of clinics to University Health, which took longer than expected.
- Welfare had a \$1,250 positive variance, which is primarily due to \$1,170 of carried forward expenditures for contractual services and direct welfare payments to cost reimbursement contracts.
- Culture and Recreation had a \$2,521 positive variance, which is due to \$1,494 in contractual services savings for parks due to a carry forward of a five year maintenance and renovation program for Casiano, Martinez and Harlandale parks.

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



Financial Analysis of Proprietary Funds

Activities of the Primary Government's Airport System, Parking System, and Environmental Services Funds are considered proprietary funds. The Airport System handles operations at both the San Antonio International Airport and Stinson Municipal Airport. The Parking System handles operations of the City's parking garages and lots. The Environmental Services handles trash collection operations and the activities of the City's landfills. Financial analysis for the proprietary funds is on the same basis as the business-type activities. See further analysis on the funds' operations at pages 6 and 7.

Capital Assets

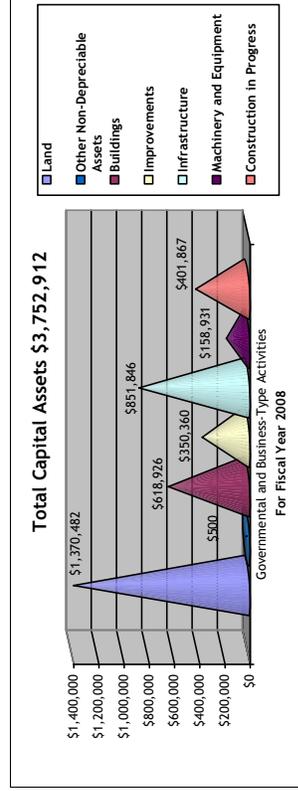
The City's investment in capital assets for its governmental and business-type activities as of September 30, 2008 amounts to \$3,752,912 (net of accumulated depreciation). This investment in capital assets includes land, other non-depreciable assets, buildings, improvements, infrastructure, machinery and equipment, and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was \$209,865, which comprises of a \$137,393 increase in governmental activities and a \$72,472 increase in business-type activities.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007 (Restated) *	2008	2007	2008	2007 (Restated)
Land	\$ 1,356,141	\$ 1,341,567	\$ 14,341	\$ 13,561	\$ 1,370,482	\$ 1,355,128
Other Non-Depreciable Assets	500				500	
Buildings	472,703	449,071	146,223	99,009	618,926	548,080
Improvements	222,640	176,453	127,720	129,614	350,360	306,067
Infrastructure	851,846	861,586			851,846	861,586
Machinery and Equipment	151,335	155,322	7,596	4,678	158,931	160,000
Construction in Progress	280,414	214,187	121,453	97,999	401,867	312,186
Total	\$ 3,335,579	\$ 3,198,186	\$ 417,333	\$ 344,861	\$ 3,752,912	\$ 3,543,047

*Certain amounts have been restated as discussed in Note 17, Prior Period Restatement.

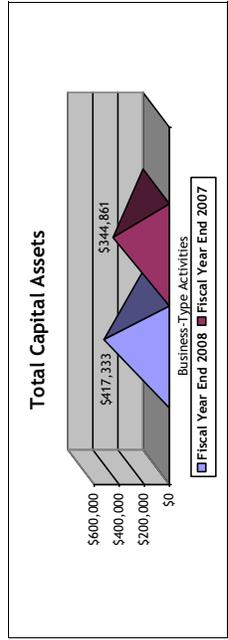
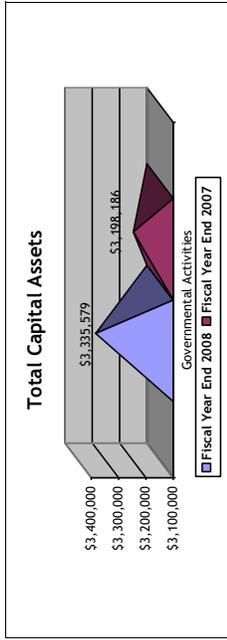
During fiscal year 2008, the City transferred \$200,325 of construction in progress to depreciable asset classes for various completed projects of buildings, improvements, and infrastructure.

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



	Governmental Activities	Business-Type Activities	Total
Beginning Balance	\$ 5,038,066	\$ 521,735	\$ 5,559,801
Additions	254,028	84,543	338,571
Deletions	(11,991)	(779)	(12,770)
Accumulated Depreciation	(1,944,524)	(188,166)	(2,132,690)
Ending Balance	\$ 3,335,579	\$ 417,333	\$ 3,752,912

The following charts provide a summary of the ending balances of capital assets for both the current and prior fiscal years:



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

Debt Administration

Long-Term Debt

At the end of the current fiscal year, the City had a total of \$2,041,332 in bonds, certificates, tax notes and commercial paper outstanding, an increase of 15.2% over last year. Additional information on the City's long-term debt, including descriptions of the new issues, can be found in Note 6, Long-Term Debt and Note 7, Commercial Paper Programs.

	Governmental Activities	
	2008	2007
Bonds Payable:		
General Obligation Bonds	\$ 717,275	\$ 667,280
Tax-Exempt Certificates of Obligation	291,360	216,185
Taxable Certificates of Obligation	225	290
Tax Notes	17,925	60,000
Commercial Paper	10,500	4,000
Revenue Bonds	578,412	554,372
Capital Appreciation Bonds (CAB)	17,620	16,497
Total	\$ 1,633,337	\$ 1,520,624
Business-Type Activities		
	2008	2007
Bonds Payable:		
General Obligation Bonds	\$ 9,495	\$ -
Tax-Exempt Certificates of Obligation	2,805	-
Revenue Bonds	395,695	251,370
Total	\$ 407,995	\$ 251,370

Governmental Activities

In 2008, the City issued additional indebtedness for a total of \$388,245. The \$388,245 was composed of \$121,220 in general obligation bonds, \$104,255 in certificates of obligations, \$21,270 in tax notes, \$135,000 in revenue bonds, and \$6,500 in commercial paper.

The general obligation bonds will be utilized to refund a portion of the City's outstanding tax supported debt, and to fund various capital improvement projects. The certificates of obligations will be utilized for such capital projects to improve existing municipal facilities (to include libraries, golf courses, and parks), constructing the new Haven for Hope Homeless Campus, acquiring the Mission Drive in Theatre land for open space and other projects related to public safety, drainage, streets, and flood control.

In December 2007, the City issued \$21,270 in tax anticipation notes that will be used to fund technology improvements for various City-owned systems and improvements to the City's infrastructure improvements at Brooks City-Base.

Additionally in July 2008, the City issued \$135,000 of Hotel Occupancy Tax (HOT) Revenue Refunding Bonds; the proceeds will be used to refund a portion of the City's outstanding debt and for renovation to the Lila Cockrell Theatre as well as other expansion-related improvements.

In May 2007, the City adopted an ordinance authorizing the issuance of up to \$50,000 in Sales Tax Revenue Commercial Paper Notes, Series A. Proceeds from the sale of the Commercial Paper Notes are to provide funds to acquire property with the intent of protecting water in the Edwards Aquifer as contemplated by the "Edwards Aquifer Protection Venue Project" (authorized at an election held on May 7, 2005). As of September 30, 2008, \$10,500 of Commercial Paper Notes are outstanding.

Business-Type Activities

On December 14, 2007, the City issued \$82,400 in Airport System Revenue Improvement Bonds, Series 2007. Concurrently, the City issued \$74,860 in Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2007. The Bonds were issued to fund various airport system capital improvements including PFC eligible airport-related projects.

In fiscal year 2008 the Environmental Services Fund received proceeds from the Combination Tax and Revenue Certificates of Obligation, Series 2007, in the amount of \$2,500. These proceeds will be utilized to provide a Compress Natural Gas fueling facility at the City's Northeast Service Center, and to repair a slope failure at Pearsall Landfill.

In fiscal year 2008 several transactions were initiated transferring debt issued for proprietary fund projects from governmental funds to proprietary funds. When the debt relating to 2006 Certificates of Obligations, 2004A Refunding General Obligations, and 2007 Tax Notes (which were subsequently refunded with 2006 General Obligations) were initially recorded, proceeds, bonds payable, and additional bond costs (premiums, discounts, cost of issuances) were recorded in the governmental funds. Therefore, all self supporting enterprise debt was moved from governmental funds into their respective enterprise fund, along with any capital projects currently under construction and remaining unspent bond proceeds. As a result, \$9,685 of outstanding debt was transferred into the Parking System Fund from the Debt Service Fund and a total of \$1,360 of debt was transferred into the Environmental Services Fund from Capital Project Funds. See Note 6, Long-Term Debt for additional information on the transferring of debt obligations.

Standard & Poor's, Moody's, and Fitch's underlying rating for City obligations during fiscal year 2008 are as follows:

	Standard & Poor's	Moody's	Fitch
General Obligation/Certificates of Obligation/Tax Notes	AA+	Aa1	AA+
Hotel Occupancy Tax Bonds (Long Term)	A+	A1	A
Hotel Occupancy Tax Bonds (Short Term)	AAA/A-1+	Aaa/VMIG1	AA+/F1+
Hotel Occupancy Tax Notes	Private Placement - Not Rated		
Airport System	A+	A1	A+
Aiport PFC	A-	A2	A
Parking System	A+	A2	A+
Municipal Drainage Utility System Revenue Bonds	AA-	A1	A+
Sales Tax Revenue Commercial Paper	A-1+	P-1	F1+

Standard & Poor's elevated the City's General Obligation/Certificates of Obligation/Tax Notes rating in October 2008 to AAA.

The Constitution of the State of Texas and the City Charter limit the amount of debt the City may incur. For more information related to these limits see Note 6, Long-Term Debt. The total assessed valuation for the fiscal year-ended 2008 was \$76,465,984, which provides a debt ceiling of \$7,646,598.

Currently Known Facts

The City processed numerous debt issuances after fiscal year-end. In November 2008, the City issued \$10,120 in Taxable General Improvement Refunding Bonds, Series 2008. In December 2008, the City issued \$75,060 of General Improvement Bonds, Series 2008, \$85,005 in Combination Tax and Revenue Certificates of Obligation, Series 2008, and \$15,320 in Tax Notes, Series 2008.

On November 25, 2008, the City engaged in a real estate exchange transaction with Hixon Properties, Inc. The City sold the River Bend Parking Garage property valued at \$22,400 for other downtown property valued at \$15,500 and cash proceeds of \$6,900, less related closing fees. This new property will be used to construct a new Public Safety Headquarters, which will serve as a downtown headquarters for both the Fire and Police Departments.

For more information on these items, please see Note 18, Subsequent Events.

Requests for Information

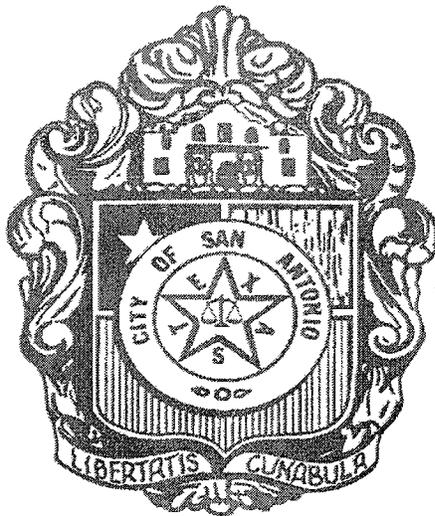
This financial report is designed to provide a general overview of the City's position for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department,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

City of San Antonio, Texas



Financial Section

Comprehensive Annual Financial Report
Year-Ended September 30, 2008



City of San Antonio, Texas



Basic Financial Statements

CITY OF SAN ANTONIO, TEXAS

Statement of Net Assets

As of September 30, 2008

(In Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Assets:				
Cash and Cash Equivalents	\$ 22,259	\$ 3,249	\$ 25,508	\$ 198,854
Cash Collateral from Securities Lending				400,306
Investments	364,125	38,447	402,572	414,417
Receivables, Net	100,622	12,124	112,746	267,639
Due from:				
Fiduciary Funds	442		442	
Other Governmental Agencies	3,126		3,126	3,313
Internal Balances	(6,899)	6,899		
Materials and Supplies, at Cost	6,195	825	7,020	157,989
Prepaid Expenses	1,350	22	1,372	80,016
Other Assets				719
Deposits	213	50	263	
Restricted Assets:				
Cash and Cash Equivalents	66,417	21,667	88,084	114,008
Investments	551,777	268,142	819,919	1,447,713
Receivables, Net	80,841	2,025	82,866	22,084
Prepaid Expenses	22		22	
Deposits	261		261	
Deferred Charges				6,268
Due from:				
Other Governmental Agencies	7,906		7,906	
Prepaid Expenses				627,470
Capital Assets:				
Non Depreciable	1,637,055	135,794	1,772,849	1,476,018
Depreciable, Net	1,698,524	281,539	1,980,063	7,297,421
Assets Held for Resale				3,283
Prepaid Rent Long Term - Leaseback				456,813
Net OPEB Asset				30,218
Other Noncurrent Assets				37,792
Unamortized Bond Issuance Costs	25,371	5,545	30,916	17,286
Total Assets	<u>4,559,607</u>	<u>776,328</u>	<u>5,335,935</u>	<u>13,059,627</u>
Liabilities:				
Accounts Payable and Other Current Liabilities	105,002	11,438	116,440	461,753
Unearned Revenue	11,688	1,136	12,824	1,959
Securities Lending Obligation				400,306
Accrued Interest		15	15	
Due to:				
Other Governmental Agencies	729		729	2,158
Restricted Liabilities:				
Accounts Payable and Other Current Liabilities	65,789	7,285	73,074	16,740
Unearned Revenue	25,955		25,955	
Accrued Interest	13,249	5,105	18,354	8,994
Due to:				
Other Governmental Agencies	3,654		3,654	
Noncurrent Liabilities:				
Due Within One Year	153,105	19,865	172,970	235,989
Due in More Than One Year	1,802,279	415,165	2,217,444	7,128,149
Total Liabilities	<u>2,181,450</u>	<u>460,009</u>	<u>2,641,459</u>	<u>8,256,048</u>
Net Assets:				
Invested in Capital Assets, Net of Related Debt	2,092,623	208,894	2,301,517	3,767,039
Restricted for:				
Debt Service	116,771	33,790	150,561	24,569
Capital Projects		42,388	42,388	2,953
Renewal and Replacement				506,835
Perpetual Care:				
Expendable	1,000		1,000	
Nonexpendable	4,766		4,766	
Unrestricted	162,997	31,247	194,244	502,183
Total Net Assets	<u>\$ 2,378,157</u>	<u>\$ 316,319</u>	<u>\$ 2,694,476</u>	<u>\$ 4,803,579</u>

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

CITY OF SAN ANTONIO, TEXAS

Statement of Activities
Year-Ended September 30, 2008
(In Thousands)

FUNCTION/PROGRAM ACTIVITIES	EXPENSES	PROGRAM REVENUES		CAPITAL GRANTS AND CONTRIBUTIONS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
Primary Government:				
General Government:				
General Government	\$ 168,215	\$ 45,757	\$ 1,637	\$ 2,372
Public Safety	527,075	9,536	16,757	928
Public Works	191,518	46,970	21,480	25,123
Sanitation	3,000	5	986	233
Public Services	49,720	32,392	14,720	1,176
Parks and Recreation	141,660	40,548	5,725	1,218
Convention and Tourism	68,584	1,278	1,524	19,003
Conservation	1,068			
Urban Redevelopment and Housing	19,226	2	18,199	274
Welfare	168,461	192	115,049	67
Economic Development and Opportunity	17,329	2,026	2,461	
Amortization of Issuance Cost	7,266			
Amortization of Bond Premium/Discount	1,467			
Interest on Long-Term Debt	9,643			
Interest on Long-Term Debt	28,667			
Total Governmental Activities	1,467,460	169,107	198,736	49,577
Business-Type Activities:				
Airport System	80,505	63,944		36,987
Parking System	10,382	10,988		
Environmental Services	82,002	81,988		
Total Business-Type Activities	172,889	156,920		36,987
Total Primary Government	1,640,349	326,027	198,736	86,564
Discretely Presented Component Units:				
City Energy - Water System	1,984,053	1,860,571		58,380
Brooks Development Authority	341,623	330,317		139,784
City South Management Authority	18,830	24,988		4,294
Main Plaza Conservancy	244		736	
Municipal Golf Association - San Antonio	522	11		
Port Authority of San Antonio	2,448	2,516		(540)
SA Energy Acquisition Corporation	32,017	44,578		
San Antonio Education Facilities Corporation	39,684	39,372		
San Antonio Local Development Company	492	20	131	
San Antonio Housing Trust Foundation, Inc.	8			
San Antonio Local Development Company	1,391	8		1,066
Westside Development Corporation	1,234	425		369
Total Component Units	253			
Total Component Units	2,342,796	2,303,302	867	204,343

CITY OF SAN ANTONIO, TEXAS

Statement of Activities
Year-Ended September 30, 2008
(In Thousands)

FUNCTION/PROGRAM ACTIVITIES	EXPENSES	PROGRAM REVENUES		CAPITAL GRANTS AND CONTRIBUTIONS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
Primary Government:				
General Government:				
General Government	\$ 168,215	\$ 45,757	\$ 1,637	\$ 2,372
Public Safety	527,075	9,536	16,757	928
Public Works	191,518	46,970	21,480	25,123
Sanitation	3,000	5	986	233
Public Services	49,720	32,392	14,720	1,176
Parks and Recreation	141,660	40,548	5,725	1,218
Convention and Tourism	68,584	1,278	1,524	19,003
Conservation	1,068			
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Economic Development and Opportunity	17,329	2,026	2,461	
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Interest on Long-Term Debt	28,667			
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Business-Type Activities:				
Airport System	80,505	63,944		36,987
Parking System	10,382	10,988		
Environmental Services	82,002	81,988		
Total Business-Type Activities	172,889	156,920		36,987
Total Primary Government	1,640,349	326,027	198,736	86,564
Discretely Presented Component Units:				
City Energy - Water System	1,984,053	1,860,571		58,380
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Main Plaza Conservancy	244		736	
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Total Component Units	253			
Total Component Units	2,342,796	2,303,302	867	204,343

General Revenues:

General	379,457			
General Sales and Use	232,348			
Selective Sales and Use	5,712			
Gross Receipts Business	31,705			
Occupancy	68,414			
Penalties and Interest on Delinquent Taxes	30,457			
Revenues from Utilities	39,463			
Miscellaneous	30,299			
Adjustment for STP Pension Cost	8,320			
Special Items	1,098,876			
Transfers, net	(5,184)			
Total General Revenues, Special Items, and Transfers	1,098,876			
Change in Net Assets	48,836			
Net Assets - Beginning of Fiscal Year, as restated	2,329,324			
Net Assets - End of Fiscal Year	2,378,160			

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
\$ (118,249)	\$	\$ (118,249)	\$
(499,854)		(499,854)	(97,945)
(1,791)		(1,791)	(32,351)
(52,351)		(52,351)	(94,169)
(46,779)		(46,779)	(1,068)
(751)		(751)	(53,153)
(12,842)		(12,842)	(24,475)
(9,643)		(9,643)	(78,667)
(1,050,040)		(1,050,040)	
	20,426	20,426	20,426
	606	606	606
	(130)	(130)	(130)
	21,018	21,018	21,018
(1,050,040)		(1,029,022)	
			15,014
			128,475
			11,452
			(244)
			225
			68
			12,911
			(319)
			18
			(317)
			(440)
			(253)
			165,716

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

379,457		379,457	
232,348		232,348	
5,712		5,712	
31,705		31,705	
68,414		68,414	
30,457		30,457	
39,463		39,463	
30,299		30,299	
8,320		8,320	
5,184		5,184	
1,098,876		1,098,876	
48,836		48,836	
2,329,324		2,615,216	
2,378,160		2,694,476	
	12,010	12,010	142,652
	(8,320)	(8,320)	(21,174)
	8,886	8,886	122,391
	79,894	79,894	288,107
	286,413	286,413	4,515,472
	316,519	316,519	4,603,579

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

Amounts are expressed in thousands

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

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

**Balance Sheet
Governmental Funds
As of September 30, 2008**
(In Thousands)

	MAJOR FUNDS				TOTAL GOVERNMENTAL FUNDS
	GENERAL	DEBT SERVICE	CATEGORICAL GRANT-IN- AID	NONMAJOR GOVERNMENTAL FUNDS	
Assets:					
Cash and Cash Equivalents	\$ 5,602	\$ -	\$ -	\$ 11,788	\$ 17,390
Investments	118,610			130,934	249,344
Receivables, Net	86,058			10,530	97,188
Prepaid Expenditures	18			384	402
Due from:					
Other Funds	37,881			834	38,715
Other Governmental Agencies	2,010			1,037	3,047
Materials and Supplies, at Cost	4,326			415	4,741
Deposits				75	75
Restricted Assets:					
Cash and Cash Equivalents	20,503	20,503	268	45,646	66,417
Investments	85,302	6,609	50,432	466,275	551,777
Receivables, Net				23,800	80,941
Prepaid Expenditures				22	22
Deposits				261	261
Other Funds		855	2,242	46,657	49,754
Other Governmental Agencies				7,505	7,505
Total Assets	\$ 255,105	\$ 113,469	\$ 52,942	\$ 746,564	\$ 1,168,080
Liabilities and Fund Balances:					
Liabilities:					
Vouchers Payable	\$ 2,673	\$ -	\$ -	\$ 4,647	\$ 10,320
Accounts Payable - Other	14,278			9,927	17,270
Accrued Leave Payable	8,422			3,081	9,027
Unearned Revenue	10,123			605	10,123
Due To:					
Other Funds	4,239			14,278	18,517
Other Governmental Agencies				18	18
Restricted Liabilities:					
Vouchers Payable			4,197	23,012	27,209
Accounts Payable - Other		189	9,363	25,552	35,104
Accrued Payroll			808	239	1,047
Accrued Leave Payable			11,660	14,295	31,145
Agency		5,189		2,429	2,429
Agency Held in Trust					
Due To:					
Other Funds		2,143	34,235	44,252	80,630
Other Governmental Agencies			552	3,102	3,654
Total Liabilities	\$ 49,557	\$ 7,521	\$ 60,815	\$ 145,487	\$ 203,380
Fund Balances:					
Reserved:					
Reserved for Encumbrances	10,429			303,918	314,347
Reserved for Deposits				336	336
Reserved for Materials and Supplies	4,326			415	4,741
Reserved for Prepaid Expenditures	18			406	424
Reserved for Debt Service		105,948			105,948
Unreserved:					
Designated: General Fund	82,994			3,487	82,994
Designated: Special Revenue Funds				5,018	3,487
Designated: Permanent Funds			(7,873)		5,018
Undesignated: Major Funds	107,781			167,810	99,908
Undesignated: Special Revenue Funds				167,810	167,810
Undesignated: Capital Projects Funds				10,683	10,683
Undesignated: Permanent Funds				601,077	10,683
Total Fund Balances	\$ 205,548	\$ 105,948	\$ (7,873)	\$ 746,564	\$ 904,700
Total Liabilities and Fund Balances	\$ 255,105	\$ 113,469	\$ 52,942	\$ 746,564	\$ 1,168,080

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

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

**Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
As of September 30, 2008**
(In Thousands)

Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Fund Balances - Total Governmental Funds	\$ 904,700
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	
Governmental Capital Assets:	
Land	1,356,141
Other Non-Depreciable Assets	500
Construction in Progress	280,414
Buildings	710,707
Improvements	295,314
Infrastructure	2,291,681
Machinery and Equipment	194,834
Less: Accumulated Depreciation	(1,849,546)
Total Governmental Capital Assets	3,281,045
Some of the City's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are not reported in the governmental funds (See Note 14).	3,647
Long-term receivables applicable in governmental activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	1,565
Internal Service Funds are used by management to charge the cost of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Statement of Net Assets.	116,456
Long-term liabilities are not due and payable in the current period, neither are associated unamortized assets available (financial resources and, therefore, are not reported in the governmental funds).	
Governmental Bonds Payable	(1,622,837)
Commercial Paper Payable	(10,500)
Unamortized Discount/(Premium) on Bonds, Net	(39,991)
Deferred Amount on Refunding	10,287
Leases Payable	(12,381)
Notes Payable	(54,958)
Other Payables	(2,315)
Unamortized Bond Issuance Costs	25,371
Net OPEB Obligation	(16,171)
Accrued Interest	(13,249)
Arbitrage Rebate	(501)
Compensated Absences	(192,011)
Net Assets of Governmental Activities	\$ 2,278,157

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

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year-Ended September 30, 2008

(In Thousands)

	MAJOR FUNDS				TOTAL GOVERNMENTAL FUNDS
	GENERAL	DEBT SERVICE	CATEGORICAL GRANT-IN-AID	NONMAJOR GOVERNMENTAL FUNDS	
Revenues:					
Taxes:					
Property	\$ 232,493	\$ 136,090	\$ -	\$ 8,301	\$ 376,884
General Sales and Use	196,306			36,042	232,348
Selective Sales and Use	5,712				5,712
Gross Receipts Business	31,705				31,705
Occupancy				68,414	68,414
Penalties and Interest on Delinquent Taxes	2,279	1,327		191	3,797
Licenses and Permits	7,756				7,756
Intergovernmental	6,468		161,725	53,750	221,943
Revenues from Utilities	304,158				304,158
Charges for Services	43,010		831	105,140	148,981
Fines and Forfeits	12,249				12,249
Miscellaneous	10,982	384	2,022	15,483	29,471
Investment Earnings	4,940	6,430	62	23,980	35,412
Contributions				15,053	15,053
In-Kind Contributions			15,091		15,091
Total Revenues	858,058	144,231	180,331	327,485	1,510,105
Expenditures:					
Current:					
General Government	81,880	698	1,615	33,660	117,853
Public Safety	454,466		16,679	1,759	472,904
Public Works	11,477		26,311	83,235	121,023
Health Services	65,049		17,217	7,820	90,086
Sanitation	3,301		1,071		4,372
Welfare	44,547		121,301	415	166,263
Culture and Recreation	74,031		2,144	56,275	132,750
Convention and Tourism				20,053	20,053
Urban Redevelopment and Housing			1,009	1,139	2,148
Economic Development and Opportunity			380	14,321	14,701
Capital Projects	3,046			319,663	319,663
Debt Service:					
Principal Retirement		97,485		1,900	99,385
Interest		62,170		15,101	77,271
Other:					
Insurance Costs		1,071		1,396	2,467
Total Expenditures	737,797	161,424	187,727	571,787	1,658,735
Excess (Deficiency) of Revenues Over (Under) Expenditures	120,261	(17,193)	(7,396)	(244,302)	(148,630)
Other Financing Sources (Uses):					
Issuance of Long-Term Debt		164,865		216,880	381,745
Payments to Refunded Bond Escrow Agent		(170,737)			(170,737)
Issuance of Notes and Loans				2,799	2,799
Release of Commercial Paper		3,267		6,500	9,767
Premium/(Discount) on Long-Term Debt		(9,645)		8,747	12,014
Release of Enterprise Fund Obligations		23,466		(1,400)	22,066
Debt Transfer to Enterprise Funds		(1,859)	10,397	387,404	395,942
Transfers In	(93,730)		(370)	(252,414)	(648,514)
Transfers Out	(75,010)			286,156	211,146
Total Other Financing Sources (Uses)	46,251	3,642	2,631	23,854	75,378
Net Change in Fund Balances	160,297	102,306	(10,504)	577,223	829,322
Fund Balances, October 1, as restated	\$ 205,548	\$ 105,948	\$ (7,873)	\$ 601,077	\$ 904,700

The accompanying notes are an integral part of these basic financial statements. Amounts are expressed in thousands

Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year-Ended September 30, 2008

(In Thousands)

Amounts reported for governmental activities in the Statement of Activities are different because:		
Net change in Fund Balances - Total Governmental Funds	\$	75,378
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		
Expenditures for Capital Assets	234,213	
Less: Current Year Depreciation	(96,900)	
Less: Current Year Deletions	(3,943)	
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		133,370
The issuance of long-term debt (e.g., bonds, notes and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(3,120)
Bond, Note and Loan Amounts Issued	(391,044)	
Premium, Discount and Deferred Charges	(12,014)	
Bond Issuance Costs	2,467	
Payments to Escrow Agent	170,737	
Amortization of Bond Premiums and Discounts, and Deferred Charges, Net	5,944	
Debt Transfer to Enterprise Funds	1,400	
Note Payments	20	
Principal Payments	99,365	
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds (See Note 14).		(123,125)
Internal Service Funds are used by management to charge the cost of certain activities to individual funds. The net (expense) of the internal service funds is reported with governmental activities.		(49,374)
Change in Net Assets of Governmental Activities	\$	15,707
		48,636

The accompanying notes are an integral part of these basic financial statements. Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Statement of Net Assets
Proprietary Funds
As of September 30, 2008
(in thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			TOTAL	INTERNAL SERVICE FUNDS	GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS				
Assets:						
Current Assets:						
Unrestricted Assets:						
Cash and Cash Equivalents	\$ 918	\$ 2,331	\$ 3,249	\$ 4,869		
Investments	19,710	18,737	38,447	114,381		
Receivables, Net:						
Other Accounts	3,096	80	3,176	960		
Accrued Interest	139	145	284	907		
Accrued Revenue	1,905	6,759	8,664	2		
Due from:						
Other Funds	112	16,399	16,511	5,400		
Other Governmental Agencies, Net				79		
Materials and Supplies, at Cost	590	235	825	1,454		
Prepaid Expenses	22			948		
Deposits		50	50	138		
Total Unrestricted Assets	26,492	44,736	71,228	129,338		
Restricted Assets:						
Debt Service Accounts:						
Cash and Cash Equivalents	9,020	1,384	10,404			
Investments	24,303	1,540	25,843			
Receivables-Accrued Interest		14	166			
Due From Other Funds	998	3,602	4,600			
Construction Accounts:						
Cash and Cash Equivalents	8,471	567	9,038			
Investments	185,031	8,647	193,678			
Receivables-Accrued Interest	1,480	68	1,548			
Due From Other Funds		2,219	2,219			
Other Restricted Assets:						
Cash and Cash Equivalents	194		194			
Investments	4,247		4,247			
Receivables-Accrued Interest	21		21			
Improvement and Contingency Accounts:						
Cash and Cash Equivalents	1,761	270	2,031			
Investments	38,472	5,902	44,374			
Receivables-Accrued Interest	8,825	18	8,843			
Due From Other Funds						
Total Restricted Assets	283,247	24,231	307,478	129,338		
Total Current Assets	309,739	68,967	378,706	258,676		
Capital Assets:						
Land	5,323	9,018	14,341	178		
Buildings	195,802	30,362	226,164	530		
Improvements	213,246	8,214	221,460	149,804		
Machinery and Equipment	11,578	10,503	22,081			
Construction in Progress	120,184	1,269	121,453			
Total Capital Assets	546,133	59,366	605,499	150,512		
Less: Accumulated Depreciation	170,066	18,100	188,166	95,978		
Net Capital Assets	376,067	41,266	417,333	54,534		
Unamortized Bond Issuance Costs	4,946	599	5,545			
Total Noncurrent Assets	381,013	41,865	422,878	54,534		
Total Assets	690,752	110,832	801,584	183,872		

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

CITY OF SAN ANTONIO, TEXAS

Statement of Net Assets
Proprietary Funds
As of September 30, 2008
(in thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			TOTAL	INTERNAL SERVICE FUNDS	GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS				
Liabilities:						
Current Liabilities:						
Payable from Current Unrestricted Assets:						
Vouchers Payable	\$ 574	\$ 1,114	\$ 1,688	\$ 4,714		
Accounts Payable-Other	5,830	1,997	7,827	3,154		
Claims Payable				51,267		
Accrued Payroll	871	1,052	1,923	1,384		
Current Portion of Accrued Leave Payable	356	333	689	429		
Unearned Revenue	1,136	15	1,151	23		
Accrued Interest				180		
Current Portion of Lease Purchase		12,040	12,040	1,805		
Due to Other Funds	3,060		3,060	1,805		
Total Payable from Current Unrestricted Assets	11,827	16,551	28,378	62,966		
Payable from Restricted Assets:						
Vouchers Payable	7,220	65	7,285			
Accrued Bond Interest	4,919	186	5,105			
Current Portion of Bonds	13,200	2,075	15,275			
Due to Other Funds	6,968	2,562	9,530			
Current Portion of Unamortized Premium/(Discount)	319	(14)	305			
Current Portion of Deferred Amount on Refunding	(559)	(24)	(583)			
Current Portion of Lease Purchase		3,887	3,887			
Current Portion of Accrued Landfill Postclosure Costs		275	275			
Other Payables	14	3	17			
Total Payable from Restricted Assets	32,081	9,015	41,096	62,966		
Total Current Liabilities	43,908	25,566	69,474	125,932		
Noncurrent Liabilities:						
Revenue Bonds (Net of Current Portion)	360,380	21,015	381,395			
General Obligation Bonds and Certificates (Net of Current Portion)		11,323	11,323			
Unamortized Premium/(Discount) (Net of Current Portion)	4,906	40	4,946			
Deferred Amount on Refunding (Net of Current Portion)	(2,155)	(215)	(2,370)			
Accrued Leave Payable (Net of Current Portion)	1,778	1,666	3,444			
Lease Purchase (Net of Current Portion)		11,059	11,059			
Net OPEB Obligation	1,546	2,059	3,605			
Due to Other Governmental Agencies		1,761	1,761			
Accrued Landfill Postclosure Costs (Net of Current Portion)		48,710	48,710			
Total Noncurrent Liabilities	366,455	84,373	450,828	507,666		
Total Liabilities	410,363	109,939	520,302	633,598		
Net Assets:						
Invested in Capital Assets, Net of Related Debt	198,423	10,471	208,894	54,230		
Restricted:						
Debt Service	29,373	4,417	33,790			
Capital Projects	40,345	2,043	42,388			
Unrestricted	12,248	19,625	31,873			
Total Net Assets	280,389	36,555	316,944	61,600		
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(526)		
Net assets of business-type activities.				316,319		

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

CITY OF SAN ANTONIO, TEXAS

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

Year-Ended September 30, 2008

(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:				
Charges for Services	\$ 63,602	\$ 92,144	\$ 155,746	\$ 221,413
Total Operating Revenues	<u>63,602</u>	<u>92,144</u>	<u>155,746</u>	<u>221,413</u>
Operating Expenses:				
Personal Services	25,652	34,033	59,685	38,095
Contractual Services	7,306	25,077	32,383	27,205
Commodities	2,207	8,071	10,278	7,028
Materials				24,580
Claims				86,395
Other	6,450	17,486	23,936	17,253
Depreciation	9,721	1,605	11,326	14,751
Total Operating Expenses	<u>51,336</u>	<u>86,272</u>	<u>137,608</u>	<u>215,307</u>
Operating Income	<u>12,266</u>	<u>5,872</u>	<u>18,138</u>	<u>6,106</u>
Nonoperating Revenues (Expenses)				
Investment Earnings	10,732	1,278	12,010	4,036
Other Nonoperating Revenue	16,368	842	17,210	2,479
Gain on Sale of Capital Assets	2		2	3,693
Interest and Debt Expense	(18,516)	(1,880)	(20,396)	(15)
Other Nonoperating Expense	(11,291)	(5,915)	(17,206)	
Total Nonoperating Revenues (Expenses)	<u>(2,705)</u>	<u>(5,675)</u>	<u>(8,380)</u>	<u>10,193</u>
Change in Net Assets Before Contributions and Transfers	<u>9,561</u>	<u>197</u>	<u>9,758</u>	<u>16,299</u>
Capital Contributions	20,961		20,961	
Debt Transfer from Governmental Funds		(8,320)	(8,320)	
Transfers In (Out):				
Transfers In	300	7,188	7,488	10,363
Transfers Out	(239)	(2,065)	(2,304)	(8,634)
Total Transfers In (Out)	<u>61</u>	<u>5,123</u>	<u>5,184</u>	<u>1,729</u>
Change In Net Assets	<u>30,583</u>	<u>(3,000)</u>	<u>27,583</u>	<u>18,028</u>
Net Assets - October 1	<u>249,806</u>	<u>39,556</u>		<u>97,802</u>
Net Assets - September 30	<u>\$ 280,389</u>	<u>\$ 36,556</u>		<u>\$ 115,830</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			<u>2,321</u>	
Change in Net Assets of Business-Type Activities.			<u>\$ 29,904</u>	

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

Statement of Cash Flows
Proprietary Funds
Year-Ended September 30, 2008
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS		TOTALS	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS		
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 65,658	\$ 91,145	\$ 156,803	\$ 221,211
Cash Payments to Suppliers for Goods and Services	(22,009)	(51,266)	(73,275)	(170,455)
Cash Payments to Employees for Service	(23,787)	(31,554)	(55,341)	(35,676)
Cash Received from Other Nonoperating Revenues	16,368	842	17,210	2,479
Net Cash Provided by Operating Activities	36,230	9,167	45,397	17,559
Cash Flows from Noncapital Financing Activities:				
Transfers In from Other Funds	300	7,188	7,488	10,363
Transfers Out to Other Funds	(239)	(2,065)	(2,304)	(8,634)
Due to Other Funds	8,046	14,579	22,625	1,409
Due from Other Funds	(7,991)	(22,220)	(30,211)	(4,952)
Net Cash Provided by (Used for) Non-Capital Financing Activities	116	(2,518)	(2,402)	(1,814)
Cash Flows from Capital and Related Financing Activities:				
Acquisitions and Construction of Capital Assets	(76,842)	(8,845)	(85,687)	(18,773)
Proceeds from Issuance of Long-Term Debt	160,867	10,304	171,171	
Principal Payments on Long-Term Debt	(12,275)	(1,905)	(14,180)	(235)
Interest Paid on Long-Term Debt	(16,649)	(1,904)	(18,553)	
Debt Issuance Costs	(3,424)	(31)	(3,455)	
Principal Payments on Notes		4,575	4,575	(14)
Interest Paid on Notes	7		7	3,693
Proceeds from Sale of Assets				
Net Cash Provided by (Used for) Capital and Related Financing Activities	51,684	2,194	53,878	(15,329)
Cash Flows from Investing Activities:				
Purchases of Investment Securities	(535,816)	(68,055)	(603,871)	(220,015)
Maturity of Investment Securities	428,819	59,821	488,640	216,787
Investments Earnings	10,747	1,312	12,059	4,056
Net Cash Provided by (Used for) Investing Activities	(96,250)	(6,922)	(103,172)	828
Net Increase (Decrease) in Cash and Cash Equivalents	(8,220)	1,921	(6,299)	1,244
Cash and Cash Equivalents, October 1	28,584	2,631	31,215	3,625
Cash and Cash Equivalents, September 30	\$ 20,364	\$ 4,552	\$ 24,916	\$ 4,869

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

Statement of Cash Flows
Proprietary Funds
 Year-Ended September 30, 2008
 (In Thousands)

	BUSINESS-TYPE ACTIVITIES		TOTALS	GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS		
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating Income	\$ 12,266	\$ 5,872	\$ 18,138	\$ 6,106
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	9,721	1,605	11,326	14,751
Other Nonoperating Revenues	16,368	842	17,210	2,479
Changes in Assets and Liabilities:				
(Increase) In Other Accounts Receivable	(330)	6	(324)	(584)
(Increase) Decrease In Allowance for Uncollectibles				393
(Increase) Decrease In Accrued Revenues	2,088	(1,005)	1,083	(2)
(Increase) In Due from Other Governmental Agencies	(27)	(22)	(49)	(9)
(Increase) In Materials and Supplies	(5)	(50)	(55)	12
(Increase) In Deposits		(596)	(596)	(102)
(Increase) Decrease In Vouchers Payable	69		(527)	(3,114)
Increase in Claims Payable				(1,681)
Increase (Decrease) In Accounts Payable - Other	(6,083)	36	(6,047)	(2,953)
Increase In Accrued Payroll	235	238	473	346
Increase In Accrued Leave Payable	84	182	266	(23)
Increase in Net OPEB Obligation	1,546	2,059	3,605	2,096
Increase In Unearned Revenue	298		298	
Net Cash Provided by Operating Activities	\$ 36,230	\$ 9,167	\$ 45,397	\$ 17,559
Noncash Investing, Capital and Financing Activities				
Debt Transfer from Governmental Funds	-	(8,320)	(8,320)	-
Capital Contributions	20,961		20,961	

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

CITY OF SAN ANTONIO, TEXAS

Statement of Fiduciary Net Assets/Balance Sheet

Fiduciary Funds
As of September 30, 2008
(In Thousands)

	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUND - SAN ANTONIO LITERACY PROGRAM	AGENCY FUNDS
Assets:			
Current Assets:			
Cash and Cash Equivalents	64,484	1	1,396
Security Lending Collateral	166,199		
Investments, at Fair Value:		21	9,548
U.S. Government and Agency Issues	65,089		
Corporate Bonds	328,269		
Preferred and Common Stock	849,981		
Other	753,876		
Total Investments, at Fair Value	1,997,215	21	9,548
Receivables:			
Other Accounts	2,923		358
Accrued Interest	7,079		11
Accrued Revenue	2,645		
Prepaid Expenses	19		
Total Current Assets	2,240,564	22	11,313
Capital Assets			
Machinery and Equipment	126		
Buildings	767		
Total Capital Assets	893		
Less: Accumulated Depreciation	(379)		
Net Capital Assets	514		
Total Assets	2,241,078	22	11,313
Liabilities:			
Vouchers Payable	4,438		45
Accounts Payable - Other	7,313		10,826
Accrued Payroll	106		
Due to Other Funds			442
Unearned Revenue	306		
Securities Lending Obligation	168,229		
Total Liabilities	180,392		11,313
Net Assets: Held In Trust for Pension Benefits and Other Purposes	2,060,686	22	

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

- 23 - Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds
Year-Ended September 30, 2008
(In Thousands)

	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUND - SAN ANTONIO LITERACY PROGRAM
Additions:		
Contributions:		
Employer	78,136	\$
Employee	33,748	
Total Contributions	111,884	
Investment Earnings/(Loss):		
Net (Decrease) in Fair Value of Investments	(347,208)	
Real Estate Income, Net	8,551	
Interest and Dividends	39,628	1
Securities Lending	4,786	
Other Income	1,535	
Total Investment Earnings/(Loss)	(292,708)	
Less Investment Expenses:		
Investment Management Fees and Custodian Fees	(12,599)	
Securities Lending Expenses:		
Borrower Rebates	(4,796)	
Lending Fees	(707)	
Total Investment Expenses	(198,886)	
Net Investment Earnings/(Loss)	(129,232)	
Total Additions	(19,352)	
Deductions:		
Benefits	40	
Refunds of Contributions	2,536	1
Administrative Expense	85	
Salaries, Wage and Employee Benefits	132,913	
Total Deductions	(331,799)	
Change in Net Assets	2,392,485	22
Net Assets - October 1	2,060,686	22
Net Assets - September 30	\$ 2,060,686	\$

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

- 24 - Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Statement of Net Assets
Discretely Presented Component Units
As of September 30, 2008
(In Thousands)

	CPS ENERGY	SAN ANTONIO WATER SYSTEM	NONMAJOR COMPONENT UNITS	TOTAL
Assets:				
Current Assets:				
Cash and Cash Equivalents	\$ 160,926	\$ 14,384	\$ 23,544	\$ 198,854
Cash Collateral from Securities Lending	400,306			400,306
Investments	234,115	179,615	687	414,417
Receivables, Net:				
Notes	7,079			7,079
Other Accounts	180,740	43,037	8,245	232,022
Accrued Interest	25,788	2,666	84	28,538
Materials and Supplies, at Cost	153,084	4,805	100	157,989
Due from Other Governmental Agencies			3,313	3,313
Prepaid Expenses	43,361	2,242	34,413	80,016
Other Assets			719	719
Total Unrestricted Assets	1,198,320	246,749	78,184	1,523,253
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents	2,272	30,318		32,590
Investments				2,272
Receivables - Accrued Interest				30,318
Capital Projects Accounts:				
Cash and Cash Equivalents				2
Investments				13,773
Receivables - Accrued Interest				495,228
Ordinance Accounts:				
Cash and Cash Equivalents	290,501	204,727		495,228
Investments	2,816			2,816
Other Restricted Accounts:				
Cash and Cash Equivalents	54,039			54,039
Investments	444,220			444,220
Receivables - Accrued Interest	5,473			5,473
Other Restricted Accounts:				
Cash and Cash Equivalents	21,913	37,424	22,011	81,348
Investments	429,449		11,074	477,947
Deferred Charges			6,268	6,268
Receivables			11,921	11,921
Prepaid Expenses	1,872			1,872
Receivables - Accrued Interest				627,470
Total Restricted Assets	1,252,557	286,242	678,744	2,217,543
Total Current Assets	2,450,877	532,991	756,928	3,740,796
Noncurrent Assets:				
Capital Assets:				
Land	63,411	123,336	39,032	225,779
Infrastructure			55,968	55,968
Buildings			201,095	201,095
Utility Plant in Service	8,130,874	3,082,140	11,213,014	22,426,028
Machinery and Equipment	846,682	132,892	4,046	1,369,338
Construction in Progress	538,357	361,192	42,365	1,250,239
Nuclear Fuel				538,357
Total Capital Assets	9,579,324	3,699,560	342,506	13,621,390
Net Capital Assets	3,773,793	1,002,265	71,893	4,847,951
Less: Accumulated Depreciation	5,805,531	2,697,295	270,613	8,773,439
Net Capital Assets	456,813	296	523	456,813
Prepaid Rent/Long Term-Leaseback	30,218			30,218
Other Noncurrent Assets	37,496			37,496
Unamortized Bond Issuance Costs				17,286
Total Noncurrent Assets	6,330,058	2,717,637	271,136	9,318,831
Total Assets	8,780,935	3,250,628	1,028,064	13,059,627

The accompanying notes are an integral part of these basic financial statements. Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Statement of Net Assets
Discretely Presented Component Units
As of September 30, 2008
(In Thousands)

	CPS ENERGY	SAN ANTONIO WATER SYSTEM	NONMAJOR COMPONENT UNITS	TOTAL
Liabilities:				
Current Liabilities:				
Payable from Current Unrestricted Assets:				
Accounts Payable and Other Current Liabilities	\$ 386,036	\$ 44,016	\$ 31,207	\$ 461,259
Sewer Service Collections Payable		304		304
Unearned Revenue			1,959	1,959
Securities Lending Obligation	400,306			400,306
Notes and Lease Payables			190	190
Due to Other Governmental Agencies			2,158	2,158
Current Portion of Long-term Lease/Notes Payable	22,561	453	18,078	41,092
Current Portion of Other Payables	2,662	3,541	8,205	14,408
Total Payable from Current Unrestricted Assets	811,545	48,314	61,801	921,660
Payable from Restricted Assets:				
Accrued Bond and Certificate Interest	152,875	8,994		161,869
Current Portion of Bonds and Certificates		27,930		27,930
Other Payables		16,740		16,740
Total Payable from Restricted Assets	152,875	53,364		206,239
Total Current Liabilities	964,420	101,678	61,801	1,127,899
Noncurrent Liabilities:				
Revenue Bonds (Net of Current Portion)	3,689,746	1,484,880		5,174,626
Commercial Paper		100,000		100,000
Unamortized Premium on New Series Bonds		18,421		18,421
Unamortized Discount on New Series Bonds		(11,516)		(11,516)
Deferred Amount on Refunding		(28,390)		(28,390)
Long-Term Lease/Notes Payable (Net of Current Portion)	520,772		749,742	1,270,514
Net OPEB Obligation	576,288	13,217		589,505
Other Payables (Net of Current Portion)	4,786,806	1,579,021	762,322	7,128,149
Total Noncurrent Liabilities	5,751,226	1,680,699	824,123	8,256,048
Total Liabilities	6,715,646	1,782,377	1,485,924	9,983,947
Net Assets:				
Invested in Capital Assets, Net of Related Debt	2,259,117	1,333,818	174,104	3,767,039
Restricted for:				
Renewal and Replacement	503,733		3,102	506,835
Debt Service	2,274	21,324	971	24,569
Capital Projects			2,953	2,953
Unrestricted	264,585	214,787	22,811	502,183
Total Net Assets	3,029,709	1,569,929	203,941	4,803,579

The accompanying notes are an integral part of these basic financial statements. Amounts are expressed in thousands

Comprehensive Annual Financial Report
Table of Notes to Financial Statements
Year-Ended September 30, 2008

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Note 1 Summary of Significant Accounting Policies

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

Reporting Entity

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

The financial reporting entity consists of: (a) the primary government (in these financial statements the primary government is the City), (b) component units, which are legally separate organizations for which the City is financially accountable or the services rendered by the component unit is provided entirely or almost entirely to the City (blended), and (c) component units, the nature and significance of their relationship with the City is such that exclusion from the reporting entity's financial statements would be misleading or incomplete (discretely presented).

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

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

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

The criteria outlined above were excepted from GASB Statements No. 14 and No. 39. For a more detailed explanation of the criteria established by the Statements, the reader is referred to the *Codification of Governmental Accounting and Financial Reporting Standards*, as of June 30, 2008, published by GASB. Section-2800. GASB Statement No. 39 further clarifies that a "not for profit" may not be financially accountable to the City, but may be considered a component unit based on the nature and significance of its relationship with the City. Predicated upon the application of the criteria outlined above, the following is a brief overview of component units included in the reporting entity.

Note 1 Summary of Significant Accounting Policies (Continued)**Blended Component Units**

The relationships among the following component units and the City meet the criteria, as set forth in GASB Statements No. 14 and No. 39, for inclusion in the reporting entity and are such that the financial statements are blended in with those of the City.

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

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

The Empowerment Zone Development Corporation (EZDC) was established in fiscal year 2004 in accordance with state laws for the purposes of, and to act on behalf of the City in local economic development to stimulate business and commercial activity in the City. The EZDC is governed by a board of directors, which is comprised of the City Council of San Antonio. The EZDC is fully blended within the Community Development Program Fund, in the Grants section. EZDC has neither assets nor obligations and has incurred expenditures of \$54 during fiscal year 2008 that were paid with CDBG funding. Financial statements are not audited or separately available.

The San Antonio Fire and Police Pension Fund (Pension Fund) is a single employer defined benefit plan established in accordance with state law. The Pension Fund is administered by a nine-member board of trustees, including two City Council members of San Antonio, and the Mayor or his appointee. The City and Pension Fund participants are obligated to make all contributions to the Pension Fund in accordance with rates established by state laws. Benefit levels are also set by state laws. Services rendered by the Pension Fund are exclusively for the benefit of eligible firefighters and police officers, upon retirement.

Convention Center Hotel
Finance Corporation
P.O. Box 830504,
San Antonio, Texas 78283-0504
Contact: Ed Davis
Telephone No. (210) 207-8040

Empowerment Zone
Development Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact: Ed Davis
Telephone No. (210) 207-8040

San Antonio Fire and Police
Pension Fund
311 Roosevelt
San Antonio, Texas 78210-2700
Contact: Warren Schott
Telephone No. (210) 534-3262

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Note 1 Summary of Significant Accounting Policies (Continued)**Blended Component Units (Continued)**

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

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

San Antonio Health Facilities Development Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact: Ed Davis
Telephone No. (210) 207-8040

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

San Antonio Housing Trust Finance Corporation
2515 Blanco Road
San Antonio, Texas 78212
Contact: John Kenny
Telephone No. (210) 735-2772

The San Antonio Housing Trust Finance Corporation (SAHTFC) was established in fiscal year 1997 under the Texas Housing Finance Corporations Act (the Act), in accordance with state laws for the purposes of, and to act on behalf of the City in, carrying out the purposes of the Act, including the issuance of single family and multi-family revenue bonds. SAHTFC is managed by a five-member board of directors, which is appointed by the City Council of San Antonio.

San Antonio Industrial Development Authority
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact: Ed Davis
Telephone No. (210) 207-8040

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

Note 1 Summary of Significant Accounting Policies (Continued)**Blended Component Units (Continued)**

San Antonio Public Library Foundation
625 Shook
San Antonio, Texas 78212
Contact: Kaye Lenox
Telephone No. (210) 225-4728

The San Antonio Public Library Foundation was created in 1983 to emphasize the important role the private sector has in helping to enhance Library resources and services. The Library Foundation works to raise funds from several sources, including individuals, corporations and charitable foundations for the sole benefit of the Library and to raise awareness for reading. The City's library board of trustees' Chairman and two additional members of the library's board of trustees are members of the 100-member Foundation Board. The Foundation is a self-governing agency, as such the City has no control over the board of trustees or how the funds are expended. Additionally, as a self-governing agency, the City has no access to the Foundation's funds. The purpose of the Foundation is exclusively to support the San Antonio Public Library System and to increase the awareness and use of the Library through financial support and programmatic efforts.

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

The City of San Antonio Texas Municipal Facilities Corporation (TMFC) was established in fiscal year 2001 in accordance with state laws for the purposes of, and to act on behalf of the City in, acquiring, constructing, equipping, financing, operating, and maintaining land and other municipal facilities for the City. The TMFC is governed by a board of directors, which is comprised of the City Council of San Antonio.

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

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

The blended component unit with a different fiscal year-end from the City is the San Antonio Public Library Foundation with a fiscal year-end of December 31st.

Discretely Presented Component Units

The relationship among the following component units and the City is such that they meet the criteria, as set forth in GASB Statements No. 14 and No. 39, for inclusion in the reporting entity, and accordingly are included; however, is such that the financial statements are discretely presented alongside, but not blended with those of the City.

Brooks Development Authority
8030 Challenger Drive
Brooks City-Base, Texas 78235-5335
Contact: Bart Sanchez
Telephone No. (210) 536-6710

The Brooks Development Authority (BDA) is a special district and political subdivision of the State of Texas. It was established on September 27, 2001, as a defense base development authority in accordance with state laws for the purposes of, and to act on behalf of the City in, improving mission effectiveness, reducing the cost of providing quality installation support through improved capital asset management, and promoting economic development for Brooks Air Force Base and in the surrounding community. An eleven-member board of directors appointed by the City Council of San Antonio governs the BDA for two-year terms and oversees the Brooks Technology and Business Park in support of the Brooks City-Base Project. The City's ability to impose its will on this organization is through City Council having the power to remove board members.

Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

City South Management Authority
 P.O. Box 830504
 San Antonio, Texas 78283-0504
 Contact: Ed Davis
 Telephone No. (210) 207-8040

City South Management Authority (CSMA) is a political subdivision of the State of Texas established at the request of the City for the purposes of supporting economic development, creating sustainable communities, and promoting the unique historical, cultural and environmental assets of the City's southern edge. CSMA was established by the City in 2005, with a fifteen-member board: six appointed by the City, six by Bexar County, and three appointed collectively by Southwest, East Central, and Southside Independent School Districts. The issuance of bonds or notes must be approved by the City Council of San Antonio.

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

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

Main Plaza Conservancy
 111 Soledad, Suite 811
 San Antonio, Texas 78205
 Contact:
 Penny Postoak Ferguson
 Telephone No. (210) 225-9800

Main Plaza Conservancy (MPC), a nonprofit organization that provides the management of Main Plaza, was incorporated in October 2007. MPC operates and maintains Main Plaza in coordination with the City and Bexar County; to develop and implement a strategy to increase awareness of the historical and cultural significance of Main Plaza, and to organize cultural and artistic events at Main Plaza for the benefit of the citizens, residents and visitors of San Antonio. MPC is governed by an eleven-member board of directors, with one representative from the City and one representative from Bexar County. MPC must obtain written permission from the City Manager or designee on such items including security guidelines, charges for admittance, improvements and changes to Main Plaza, and debt issuances.

Municipal Golf Association - San Antonio
 8250 Vista Colina
 San Antonio, Texas 78255
 Contact: James E. Roschek
 Telephone No. (210) 695-5050

Municipal Golf Association - San Antonio (MGA-SA) was established in fiscal year 2007 in accordance with state laws for the purposes of, and to act on behalf of the City in, operating and promoting the City's municipal golf facilities. MGA-SA is governed by a fifteen member board of directors, which is comprised of seven members selected by MGA-SA according to the approved process contained in its by-laws; two ex-officio member positions from City staff who are appointed by the City Manager; and six members appointed by the City Council of San Antonio.

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Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

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

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

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

San Antonio Development Agency (SADA) was created under the provisions of the Urban Renewal Law of the State of Texas. SADA is responsible for implementing the City's Urban Renewal Program and may designate for urban renewal in such areas as it deems advisable, subject to approval by the City Council of San Antonio and the federal agency, which administers the overall program. SADA receives a majority of its operating funds from the City as pass-through grant funds and daily operations are being staffed by City personnel. SADA is governed by a seven-member board of commissioners appointed by the City Council.

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

City of San Antonio Higher Education Authority (SAHEA) was established in 1984, in accordance with state laws for the purpose of aiding nonprofit institutions of higher education in providing educational, housing, and other related facilities in accordance with, and subject to the provisions of Section 53.35 (b) Texas Education Code, all to be done on behalf of the City and its duly constituted authority and instrumentality. In 2001, the SAHEA changed its name to San Antonio Education Facilities Corporation (SAEFC). The Code authorizes SAEFC to issue revenue bonds for these purposes on behalf of the City, but the bonds are not obligations of the City. SAEFC is governed by an eleven-member board of directors appointed by the City Council of San Antonio for two-year terms. Board members are subject to removal by the City Council for cause, or at will, and the City reserves the right to terminate and dissolve SAEFC at any time.

Note 1 Summary of Significant Accounting Policies (Continued)**Discretely Presented Component Units (Continued)**

SA Energy Acquisition Public Facility Corporation (SAEAPFC) was established in 2007, in accordance with state laws for the purposes of, and to act on behalf of the City in, the financing and acquisition of electric energy and power, oil, gas, coal and other liquid, gaseous or solid hydrocarbon fuels for the electric and gas systems of the City. SAEAPFC is governed by a seven-member board of directors appointed by the City Council of San Antonio for two-year terms. Board members are subject to removal by the City Council for cause, or at will.

San Antonio Housing Trust Foundation, Inc. (SAHTF) is a nonprofit corporation incorporated in 1990 under the laws of the State of Texas. SAHTF was organized for the purposes of supporting charitable, educational, and scientific undertakings, and specifically for providing housing for low- and middle-income families, and to provide administrative and other support for the operations of the City of San Antonio Housing Trust Fund, a Permanent Fund of the City. The Housing Trust Fund was established by the City for the purposes of providing additional, continuing housing opportunities for low- and moderate-income families; promoting public health, safety, convenience, and welfare; and revitalizing neighborhoods and the downtown area through appropriate housing activities. SAHTF is governed by an eleven-member board of directors appointed by the City Council of San Antonio. SAHTF administers the San Antonio Housing Trust Finance Corporation. The City has the ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations of the SAHTF as it authorizes a contract for the administration and management of the operations on an annual basis.

San Antonio Local Development Company, Inc. (SALDC) is a nonprofit corporation organized in 1978 under the laws of the State of Texas and the auspices of the City. In 2004, SALDC changed its name to San Antonio Local Development Company dba South Texas Business Fund (STBF). STBF also expanded the area served from twelve counties to all of the counties in the State of Texas. STBF was formed to participate in the Neighborhood Business Revitalization Program (NBRP), which is co-sponsored by the Small Business Administration (SBA), the Economic Development Administration, and the U.S. Department of Housing and Urban Development (HUD). STBF is governed by a twenty-five member board of trustees; twelve are directors all appointed by the City Council of San Antonio and the Alamo Area Council of Governments. STBF, under agreement with the City, administers and operates a revolving loan fund; the NBRP provides qualifying local businesses with loans under economic development programs administered by the SBA. STBF also administers, by agreement with the City, a U.S. Department of Commerce Title IX Revolving Loan Fund, SBA Microloan Program, the Bill Sinkin Micro-Loan Fund, and the Inner-City Loan Fund.

Note 1 Summary of Significant Accounting Policies (Continued)**Discretely Presented Component Units (Continued)**

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

On May 19, 1992, the consolidation of water systems, agencies and activities into one institution through a refunding of the then outstanding water and sewer bonds of the former City Water Board, Alamo Water Conservation and Re-Use District, and the City's Sewer and Stormwater System, resulted in the creation of the San Antonio Water System (SAWS). The City Council of San Antonio determined that the interests of the citizens and the customers would best be served by placing authority for management and control of SAWS, as consolidated, with a board of trustees. This board of trustees includes the City's Mayor as an ex-officio member, along with six members appointed by the City Council for four-year staggered terms. The rates for user charges and bond issuance authorizations are approved by the City Council.

Westside Development Corporation

P.O. Box 830504
San Antonio, Texas 78283-0504
Contact: Ramon Flores
Telephone No. (210) 207-8204

Westside Development Corporation (WDC) was established in fiscal year 2006 in accordance with state laws for the purposes of promoting economic development and redevelopment opportunities in the Westside of San Antonio. WDC seeks to generate new capital investment, create more, higher paying jobs, and reduce the poverty level in the area. In addition, WDC functions as a land development corporation that has the power to buy, sell, and accept land as a nonprofit without the restrictions placed upon a municipality. WDC is governed by a board of directors nominated by a City Council committee and appointed by the City Council of San Antonio. Representatives of key stakeholders and Westside advocates are the policy-setting oversight authority for WDC, comprising 17 members.

Essential disclosures related to the above mentioned discretely presented and blended component units are included in the complete financial statements of each of the individual component units. These statements may be obtained at the respective entity's administrative office.

It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to CPS Energy and SAWS would be misleading. CPS Energy and SAWS have been identified as major discretely presented component units as they both relate to total component units and to the primary government. Therefore, relevant disclosures have been included in the City's financial statements. Discretely presented component units with different fiscal year-ends from the City are CPS Energy and SAEAPFC with fiscal year-ends of January 31st, and SAWS, with a fiscal year-end of December 31st.

Related Organizations

The City Council of San Antonio appoints members to the board of commissioners for the San Antonio Housing Authority (SAHA) and a majority of the board of directors for Keep San Antonio Beautiful, Inc. However, the City's accountability for these entities does not extend beyond making appointments to their boards, and the coordination and approval of strategic plans, for SAHA.

Note 1 Summary of Significant Accounting Policies (Continued)**Basic Financial Statements - GASB Statement No. 34**

Government-Wide and Fund Financial Statements - The basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements report information on all nonfundraising activities of the primary government and its component units. MD&A introduces the basic financial statements and provides an analytical overview of the City's financial activities. As part of the implementation of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the City early implemented requirements for infrastructure reporting. GASB Statement No. 34 requires the historical cost of infrastructure assets, retroactive to 1980, to be included as part of capital assets, as well as the related depreciation to be reported in the government-wide financial statements. In addition, for the most part, the effect of interfund activity has been removed from the statements.

The Statement of Net Assets - Reflects both short-term and long-term assets and liabilities. In the government-wide Statement of Net Assets, governmental activities are reported separately from business-type activities. Governmental activities are supported by taxes and intergovernmental revenues, whereas business-type activities are normally supported by user fees and charges for services. Long-term assets, such as capital assets and unamortized bond issuance costs, and long-term obligations, such as debt, are now reported in the governmental activities. The components of net assets, previously shown as fund balances, are presented in three separate components: (1) invested in capital assets, net of related debt, (2) restricted, and (3) unrestricted. Interfund receivables and payables within governmental and business-type activities have been eliminated in the government-wide Statement of Net Assets, which minimizes the duplication of assets and liabilities within the governmental and business-type activities. The net amount of interfund transfers between governmental, proprietary and fiduciary funds is the balance reported in the Statement of Net Assets. Component units are also reported in the Statement of Net Assets.

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

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

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

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Note 1 Summary of Significant Accounting Policies (Continued)**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 balances and other credits, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The City has three types of funds: governmental funds, enterprise funds, and fiduciary funds. The fund financial statements provide more detailed information about the City's most significant funds, but not on the City as a whole. Major governmental funds and major enterprise funds are reported separately in the fund financial statements. Nonmajor funds are aggregated in the fund financial statements and independently presented in the combining statements.

The criteria used to determine if a governmental or enterprise fund should be reported as a major fund are as follows: the total assets, liabilities, revenues or expenditure/expenses of that governmental or enterprise fund are at least 10.0% of the corresponding element total for all funds of that category or type (that is, total governmental or total enterprise funds), and the same element that met the 10.0% criterion above in the governmental or enterprise fund is at least 5.0% of the corresponding element total for all governmental and enterprise funds combined.

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

- The General Fund is always presented as a major fund.
- The Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs, except those that are accounted for in proprietary type funds.
- The Categorical Grant-In-Aid Fund accounts for the receipt and disbursement of all federal and state grants, except for Community Development Block Grants, HUD 108 loans, and HOME Investment Partnership Grants.

The following is a brief description of the major proprietary fund that is presented separately in the fund financial statements:

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

Governmental Funds

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

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

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

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

Note 1 Summary of Significant Accounting Policies (Continued)**Fund Accounting (Continued)**

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs - that is, for the benefit of the government or its citizenry.

The governmental funds that have legally adopted budgets are the General Fund, Special Revenue Funds (excluding HOME Program, Categorical Grant-in-Aid, HUD 108 Loan Program, Community Development Program, and most Community Services Funds), Debt Service Fund, Visitor Information Center and City Store, Animal Care Services, Better Jobs, Child Safety, Municipal Courts Security, Municipal Courts Technology, Recreation Athletic, South Texas Business, Starbright Industrial Development Corporation, Tax Increment Financing, Tree Preservation Mitigation, and San Jose Burial Fund. Please note the Visitor Information Center and City Store, Animal Care Services, Better Jobs, Child Safety, Municipal Courts Security, Municipal Courts Technology, Recreation Athletic, South Texas Business, Starbright Industrial Development Corporation, Tax Increment Financing, and Tree Preservation Mitigation are reported as components of the Community Services Funds.

Proprietary Funds

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

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

Fiduciary Funds

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. These include Pension Trust and Retiree Health Care Trust, which account for resources for pension fund and health care benefits for the City's firefighters and police officers. The Private Purpose Trust Funds includes an assistance fund and a scholarship fund for City employees, as well as reporting on funds restricted for the City's literacy programs. The Agency Funds account for the City's sales and use tax to be remitted to the State of Texas, various fees for other governmental entities, unclaimed property, and holds various deposits. Pension Trust, Retiree Health Care Trust, and Private Purpose Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Measurement Focus and Basis of Accounting

The government-wide financial statements present information about the City as a whole. Government-wide financial statements exclude both fiduciary funds and proprietary component units. The Statement of Net Assets and the Statement of Activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The City recognizes revenue from property taxes in the period for which they were levied. Property taxes receivable includes taxes due and amounts expected to be collected within 60 days after the year-end, along with related interest and penalties. For additional disclosure related to property taxes see Note 2, Property Tax. Other taxes and fees are recognized as revenue in the year they are earned. Revenues from grants and similar items are recognized in the fiscal year the qualifying expenditures are made and all other eligibility requirements have been satisfied.

Note 1 Summary of Significant Accounting Policies (Continued)**Measurement Focus and Basis of Accounting (Continued)**

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

- 1) Charges for services are revenues generated by those who purchase goods or services from the City. Examples of charges for services include airport landing fees, solid waste collection and disposal fees, vacant lot clean up, golf course fees, and food establishment licenses. Fines and forfeitures, license and permits and intergovernmental revenues as reported in the General Fund are also reported under charges for services.
- 2) Operating grants and contributions are those revenues that are restricted in the way they may be spent for operations of a particular program.
- 3) Capital grants and contributions are also restricted revenues; the funds may only be spent to purchase or build capital assets for specified programs.

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included in their balance sheets. Revenues are recognized in the accounting period in which they become available and measurable. For this purpose, the City considers revenues, other than grants, to be available if the revenues are collected within 60 days after year-end. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by the provider are met. Grant funds received in advance and delinquent property taxes are recorded as unearned revenue until earned and available.

Gross receipts and sales and use taxes are considered available when received by intermediary collecting governments, and are recognized at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Expenditures are recognized in the accounting period in which the fund liability is incurred; however, compensated absences, debt service expenditures, claims and judgments, and arbitrage rebates are recorded only when the liability is matured.

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

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

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

Note 1 Summary of Significant Accounting Policies (Continued)**Measurement Focus and Basis of Accounting (Continued)**

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

The City's proprietary funds, pension trust, private purpose trust and retiree health care funds and business-type activities, as well as its discretely presented component units, apply all applicable GASB Statements as well as FASB Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

CPS Energy's operating revenue includes receipts from energy sales and miscellaneous revenue related to the operation of electric and gas systems. Miscellaneous revenue includes late payment fees, rental income, jobbing and contract work, and ancillary services. Operating expenses are recorded as incurred and include those costs that result from the ongoing operations of the electric and gas systems.

Nonoperating revenue consists primarily of investment income, including fair market value adjustments. The amortization of net gains from the lease/leaseback of J.K. Spruce Unit 1 and the sale of water rights, when applicable, are also included. Certain miscellaneous income amounts from renting general property and providing various services are also recorded as nonoperating revenue when they are not directly identified with the electric or gas systems. These amounts for fiscal year 2008 were recorded net of expenses.

SAWS' principal operating revenues are charges to customers for water supply, water delivery, wastewater, and chilled water and steam services. Operating expenses include the cost of service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Nonoperating revenues consist primarily of interest income earned on investments, including the changes in fair value of investments. Nonoperating expenses consist primarily of interest expense, amortization of debt related costs, sales of capital assets and payments to the City.

Current Year GASB Statement Implementations

In fiscal year 2008, the City implemented the following GASB Statements:

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities, assets, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. See Note 9, Postemployment Retirement Benefits and the related Postemployment Schedules.

GASB Statement No. 47, *Accounting for Termination Benefits*, requires employers to disclose termination benefit arrangements, the cost of the termination benefits, and significant methods and assumptions used to determine termination benefit liabilities. The City did not have any terminations in fiscal year 2008 that met the requirements of GASB Statement No. 47.

Note 1 Summary of Significant Accounting Policies (Continued)**Current Year GASB Statement Implementations (Continued)**

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, establishes criteria that governments will use to determine if a certain transaction should be regarded as a sale or a collateralized borrowing, requires enhanced disclosures pertaining to future revenues that have been pledged or sold, provides guidance on sales of receivables and future revenues within the same financial reporting entity, and provides guidance on recognizing other assets and liabilities arising from the sale of specific receivables or future revenues. Implementation of this Statement did not impact the City's financial statements.

GASB Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27*, aligns the reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statements No. 43, *Financial Reporting for State and Local Governmental Employers, to conform with requirements of Statements No. 27, Accounting for Pensions by State and Local Governmental Employers, Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. See Note 8, Pension and Retirement Plans and the related Pension Schedules.

Future GASB Statement Implementations

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, establishes accounting and financial reporting standards for pollution, including contamination, remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and clean-ups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care and nuclear power plant decommissioning. The requirements for this Statement are effective for fiscal periods beginning after December 15, 2007.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes consistent guidance on recognition of intangible assets. The Statement requires that an intangible asset be recognized in the Statement of Net Assets only if it is considered identifiable. This Statement also establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. This Statement also establishes guidance specific to intangible assets related to amortization. It provides guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions, and if there are no factors that limit the useful life of an intangible asset, it is considered to have an indefinite useful life. The requirements for this Statement are effective for fiscal periods beginning after June 15, 2009.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The requirements for this Statement are effective for fiscal periods beginning after June 15, 2008.

Note 1 Summary of Significant Accounting Policies (Continued)

Future GASB Statement Implementations (Continued)

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, is intended to improve how state and local governments recognize, measure, and disclose information about derivative instruments in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements. The guidance in this Statement also addresses hedge accounting requirements. The requirements for this Statement are effective for fiscal periods beginning after June 15, 2009. It is the determination of the City that implementation of GASB Statement No. 53 will not impact the City's financials since the City does not invest in or use derivative instruments, but will impact certain of the City's component units.

The City has not fully determined the effects that implementation of Statements No. 49, No. 51, and No. 52 will have on the City's financial statements.

Cash and Cash Equivalents and Investments

The City's investment practices are governed by state statutes and by the City's own Investment Policy. City cash is required to be deposited in FDIC-insured banks located within the State of Texas. A pooled cash and investment strategy is utilized, which enables the City to have one central depository. Investments are pooled into two primary categories: operating funds and debt service funds. The balances in these funds are invested in an aggregate or pooled amount, with principal and interest income distributed to each respective fund on a pro rata basis. In addition, the City may purchase certain investments with the available balance of a specific fund for the sole benefit of such fund. As of September 30, 2008, the City's investment portfolio did not contain any derivative or alternative investment products, nor was it leveraged in any way, except as noted in the Fire and Police Pension Fund and Fire and Police Retiree Health Care Fund. For a listing of authorized investments, see Note 3, Cash and Cash Equivalents and Investments.

The City, CPS Energy, and SAWS account for, and report investments, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The Fire and Police Pension Plan and the Fire and Police Retiree Health Care Fund report investments at fair value, in accordance with GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. The City's policy with respect to money market investments, which have a remaining maturity of one year or less at the time of purchase, is to report those investments at amortized cost, which approximates fair value. Amortization of premium or accretion of discount is recorded over the term of the investments.

For purposes of the statement of cash flows, the City, CPS Energy, and SAWS consider all highly liquid investments with an original maturity of approximately 90 days or less to be cash equivalents.

Materials and Supplies and Prepaid Items

Materials and supplies consist principally of expendable items held for consumption and are stated at cost, based on first-in first-out and lower of average cost or market methods. For governmental and proprietary fund types, the "consumption" method is used to account for certain materials and supplies. Under the consumption method, these acquisitions are recorded in material and supplies accounts and charged as expenditures (governmental fund types) or expenses (proprietary fund types) when used.

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

Note 1 Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation

Primary Government (City)

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Capital assets recorded under capital leases are recorded at the present value of future minimum lease payments. Depreciation on all exhaustible capital assets of the City is charged as an expense with accumulated depreciation being reported in the Statement of Net Assets. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The City has established capitalization thresholds for buildings, improvements, infrastructure, machinery and equipment, and furniture and office equipment which includes computer equipment. All infrastructure assets are reported in the financial statements and the estimated useful lives and capitalization thresholds applied are as follows:

Assets	Useful Life (Years)	Capitalization Threshold
Buildings	15-40	\$ 100
Improvements (Other than buildings)	20-40	100
Machinery and Equipment	2-20	5
Furniture and Office Equipment	5-10	5
Infrastructure	15-100	100

CPS Energy

The costs of additions and replacements of assets identified as major components or property units are capitalized. Maintenance and replacements of minor items are charged to operating expenses. Except for certain assets that may become impaired, the cost of depreciable plant, retired, plus removal costs and less salvage, is charged to accumulated depreciation. Per the financial reporting requirements of GASB Statement No. 42, any losses associated with capital asset impairments will be charged to operations, not to accumulated depreciation.

The CPS Energy's utility plant is stated at the cost of construction, including expenses for contracted services; direct equipment, material and labor; indirect costs, including general engineering, labor, equipment and material overheads; and an allowance for funds used during construction (AFUDC), which represents capitalized interest. CPS Energy computes AFUDC using rates that approximate the cost of borrowed funds measured as the investment rate for other funds used for construction. Noncash AFUDC is applied to projects estimated to require 30 days or more to complete.

Proceeds from customers to partially fund construction expenditures are reported in the Statements of Revenues, Expenses and Changes in Fund Net Assets as increases in fund net assets in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Except for nuclear fuel, which is amortized over units of production, CPS Energy computes depreciation using the straight-line method over the estimated service lives of the depreciable property according to asset type. Total depreciation as a percent of total depreciable assets, excluding nuclear fuel, was 3.3% for fiscal year 2008.

Note 1 Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation (Continued)

CPS Energy (Continued)

In fiscal year 2008, a depreciation study was performed that resulted in a change in depreciation rates and the useful lives of capital assets. The updated estimated useful lives were as follows:

	2008
Buildings and structures	20-60 years
Systems and improvements:	
Generation	18-60 years
Transmission and distribution	20-55 years
Gas	50-65 years
Machinery and equipment	4-30 years
Lignite mineral rights and other	20-40 years
Nuclear fuel	Units of Production

San Antonio Water System (SAWS)

SAWS' capital assets in service are capitalized when the unit cost is greater than or equal to \$1. Utility plant additions are recorded at cost, which includes materials, labor, overhead, and interest capitalized during construction. Assets acquired through capital leases are recorded on the cost basis and included in utility plant in service. Assets acquired through contributions, such as those from land developers, are recorded at estimated fair value at date of donation. Maintenance, repairs, and minor renewals are charged to operating expense; major plant replacements are capitalized. Capital assets are depreciated and property under capital lease is amortized on the straight-line method. This method is applied to all individual assets except distribution mains. Groups of mains are depreciated on the straight-line method using rates estimated to fully depreciate the costs of the asset group over their estimated average useful lives. The table below shows an estimated average of useful lives used in providing for depreciation of capital assets:

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

General Bonded Debt Service

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

Note 1 Summary of Significant Accounting Policies (Continued)

Compensated Absences

Primary Government (City)

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

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

CPS Energy

Employees earn vacation benefits based upon their employment status and years of service. As of January 31, 2008 the accruals for those vested benefits were \$14,200.

San Antonio Water System (SAWS)

It is SAWS' policy to accrue employee vacation pay as earned as well as the employer portion of Social Security taxes related to the accrued vacation pay. Sick leave is not accrued as a terminating employee is not paid for accumulated sick leave.

Insurance

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

The City is insured for property loss on a primary basis through Great American Insurance Company of New York and through RSUI Indemnity Company for excess loss to the Convention Center. Excess liability coverage for casualty losses is provided by Star Insurance Company. Related liabilities are accrued based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported prior to the end of the fiscal year. The City determines and accrues loss liabilities based on an actuarial assessment of historical claim data and industry trends performed annually.

The City also provides employee health, a pro rata share of retiree health benefits, workers' compensation, and unemployment benefits under its self-insurance programs. The City is a member of the Texas Municipal League Workers' Compensation Joint Insurance Fund, and uses this fund as a mechanism for administering workers' compensation claims that occurred prior to September 30, 1986. Workers' compensation claims that occurred after October 1, 1986 are administered by third-party administrators. In addition, as of September 30, 2008, the City has excess workers' compensation coverage through Star Insurance Company. The City records all workers' compensation loss contingencies, including claims incurred but not reported. The City determines and accrues workers' compensation liabilities based on an actuarial assessment of historical claim data and industry trends performed annually.

Note 1 Summary of Significant Accounting Policies (Continued)**Insurance (Continued)**

Employee and retiree health benefit liabilities are determined and accrued based upon the City's estimates of aggregate liabilities for unpaid benefits utilizing claim lag data from the City's third party administrator (TPA). The City additionally determines and accrues postemployment liabilities based on an actuarial assessment of historical claim data determined bi-annually and reviewed annually. Current year unpaid benefit liabilities for retirees are netted against the postemployment liability as additional contributions.

Regarding unemployment compensation, the City is subject to the State of Texas Employment Commission Act. Under this act, the City's method for providing unemployment compensation is to reimburse the State for claims paid by the State.

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

Fund Equity

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

Revenue Recognition**Primary Government (City)**

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

CPS Energy

CPS Energy revenues are recorded when earned. Customers' meters are read and bills are prepared monthly based on billing cycles. Rate schedules include adjustment clauses that permit recovery of electric and gas fuel costs. CPS Energy has used historical information from the relative prior fiscal years as partial bases to estimate and record earned revenue not yet billed. This process has involved an extrapolation of customer usage over the days since the last meter read through the last day of the monthly period. The amount of unbilled revenue receivable recorded at January 31, 2008 including estimates for electric and gas fuel costs, was \$49,600.

Note 1 Summary of Significant Accounting Policies (Continued)**Revenue Recognition (Continued)****CPS Energy (Continued)**

CPS Energy's electric fuel cost adjustment clause also permits recovery of regulatory assessments. Specifically beginning in March 2000, CPS Energy began recovering assessments from the Public Utility Commission of Texas (PUCT) for transmission access charges and from the Texas Independent System Operator, also known as the Electric Reliability Council of Texas (ERCOT), for its operating costs and other charges applicable to CPS Energy as a wholesale provider of power to other utilities. Regulatory assessments for fiscal year 2008 were \$23,200.

San Antonio Water System (SAWS)

SAWS revenues are recorded when earned. Customers' meters are read and bills are prepared monthly based on billing cycles. SAWS uses historical information to estimate and record earned revenue not yet billed. The amount of unbilled revenue receivable was \$19,158 at December 31, 2007.

Allocation of Indirect Expenses

The City recovers indirect costs in the General Fund through the application of departmental indirect cost rates. These rates are developed and documented in the City's departmental indirect cost rate plan. In this plan, each department is classified by function. Indirect costs are budgeted by department and are used as a basis for the City's actual indirect cost allocation. Base rates are then applied to actual indirect costs recovered and indirect costs are reclassified to reduce general government expenditures. For fiscal year 2008, general government expenditures were reduced by \$8,621, resulting in increased expenditures in other governmental functions and in business-type activities in the amounts of \$5,476 and \$3,145, respectively.

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums, discounts and debt refundings are deferred and amortized over the shorter of the life of the original bonds or the life of the refunding bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses.

Bond Issuance Costs

In the government-wide and proprietary fund financial statements, bond issuance costs are reported as assets in the Statement of Net Assets and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond issuance costs during the current period as expenditures of the funds in which proceeds of debt issuances are recorded.

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Note 1 Summary of Significant Accounting Policies (Continued)**Elimination of Internal Activity**

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

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

The Self-Insurance Funds generate their revenues through fixed assessments charged to the various funds each year, as well as, a pro rata user fee charged to employees. The retiree benefit fund additionally generates revenue through a pro rata user fee charged to retirees. The net income or loss generated by the Self-Insurance Funds is allocated back, based on the same allocation by which the revenues are received over time.

Application of Restricted and Unrestricted Net Assets

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

Unreserved Designated Fund Balance

The designated fund balances from the governmental funds balance sheet are composed of the following:

- The General Fund has designated unreserved fund balances of \$3,348 for budgeted carryforwards, \$5,796 for special projects, \$68,168 for reserve for revenue loss, and \$5,682 for Public, Educational and Government Access Funding (PEG) revenues.
- Special Revenue Funds designated fund balance consists entirely of budgeted carryforwards.
- Permanent Funds designated fund balance consists of a reservation from the sale of burial lots within the San Jose Burial Park Fund, a reservation for security of a loan within the San Antonio Housing Trust Fund, and the endowment for the San Antonio Public Library Foundation.

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Note 1 Summary of Significant Accounting Policies (Continued)**Special Items**

In fiscal year 2008 several transactions were initiated moving debt from governmental activity funds to enterprise funds. When the debt relating to 2006 and 2007 Certificates of Obligations, 2004A Refunding General Obligations, and 2007 Tax Notes (which were subsequently refunded with 2006 General Obligations) were initially recorded, proceeds, bonds payable, and additional bond costs (premiums, discounts, cost of issuances) were recorded in the governmental activity funds as they were pledged with ad valorem taxes even though the funds were used for construction of enterprise funds' capital assets. Monthly transfers from the Parking System and Environmental Services Fund to the Debt Service Fund were initiated to cover the principal and interest expenditures. Therefore, all self supporting enterprise debt was moved from governmental activity funds into their respective enterprise funds. For debt and related cost transfers, see Note 6, Long-Term Debt.

Note 2 Property Taxes

Property taxes are levied and due upon receipt on October 1, attached as an enforceable lien on property as of January 1, and become delinquent the following February 1. Property tax billing and collections are performed via an inter-local agreement with the Bexar County Tax Assessor/Collector's Office.

In the governmental funds, property tax revenues are recognized when they become available, which means when due, or past due and receivable within the current period or expected to be collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Property tax receivables, including related interest and penalty receivable, net of allowances for uncollectible amounts, represent amounts the City believes will ultimately be collected. Property tax receivables, net of allowances for uncollectible amounts, are offset by unearned revenues. The City is permitted by the Municipal Finance Law of the State of Texas to levy taxes up to \$2.50 per \$100 of taxable valuation (please note amounts are not reflected in thousands). The tax rate approved by City ordinance for the fiscal year-ended September 30, 2008, was \$0.5723 per \$100 taxable valuation, which means that the City has a tax margin of \$1.9277 per \$100 taxable valuation (please note that tax rate amounts are not reflected in thousands). This could raise an additional \$1,271,412 per year based on the net taxable valuation of \$65,954,867 before the limit is reached.

The City has approved a "TIF Manual" for the utilization of Tax Increment Financing (TIF) and the creation of Tax Increment Reinvestment Zones (TIRZ) pursuant to Chapter 311 of the Texas Tax Code, as amended. Since 1998, the City has utilized TIF as a vehicle to fund in whole or in part eligible capital costs for public infrastructure related to economic development, commercial, and residential projects. As of September 30, 2008, there are 22 existing TIRZ with a total taxable captured value of \$840,122. For fiscal year 2008, this total taxable captured value produced \$4,500 in tax increment revenues for use by the City to fund capital costs of certain public infrastructure improvements in the TIRZ. The existing TIRZ have terms ranging from 10 years to 30 years which are anticipated to expire starting in fiscal year 2009 through fiscal year 2032. It is estimated that the City will contribute approximately \$400,000 in tax increment revenues in aggregate over the next 30 years for these TIRZ projects. The existing TIRZ are referred to as the Rosedale, Highland Heights, New Horizons, Mission Del Lago, Brookside, Houston Street, Stablewood Farms, Inner City, Plaza Fortuna, Lackland Hills, Sky Harbor, North East Crossing, Brooks City Base, Mission Creek, Hallie Heights, Heathers Cove, Ridge Stone, Palo Alto Trails, Hunters Pond, Rosillo Ranch, River North, and Verano Projects.

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Note 3 Cash and Cash Equivalents and Investments

Summary of Cash and Cash Equivalents and Investments

A summary of cash and cash equivalents and investments for the primary government (City), Fire and Police Pension Fund, Fire and Police Retiree Health Care Fund, CPS Energy, and SAWS are presented below as of each entity's respective fiscal year. The information is provided in order to facilitate reconciliation between the Statement of Net Assets and the following note disclosures:

	Totals from Statement of Net Assets				
	City ¹	Fire and Police Pension Fund ²	Fire and Police Retiree Health Care Fund ²	CPS Energy ³	SAWS ⁴
Unrestricted:					
Cash and Cash Equivalents	\$ 25,508	\$ 57,518	\$ 6,966	\$ 160,926	\$ 14,384
Security Lending Collateral Investments	158,644	7,555	400,306		
Total Unrestricted	402,572	1,816,313	180,902	234,115	179,615
Restricted:					
Cash and Cash Equivalents	89,481			78,224	13,773
Investments	829,488			1,164,170	272,469
Total Restricted	918,969			1,242,394	286,242
Total Cash and Cash Equivalents and Investments	\$ 1,347,049	\$ 2,032,475	\$ 195,423	\$ 2,037,741	\$ 480,241

¹ Private Purpose Trust and Agency Funds, Westside Development Corporation, City South Management Authority and San Antonio Development Agency's cash and investments are included in the City's pooled cash and investments but are not available for City activities and are excluded from the primary government's Statement of Net Assets. The Private Purpose Trust and Agency assets are presented above as Restricted Cash and Cash Equivalents of \$1,397 and Investments of \$9,569. The other entities' assets are presented in the Discretely Presented Component Unit's Statement of Net Assets.

² The Fire and Police Pension Fund and the Fire and Police Retiree Health Care Fund are separately issued fiduciary component units and are excluded from the primary government's Statement of Net Assets.

³ For the fiscal year ended January 31, 2008.

⁴ For the fiscal year ended December 31, 2007.

Summary of Cash and Cash Equivalents

	Summary of Cash and Cash Equivalents				
	City	Fire and Police Pension Fund	Fire and Police Retiree Health Care Fund	CPS Energy	SAWS
Deposits with Financial Institutions	\$ 9,579	\$ 7,071	\$ 10	\$ 5,362	\$ 14,353
Investments with Original Maturities of Less than Ninety Days	104,718	699	6,944	233,088	13,773
Cash with Pension/Retiree Health Care Fiscal Agents		49,748			
Cash with Other Financial Agents	341		12	578	
Petty Cash Funds	163			122	
Cash on Hand	188				31
Total Cash and Cash Equivalents	\$ 114,989	\$ 57,518	\$ 6,966	\$ 239,150	\$ 28,157

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

Summary of Cash and Cash Equivalents and Investments (Continued)

	Summary of Investments				
	City	Fire and Police Pension Fund	Fire and Police Retiree Health Care Fund	CPS Energy	SAWS
U.S. Treasury, Government Agencies, and Money Market Funds	\$ 1,379,364	\$ 65,788	\$ 21,857	\$ 1,386,412	\$ 465,857
Repurchase Agreements	5,089				
Fixed Income Securities ¹	581				
Equity Securities ¹	1,744				
Corporate Bonds		328,269			47,391
Foreign Bonds					4,434
Preferred Stock		1,028			
Common Stock		806,321			193,136
Real Estate		201,126			
Hedge Funds		234,769			
International Equities					12,453
Swaps/Liabilities		1,011			
Alternative Investments		178,700			35,659
Total Investments	1,336,778	1,817,012	187,846	1,631,373	465,857
Less: Investments with original maturities of Less than Ninety Days included in Cash and Cash Equivalents	(104,718)	(699)	(6,944)	(233,088)	(13,773)
Total	\$ 1,232,060	\$ 1,816,313	\$ 180,902	\$ 1,398,285	\$ 452,084

¹ These investments are reported under a blended component unit (SA Public Library Foundation). As the Foundation is a self-governing agency the City has no control over or rights to the Foundation's investments. Further breakout of these investments was not attainable.

Primary Government (City)

City monies are deposited in demand accounts at the City's depository. The City utilizes a pooled cash and investment strategy with each fund's cash balance and pro rata shares of highly liquid investments, including U.S. Treasury securities, U.S. government agency securities, and repurchase agreements with original maturities of ninety days or less, summarized by fund type and included in the combined Statement of Net Assets as cash and cash equivalents. Overdrafts, which result from a fund overdrawing its share of pooled cash, are reported as interfund payables by the overdrawn fund and as interfund receivables of either the General Fund or another fund within the CAFR reporting fund.

Collateral is required for demand deposits and certificates of deposit at 102.0% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States of America and its agencies and obligations of the State and its municipalities, school districts, and district corporations. Collateral pledged for demand accounts and certificates of deposit is required to be held in the City's name in the custody of a third-party institution that customarily provides such custodial services.

Written custodial agreements are required which provide, among other things, that the collateral securities are held separate from the assets of the custodial banks. The City periodically determines that the collateral has a market value adequate to cover the deposits and that the collateral has been segregated either physically or by book entry. At fiscal year-end, cash deposits for the City were entirely collateralized by the City's depository with securities consisting of U.S. government or government agency or U.S. government guaranteed obligations held in book entry form by the Federal Reserve Bank in the City's name.

Amounts are expressed in thousands

Note 3 Cash and Cash Equivalents and Investments (Continued)

Primary Government (City) (Continued)

The City's investment portfolio is managed in accordance with its own investment Policy and the Texas Public Funds Investment Act, as amended. Authorized investments include demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. government agencies, commercial paper, and repurchase agreements. The City maintains in its investment portfolio U.S. Treasury securities and U.S. government agency securities with original maturities greater than ninety days. Each fund's pro rata share of these investments with original maturities greater than ninety days is combined with similar nonpooled securities (i.e., securities purchased and held for specific funds), including U.S. Treasury securities, and U.S. government agency securities, and are reported as investments in the combined Statement of Net Assets, as of September 30, 2008.

The City accounts for and reports investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. The City's policy with respect to money market investments that have a remaining maturity of one year or less at the time of purchase is to report these investments at amortized cost. Amortized cost approximates fair value for these investments. The increase in fair value for investments of the City with a remaining maturity of greater than one year at the time of purchase was \$76 for the year-ended September 30, 2008. The City does not participate in external investment pools.

In accordance with GASB Statement No. 40, Deposit and Investment Risk Exposure, the following table and narrative addresses the interest rate risk exposure by investment type, using the weighted average maturity (WAM) method, custodial credit risk, interest rate risk, credit risk, and concentration of credit risk. The City does not hold any foreign securities; therefore, foreign currency risk is not applicable.

A summary of the City's cash and cash equivalents is provided at the beginning of Note 3, with a comparison to the Statement of Net Assets and Statement of Fiduciary Net Assets.

	Carrying ¹ Amount	Fair ¹ Value	Allocation ²	Rating ³	WAM
U.S. Government Agency Securities	\$ 939,841	\$ 939,915	70.3%	AAA/A-1+	0.46 years
U.S. Treasuries	290,540	290,540	21.7%	N/A	0.28 years
Money Market Mutual Fund	98,909	98,909	7.4%	AAAm	1 day
Fixed Income Securities ⁴	581	581	0.1%		
Equity Securities ⁴	1,744	1,744	0.1%		
Repurchase Agreement	5,089	5,089	0.4%	N/A	1 day
Total City Investments	\$ 1,336,704	\$ 1,336,778	100.0%		

¹ The Carrying Amount and Fair Value include investments for the Starbright Industrial Development Corporation, Texas Municipal Facilities Corporation, Convention Center Hotel Finance Corporation, and San Antonio Public Library Foundation, which total \$25,396. The allocation is based on fair value.

² The allocation is based on fair value.

³ Standard & Poor's.

⁴ These investments are reported under a blended component unit (SA Public Library Foundation). As the Foundation is a self-governing agency the City has no control over or rights to the Foundation's investments. Further breakout of these investments, ratings and WAM were not attainable.

Custodial Credit Risk (Deposits) - Collateral pledged for demand accounts and certificates of deposit is required to be held in the City's name in the custody of a third-party institution that customarily provides such custodial services. The City periodically determines that the collateral has a market value of not less than 102.0% of the deposit amount and that the collateral has been segregated either physically or by book entry. At fiscal year-end, cash deposits for the City were entirely collateralized by the City's depository, with securities consisting of U.S. government agency or securities held in book entry form by the Federal Reserve Bank in the City's name.

Note 3 Cash and Cash Equivalents and Investments (Continued)

Primary Government (City) (Continued)

Custodial Credit Risk (Investments) - The City's investment securities are held at the City's depository bank's third-party custodian, The Bank of New York Mellon, in the depository bank's name "as a custodian for the City". Assets pledged as collateral must generally be a type of security specifically authorized to be held as a direct investment; must be held by an independent third party; and must be pledged in the name of the City.

Interest Rate Risk - The City manages exposure to value losses resulting from rising interest rates by limiting the investment portfolio's weighted-average maturity to five years. Per the City's Investment Policy, investments are diversified across issuers and maturity dates so that fewer funds will be subject to interest rate risk occurrence at any given time. In addition, the City generally follows a laddered approach to investing, whereby blocks of roughly the same increments are invested at similarly increased maturity lengths. This approach provides security that all investments will not become due at one particularly advantageous or disadvantageous period of time, thereby spreading the risk. Weighted-average maturity is defined as the weighted-average time to the return of a dollar of principal. It is used as an estimate of the interest rate risk of a fixed income investment. The City invests in money market mutual funds with 100.0% overnight liquidity. Additionally, the City has entered into several repurchase agreements with 100.0% overnight liquidity for investment of certain bond proceeds.

Credit Risk - The City's investment Policy requires the purchase of securities that are of the highest credit quality, based on current ratings provided by nationally recognized credit rating agencies. The City deems investments in U.S. Treasury securities and federal agency securities that are guaranteed to be without credit risk. Investments in other debt securities will consist of securities rated "A" or better by at least two nationally recognized rating agencies. As of September 30, 2008, the City's investment portfolio, with the exception of the repurchase agreement and the money market mutual fund investments, consisted only of U.S. Treasury securities and U.S. government agency securities. Investments in U.S. government agency securities, including Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Bank, Federal Agricultural Mortgage Corporation, and Federal Farm Credit Bank were rated AAA (Long-term) and A++ (Short-term) by Standard & Poor's. The investments in the money market funds were rated "AAAm" by Standard & Poor's, and all repurchase agreements were over 100.0% collateralized with U.S. government agency securities. The City manages its exposure to credit risk by limiting its fixed income investments to a rating of "A" or better.

Concentration of Credit Risk - Although the City's Investment Policy does not limit the amount of the portfolio invested in any one U.S. government agency, the City manages exposure to concentration of credit risk through diversification. As of September 30, 2008, the U.S. government agency's 70.3% securities allocation was as follows: Federal National Mortgage Association 25.7%, Federal Home Loan Mortgage Corporation 22.1%, Federal Home Loan Bank 12.2%, Federal Agricultural Mortgage Corporation 1.1%, and Federal Farm Credit Bank 9.2%.

Fire and Police Pension Fund

Investments of the Fire and Police Pension Fund (Pension Fund), a blended component unit, are administered by the Fire and Police Pension Fund board of trustees. Investments of the Pension Fund are reported at fair value and include corporate bonds; common stock; preferred stock; U.S. Treasury securities; U.S. government agency securities; notes, mortgages; hedge funds and contracts; and real estate. Equity and fixed income securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Notes, mortgages, and contracts are valued on the basis of future principal and interest payments discounted at prevailing interest rates. The fair value of real estate investments is based on independent appraisals and on the equity position of real estate partnerships in which the Pension Fund has invested. Investments in private equity and others that do not have an established market are reported at estimated fair value using discounted expected future cash flows at rates that are adjusted for the amount of expected risk and valuations of comparable assets with ascertainable market values. Investment income is recognized as earned. Net appreciation/(depreciation) in fair value of investments includes gains and losses that are being recognized based on the change in the market value of the investments, but have not been realized because the assets have not been sold or exchanged as of the balance sheet date. The Pension Fund's assets are invested as authorized by Texas state law. The fair value of the Pension Fund's cash and investments are \$2,032,475. A summary of the Pension Fund's cash, cash equivalents, and investments can be found at the beginning of Note 3.

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Pension Fund (Continued)

Custodial Credit Risk (Deposits) - Cash and short-term investments include demand deposit accounts and short-term U.S. government and other investments. As of September 30, 2008, cash in demand deposit accounts were fully collateralized.

Custodial Credit Risk (Investments) - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Pension Fund will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. As of September 30, 2008, the Pension Fund had cash deposits held by investment managers in the amount of \$8 that was uninsured and uncollateralized.

Credit Risk - Using Standard and Poor's rating system for fixed income securities as of September 30, 2008, 39.0% of the Pension Fund's bonds were rated AAA, 3.0% were rated AA, 7.0% were rated A, 19.0% were rated BBB, 13.0% were rated BB, 7.0% were rated B, 1.0% were rated CCC, and 11.0% were not rated.

Interest Rate Risk - Only the fixed income securities of the Pension Fund are subject to interest rate risk due to the possibility that prevailing interest rates could change before the securities reach maturity. Securities that are subject to interest rate risk as of September 30, 2008 amount to \$394,276 and have a weighted-average maturity (WAM) of 10.85 years. Securities that are subject to interest rate risk are shown in the following table.

Investment Type	Fair Value	Weighted-Average Maturity WAM (Years)
Corporate Bonds	\$ 64,061	12.55
Government Agencies	9,712	5.90
Government Bonds	42,333	6.36
Short Term Bills and Notes	3,805	0.18
Government Mortgage Backed Securities	105,524	7.75
Non-Government Backed C.M.O.s	24,300	27.74
Commercial Mortgage-Backed	3,458	7.56
Bank Loans	5,607	4.80
Asset Backed Securities	35,882	12.41
Ashmore	28,012	16.40
Ashmore LFC	16,380	6.60
Wellington Emerging Market Debt	55,202	10.40
Total Interest Rate Sensitive Securities	\$ 394,276	10.85

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Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Pension Fund (Continued)

Foreign Currency Risk - The Pension Fund's investments include investments in equities, bonds, and cash in foreign currency denominations. Equities denominated in foreign currencies as of September 30, 2008 amounted to \$198,299 in equities, \$136,380 in bonds and \$(4,661) in cash. Detailed as follows:

Country	Equities	Bonds	Cash	Total
Argentina Peso	\$ -	\$ 1,232	\$ -	\$ 1,232
Australian Dollar	6,567	9,978	(2,715)	13,830
Bermuda Dollar	1	-	-	1
Brazilian Real	10,650	17,439	-	28,089
Canadian Dollar	1,714	3,050	-	4,764
Swiss Franc	11,972	-	(1,369)	10,603
Chinese Renminbi	4,059	1,134	-	5,193
Chilean Peso	-	471	-	471
Colombian Peso	-	2,336	-	2,336
Czech Republic Krona	(1,670)	1,254	-	(416)
Danish Krone	2,756	-	-	2,756
Egyptian Pound	-	815	-	815
European Union	54,155	1,113	(1,132)	54,136
British Pound	26,517	3,303	(1,855)	27,965
Hong Kong Dollar	7,826	-	-	7,826
Hungarian Forint	3,443	938	-	4,381
Iceland Krona	-	1,887	-	1,887
Indonesian Rupiah	1,550	4,951	-	6,501
Israeli New Shekel	811	-	-	811
Indian Rupee	717	-	-	717
Japanese Yen	24,857	18,659	818	44,334
South Korean Won	11,715	31	-	11,746
Lithuanian Litas	3	-	-	3
Mexican Peso	5,080	12,068	-	17,148
Malaysian Ringgit	60	6,823	1	6,884
Norwegian Krone	1,985	-	1	1,986
New Zealand Dollar	168	4,058	-	4,226
Nigerian Naira	-	1,947	-	1,947
Pakistani Rupee	273	-	-	273
Panamanian Balboa	-	267	-	267
Peruvian Nuevo Sol	-	3,647	-	3,647
Philippine Peso	-	3,002	-	3,002
Polish Zloty	(2,068)	7,306	-	5,238
Romanian Leu	401	-	-	401
Russian Ruble	2,289	7,708	-	9,997
Swedish Krona	2,446	2,472	8	4,926
Singapore Dollar	784	3,064	7	3,855
Thai Baht	2,692	-	-	2,692
Turkey New Lira	4,177	4,695	1,575	10,447
Taiwan Dollar	10,271	-	-	10,271
Ukrainian Hrynia	1	232	-	233
UAE Dirham	1,158	-	-	1,158
Uruguay Peso	1,408	-	-	1,408
Venezuelan Bolivar	3,071	-	-	3,071
South African Rand	2,097	4,863	-	6,960
	\$ 198,299	\$ 136,380	\$ (4,661)	\$ 330,018

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Pension Fund (Continued)

Securities Lending - State statutes and Pension Fund policies allow for securities lending transactions. The Pension Fund has entered into an agreement with its custodial bank to lend the Pension Fund's securities to one or more borrowers for a fee. It is the policy of the Pension Fund and the custodial bank to require that collateral equal to 102.0% and 105.0% for domestic and international securities, respectively, of the loaned securities be maintained by the custodial bank. Collateral may be in the form of cash, U.S. government securities, or irrevocable letters of credit. Until such time as the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event that the borrower fails to repay the borrowed securities, the Pension Fund may suffer a loss. Management of the Pension Fund considers the possibility of such a loss to be remote. Cash open collateral is invested in a short-term investment pool with an average weighted maturity of 23 days at September 30, 2008. For the year-ended September 30, 2008, the Pension Fund has recognized an unrealized loss amounting to \$2,030. The loss is due to the write down of some of the fixed income assets in the investment pool.

As of September 30, 2008, the Pension Fund had lending arrangements outstanding with a total market value of \$159,951, which were fully collateralized with cash and securities. Of this amount, cash collateral of \$160,674 is recorded in the accompanying Statement of Fiduciary Net Assets. The net loss recognized for the year-ended September 30, 2008 under the securities lending arrangement was \$717. This includes the \$2,030 unrealized loss on the valuation of the investment pool. Securities lending collateral - cash and cash equivalents, at fair value is shown net of the \$2,030 loss with the assets on the Statement of Fiduciary Net Assets.

Cash Collateral Pool

	2008
U.S. Government Bonds	\$ 1,457
U.S. Treasury Notes	5,052
U.S. Letters of Credit	260
U.S. Asset Backed Securities	27,870
U.S. Corporate Notes	22,237
U.S. Repo Agreements	37,302
U.S. Sweep Vehicle	1,562
U.S. Agencies Bonds	9,044
U.S. Certificates of Deposit	2,823
International Letters of Credit	698
International Certificates of Deposit	30,836
International Time Deposits	16,373
International Asset Backed Securities	4,078
International Corporate Notes	1,082
Subtotal	160,674
Unrealized Loss	(2,030)
Total	\$ 158,644

Derivatives and Structured Investments - The Pension Fund has only limited involvement with derivatives and other structured financial instruments. The Pension Fund's investment philosophy regarding the use of derivatives and other structured financial instruments is to use derivatives to replicate exposures to equity or fixed income securities. The fair value of structured financial instruments held by the Pension Fund at September 30, 2008, was approximately \$24,300, in commercial mortgage obligations and is included with investments in the Statement of Fiduciary Net Assets. The Pension Fund also invests in hedge funds which may employ the use of derivatives to reduce volatility. The Pension Fund's total investment in hedge funds was \$234,769 as of September 30, 2008.

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Pension Fund (Continued)

As of September 30, 2008, the fund held currency forward contracts as follows:

	2008
Market Value	
Receivable/	
(Payable)	
	Maturity Date
	11/10/2008
Austrian Dollars	\$ (1,932)
Austrian Dollars	(790)
Euros	(1,128)
Japanese Yen	817
Turkish Lira	1,573
British Pound	(2,693)
British Pound	825
Swiss Franc	(1,366)
U.S. Dollars	2,186
U.S. Dollars	2,679
U.S. Dollars	(1,611)
U.S. Dollars	1,698
Total	\$ 258

The Pension Fund invested using an investment strategy called "portable alpha" in the year-ended September 30, 2008. In implementing this strategy, the Pension Fund combined a low volatility absolute return strategy to provide consistent returns that are greater than interest paid at LIBOR, or "alpha". These returns are added to the difference between LIBOR and the Lehman Brothers Government Index, or "beta". In order to simulate the beta exposure, a two part strategy is employed. First, a swap is employed whereby the Pension Fund pays the 30 day LIBOR and receives a fixed rate of 5.2%. The notional amount of the swap is \$27,000. The counterparty pays the fixed rate every 6 months on February 28th and August 28th. The Pension Fund pays interest every quarter on February 28th, May 28th, August 28th and November 28th. The contracts are effective as of February 28, 2007. The swap is subject to counterparty risk in the event that the counterparties are unable to pay the guaranteed amount because of financial insolvency. The amount at risk would be the difference between the interest using 30 day LIBOR on \$27,000 and the fixed 5.2% interest on \$27,000 for the same period. Management of the Pension Fund considers the possibility of loss due to the failure of the counterparties to be remote. A receivable of \$1,011 and a liability of \$346 related to the swap are included with the investments on the Statement of Fiduciary Net Assets for the fiscal year-ended September 30, 2008. The second part of the strategy involves the use of Treasury futures to replicate the return from the Lehman Brothers Government Index. The contracts used are 3 month contracts and are usually rolled over to new contracts within a half month of their maturity dates. The underlying securities used are new issues. As of September 30, 2008, the Pension Fund held Treasury futures contracts in the amount of \$64,444. The margin accounts for the futures contracts are settled daily, so there is no market value for the futures as of September 30, 2008. Income is recognized in the Statement of Changes in Fiduciary Net Assets in net appreciation in fair value of investments. The contracts in force as of September 30, 2008 are listed below:

Contracts in Force as of September 30, 2008		
Underlying Security	Interest Rate	Contract
		Beginning Date
		Maturity Date
2 Year T-Note	6.0%	8/24/2008
5 Year T-Note	6.0%	8/24/2008
10 Year T-Note	6.0%	8/24/2008
Total		
		Market Value
		\$ 24,759
		36,475
		3,210
		\$ 64,444

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Retiree Health Care Fund

The Fire and Police Retiree Health Care Fund (Health Care Fund) board of trustees administers investments of the Fire and Police Retiree Health Care Fund, a blended component unit. Investments are reported at fair value. Short-term investments are reported at amortized cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have an established market value are reported at estimated fair value.

Investments in alternative investments are substantially held in the form of nonmarketable limited partnerships interests. These investments are subject to the terms of the respective partnerships' governing documents which may limit the Health Care Fund's withdrawal to specified times and conditions and restrict the transferability of the Health Care Fund's interest. The fair valuation of these investments is based on net asset values as set by the partnerships' fund managers. These net asset values may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material.

All investment income, including changes in the fair value of investments, is reported as additions in the Statement of Changes in Fiduciary Net Assets.

The Health Care Fund's assets are invested as authorized by the Investment Policy Statement and Guidelines of the San Antonio Fire and Police Retiree Health Care Fund, San Antonio (Investment Policy). The Health Care Fund utilizes an investment consultant that makes recommendations to the Health Care Fund as to the appropriate target portfolio weightings among the major asset classes (e.g. stocks, mutual funds, limited liability partnerships and cash) within the Health Care Fund. Additionally, the Health Care Fund has hired certain investment managers to exercise full discretionary authority as to all buy, hold, and sell decisions for each security under management, subject to the guidelines as defined in the investment policy. All of the Health Care Fund's assets are held by a custodial bank, Frost National Bank of San Antonio, Texas.

Investments authorized by the Health Care Fund's investment policy include U.S. equities, including common stocks, securities convertible into common stock, and open or closed end mutual funds; international equity; certain fixed income assets, private equity and alternative investments, including real estate, absolute return hedge funds, and natural resources. The cash portion of the Health Care Fund will be invested in a short-term investment fund administered by the custodian bank, a money market mutual fund, or in individual permissible securities.

The fair value of the Health Care Fund's cash and investments at September 30, 2008 is \$187,868. A summary of the Health Care Fund's cash, cash equivalents, and investments can be found at the beginning of Note 3.

Custodial Credit Risk (Deposits) - The Health Care Fund's deposits that are held with Frost Bank in non-interest bearing demand accounts are covered under the new FDIC Transaction Account Guarantee Program. Under this program, through December 31, 2009, all non-interest bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under this program is in addition to and separate from the coverage available under the FDIC's general deposit rules. It does not appear that deposits the Health Care Fund holds in demand accounts are exposed to custodial credit risk as of September 30, 2008.

The Health Care Fund does not have deposit or investment policies related to custodial credit risk as of September 30, 2008. The Health Care Fund is aware of these risks and monitors such risks, if any, as part of its day-to-day operations and through its daily dealings with the custodian bank.

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Retiree Health Care Fund (Continued)

Custodial Credit Risk (Investments) - The Health Care Fund's investment securities, stocks, and bonds, are held at Frost National Bank's third-party custodian, Bank of New York Mellon. All securities held for the Health Care Fund at Bank of New York Mellon are in Frost National Bank's name, and Frost National Bank tracks these securities as being held for the benefit of the Health Care Fund. Since the securities are not registered in the name of the Health Care Fund and are held by a counterparty, and are not insured, they are considered to be exposed to custodial credit risk. These investments are reported as follows, by investment type, as of September 30, 2008:

Common Stock	\$ 30,179
International Equity	12,453
Money Market Mutual Fund	6,944

Credit Risk - The Health Care Fund's Investment Policy includes a section that addresses overall credit quality. According to the Investment Policy, the average credit quality rating for the fixed-income portfolio will be at least A. Ninety percent of the securities must be rated BBB-/Baa3 or higher by a nationally recognized rating agency at time of purchase. For split-rated securities, the higher rating will be used in determining compliance with these guidelines. Credit quality ratings for investments with credit risk are as follows at year-end:

Rating	Percentage Held
AAA/Aaa	62.4%
AA+	2.2%
AA	1.0%
AA-	1.6%
A+	4.4%
A	8.1%
A-	1.0%
BBB+	2.2%
BBB	11.3%
BB+	2.6%
BB-	0.8%
B	0.9%
Accrued interest	1.5%
(Not Rated)	100.0%
Total	100.0%

Concentration of Credit Risk - The Health Care Fund's investment policy regarding concentration of credit risk for equities states that no more than 5.0% of any investment manager's portfolio at cost and 8.0% at the market value shall be invested in the securities of any one company. Regarding fixed-income assets, no more than 10.0% of an investment manager's bond portfolio at cost shall be invested in the securities of any one issuer. The policy further states there shall be no such limit on U.S. government securities, U.S. agency securities or government-sponsored entities, U.S. agency mortgage-backed securities, or other sovereign issues rated AAA or Aaa. At year-end, the Health Care Fund did not have any investments in any one issuer that represented 5.0% or more of total investments.

Note 3 Cash and Cash Equivalents and Investments (Continued)

Fire and Police Retiree Health Care Fund (Continued)

Interest Rate Risk - The Health Care Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Health Care Fund is aware of this risk and has chosen to rely on the expert advice of professional money managers to manage its exposure to interest rate changes. The money market mutual fund with a fair value of \$6,944, at year-end and is payable on demand.

Securities Lending - Securities lending assets are reported at fair value. State statutes and the Health Care Fund policies allow for securities lending transactions. The Health Care Fund entered into an agreement with its custodial bank in May 2003 to lend the Health Care Fund's securities to one or more borrowers for a fee. It is the policy of the Health Care Fund and the custodian bank to require that collateral equal 100.0% of the loaned security's market value plus accrued interest for domestic government or agency securities loaned, and 102.0% of the loaned security's market value plus accrued interest for approved, domestic, nongovernment, or agency securities loaned be maintained by the custodial bank. Collateral may be in the form of cash, U.S. government securities, or irrevocable letters of credit. Until such time as the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event the borrower fails to repay the borrowed securities, when due and the value of the collateral is insufficient to replace the borrowed securities, the Health Care Fund may suffer a loss. Management of the Health Care Fund considers the possibility of such a loss to be remote. Cash collateral is invested in open-end money market type mutual funds at September 30, 2008.

Subscribed Capital Commitments - As of September 30, 2008, the Fund had non-binding commitments to invest capital in ten investment companies under investment capital subscription agreements. These commitments are subject to periodic calls from the investment companies. The amount of this investment capital committed under the subscription agreements totaled to \$105,000. As of September 30, 2008, \$45,358 of this total had been called.

CPS Energy

CPS Energy's investments with a maturity date within one year of the purchase date are reported at amortized cost, which approximates fair value. Amortization of premium and accretion of discount are recorded over the terms of the investments that mature within one year. CPS Energy's investments with a maturity date of one year or longer from the purchase date are accounted for using fair value. As available, fair values are determined by using generally accepted financial reporting services, publications, and broker and dealer information, as necessary. The specific identification method is used to determine costs in computing gains or losses on sales of securities. CPS Energy reports all investments of the Decommissioning Trusts at fair market value.

Restricted funds are generally for uses other than current operations. They are designated by law, ordinance or contract and are often used to acquire or construct noncurrent assets. Restricted funds consist primarily of unspent bond or commercial paper proceeds, debt service required for the New Series Bonds and Junior Lien Obligations, and funds for future construction or contingencies. This category also includes customer assistance programs where proceeds are received from outside parties. The assets of the Decommissioning Trusts are also considered restricted.

The Repair and Replacement Account is restricted in accordance with the CPS Energy's bond ordinances. In compliance with a bond ordinance, CPS Energy's board of trustees authorized that a portion of the Repair and Replacement Account be designated for converting overhead electric facilities to underground (also referred to as the Overhead Conversion Fund).

CPS Energy's cash deposits at January 31, 2008 were entirely insured by federal depository insurance or collateralized by banks. For deposits that were collateralized, the securities were U.S. government, U.S. government agency, or U.S. government-guaranteed obligations held in book entry form by Frost National Bank in CPS Energy's name.

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Since the assets in the Decommissioning Trusts are restricted for use only for decommissioning at some future date, securities lending cash collateral has been treated as long-term and thus has been classified as an investment in the Trusts. Consistent with other investments in the Trusts, securities lending cash collateral is shown separately on the table that lists investments by type in the Decommissioning Trust section of this Note.

Cash, Cash Equivalents and Securities Lending Cash Collateral	January 31, 2008
Cash and cash equivalents	\$ 122
Petty cash funds on hand	578
Bond paying agent - debt service - restricted	4,326
Deposits with financial institutions	735
Unrestricted CPS Energy deposits	301
Restricted CPS Energy deposits	156,478
Debt service	62,801
Project Warm	13,809
Investments with original maturities of less than 90 days	239,150
CPS Energy unrestricted (current)	400,306
CPS Energy restricted (noncurrent)	639,456
Decommissioning Trusts - restricted (noncurrent)	-
Total cash and cash equivalents	-
CPS Energy - securities lending cash collateral	-
Total cash, cash equivalents and securities lending cash collateral	-

CPS Energy's cash, cash equivalents and investments can be separated in the following manner:

- Those directly managed by CPS Energy, and
- Those managed through the Decommissioning Trusts.

For financial reporting purposes, cash, cash equivalents and investments managed directly by CPS Energy have been consistently measured as of the end of the applicable fiscal years. The Decommissioning Trusts are reported on a calendar-year basis.

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Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Summary of Cash and Cash Equivalents, Along with Current and Noncurrent Investments	
	January 31, 2008
Cash and cash equivalents	\$ 225,341
CPS Energy unrestricted and restricted Decommissioning Trusts - restricted	13,809
Total cash and cash equivalents	239,150
Gross investments - current and noncurrent	1,188,115
CPS Energy unrestricted and restricted Decommissioning Trusts - restricted	443,258
Total gross investments	1,631,373
Investments with original maturities of less than 90 days also included in cash equivalents	(219,279)
CPS Energy unrestricted and restricted Decommissioning Trusts - restricted	(13,809)
Total investments also included in cash equivalents	(233,088)
Net current and noncurrent investments	1,398,285
Total cash, cash equivalents and investments	\$ 1,637,435

CPS Energy's direct investments and the investments held in the Decommissioning Trusts are subject to the rules and regulations of the Public Funds Investment Act (PFIA). The PFIA regulates what types of investments can be made, requires written investment policies, mandates training requirements of investment officers, requires internal management reports to be produced at least quarterly, and provides for the selection of authorized brokers. In September 2005, the Texas legislature passed a law to allow the decommissioning trust funds for municipally owned nuclear power plants to hold investments authorized by Subtitle B, Title 9, of the Property Code (i.e., corporate bonds and equities such as common stocks).

CPS Energy's allowable direct investments are defined by CPS Energy Board Resolution, CPS Energy Investment Policy, bond ordinances, Tax-Exempt Commercial Paper (TECP) Ordinance and state law. These investments are subject to market risk, and their market value will vary as interest rates fluctuate. All CPS Energy direct investments are held in trust custodial funds by an independent bank.

CPS Energy's investments in the Decommissioning Trusts are held by an independent trustee. Investments are limited to those defined by CPS Energy Board Resolution, the South Texas Project Decommissioning Trust Investment Policy, the Investment Strategy Committee, the Trust Agreements and state law. Allowable investments for the Decommissioning Trusts include those directly permissible for CPS Energy, as well as equities and corporate bonds (including international securities). Specifically, starting in September 2005, in accordance with the applicable amended investment policies, total investments can include a maximum of 60.0% equity securities.

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Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Investment Description	Permissible Investments	
	CPS Energy Direct Investments	Decommissioning Trusts
U.S. Government, Government Agency, or U.S. Government-guaranteed obligations	✓	✓
Collateralized mortgage obligation issued by the U.S. Government	✓	✓
Fully secured certificates of deposit issued by a state, national or savings bank domiciled in the State of Texas	✓	✓
Direct repurchase agreements	✓	✓
Reverse repurchase agreements	✓	✓
Defined bankers' acceptances and commercial paper	✓	✓
No-load money market mutual funds	✓	✓
Other specific types of secured or guaranteed investments	✓	✓
Equities	N/A	✓
Corporate bonds	N/A	✓
International securities	N/A	✓
Securities lending	✓	✓

In fiscal year 2007, CPS Energy and the Decommissioning Trusts entered into agreements with Frost National Bank, a Texas-based financial institution, for the purpose of securities lending. The cash collateral received for CPS Energy's securities lending transactions is reported as a current asset on the Balance Sheets and the corresponding obligation to repay the cash collateral is reported on the Balance Sheets as a current liability that directly offsets the amount received from brokers or dealers in exchange for securities loaned. See Note 12, Risk Financing for details regarding securities lending.

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Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Cash, Cash Equivalents and Investments by Fund	
	January 31, 2008
Unrestricted	
Cash and cash equivalents	\$ 160,926
Investments	234,115
Total Unrestricted (current)	<u>395,041</u>
Restricted	
Debt service	
Cash and cash equivalents	2,272
Total Debt Service	<u>2,272</u>
Capital projects	
Investments	290,501
Total Capital Projects	<u>290,501</u>
Ordinance	
Cash and cash equivalents	54,039
Investments	444,220
Total Ordinance	<u>498,259</u>
Other	
Project Warm	
Cash and cash equivalents	8,104
Total Project Warm	<u>8,104</u>
Decommissioning Trusts	
Cash and cash equivalents	13,809
Investments	429,449
Total Decommissioning Trusts	<u>443,258</u>
Total Other	<u>451,362</u>
Total Restricted	<u>78,224</u>
Cash and cash equivalents	1,164,170
Investments	1,242,394
Total Restricted (noncurrent)	<u>2,406,564</u>
Total cash, cash equivalents and investments (unrestricted and restricted)	<u>\$ 1,637,435</u>

CPS Energy's cash equivalents and fixed-income investments are exposed to interest rate risk, credit risk (including custodial credit risk and concentration of credit risk), and foreign currency risk. Interest rate risk is the exposure to fair market value losses resulting from rising interest rates. Credit risk is the risk that an issuer of an investment will not fulfill its obligations (will be unable to make timely principal and interest payments on the security). Foreign currency risk is the exposure to fair market value losses arising from changes in exchange rates. Cash, cash equivalents and fixed-income investments are also exposed to inflation, liquidity, political, legal, event, reinvestment and timing (call) risks. Additionally, equity investments are exposed to political, legal, event and general economic risks.

CPS Energy's direct investments portfolio has limited indirect exposure related to the asset-backed commercial paper holdings in its AIM investments money market funds. AIM Investments has issued a formal statement that outlines their investment practice of ensuring that all asset-backed commercial paper purchased has high credit protection and liquidity support that exceeds the negligible indirect subprime mortgage exposure.

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

While the financial markets continue to experience impacts due to subprime lending, neither CPS Energy's direct investments nor the investments in the Decommissioning Trusts have any direct exposure to investments backed by subprime collateral.

The investments in the Decommissioning Trusts have limited indirect exposure related to the ownership of equities of various financial institutions, a sector that, as a whole, has been under considerable downward price pressure. The Trusts' investment policy requires a diversified investment strategy that facilitates the mitigation of market risks during periods of economic downturn.

CPS Energy's direct investments and the investments in the Decommissioning Trusts are managed with a conservative focus. The investment policies are structured to ensure compliance with bond ordinances, the PFA, the Public Funds Collateral Act, the NRC, the PUCT, other applicable state statutes, and CPS Energy board of trustee resolutions relating to investments. CPS Energy identifies and manages risks by following an appropriate investment oversight strategy, establishing and monitoring compliance with investment policies and procedures, and continually monitoring prudent controls over risks. All investment policies follow the "prudent person" concept.

Summary of Investments by Organizational Structure and Type

	January 31, 2008
CPS Energy investments	\$ 1,188,115
U.S. Treasury, Government Agencies and money market funds	198,297
Decommissioning Trusts	47,391
U.S. Treasury, Government Agencies and money market funds	4,434
Corporate bonds	250,122
Foreign bonds	193,136
Subtotal	<u>443,258</u>
Common stock	1,631,373
Total Decommissioning Trusts	<u>\$ 1,631,373</u>
Grand total - all investments	

Effective September 1, 2005, as a result of a change in Texas law, the investment policies of the Decommissioning Trusts were revised to allow for investment in additional types of securities, such as corporate bonds and equity securities. The policies provide guidelines to ensure all funds are invested in authorized securities in order to earn a reasonable return. The primary emphasis is placed on long-term growth commensurate with the need to preserve the value of the assets and, at the time funds are needed for decommissioning costs, on liquidity. The investment policies continue to follow the "prudent person" concept.

In accordance with GASB Statement No. 40, additional disclosures have been provided in this note that address investment exposure to interest rate risk, credit risk (including custodial credit risk and concentration of credit risk), and foreign currency risk, as applicable. The disclosure requirements of this Statement do not apply to equity securities since they are not directly or immediately exposed to these risks. CPS Energy and the Decommissioning Trusts do not have custodial credit risk, as all investments are held either by an independent trustee or bank and are in CPS Energy's or the Decommissioning Trusts names.

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

CPS Energy's Direct Investments - In accordance with GASB Statement No. 40, the following tables address credit risk (including custodial credit risk and concentration of credit risk) and interest rate risk exposure by investment type using the weighted-average maturity (WAM) method. Since CPS Energy does not hold foreign investments in its direct investments (those not held by one of the Decommissioning Trusts), foreign currency risk is not applicable.

Interest Rate Risk - In accordance with its investment policy, CPS Energy manages exposure to fair market value losses resulting from rising interest rates by limiting the portfolio's WAM to two years or less. WAM is defined as the weighted-average time to return a dollar of principal. It is used as an estimate of the interest rate risk of a fixed-income investment. CPS Energy invests the cash collateral received from securities lending and other funds in money market mutual funds that have no fixed maturities. Accordingly, a WAM in terms of years for money market mutual funds is not applicable.

Concentration of Credit Risk - In accordance with its investment policy, CPS Energy manages exposure to concentration of credit risk through diversification and by limiting its investment in each government-sponsored entity to 50.0% and its investment in any nongovernment issuer to 5.0% of the total fixed-income portfolio.

Investment Type	Carrying Value	Market Value	Allocation	Weighted-Average Maturity (Years)
U.S. Agencies:				
Federal Home Loan Mortgage Corp.	\$ 122,358	\$ 122,617	10.3%	1.7
Federal National Mortgage Assn.	249,599	250,313	21.0%	2.7
Federal Home Loan Bank	560,843	562,949	47.3%	0.5
Federal Farm Credit Bank	15,075	15,075	1.2%	0.0
JP Morgan - CD	75,000	75,000	6.3%	0.4
AIM Money Market	165,240	165,240	13.9%	0.0
Total Fixed-Income Investments	<u>1,188,115</u>	<u>1,191,194</u>	<u>100.0%</u>	<u>0.7</u>
Cash Collateral - Securities Lending	400,306	400,306		
Total Fixed-Income Portfolio	<u>\$ 1,588,421</u>	<u>\$ 1,591,500</u>		

Credit Risk - In accordance with its investment policy, CPS Energy manages exposure to credit risk by limiting its fixed-income investments to a credit rating of "A" or better. As of January 31, 2008, CPS Energy held no direct investments with a credit rating below "AAA".

Credit Rating	Carrying Value	Market Value	Allocation
AAA	\$ 1,588,421	\$ 1,591,500	100.0%
Total Fixed-Income Investments	<u>\$ 1,588,421</u>	<u>\$ 1,591,500</u>	<u>100.0%</u>

Decommissioning Trust Investments - As mentioned above, the Decommissioning Trust report their assets on a calendar-year basis; therefore, the tables in this section are as of December 31. These tables address interest rate risk exposure by investment type (using the weighted-average duration method), credit risk, concentration of credit risk and foreign currency risk. All investments held by the Decommissioning Trusts are long-term in nature and are recorded at market value.

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Interest Rate Risk - Generally, the long-term nature of the liabilities and the limited need for daily operating liquidity allow interim fluctuations in market value to occur without jeopardizing the ultimate value of the assets. Where long-term securities are held, the interim market value of assets can be sensitive to changes in interest rates. As the general level of interest rates moves up and down, the interim market value of longer-maturity bonds may change substantially. To mitigate this interest rate risk, a limitation is placed on the duration of the fixed-income portfolio. The overall portfolio duration should not deviate from the weighted-average duration of the investment. Strategy Committee's specified fixed-income index by more than +/- 1.5 years. The investment Strategy Committee's fixed-income index is based on the Lehman Brothers Aggregate Index, which is 4.4 for 2007.

Weighted-average duration is defined as the weighted-average time to return a dollar of principal and interest and also incorporates potential changes in the timing of principal and interest return that may occur as a result of changes in interest rates. It makes assumptions regarding the most likely timing and amounts of variable cash flows and is used as an estimate of the interest rate risk of a fixed-income investment - especially those with payment terms dependent on market interest rates.

Concentration of Credit Risk - In accordance with the investment policy, exposure to concentration of credit risk is managed through diversification and by limiting investments in each government-sponsored entity to 30.0% and investments in any nongovernment-sponsored issuer to 5.0% of the total fixed-income portfolio (excluding cash collateral from securities lending). At December 31, 2007, total nongovernment-sponsored (corporate and foreign) issuers amounted to 34.3% of the 28.0% Decommissioning Trust and 13.7% of the 12.0% Decommissioning Trust.

The following tables list the fixed-income investment holdings by type:

Investment Type	28.0% Interest		12.0% Interest		Weighted-Average Duration (Years)
	Market Value	Allocation	Market Value	Allocation	
U.S. Treasuries	\$ 13,695	10.1%	\$ 2,683	7.2%	6.2
U.S. Agencies:					
Federal National Mortgage Assn.	36,919	27.1%	11,946	31.9%	3.6
Federal Home Loan Mortgage Corp.	17,509	12.9%	6,192	16.5%	4.3
Small Business Administration	4,929	3.6%			
Government National Mortgage Assn.	146	0.1%	3,523	9.4%	4.9
Municipal Bonds - Texas	3,368	2.5%	1,883	5.0%	7.6
Municipal Bonds - Other States	42,261	31.1%	5,003	13.4%	4.7
Corporate Bonds	4,434	3.2%	5,130	13.7%	5.4
Foreign Bonds	12,731	9.4%	1,078	2.9%	
AIM Money Market	\$ 135,992	100.0%	\$ 37,438	100.0%	4.9
Total Fixed-Income Investments	<u>54,971</u>		<u>21,721</u>		
Cash Collateral - Securities Lending	190,961		59,159		
Total Portfolio	<u>\$ 190,961</u>		<u>\$ 59,159</u>		

Credit Risk - In accordance with the investment policies, exposure to credit risk is managed by limiting all fixed-income investments to a credit rating of "BBB-" or better from at least two nationally recognized credit rating agencies. As of December 31, 2007 the Decommissioning Trusts held no investments with a credit rating below "BBB-".

Note 3 Cash and Cash Equivalents and Investments (Continued)

CPS Energy (Continued)

Credit Rating	28.0% Interest		12.0% Interest	
	Market Value	Allocation	Market Value	Allocation
U.S. Treasuries	\$ 13,695	7.2%	\$ 2,683	4.4%
AAA	142,290	74.5%	50,031	84.6%
AA	3,742	2.0%	3,468	5.9%
A	17,299	9.0%	2,641	4.5%
BBB	13,937	7.3%	336	0.6%
Total Fixed-income Portfolio	\$ 190,963	100.0%	\$ 59,159	100.0%

Foreign Currency Risk - With the exception of dedicated foreign-equity portfolios, all investments authorized for purchase by the Decommissioning Trusts are U.S. dollar-denominated. This, along with the low level of foreign fixed-income investment, reduced the potential foreign currency risk exposure to the portfolio. The foreign bonds outstanding amounted to \$4,434 as of December 31, 2007 held by the 28.0% Decommissioning Trust.

CPS Energy Employee Benefit Plan Investments - Due to the implementation of GASB Statement No. 45, the Employee Benefit Plans have been removed from the CPS Energy financial statements as component units in fiscal year 2008. The Employee Benefit Plans' separately audited financial statements, including the disclosures related to GASB Statement No. 40 can be obtained by contacting the Employee Services Division of CPS Energy by email at BPStiller@CPSEnergy.com.

San Antonio Water System (SAWS)

SAWS is permitted by City Ordinance No. 75686, SAWS' Investment Policy and Texas state law, to invest in direct obligations of the U.S. or its agencies and instrumentalities. Other allowable investments include direct obligations of the State of Texas or its agencies and instrumentalities; secured certificates of deposit issued by depository institutions that have their main office or a branch office in the State of Texas; defined bankers acceptances and commercial paper; collateralized direct repurchase agreements, reverse repurchase agreements; no-load money market mutual funds; investment pools; and other types of secured or guaranteed investments. These investments are subject to market risk, interest rate risk, and credit risk, which may affect the value at which these investments are recorded. Investments other than money market investments are reported at fair value. Under the provisions of GASB Statement No. 31, money market investments, including U.S. Treasury and agency obligations, with a remaining maturity at time of purchase of one year or less at reported cost. A summary of SAWS cash, cash equivalents, and investments can be found at the beginning of Note 3.

Custodial Credit Risk (Deposit) - All funds are deposited at JP Morgan Chase Bank N.A., SAWS' general depository bank. The general depository agreement with the bank does not require SAWS to maintain an average monthly balance. As required by state law, all deposits are fully collateralized and/or are covered by federal depository insurance. At December 31, 2007, the collateral pledged is being held by the Federal Reserve Bank of New York under SAWS' name so SAWS incurs no custodial credit risk. As of December 31, 2007, the bank balance of demand and savings account was \$19,187, and the reported amount was \$14,384 which included \$31 of cash on hand.

Custodial Credit Risk (Investment) - All investments, with the exception of those held in escrow, are in Agencies of the United States and are held in safekeeping by SAWS' depository bank, JP Morgan Chase Bank N.A., registered as accounts of SAWS. Funds held in escrow are Money Market Funds managed by U.S. Bank and are invested in U.S. Treasury Obligations. As of December 31, 2007, all investments of SAWS are classified as current assets as they had remaining maturities of less than one year.

Note 3 Cash and Cash Equivalents and Investments (Continued)

San Antonio Water System (SAWS) (Continued)

As of December 31, 2007, SAWS had the following investments and maturities:

Investment Type	Investments Maturities (in Days)			Fair Value	Reported
	90 Days or Less	91 to 180	181 to 365		
U.S. Agency Discount Notes	\$ 83,202	\$ 114,990	\$ 25,491	\$ 223,683	\$ 223,556
U.S. Agency Coupon Notes	77,829	95,776	59,720	233,325	233,192
Money Market Funds:					
U.S. Bank	9,109			9,109	9,109
	\$ 170,140	\$ 210,766	\$ 85,211	\$ 466,117	\$ 465,857
Percentage of Portfolio	36.5%	45.2%	18.3%	100.0%	

Interest Rate Risk - As a means of limiting its exposure to fair value losses due to rising interest rates, SAWS' investment policy limits its investment maturities to no more than five years. As indicated in the table above, 100.0% of SAWS' investment portfolio is invested in maturities less than one year.

Credit Risk - In accordance with its investment policies, SAWS manages exposure to credit risk by limiting its investments in obligations of other states and cities to those with a credit rating of "A" or better. Additionally, any investments in commercial paper require a rating of at least "A-1" or "P-1". As of December 31, 2007 SAWS held no direct investments with a credit rating below "AAA".

	Credit Rating	Carrying Value	Market Value	Allocation	Investment Policy Limit
December 31, 2007					
AAA		\$ 465,857	\$ 466,117	100.0%	Max. = 100.0%
Total Portfolio		\$ 465,857	\$ 466,117	100.0%	

Concentration of Credit Risk - SAWS' investment policy does not limit the amount it may invest in U.S. Treasury securities, government-guaranteed securities, or government-sponsored entity securities. However, in order to manage its exposure to credit risk, SAWS' investment policy does limit the amount that can be invested in any one government-sponsored issuer to no more than 50.0% of the total investment portfolio, and no more than 5.0% of the total investment portfolio on any non-government issuer unless it is fully collateralized. As of December 31, 2007, SAWS has invested more than 5.0% of its investments in the following government-sponsored entities in the form of discount or coupon notes: 29.0% in Federal Home Loan Bank, 43.0% in Federal National Mortgage Association, and 22.0% in Federal Home Loan Mortgage Corporation.

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Note 3 Cash and Cash Equivalents and Investments (Continued)

San Antonio Water System (SAWS) (Continued)

The following is a reconciliation of deposits and investments disclosed in the note to the amounts presented for cash and investments in the balance sheets for 2007:

	<u>December 31,</u>
	<u>2007</u>
Reported amounts in note for:	
Deposits	\$ 14,384
Investments	465,857
Total Deposits and Investments	<u>\$ 480,241</u>
Totals for Balance Sheets:	
Cash and Cash Equivalents:	
Unrestricted cash and cash equivalents	\$ 14,384
Restricted cash and cash equivalents:	
Capital Projects Accounts	13,773
Total Cash and Cash Equivalents	<u>28,157</u>
Investments:	
Unrestricted current investments	179,615
Restricted current investments:	
Debt Service Accounts	30,318
Other Restricted Accounts:	
Operating reserve	29,567
Customers' deposits	7,857
Total Other Restricted Accounts	<u>37,424</u>
Total Current Investments	<u>247,357</u>
Restricted noncurrent investments:	
Capital Projects Accounts	204,727
Total Cash, Cash Equivalents and Investments	<u>\$ 480,241</u>

Note 4 Capital Assets

Primary Government (City)

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes guidance for accounting and reporting for the impairment of assets and for insurance recoveries. Impairments of \$83 were identified and reduced in capital assets for governmental activities and \$740 in business-type activities.

Note 4 Capital Assets (Continued)

Primary Government (City) (Continued)

Capital asset activity for governmental activities, to include Internal Service Funds, for the year-ended September 30, 2008, is as follows:

Governmental Activities	Beginning Balance	Prior Period Adjustment ¹	Capital Assets - Governmental Activities		Increases	Decreases	Transfers	Ending Balance
			Beginning Balance (Restated)	Ending Balance				
Non-Depreciable Assets:								
Land	\$ 1,341,567	\$ -	\$ 1,341,567	\$ 14,574	\$ -	\$ -	\$ -	\$ 1,356,141
Construction in Progress	214,187	-	214,187	214,848	(3,914)	(144,707)	-	280,414
Other Non-Depreciable Assets	-	-	-	500	-	-	-	500
Total Non-Depreciable Assets	<u>1,555,754</u>	<u>-</u>	<u>1,555,754</u>	<u>229,922</u>	<u>(3,914)</u>	<u>(144,707)</u>	<u>-</u>	<u>1,637,055</u>
Depreciable Assets:								
Buildings	668,349	231	668,580	-	(123)	42,428	-	710,885
Improvements	238,440	472	238,912	60	-	56,872	-	295,844
Infrastructure	2,246,274	-	2,246,274	-	-	45,407	-	2,291,681
Machinery and Equipment	328,510	36	328,546	24,046	(7,954)	-	-	344,638
Total Depreciable Assets	<u>3,481,573</u>	<u>739</u>	<u>3,482,312</u>	<u>24,106</u>	<u>(8,077)</u>	<u>144,707</u>	<u>-</u>	<u>3,643,648</u>
Accumulated Depreciation:								
Buildings	(219,509)	-	(219,509)	(18,796)	123	-	-	(238,304)
Improvements	(64,427)	(32)	(64,459)	(10,745)	-	-	-	(75,204)
Infrastructure	(1,384,688)	-	(1,384,688)	(55,147)	-	-	-	(1,439,835)
Machinery and Equipment	(72,224)	-	(72,224)	(26,963)	6,884	-	-	(92,303)
Total Accumulated Depreciation	<u>(1,839,848)</u>	<u>(32)</u>	<u>(1,839,880)</u>	<u>(111,651)</u>	<u>7,007</u>	<u>-</u>	<u>-</u>	<u>(1,944,324)</u>
Total Depreciable Assets, net	<u>1,641,725</u>	<u>707</u>	<u>1,642,432</u>	<u>(87,546)</u>	<u>(1,070)</u>	<u>144,707</u>	<u>-</u>	<u>1,698,324</u>
Total Capital Assets, net	<u>\$ 3,197,479</u>	<u>\$ 707</u>	<u>\$ 3,198,186</u>	<u>\$ 142,376</u>	<u>\$ (4,984)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,335,379</u>
Depreciation expense was charged to governmental functions as follows:								
General Government	-	-	-	\$ 21,270	-	-	-	\$ 21,270
Public Safety	-	-	-	6,706	-	-	-	6,706
Public Works	-	-	-	58,927	-	-	-	58,927
Health Services	-	-	-	630	-	-	-	630
Sanitation	-	-	-	87	-	-	-	87
Welfare	-	-	-	622	-	-	-	622
Culture and Recreation	-	-	-	4,345	-	-	-	4,345
Convention and Tourism	-	-	-	4,214	-	-	-	4,214
Economic Development and Opportunity	-	-	-	99	-	-	-	99
Depreciation on Capital Assets Held by City's Internal Service Funds are Charged to Various Functions Based on Asset Usage	-	-	-	14,751	-	-	-	14,751
Total Depreciation Expense for Governmental Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 111,651</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 111,651</u>

The capital assets of Internal Service Funds are included in governmental activities. In fiscal year 2008, Internal Service Funds capital assets increased by \$19,815, and decreased by \$7,685, resulting in an ending balance of \$150,512. Depreciation expense of \$14,751 resulted in an ending accumulated depreciation balance of \$95,978, to arrive at net book value of \$54,534.

¹ Prior Period Adjustments are due to the incorporation of the San Antonio Library Foundation as a blended component unit of the City. As the Foundation is a self-governing agency the City has no control over rights to these assets. See Note 17, Prior Period Restatement.

Note 4 Capital Assets (Continued)

Primary Government (City) (Continued)

The City capitalizes interest incurred on construction projects, in accordance with Statement of Accounting Standards No. 62, *Special Reports*, issued by the Financial Accounting Standards Board. In fiscal year 2008, the City capitalized construction period interest for the Airport System in the amount of \$946. Capital asset activity for business-type activities for the year-ended September 30, 2008, is as follows:

	Capital Assets - Business-Type Activities				
	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Non-Depreciable Assets:					
Land:					
Airport System	\$ 4,543	\$ 780	\$ -	\$ -	\$ 5,323
Nonmajor Enterprise Funds	9,018				9,018
Total Land	13,561	780			14,341
Construction in Progress:					
Airport System	97,999	76,602	(740)	(54,417)	120,184
Nonmajor Enterprise Funds	3,210			(1,201)	1,269
Total Construction in Progress	97,999	76,602	(740)	(55,618)	121,453
Total Non-Depreciable Assets	111,560	80,592	(740)	(55,618)	135,794
Depreciable Assets:					
Buildings:					
Airport System	144,248			51,554	195,802
Nonmajor Enterprise Funds	30,362				30,362
Total Buildings	174,610			51,554	226,164
Improvements:					
Airport System	210,372	11		2,863	213,246
Nonmajor Enterprise Funds	7,013			1,201	8,214
Total Improvements	217,385	11		4,064	221,460
Machinery and Equipment:					
Airport System	11,189	428	(39)		11,578
Nonmajor Enterprise Funds	6,991	3,512			10,503
Total Machinery and Equipment	18,180	3,940	(39)		22,081
Total Depreciable Assets	410,175	3,951	(39)	55,618	469,705
Accumulated Depreciation:					
Buildings:					
Airport System	(64,916)	(3,535)			(68,451)
Nonmajor Enterprise Funds	(10,685)	(805)			(11,490)
Total Buildings	(75,601)	(4,340)			(79,941)
Improvements:					
Airport System	(86,071)	(5,705)			(91,776)
Nonmajor Enterprise Funds	(1,700)	(264)			(1,964)
Total Improvements	(87,771)	(5,969)			(93,740)
Machinery and Equipment:					
Airport System	(9,392)	(481)	34		(9,839)
Nonmajor Enterprise Funds	(4,110)	(536)			(4,646)
Total Machinery and Equipment	(13,502)	(1,017)	34		(14,485)
Total Accumulated Depreciation	(176,874)	(11,326)	34		(188,166)
Total Depreciable Assets, net	233,301	(7,375)	(5)	55,618	281,539
Total Capital Assets, net	\$ 344,861	\$ 73,217	\$ (745)	\$ -	\$ 417,333

- 72 - Amounts are expressed in thousands

Note 4 Capital Assets (Continued)

CPS Energy

CPS Energy's plant-in-service includes seven power plants, which are solely owned and operated by CPS Energy. In total, the plants have 19 generating units—three of which are coal-fired and 16 of which are gas-fired. The following is a list of plants and relative generating units:

Plant	Type	Generating Units	Plant	Generating Units	Type
J.T. Deely	Coal	2	V.H. Brauning	3	Gas
J.K. Spruce	Coal	1	W.B. Tuttle	4*	Gas
Arthur von Rosenberg	Gas	1	Leon Creek	6	Gas
O.W. Sommers	Gas	2			

* Included as a part of the 16 gas generating units are W.B. Tuttle Unit 2, which is fully depreciated and is currently not available for use.

Construction on J.K. Spruce Unit 2 (Spruce 2) was started on March 21, 2006, with plans for commercial operation in 2010. Spruce 2, a 750-megawatt unit, will be the largest of the coal units at Calvaras Lake and will be equipped with current emissions-control technology.

Other notable capital assets in electric and gas plant include a fleet of rail cars, a transmission network for the movement of electric power from the generating stations, and the electric and gas distribution systems.

Included in general plant are the Energy Management Center; the main office complex; the North Side Customer Service Center; the construction and customer service centers; the Vitlita Assembly Building; and a fleet of automobiles, trucks, and work equipment.

Impairments - No capital asset impairments were identified for fiscal year 2008.

Investment in STP - STP is currently a two-unit nuclear power plant located in Matagorda County, Texas. It is maintained and operated by the STP Nuclear Operating Company (STPNOC), a nonprofit Texas corporation special-purpose entity. It is financed and controlled by the owners - CPS Energy, NRG Energy, Inc. and the City of Austin.

CPS Energy's 40.0% interest in STP Units 1 and 2 is included in plant-in-service. On October 29, 2007, the CPS Energy board of trustees approved a resolution enabling CPS Energy to participate in development activities related to new nuclear electrical-generating capacity, including the STP nuclear power plants Units 3 and 4.

	January 31, 2008
STP Capital Investment (40.0% share), Net	
STP capital assets, net	\$ 84,835
Construction-in-progress	5,701
Land	1,332,717
Electric and general plant	65,110
Nuclear fuel	1,488,363
Total STP capital assets, net	\$ 5,805,531
Total CPS Energy capital assets, net	25.6%
STP capital investments as a percentage of total CPS Energy capital assets, net	

- 73 - Amounts are expressed in thousands

Note 4 Capital Assets (Continued)

CPS Energy (Continued)

The following tables provide more detailed information on the activity of CPS Energy's net capital assets as presented on the Balance Sheets, including capital asset activity for fiscal year 2008:

Capital Assets - CPS Energy					
	Beginning Balance	Additions/Increases	Transfers In/(Out)	Reductions/Decreases	Ending Balance
Non-Depreciable Assets:					
Land:					
Nonutility Land	\$ 60,080	\$ -	\$ 3,581	\$ (250)	\$ 63,411
Construction in Progress	12,599			(12,599)	
Total Non-Depreciable Assets	419,795	735,080	(308,193)		846,682
	492,474	735,080	(304,612)	(12,849)	910,093
Depreciable Capital Assets:					
Utility Plant in Service:					
Electric Plant	6,599,451	48,777	247,693	(31,861)	6,864,060
Gas Plant	601,453	3,097	13,139	(4)	617,685
General Plant	607,784	15,503	43,780	(17,938)	649,129
Utility Property Leased	18,785			(18,785)	
Nuclear Fuel	521,229	24,370		(7,242)	538,357
Total Depreciable Capital Assets	8,348,702	91,747	304,612	(75,830)	8,669,231
Accumulated Depreciation					
Depletion and Amortization:					
Utility Plant in Service:					
Electric Plant	(2,708,075)	(204,755)		30,569	(2,882,161)
Gas Plant	(205,076)	(13,344)		334	(218,086)
General Plant	(180,740)	(46,741)		27,182	(200,299)
Utility Property Leased	(840)	(317)		1,157	
Nuclear Fuel	(451,253)	(29,250)		7,256	(473,247)
Total Accumulated Depreciation	(3,546,384)	(293,907)		66,498	(3,773,793)
Depletion and Amortization	\$ 5,294,792	\$ 532,920	\$ -	\$ (22,181)	\$ 5,805,531
Total Capital Assets, net					

Cash flow information - Cash paid for additions, net removal costs, and nuclear fuel was \$802,310. Noncash AFUDC was \$28,453, and a noncash write-off of excess amortization was \$13, for a total of \$830,776. Included in Reductions/Decreases was \$8,495 in removal costs. These reductions were offset by \$4,559 in salvage sales. Depreciation, depletion and amortization totaled \$264,657.

Other - the increases in electric plant also included new substations, as well as transmission and distribution infrastructure.

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Note 4 Capital Assets (Continued)

San Antonio Water System (SAWS)

SAWS capitalized interest on debt proceeds used to finance utility plant additions is capitalized as part of the cost of capital assets. For the year-ended December 31, 2007, interest capitalized was \$9,201. Capital asset activity for SAWS is as follows:

Capital Assets - San Antonio Water System					
	Beginning Balance	Increases	Transfers	Decreases	Ending Balance
Non-Depreciable Assets:					
Land:					
Land	\$ 73,069	\$ -	\$ 5,474	\$ -	\$ 78,543
Acquisition of Water Rights	39,719		5,319	245	44,793
Construction in Progress	372,598	289,940	(300,791)	555	361,192
Total Non-Depreciable Assets	485,386	289,940	(289,998)	800	484,528
Depreciable Assets:					
Utility Plant in Service:					
Structures and Improvements	351,342	1,492	25,145		377,979
Pumping and Purification	111,382	46	2,821		114,249
Distribution and Transmission System	1,152,560	582	163,010	21	1,316,131
Treatment Facilities	1,177,473		98,340	2,032	1,273,781
Machinery and Equipment:					
Machinery and Equipment	88,461	11,829	575	143	100,722
Furniture and Fixtures	4,830	3	99	4,932	
Computer Equipment	15,843	1,111	8	116	16,846
Software	9,832	560			10,392
Total Depreciable Assets	2,911,723	15,623	289,998	2,312	3,215,032
Accumulated Depreciation:					
Utility Plant in Service:					
Structures and Improvements	(75,114)	(7,434)			(82,548)
Pumping and Purification	(18,461)	(2,847)			(21,308)
Distribution and Transmission System	(322,607)	(28,352)		(21)	(350,938)
Treatment Facilities	(436,997)	(31,197)		(2,021)	(466,173)
Machinery and Equipment:					
Machinery and Equipment	(51,470)	(5,043)		(143)	(56,370)
Furniture and Fixtures	(3,021)	(321)			(3,342)
Computer Equipment	(11,226)	(1,889)		(107)	(13,008)
Software	(7,354)	(1,224)			(8,578)
Total Accumulated Depreciation	(926,250)	(78,307)		(2,292)	(1,002,265)
Total Depreciable Assets, net	1,985,473	(62,684)	289,998	20	2,212,767
Total Capital Assets, net	\$ 2,470,859	\$ 227,256	\$ -	\$ 820	\$ 2,697,295

Note 5 Receivables and Payables

Primary Government (City) (Continued)

Disaggregation of Receivables

Net receivables at September 30, 2008 are as follows:

	Accounts	Taxes	Notes and Loans	Accrued Interest	Other	Total Net Receivables
Governmental Activities	\$ 145,594	\$ 14,703	\$ 5,058	\$ 7,434	\$ 8,674	\$ 181,463
Business-Type Activities:						
Airport System	\$ 5,001	\$ -	\$ -	\$ 2,064	\$ -	\$ 7,065
Nonmajor Enterprise Funds	6,839	-	-	245	-	7,084
Total Business-Type Activities	\$ 11,840	\$ -	\$ -	\$ 2,309	\$ -	\$ 14,149

The receivable balances for Governmental Activities have been reduced by estimated allowances for doubtful accounts of \$52,690 against customer, other governmental agencies and other receivables, and \$4,659 against property and occupancy taxes. The receivable balances for Business-Type Activities have been reduced by estimated allowances for doubtful accounts of \$1,876 against customer and other receivables.

The only receivables not expected to be collected within one year are \$5,058 of notes and loans receivables, net of allowance for doubtful accounts, related to Urban Redevelopment and Housing and Economic Development and Opportunity. These notes and loans have a corresponding unearned revenue balance recorded within the respective funds.

Disaggregation of Payables

Payables at September 30, 2008 are as follows:

	Accounts	Accrued Payroll	Total Payables
Governmental Activities	\$ 150,980	\$ 19,811	\$ 170,791
Business-Type Activities:			
Airport System	\$ 13,624	\$ 871	\$ 14,495
Nonmajor Enterprise Funds	3,176	1,052	4,228
Total Business-Type Activities	\$ 16,800	\$ 1,923	\$ 18,723

Interfund Receivable and Payable Balances

As of September 30, 2008, the interfund receivable and payable balances represent short-term loans resulting from (1) post-closing adjustments between funds after cash and related interest earning have been calculated and allocated and (2) short-term borrowings at year-end. Of the \$37,881 due from other funds in the General Fund, \$36,155 is a result of overdraws of pooled cash. Except for an internal loan of \$648 from the Equipment Renewal Replacement fund to Tax Increment Reinvestment Zone #27, all interfund balances are expected to be paid within one year. See Note 6 Long-Term Debt, for additional information regarding the internal loan.

Note 5 Receivables and Payables (Continued)

Primary Government (City) (Continued)

Interfund Receivable and Payable Balances (Continued)

The following is a summary of interfund receivables and payables for the City as of September 30, 2008:

	Due From Other Funds	Due To Other Funds
Summary Table of Interfund Receivables and Payables As of September 30, 2008		
General Fund:		
Administrative	\$ 645	\$ -
Capital Grants-in-Aid	33,482	1,770
Nominal Governmental Funds	3,586	2,319
Airport System Fund	81	-
Total General Fund	37,881	4,339
Debt Service Fund:		
Nominal Governmental Funds	413	13
Nominal Enterprise Funds	442	2,130
Total Debt Service Funds	855	2,143
Airport System Fund:		
General Fund	-	81
Capital Grants-in-Aid	-	8
Internal Service Funds	-	8
Nominal Governmental Funds	-	11
Airport Operating Fund from the Airport Construction Fund	2,884	-
Airport Debt Service Fund from Airport PFC Fund	135	-
Airport Construction Fund from Airport PFC Fund	40	-
Airport Debt Service Fund from Airport Construction Fund	383	-
Airport Debt Service Fund from Airport Debt Service Fund	34	-
Airport PFC Capital Improvement Fund from Airport Construction Fund	1,086	-
Airport Construction Fund to Airport PFC Capital Improvement Fund	-	106
Airport Debt Service Fund to Airport PFC Fund	-	106
Airport PFC Capital Improvement Fund to the Airport PFC Fund	5,154	-
Airport PFC Fund to the Airport PFC Capital Improvement Fund	-	5,154
Airport Construction Fund to Airport Debt Service Fund	-	363
Airport Debt Service Fund to Airport Construction Fund	-	2,584
Airport Construction Fund from Airport Operating Fund	-	135
Airport PFC Fund to the Airport Debt Service Fund	-	10,028
Total Airport System Fund	9,935	10,028
Categorical Grants-in-Aid:		
Airport System Fund	1,770	31,493
Internal Service Funds	199	77
Nominal Enterprise Funds	158	537
Nominal Governmental Funds	184	126
Total Categorical Grants-in-Aid	2,122	34,233
Fiscal Note:		
General Fund	-	442
Total Fiduciary Funds	-	442
Internal Service Funds:		
Capital Grants-in-Aid	1,487	1,487
Airport System Fund	3,208	179
Nominal Enterprise Funds	8	-
Nominal Governmental Funds	705	199
Total Internal Service Funds	5,408	1,865
Nominal Governmental Funds:		
General Fund	2,519	3,866
Debt Service Fund	126	164
Capital Grants-in-Aid	13	413
Internal Service Funds	199	705
Nominal Enterprise Funds	1,308	10,065
Nominal Governmental Funds	43,317	43,317
Total Nominal Governmental Funds	47,481	58,330
Nominal Enterprise Funds:		
Internal Service Funds	537	158
Nominal Governmental Funds	9,488	3,208
Nominal Enterprise Funds	10,065	1,306
Nominal Governmental Funds	2,130	442
Debt Service Fund	32,820	14,080
Total Nominal Enterprise Funds	32,820	14,080
Total	\$ 126,074	\$ 126,074

Note 5 Receivables and Payables (Continued)

CPS Energy

Disaggregation of Receivables - Net customer accounts receivable as of January 31, 2008, included \$49,635 for unbilled revenue receivables and \$131,105 for billed utility services. Interest and other receivables included \$8,300 for regulatory-related receivables, \$3,800 for interest receivables and \$13,688 for other miscellaneous receivables.

Disaggregation of Payables - At January 31, 2008, accounts payable and accrued liabilities included \$307,600 related to standard operating supplier and vendor payables, including fuels payable; \$32,500 to employee-related payables; \$22,561 to the current portion of deferred lease revenue; and \$48,578 to other miscellaneous payables and accrued liabilities.

San Antonio Water System (SAWS)

Accounts Receivable - Accounts receivable, net of allowance for uncollectible accounts are broken down by core business as follows:

	December 31, 2007
Water Delivery	\$ 13,149
Water Supply	13,384
Wastewater	15,318
Chilled Water and Steam	1,186
	<u>\$ 43,037</u>

Sundry Payable and Accruals - SAWS has sundry payable and accruals totaling \$30,725 as of December 31, 2007. A detailed breakdown of amounts included in these totals is provided in the table below:

	2007
Accrued ordinance payments to City	\$ 548
Sewer service collections payable	304
Payroll liabilities	3,964
Unfunded Other Postemployment Benefits	13,217
Miscellaneous accruals	7,110
Contingency accrual	3,000
Utility accrual	1,722
Unclaimed property	211
Unearned revenues	649
Total Sundry Payable and Accruals	<u>\$ 30,725</u>

A portion of sundry payable and accruals has been classified as long-term. The long-term portion consists of Other Postemployment Benefits that are not expected to be paid within the next year.

Note 6 Long-Term Debt

Primary Government (City)

Governmental Activity Long-Term Debt

The City's debt management and ongoing capital improvement financing for infrastructure and "quality of life" purposes resulted in the issuance of additional indebtedness during fiscal year 2008. In December 2007, the City issued the following: \$121,220 in General Improvement and Refunding Bonds, Series 2007 and \$106,755 Combination Tax and Revenue Certificates of Obligations, Series 2007 (of which \$2,500 was sold for purposes of Environmental Services).

The General Improvement and Refunding Bonds, Series 2007 were issued to finance general improvements of the City and to refund the City's \$60,000 Tax Notes, Series 2007. The \$60,000 Tax Notes, Series 2007 are short-term debt obligations payable from ad valorem taxes over a three-year period, which were used as an interim funding mechanism in anticipation of the long-term General Improvement and Refunding Bonds, Series 2007 which are paid out over a 20-year period. The net proceeds from the sale of the General Improvement and Refunding Bonds, Series 2007, which included an original premium of \$6,780, were applied, together with a cash contribution from the City, to fund an escrow account for the redemption, discharge, and defeasance of the refunded obligations. As a result of converting the debt from short-term debt to long-term debt, the City will realize a total increase of \$26,758 in debt service payments and an economic loss (difference between the present values of the debt service payments on the old and new debt) of \$384. The General Improvement and Refunding Bonds are retired serially in the years 2008 to 2028, with interest rates ranging from 4.0% to 5.0%.

Proceeds of the Combination Tax and Revenue Certificates of Obligation, Series 2007 will be utilized to fund capital projects to include constructing, renovating, and improving municipal facilities; constructing the new Haven for Hope Homeless Campus; constructing, improving, and renovating park facilities; acquiring Mission Drive In Theatre land for open space; construction of improvements to the City's library system and municipal golf courses; constructing improvements for flood control; constructing parking facilities at the Witte Museum and the Zoo area; acquiring, constructing, and improving public safety facilities; the purchase of materials, supplies, machinery, land, and rights of way for authorized needs and purposes relating to public safety, drainage, flood control, street, library, parks, utility infrastructure, and public works purposes; and the payment of professional services related to the construction and financing of the aforementioned projects. The Certificates have maturities ranging from 2008 to 2028, with interest rates ranging from 4.0% to 5.0%.

On December 18, 2007, the City issued \$21,270 in Tax Notes, Series 2007A. The proceeds of the Notes will be utilized to fund technology improvements for various City-owned systems and improvements to the City's infrastructure improvements at Brooks City-Base. The Notes are payable from the proceeds of an annual ad valorem tax levied upon all taxable property within the limitations prescribed by law. The Notes will have maturities ranging from 2008 to 2012, with interest rates ranging from 4.0% to 5.0%.

On July 11, 2008, the City issued \$135,000 Hotel Occupancy Tax Subordinate Lien Variable Rate Demand Revenue and Refunding Bonds, Series 2008. \$106,440 was issued to refund the Hotel Occupancy Tax Revenue Bonds, Series 2004B. Additionally, \$28,650 in new money was issued for renovation to the Lila Cockrell Theatre, including ADA compliance improvements, asbestos abatement, renovation of all interior finishes and mechanical, electrical, and plumbing upgrades, as well as other expansion-related improvements. The Hotel Occupancy Tax Revenue Bonds, Series 2004B were originally issued as Multi-nodal bonds insured by Ambac Assurance Corporation (Ambac) and structured as a Put Bond anticipated to mature August 15, 2008. The Put Bond was designed to be rolled over into a Variable Rate Demand Bond ("VRDB"), extended into another Put Bond structure, or refunded into fixed rate debt. The City chose an advanced refunding to a new series VRDB as the most advantageous option which preserved the City's flexibility given its continued development of the Convention Center Expansion Financing Plan. The transaction required the City to secure an irrevocable direct pay letter of credit to provide additional security for the VRDB's. The Bonds have maturities ranging from 2008 to 2034, with interest rates set weekly. As a result of the 2008 refunding, the City will realize a total increase of \$47,846 in debt service payments. Through this transaction, the City incurred an economic loss of \$23,517.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

The City of San Antonio's General Obligation, Certificates of Obligation, and Tax Notes are pledged by ad valorem taxes. The Certificates of Obligation are additionally secured by a lien on and pledge of certain Pledged Revenues of the City's municipal parks system, not to exceed \$1,000 during the entire period the Certificates or interest remains outstanding, solely to permit the Certificates to be sold for cash. The Convention Center Expansion Revenue Bonds are pledged from hotel occupancy tax. The Municipal Drainage Bonds are pledged from municipal drainage revenue. The Municipal Facilities Corporation Lease Revenue Bonds are funded by lease payments. The Hotel Empowerment Zone Bonds are pledged by revenues to be received from the hotel operations. Starbright Industrial Development Corporation Revenue Bonds are pledged by utility revenue received by the City from CPS Energy.

Prior Years' Defeased Debt

In prior years, the City advance refunded, prior to maturity, certain general obligation bonds, revenue bonds, and certificates of obligation. The refunding bonds were utilized to purchase securities, which are direct obligations of the United States of America (the Purchased Securities). The Purchased Securities plus cash were deposited into irrevocable escrow accounts in amounts scheduled to mature in principal amounts that, when added to interest earned on the Purchased Securities plus remaining balances in the escrow fund, are fully sufficient to make timely payment on the principal, premium if any, and interest scheduled to come due on the refunded obligations. The refunded obligations represent a legal defeasance and are no longer a liability of the City; therefore, they are not included in the City's financial statements. On September 30, 2008, \$183,770 of previously defeased bonds were outstanding.

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

The following table is a summary of changes for the year-ended September 30, 2008 for governmental activity debt:

General Obligation Bonds:	Time of Original Issuance		Governmental Activity Long-Term Debt		Balance Outstanding October 1, 2007	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2008
	Original Amount	Principal Payment	Interest Rates (%)	Outstanding October 1, 2007				
1994 Forward Refunding	\$ 82,250	2008	4.000%-5.000	\$ 4,203	\$ -	\$ -	\$ 4,203	\$ 13,075
1998 Forward Refunding	34,855	2014	4.900-5.000	14,125	7,630	-	1,090	7,630
1999 Forward Refunding	51,950	2008	3.900-5.000	7,630	1,090	-	3,000	17,600
1999	12,000	2011	4.000	2,100	585	-	585	1,705
2000	27,853	2020	4.900-5.000	6,630	1,195	-	415	5,475
2000A	15,615	2021	3.300-3.375	4,300	645	-	415	3,485
2001	35,130	2013	4.000-5.000	135,500	32,269	-	1,995	153,140
2003 Forward Refunding	51,850	2023	3.000-3.500	32,860	3,000	-	3,000	21,230
2003	40,000	2014	3.700-5.000	18,840	3,275	-	3,275	22,445
2004	33,370	2024	2.375-4.200	21,570	1,449	-	1,449	32,130
2004 Refunding *	13,245	2016	1.875-4.500	9,485	-	-	-	9,485
2005	116,170	2025	3.900-5.250	116,170	-	-	-	116,170
2006 Forward Refunding	33,000	2016	3.700-5.300	33,000	-	-	-	33,000
2007 Refunding	121,230	2028	4.000-5.000	104,645	4,780	-	4,780	164,905
Total General Obligation Bonds	\$ 1,162,000			\$ 682,200	\$ 121,230	\$ -	\$ 71,252	\$ 1,172,653
Taxable Certificates of Obligation:								
Series 1998A	\$ 6,315	2018	4.200-5.000	\$ 915	\$ -	\$ -	\$ 400	\$ 915
Series 1999	4,320	2011	5.750	780	-	-	180	1,000
Series 2000	6,490	2020	5.000-5.000	2,935	-	-	145	2,935
Series 2001	6,415	2020	5.000-5.000	5,530	-	-	195	5,530
Series 2001	65,195	2014	4.000-5.250	29,990	-	-	5,365	21,475
Series 2002	49,230	2023	3.000-3.900	27,130	-	-	2,130	25,290
Series 2002	10,535	2023	4.000-5.250	10,535	-	-	2,130	15,290
Series 2006 *	72,775	2026	3.900-4.370	70,845	-	-	2,845	67,800
Series 2007	104,235	2028	4.000-5.000	104,235	-	-	11,555	115,790
Total Taxable Certificates of Obligation	\$ 203,070			\$ 213,182	\$ 104,235	\$ -	\$ 21,082	\$ 217,194
Total Taxable Certificates of Obligation	\$ 1,735	2011	7.900-7.510	\$ 290	\$ -	\$ -	\$ 63	\$ 225
Series 2007A	60,000	2010	3.818	60,000	\$ -	\$ -	\$ 60,000	\$ -
Series 2007B	21,370	2012	4.000-5.000	21,370	\$ -	\$ -	\$ 3,345	\$ 17,925
Total Tax Notes	\$ 81,370			\$ 81,370	\$ -	\$ -	\$ 43,345	\$ 17,925
Total Governmental Activity Long-Term Debt	\$ 1,843,070			\$ 1,167,612	\$ 121,230	\$ -	\$ 114,637	\$ 1,403,405
Series 1998 Hotel Occupancy Tax *	10,390	2009	5.000	10,390	-	-	-	10,390
Series 2004 Hotel Occupancy Tax	111,425	2024	2.000-5.000	106,950	-	-	106,950	71,257
Series 2004 Hotel Occupancy Tax	11,425	2024	2.000-5.000	10,390	-	-	241	10,631
Series 2004 Hotel Occupancy Tax	5,500	2020	4.000	5,500	-	-	-	5,500
Series 2004 Hotel Occupancy Tax Ref	175,000	2024	Variable	135,000	-	-	-	135,000
Series 2002 Municipal Drainage	41,150	2028	3.000-5.000	39,810	-	-	1,185	38,425
Series 2002 Municipal Drainage	14,465	2020	3.000-3.200	14,465	-	-	1,090	15,555
Series 2002 Municipal Drainage	179,930	2029	5.000	179,930	-	-	640	180,570
Series 2004 Convention Series 2004A	78,215	2028	4.900-5.310	78,215	-	-	-	78,215
Series 2004 Convention Series 2004B	2,815	2020	2.100-5.110	2,815	-	-	-	2,815
Total Revenue Bonds	\$ 781,455			\$ 552,375	\$ 133,000	\$ -	\$ 615	\$ 716,090
Total	\$ 2,624,525			\$ 1,920,027	\$ 254,230	\$ -	\$ 176,652	\$ 2,119,517

* A portion of the Hotel Occupancy Tax Revenue Bond Series 1998 was sold as Capital Appreciation Bonds (CABs). Interest on the CABs accrues from date of delivery and will be payable only in maturity or redemption. Interest accrued through fiscal year 2008 has remained in an increase of \$17,420 in revenue bonds payable. This increase is reflected in the combined Statement of Net Assets but is not shown in the above table.

* As of October 1, 2007, the Taxable General Improvement Refunding Bonds, Series 2004A, was reclassified from governmental activity debt to the Parking Fund. The balance is reflected in the business-type long-term debt table.

* As of October 1, 2007, a portion of the General Obligation Bonds, Series 2006 and Certificates of Obligation, Series 2006, were transferred from governmental activity debt to business-type debt via Environmental Projects. These balances are reflected in the business-type long-term debt table.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Annual Requirements

The annual requirement to amortize all general obligation bonds, certificates of obligation, tax notes, and revenue bonds outstanding as of September 30, 2008 is as follows:

Year Ending September 30,	General Obligation Bonds		Certificates of Obligation		Tax Notes		Revenue Bonds		Total Annual Requirements
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2009	\$ 61,065	\$ 34,640	\$ 25,385	\$ 12,957	\$ 4,210	\$ 783	\$ 8,160	\$ 28,331	\$ 175,731
2010	65,060	32,130	24,170	11,882	4,380	615	13,470	27,286	178,993
2011	68,520	28,925	25,365	10,784	4,555	440	10,058	26,710	175,367
2012	49,160	25,551	27,110	9,527	4,780	212	10,599	26,381	153,320
2013	51,250	23,011	30,290	8,172	10,981	26,019	10,981	26,019	149,723
2014-2018	201,785	79,392	63,960	28,274	65,749	123,802	104,346	352,862	562,862
2019-2023	155,425	33,454	60,090	15,369	109,385	104,346	316,986	478,069	745,986
2024-2028	65,010	7,494	35,235	3,449	131,260	74,538	42,300	168,315	316,986
2029-2033					126,015	42,300	14,211	91,896	15,698
2034-2038					77,785	748	14,211	14,211	15,698
2039-2040					14,950	748	14,211	14,211	15,698
Total	\$ 717,275	\$ 284,897	\$ 291,605	\$ 100,424	\$ 17,925	\$ 2,000	\$ 576,412	\$ 494,672	\$ 2,487,060

Total Principal and Interest Payable within One Year		
Principal	\$ 61,065	\$ 25,385
Interest	34,640	12,957
Total	\$ 95,905	\$ 38,342

Authorization Date	Purpose	Amount		Bonds Previously Issued		Bonds Authorized but Unissued	
		Authorized	Amount	Issued	Amount		
5/12/2007	Streets, Bridges, and Sidewalks	\$ 306,998	\$ 27,641	\$ 27,641	\$ 279,357		
5/12/2007	Drainage	152,052	16,693	16,693	135,359		
5/12/2007	Parks, Recreations, Open Space, and Athletics	79,125	59,251	59,251	19,874		
5/12/2007	Library System	11,025	5,088	5,088	5,937		
5/12/2007	Public Health Facilities	800	675	675	125		
Total		\$ 550,000	\$ 109,348	\$ 109,348	\$ 440,652		

In May 2007, the citizens authorized the City to sell \$550,000 in debt for the 2007-2012 Municipal Bond Program. The program includes 151 projects designed to improve and enhance existing, as well as acquire or construct, new local streets, bridges, sidewalks, drainage facilities, parks, athletic facilities, libraries, and public health centers. The Bonds are categorized in five areas: Streets, Bridges and Sidewalks Improvements; Drainage Improvements; Parks, Recreations, Open Space, and Athletics Improvements; Library Improvements; and Public Health Facilities Improvements. The Bonds are pledged with and will be repaid from ad valorem tax revenue the City collects on an annual basis.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Debt Limitation

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 10.0% of the total assessed valuation. The total assessed valuation for the fiscal year 2008 was \$76,465,984, which provides a debt ceiling of \$7,646,598. The total outstanding debt that is secured by an ad valorem tax pledge is \$1,039,105 including \$12,300 that is reporting in business-type activities.

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 \$100 of assessed valuation of taxable property. There is no limitation within the \$2.50 rate for interest and sinking fund purposes; however, it is the policy of the Attorney General of the State of Texas to prohibit the issuance of debt by a city if such issuance produces debt service requirements that exceed the amount that can be paid from \$1.50 tax rate calculated at 90.0% collections (please note that dollar figures in this paragraph are not reflected in thousands).

Interfund Borrowings

In certain instances, after an evaluation of project/purchase funding requirements, it has been determined that some funds or operations may require temporary financing. As an alternative to the issuance of external debt to finance those projects/purchases, the City has authorized internal temporary financing from available cash balances in the Internal Service Equipment Replacement Funds to meet those needs.

In May 2008, a loan was authorized from the City's Internal Service Fund to the City's Community Services Funds, Tax Increment Reinvestment Zone (TIRZ) #27, to finance the purchase of the draft River North Master Plan, in an amount not to exceed \$650. The principal amount of the loan was \$648, with quarterly interest to be calculated at the City's pooled investment portfolio rate. The City's rate for the quarter ended September 30, 2008, was 2.6%, resulting in interest of \$1. Repayment of the principal and interest on this loan will occur as funding is available from the revenues of the TIRZ.

The following is a summary of changes in the loan for the year-ended September 30, 2008:

	Balance		Balance	
	October 1, 2007	Additions	Reductions	September 30, 2008
\$	\$	\$	\$	\$
	648	648	648	648

Leases

The City leases property and equipment from others. Leased property having elements of ownership are recorded in the government-wide financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in the government-wide financial statements. Other leased property, not having elements of ownership, are classified as operating leases. Both capital and operating lease payments are recorded as expenditures when matured in the governmental fund financial statements. Total expenditures for operating leases for the fiscal year-ended September 30, 2008 were approximately \$5,108.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Leases (Continued)

The City has entered into various lease purchase agreements for the acquisition of printers, refuse collection containers, self-contained breathing apparatus, a mainframe computer, various fire trucks, golf cars, electrocardiograms, an inventory theft detection system, hybrid vehicles. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council.

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

Machinery and Equipment	\$ 37,501
Less: Accumulated Depreciation	(15,179)
Total	\$ 22,322

As of September 30, 2008, the City had future minimum lease payments under capital and operating leases with a remaining term in excess of one year for governmental activities as follows:

Fiscal Year Ending September 30:	Capital Leases	Operating Leases	Total
2009	\$ 4,630	\$ 4,694	\$ 9,324
2010	4,472	3,257	7,729
2011	3,235	2,578	5,813
2012	933	2,164	3,097
2013	195	1,880	2,075
2014-2018	13,465	1,409	1,409
Future Minimum Lease Payments	\$ 29,900	\$ 15,982	\$ 45,882
Less: Interest	(780)		(780)
Present Value of Future Minimum Lease Payments	29,120		45,102
Less: Current Portion	(4,227)		(4,227)
Capital Lease, Net of Current Portion	\$ 24,893		\$ 40,875

MGA-SA has leased from the City certain golf carts (approximately 158 golf carts as of September 30, 2008) which are used at their courses. The leases are accounted for as capital leases on MGA-SA's financial statements as well as on the City's. The assets subleased to MGA-SA had a net book value of \$479 as of September 30, 2008. MGA-SA remaining lease obligation was \$345.

	Principal	Interest	Total
2009	\$ 169	\$ 10	\$ 179
2010	176	4	180
	\$ 345	\$ 14	\$ 359

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt

Business-Type Activity long-term debt applies to those City operations that relate to business and quasi-business activities where net income and capital maintenance are measured (Enterprise Funds). Long-term debt, which is to be repaid from proprietary funds resources, is reported in the respective proprietary fund. The long-term indebtedness of the City's Enterprise Funds is presented in the discussion that follows.

Airport System - The Airport System includes the City of San Antonio International Airport and Stinson Municipal Airport and all land, buildings, structures, equipment, and facilities pertaining thereto. The Airport System's long-term debt is equally and ratably secured solely by a first lien on and pledge of the gross revenues of the Airport System. Gross revenues of the Airport System include all revenues of any nature derived from contracts or use agreements with airlines and other users of the Airport System and its facilities.

On December 14, 2007, the City issued \$82,400 in Airport System Revenue Improvement Bonds, Series 2007. Concurrently, the City issued \$74,860 in Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2007. The Bonds were issued to fund various airport system capital improvements including PFC eligible airport-related projects. The Bonds have maturities ranging from 2008 to 2032, with interest rates ranging from 5.0% to 5.3%.

Parking System - The Parking System operation includes the ownership and operation of parking facilities, parking lots, parking meters, and retail/office space. Long-term debt is issued in the form of revenue bonds or is allocated to the Parking System on a pro rata basis from proceeds received from the issuance of general obligation debt for Parking System related improvements and is paid from revenues derived from the operation of the Parking System. The allocated debt is additionally secured by an ad valorem tax pledge.

In fiscal year 2008, the Taxable General Improvement Refunding Bond, Series 2004, in the amount of \$9,685, was transferred from governmental activity funds into the Parking System. This transaction was executed in order to move self-supporting debt into its assigned proprietary funds. In addition to the bond payable, costs of issuance in the amount of \$941, a premium in the amount of \$762, and defeased debt in the amount of \$1,136, were also moved to the Parking System. The net dollar impact on both funds was \$8,368, which is reflected on the Statement of Activities under "special items".

Environmental Services - Environmental Services was established on a financially self-supporting basis in 1988. Revenues are received from garbage collection fees which are utilized to pay operating costs and indebtedness. Long-term debt is allocated to Environmental Services on a pro rata basis from proceeds received from the issuance of general obligation and certificates of obligation debt for Environmental Services related improvements and is paid from revenues derived from the operation of Environmental Services. The allocated debt is secured by an ad valorem tax pledge.

In fiscal year 2008, the Environmental Services Fund received proceeds from the Combination Tax and Revenue Certificates of Obligation, Series 2007, in the amount of \$2,500. These proceeds will be utilized to provide a Compress Natural Gas fueling facility at the City's Northeast Service Center, and to repair a slope failure at Pearsall Landfill.

Additionally, in fiscal year 2008, a portion of the General Obligation Bonds, Series 2006, and the Certificates of Obligation, Series 2006, were transferred from governmental activity funds to the Environmental Services Fund. The amount of debt moved was \$1,360. Cash proceeds in the amount of \$1,400 and capital assets related to those issuances were also transferred to the Environmental Services Fund. This transaction was executed in order to move self-supporting debt into its assigned proprietary funds. In addition to the bond payable, costs of issuance in the amount of \$3, a premium in the amount of \$8, and an arbitrage liability in the amount of \$4, were also moved. The net dollar impact between the governmental activity funds and the Environmental Services Fund was (\$47), which is reflected on the Statement of Activities under "special items".

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

Capitalized Interest Costs - Interest costs incurred on revenue bonds, general obligation bonds, and certificates of obligation totaled \$21,220. For fiscal year 2008, an amount of \$946 was capitalized for the Airport System, as part of the cost of additions to the Airport System.

Prior Years' Defeased Debt - In prior years, the City advance refunded, prior to maturity, certain general obligation bonds and revenue bonds. The refunding bonds were utilized to purchase securities, which are direct obligations of the United States of America (the Purchased Securities). The Purchased Securities plus cash were deposited into irrevocable escrow accounts in amount scheduled to mature in principal amounts that, when added to interest earned on the Purchase Securities plus remaining balances in the escrow fund, are fully sufficient to make timely payment on the principal, premium if any, and interest scheduled to come due on the refunded obligations. The refunded obligations represent a legal defeasance and are no longer a liability of the City; therefore, they are not included in the City's financial statements. On September 30, 2008, \$17,875 of previously defeased bonds were outstanding.

The following table is a summary of changes for the fiscal year-ended September 30, 2008 for business-type debt:

Issues	Business-Type Long-Term Debt					Balance Outstanding September 30, 2008
	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2007	Additions During Year	
Airport System:						
Revenue Bonds:						
Series 2001	\$ 17,795	2016	5.375	\$ 17,795	\$ -	\$ -
Series 2002	92,470	2027	5,000-5,750	89,005	1,275	17,795
Series 2002 PFC	37,575	2027	4,000-5,750	33,350	955	87,730
Series 2003 Refunding	50,230	2013	5,500-6,000	33,420	4,810	31,395
Series 2003B	3,255	2009	2,300-3,000	2,235	1,100	28,610
Series 2005	38,085	2030	3,375-5,250	36,405	890	1,135
Series 2006	17,850	2014	5,000	16,385	1,125	35,515
Series 2007	82,400	2032	5,000-5,250	82,400		15,260
Series 2007 PFC	74,860	2032	5,000-5,250	74,860	2,120	82,400
Total Airport System	\$ 414,520			\$ 228,395	\$ 157,260	\$ 72,740
Parking System:						
Revenue Bonds:						
Series 2000	\$ 24,845	2024	5,000-5,750	\$ 22,775	\$ -	\$ 660
General Obligation Bonds:						
Series 2004 Refunding ¹	13,245	2016	2,800-4,650	\$ 22,775	9,685	1,130
Total Parking System	\$ 38,090			\$ 45,550	\$ 9,685	\$ 1,790
Environmental Services:						
General Obligation Bonds:						
Series 2006 ¹	\$ 970	2026	3,500-5,000	\$ -	\$ 970	\$ 30
Certificates of Obligation:						
Series 2006 ¹	390	2026	3,500-5,000	390	10	380
Series 2007	2,500	2028	4,000-5,000	2,500	75	2,425
Total Environmental Services	\$ 3,860			\$ 3,860	\$ 115	\$ 3,745
Total	\$ 456,470			\$ 251,370	\$ 170,805	\$ 14,180

¹ As of October 1, 2007, the Taxable General Improvement Refunding Bond, Series 2004 was reclassified from governmental debt to the Parking Fund. The balance is reflected in this table.

² As of October 1, 2007, a portion of the General Obligation Bonds, Series 2006 and the Certificates of Obligation, Series 2006, was transferred from governmental activity debt to business-type debt via Environmental Services. The balance is reflected in the table.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

The annual requirements to amortize long-term debt for the City's Enterprise Funds related to general obligation bonds, certificates of obligation, and revenue bonds outstanding at September 30, 2008, are as follows:

Year Ending Sept. 30:	Airport System			Parking System			Environmental Services		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 13,200	\$ 19,678	\$ 32,878	\$ 1,950	\$ 1,565	\$ 3,515	\$ 125	\$ 176	\$ 301
2010	15,885	19,012	34,867	1,050	1,492	2,542	135	170	295
2011	17,210	18,158	35,368	1,375	1,445	2,820	135	165	300
2012	16,125	17,217	33,342	2,285	1,376	3,661	140	198	298
2013	19,135	16,226	35,361	2,470	1,266	3,736	145	152	297
2014-2018	79,965	66,524	146,489	10,360	4,603	14,963	845	647	1,492
2019-2023	76,120	46,812	122,932	9,045	2,228	11,273	1,080	415	1,495
2024-2028	88,115	24,701	112,816	2,135	123	2,258	1,150	142	1,292
2029-2033	45,855	5,723	51,578						
Total	\$ 373,580	\$ 234,051	\$ 607,631	\$ 30,670	\$ 14,098	\$ 44,768	\$ 3,745	\$ 2,025	\$ 5,770

Total Principal and Interest Payable within One Year		
Airport System	\$ 13,200	\$ 1,950
Parking System	19,678	1,565
Total	\$ 32,878	\$ 3,515

Leases

The City has entered into various lease purchase agreements for the acquisitions of refuse collection containers, refuse collections trucks, brush grappler trucks, and brush tractor/trailer combinations. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council. While the garbage containers meet the criteria for capital lease recognition these items were expensed during the current year as their individual costs were below the City's capitalization threshold.

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

Machinery and Equipment	\$ 6,518
Less: Accumulated Depreciation	(1,278)
Total	\$ 5,240

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

Leases (Continued)

As of September 30, 2008, the City had future minimum payments under capital and operating leases with a remaining term in excess of one year for business-type activities as follows:

Fiscal Year Ending September 30,	Capital Leases	Operating Leases	Total
2009	\$ 4,334	\$ 204	\$ 4,538
2010	3,947	156	4,103
2011	3,774	8	3,782
2012	1,082		1,082
2013	1,082		1,082
2014-2018	2,052		2,052
Future Minimum Lease Payments	16,271	\$ 368	\$ 16,639
Less: Interest	(1,325)		
Present Value of Future Minimum Lease Payments	14,946		
Less: Current Portion	(3,887)		
Capital Leases, Net of Current Portion	\$ 11,059		

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt

Long-term obligations and amounts due within one year:

Governmental Activities:	Beginning Balance	New Issuances	Changes During Year	Ending Balance	Due Within One Year
Bonds Payable:					
General Obligation Bonds	\$ 667,280	\$ 121,220	\$ (71,225)	\$ 717,275	\$ 61,065
Tax-Exempt Certificates of Obligation	218,185	104,255	(31,060)	291,380	25,315
Taxable Certificates of Obligation	290		(65)	225	70
Tax Notes	60,000	21,270	(63,345)	17,925	4,210
Revenue Bonds	554,372	135,000	(110,940)	578,412	8,160
	1,500,127	381,745	(276,655)	1,605,217	98,820
Unamortized Premium/Discount	82,099	12,014	(54,122)	39,991	6,042
Deferred Amount on Refunding	(17,283)	6,728	(10,287)	(10,842)	(1,880)
Total Bonds Payable	1,564,943	394,027	(324,049)	1,634,921	102,982
Total Commercial Paper ¹	4,000	6,500		10,500	
Other Payables:					
Accrued Arbitrage Rebate Payable ²	878	24	(351)	501	
Capital Leases	14,465	2,799	(4,579)	12,685	4,227
Net OPEB Obligation ³	156,796	48,068	(1,247)	203,617	41,463
Compensated Absences	56,171	648	(1,861)	54,958	2,118
Notes Payable	4,619		(2,304)	2,315	2,315
Other Payables	232,879	69,806	(10,342)	292,343	50,123
Total Other Payables	447,938	120,237	(14,353)	453,822	99,923
Total Governmental Activities	\$ 1,801,872	\$ 470,333	\$ (334,391)	\$ 1,937,764	\$ 153,105
Long-Term Liabilities					
Business-Type Activities:					
Bonds Payable:					
General Obligation Bonds	\$ -	\$ 10,655	\$ (1,160)	\$ 9,495	\$ 1,135
Tax-Exempt Certificates of Obligation	2,800	2,800	(85)	2,800	80
Revenue Bonds	251,370	157,160	(12,935)	395,595	14,050
Total Bonds Payable	251,370	170,605	(14,180)	407,795	15,235
Unamortized Premium/Discount	9,842	4,553	(9,144)	5,251	305
Deferred Amount on Refunding	(2,937)	(1,138)	1,122	(2,953)	(983)
Total Bonds Payable	258,275	174,220	(22,202)	410,293	14,997
Other Payables:					
Airport System	242	7	(242)	7	7
Normal/Enterprise Funds	7	5	(10)	2	2
Normal/Enterprise Funds	249	12	(252)	9	9
Normal/Enterprise Arbitrage Rebate Payable ¹	136		(129)	7	7
Capital Leases Normal/Enterprise Funds	5		(4)	1	1
Normal/Enterprise Arbitrage Rebate Payable ²	2,678	13,137	(869)	14,946	3,887
Net OPEB Obligation ³	3,605	3,605		3,605	
Accrued Landfill Postclosure Costs ³	1,475	670	(109)	2,036	275
Compensated Absences	3,867	266		4,133	689
Total Other Payables	8,405	17,695	(1,363)	24,737	4,868
Total Business-Type Activities	\$ 266,680	\$ 191,915	\$ (23,565)	\$ 435,030	\$ 19,865
Long-Term Liabilities					

NOTE: The accrued interest through fiscal year 2008 has resulted in an increase of \$17,620 in Hotel Tax Revenue Bonds payable in governmental activities. The accrued interest in the amount of \$17,620 is reflected on the Statement of Net Assets, but is not reflected in this table.

¹ See Note 7, Commercial Paper Programs and Other Borrowings for a description of the commercial paper program.

² See Note 9, Postemployment Retirement Benefits for a description of the postemployment program.

³ See Note 11, Commitments and Contingencies for a description of the Arbitrage and Landfill Postclosure Care Costs.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt (Continued)

Compensated Absences

The following is a summary of compensated absences for the year-ended September 30, 2008:

Fund Type	Governmental Activities			Total
	Short-Term Available	Short-Term Remaining	Long-Term	
Governmental Funds	\$ 9,032	\$ 32,002	\$ 160,009	\$ 201,043
Internal Service Funds		429	2,145	2,574
Total Governmental Activities	\$ 9,032	\$ 32,431	\$ 162,154	\$ 203,617

The General Fund accounts for approximately 65.0% of the City's employees; therefore, most of the compensated absences' liability has been liquidated from the General Fund. When a City employee terminates, the fund that their salary was charged to throughout the year will be the same fund that will pay their compensated absences.

Fund	Business-Type Activities			Total
	Short-Term	Long-Term	Long-Term	
Airport System	\$ 356	\$ 1,778	\$ 2,134	
Nonmajor Enterprise Funds	333	1,666	1,999	
Total Business-Type Activities	\$ 689	\$ 3,444	\$ 4,133	

Conduit Debt Obligations

The City facilitates the issuance of bonds to enable the San Antonio Industrial Development Authority, Health Facilities Development Corporation and the Education Facilities Corporation, component units of the City, to provide financial assistance to various entities for the acquisition, construction, or renovation of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired property transfers to the entity served by the bond issuance. As of September 30, 2008, the aggregate principal amounts payable are as follows: seven series of Education Facilities Revenue Bonds in the amount of \$110,485; one series of Health Facilities Development Bonds in the amount of \$7,540; three series of Industrial Development Revenue Bonds in the amount of \$26,250; and two series of Empowerment Zone Development Revenue Bonds in the amount of \$39,900.

The City also facilitates the issuance of tax-exempt revenue bonds to enable the San Antonio Housing Finance Corporation to provide financing of residential developments for persons of low and moderate income. The bonds are secured by the property financed and are payable solely from, and secured by, a pledge of rental receipts. As of September 30, 2008, 29 series of tax-exempt revenue bonds were outstanding, with an aggregate principal amount payable of \$265,139 and an aggregate principal amount issued of \$283,679.

The City has authorized San Antonio Housing Trust Finance Corporation to issue single family and multi-family mortgage revenue bonds used to provide affordable housing to the City of San Antonio. The bonds are payable solely out of the revenues and receipts derived from any residential development or home mortgage financed by the bonds. As of September 30, 2008, the amount of conduit debt was \$28,088.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt (Continued)

Conduit Debt Obligations (Continued)

To provide for the acquisition and construction of certain airport facilities, the City has issued Special Airport Facilities Revenue Refunding Bonds, Series 1995. The bond is payable pursuant to lease agreements, which stipulate that various commercial entities are obligated to pay amounts to a third-party trustee in lieu of lease payments to the City. These payments are sufficient to pay for the principal, premium, interest, and purchase price of the bond when they become due. The aggregate principal amount outstanding for the Special Airport Facilities Revenue Refunding Bonds, Series 1995 as of September 30, 2008 was \$3,400.

The City entered into an agreement with the Port to fund renovations at the Port, in the amount of \$20,000. The Department of Housing and Urban Development (HUD) provides the funding for the loan through a Section 108 Loan. The loan is secured by pledged Port revenues and property and is payable solely from payments received by the Port. As of September 30, 2008, the aggregate amount of the outstanding loan totaled \$14,575. The City is not liable for this debt. The Port submits payment to the City; the City then directly pays HUD for the principal and interest payments when due.

The City also facilitates the issuance of tax-exempt revenue bonds for SA Energy Acquisition Public Facility Corporation (SAEAPFC) to enter into long-term prepaid purchases of natural gas. SAEAPFC in turn, sells contracted volumes of the prepaid gas to CPS Energy on a monthly basis at a discounted rate, which is passed on to CPS Energy's gas customers through reduced utility costs. The bonds are secured by the gas supplier and are payable primarily from the contracted volume sales and associated gas swap payments. As of September 30, 2008, SAEAPFC issued one series of tax-exempt revenue bonds with an aggregate principal amount issued and payable of \$628,850.

Neither the City, the State of Texas, nor any political subdivision of the State of Texas, is obligated in any manner for repayment of the aforementioned bonds, loans or leases. Accordingly, the bonds, loans, and leases are not reported as liabilities in the accompanying financial statements.

CPS Energy

To support its long-term capital financing needs, CPS Energy uses several types of debt instruments. As of January 31, 2008 these included fixed-rate and variable-rate bonds, as well as commercial paper. Relative to the bond instruments, provisions may be included that allow for refunding after specified time periods during the bond term.

Current refundings involve issuing new debt (refunding bonds) to redeem existing debt (refunded bonds) that can be called within 90 days of issuing the refunding bonds. Advance refunding of bonds involves issuing new debt to redeem existing debt that cannot be called within 90 days of issuing the refunding bonds. In these circumstances, the refunding bond proceeds are irrevocably escrowed with a third party. These proceeds, and income thereon, are used to pay the debt service on the refunded bonds until the refunded bonds can be called. Refunding bonds are generally issued to achieve debt service savings.

Subject to applicable timing restrictions that may prevent early payoff, CPS Energy also has the option to defease or extinguish debt with cash. A bond defeasance occurs when cash is placed in an irrevocable trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt, which fully discharges the bond issuer's obligation.

At the time of an extinguishment with cash, since the issuer no longer has the legal obligation, the defeased debt is removed from the balance sheets, the related unamortized costs are expensed and the gain or loss is immediately recognized.

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

For current and advance refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a deduction or addition to the new debt liability. The deferred amount is amortized as a component of interest expense over the shorter remaining life of the refunding or the refunded debt.

As of January 31, 2008, the bond ordinances for New Series Bonds issued on and after February 1, 1994 contained, among others, the following provisions:

Revenue deposited in CPS Energy's General Account shall be pledged and appropriated to be used in the following priority for:

- Maintenance and operating expenses of CPS Energy;
- Payments of the New Series Bonds;
- Payment of Prior Lien Bonds, including Junior Lien Obligations;
- Payment of the Notes and the Credit Agreement (as defined in the ordinance authorizing Commercial Paper);
- Payment of any Inferior Lien Obligations issued, which are inferior in lien to the New Series Bonds, the Prior Lien Bonds and the Notes and Credit Agreement;
- An annual amount equal to 6.0% of the gross revenue of CPS Energy to be deposited in the Repair and Replacement Account;
- Cash payments and benefits to the General Fund of the City not to exceed 14.0% of the gross revenue of CPS Energy; and
- Any remaining net revenues of CPS Energy in the General Account to the Repair and Replacement Account, which is used to partially fund construction costs.

The maximum amount in cash to be transferred or credited to the City's General Fund from the net revenues of CPS Energy during any fiscal year shall not exceed 14.0% of the gross revenues of CPS Energy, less the value of gas and electric services of CPS Energy used by the City for municipal purposes and the amounts expended during the fiscal year for additions to the street lighting system and other authorized exclusions. The percentage of gross revenues of CPS Energy to be paid over, or credited to, the City's General Fund each fiscal year shall be determined (within the 14.0% limitation) by the governing body of the City.

The net revenues of CPS Energy are pledged to the payment of principal of and interest on the New Series Bonds, which are classified as Senior Lien Obligations. All New Series Bonds and the interest thereon shall have a first lien upon the net revenues of CPS Energy.

The Junior Lien, Variable-Rate Demand Obligation (VRDO) bonds are debt instruments of the City payable solely from, and equally and ratably secured by, a junior lien on and pledge of the net revenues of CPS Energy, subject and subordinate to liens and pledges securing the outstanding Senior Lien Obligations and any additional Senior Lien Obligations hereafter issued, and superior to the pledge and lien securing the currently outstanding Commercial Paper Obligations, all as fully set forth in the ordinances authorizing the issuance of the Junior Lien Obligations as noted below:

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

- All operation and maintenance expenses, depreciation, replacement and betterment expenses, and other costs as may be required by Chapter 1502 of the Texas Government code, as amended;
- The interest on, and principal of, all Party Bonds, as defined in the New Series Bond Ordinances, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the Party Bonds;

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

- The interest on, and principal of, the Prior Lien Bonds, including the Junior Lien Obligations and any additional Junior Lien Obligations hereafter issued (all as defined in the New Series Bond Ordinances), as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the Junior Lien Obligations and any additional Junior Lien Obligations;
- To the extent the same are reasonably anticipated to be paid with available revenues (as defined in the Ordinance authorizing the Commercial Paper), the interest on and principal of all Notes (as defined in said Ordinance), and the Credit Agreement (as defined in said Ordinance); and
- Any legal debt or obligation of CPS Energy as and when the same shall become due.

As of January 31, 2008, the Tax-Exempt Commercial Paper (TECP) Ordinance contains, among others, the following provisions:

To secure the payment of TECP principal and interest, a pledge is made of:

- Proceeds from
 - The sale of bonds and additional notes issued for such purposes, and
 - The sale of TECP;
- Loans under and pursuant to the revolving credit agreement; and
- The net revenues of CPS Energy, after payment on New Series Bond requirements and Prior Lien Bond Obligations.

Revenue Bonds

On June 28, 2007, CPS Energy issued \$449,410 of New Series 2007 Revenue and Refunding Bonds. Included were par amounts of \$403,215 of Revenue Bonds and \$46,195 of Refunding Bonds used to refund New Series 1998A Refunding Bonds. The refunding transaction resulted in net present value debt service savings of \$2,300, or 4.8% of the par amount of the bonds being refunded. CPS Energy received \$419,900 in net proceeds from the issuance of the Revenue Bonds. These proceeds will be used to fund generation, transmission, and electric and gas distribution construction projects.

On February 8, 2007, CPS Energy issued \$128,845 of tax-exempt New Series 2006B Revenue Refunding Bonds. On February 9, 2007, the bond proceeds were used to refund \$77,100 par value of the taxable New Series 1998B Bonds and \$41,730 par value of the taxable New Series 2000B Bonds. At that time, CPS Energy cash decreased \$6,500 par value of the taxable New Series 1998B Bonds that could not be advanced refunded with tax-exempt debt. The refunding transaction resulted in net present value debt service savings of \$6,700, or 5.3% of the par amount of the bonds refunded.

CPS Energy Revenue Bond Summary	
Maturities	Yield on Outstanding
	Bonds at January 31, 2008
Tax Exempt New Series Bonds, 1994A-2007; 2008-2032	4.7%
Total	4.7%
Tax Exempt Variable-Rate Series Bonds, 2003-2004, 2024-2033	4.7%
Total Long-Term Revenue Bonds Outstanding	\$ 2,965,090
Less: Current Maturities of Bonds	2,965,090
Total Revenue Bonds Outstanding, Net of Current Maturities	\$ 3,367,090
	152,875
	<u>\$ 3,214,215</u>

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds (Continued)

As of January 31, 2008, principal and interest amounts due for all revenue bonds outstanding for each of the next five years and thereafter to maturity are:

Year	CPS Energy		Total
	Principal	Interest	
2009	\$ 152,875	\$ 159,065	\$ 311,940
2010	149,745	151,372	301,117
2011	163,265	143,727	306,992
2012	177,220	135,348	312,568
2013	174,950	126,393	301,343
2014-2018	745,155	502,400	1,247,555
2019-2023	836,935	316,637	1,153,572
2024-2028	600,370	119,728	720,098
2029-2033	366,575	34,877	401,452
Totals	\$ 3,367,090	\$ 1,689,547	\$ 5,056,637

The above table includes Senior Lien and Junior Lien bonds. Interest on the Senior Lien bonds is based upon the stated coupon rates of each series of bonds outstanding. The 2003 Junior Lien bonds were issued as variable-rate bonds and as such have interest rates that reset on a weekly basis. On December 1, 2007, the 2004 Junior Lien bonds were remarketed for a three-year term at an interest rate of 3.6%. This interest rate will remain in effect until the next interest reset date of December 1, 2010. The total interest amounts for all revenue bonds outstanding included a blended interest rate of 2.7% for the 2003 and 2004 Junior Lien Bonds.

The interest rate term mode for the Junior Lien Revenue bonds, or any portion thereof, may be converted to a different mode, or to an auction rate or term rate with an interest rate period of different duration, at the direction of the City. Following such a conversion, the Junior Lien Revenue bonds, or portion thereof, will bear interest at the corresponding daily rate, weekly rate, auction rate, commercial paper rate, term rate, or fixed rate.

The problems associated with the subprime mortgage markets have had a minimal impact on CPS Energy's variable-rate debt. CPS Energy continues to monitor the markets on a daily basis and is in close communication with its remarketing agents, financial advisors and bond counsel.

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Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds (Continued)

Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Long-Term Debt Activity		Balance Outstanding February 1, 2007	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2008
				Balance Outstanding February 1, 2007	Balance Outstanding January 31, 2008				
Revenue and Refunding Bonds:									
1994A Tax Exempt	\$ 684,700	2012	5.008	\$	\$	68,965		\$	68,965
1998A Tax Exempt	785,515	2021	4.918	515,495		430,980		84,515	430,980
1998B Taxable	99,615	2020	6.343	83,640		83,640		83,640	83,640
2000A Tax Exempt	170,770	2010	5.374	8,090		4,880		3,210	4,880
2000B Taxable	50,425	2021	7.403	41,730		41,730		41,730	41,730
2001 Tax Exempt	115,280	2011	3.843	85,030		62,615		22,415	62,615
2002 Tax Exempt	436,090	2017	4.055	436,090		426,040		10,050	426,040
2002 Tax Exempt	140,615	2015	4.751	10,525		10,525		10,525	10,525
2003 Tax Exempt Junior Lien	250,000	2033	Variable	250,000		250,000			250,000
2003A Tax Exempt	93,935	2014	3.675	82,150		81,855		295	81,855
2003 Tax Exempt	350,490	2013	3.081	255,320		192,055		63,265	192,055
2004 Tax Exempt Junior Lien	160,000	2027	Variable	157,000		152,000		5,000	152,000
2004 Tax Exempt	294,625	2020	4.381	294,625		294,625			294,625
2005 Tax Exempt	240,675	2025	4.683	240,675		240,675			240,675
2005A Tax Exempt	197,335	2025	4.571	197,335		197,335			197,335
2006A Tax Exempt	384,185	2025	4.555	384,185		384,185			384,185
2006B Tax Exempt	128,845	2021	3.974	128,845		120,945		7,900	120,945
2007 Tax Exempt	46,195	2018	4.159	46,195		46,195			46,195
2007 Tax Exempt	403,215	2032	4.575	403,215		403,215			403,215
				3,110,855		3,110,855	578,235	322,020	3,367,090
Bonds Outstanding:									
Bond Current Maturities				(141,755)		(141,755)			(152,875)
Bond (Discount)/Premium				104,212		104,212	30,653	17,760	117,105
Bond Reacquisition Costs				(95,761)		(95,761)	(20,512)	(24,699)	(91,574)
Revenue Bonds, Net				2,977,551		2,977,551	577,276	315,081	3,239,746
Tax Exempt Commercial Paper (TECP)			Variable	350,000		350,000	100,000		450,000
Total Long-Term Debt, Net				\$ 3,327,551		\$ 3,327,551	\$ 677,276	\$ 315,081	\$ 3,689,746

Other Noncurrent Liabilities and Deferred Credits - The long-term portion of the deferred revenue associated with a lease/leaseback was recorded as a deferred credit and is being amortized over the life of the lease.

Other liabilities and deferred credits include the obligations of the Decommissioning Trusts, customer service deposits and advance payments from customers for construction. The long-term portion of the payable to the Port, formerly known as the Greater Kelly Development Authority, for the purchase of electric and gas properties is fiscal year 2000, has also been recorded in other noncurrent liabilities.

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Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS)

On April 30, 1992, the City Council approved the consolidation of City owned utilities related to water including the water, wastewater, and water reuse systems as the San Antonio Water System.

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

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

Stormwater - The Stormwater Program is a federally mandated program, under the Environmental Protection Agency, for the monitoring of the quality and quantity of pollution found in rain runoff.

The City and SAWS have administered responsibility for the Stormwater Program and have entered into an interlocal agreement, which establishes the entities' respective responsibilities. SAWS' responsibility includes various aspects of data collection and analysis related to the water quality of stormwater as well as responsibility for customer billings and collection. Costs incurred by SAWS related to the Stormwater Program are reflected as expenses and are reimbursed by the City. Such reimbursements are included in operating revenues.

The following information provides a summary of the operations of the Stormwater Program for the year-ended December 31, 2007:

	December 31, 2007
Revenue	\$ 3,061
Expense	3,798
Revenues under Expense	\$ (737)

As defined by City Ordinance No. 75686, the Stormwater Program is not considered a part of SAWS and as such, revenues generated by the Stormwater Program are used to pay expenses of the Stormwater Program but are not available for debt service or for transfer to the City.

Reuse Contract - SAWS has a contract with CPS Energy, the City-owned electricity and gas utility, for the provision of reuse water. According to City Ordinance No. 75686, the revenues derived from the contract have been restricted in use to only reuse activities and are excluded from gross revenue for purposes of calculating any transfers to the City's General Fund.

No Free Service - City Ordinance No. 75686 also provides for no free services except for municipal firefighting purposes.

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Revenue Bonds - On January 23, 2007, SAWS issued \$8,070 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2007 through the Texas Water Development Board. The bonds were sold under the Federal Cross Cutter Program with interest rates ranging from 1.7% to 2.4%. The proceeds from the sale of the bonds were used to (i) finance capital improvement projects which qualify under the Texas Water Development Board program, (ii) refund \$950 in outstanding commercial paper notes, and (iii) pay the cost of issuance. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On January 23, 2007, SAWS issued \$35,375 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2007A through the Texas Water Development Board. The bonds were sold under the State Revolving Fund (SRF) Program with interest rates ranging from 2.7% to 3.4%. The proceeds from the sale of the bonds were used to (i) finance capital improvement projects which qualify under the Texas Water Development Board program, (ii) refund \$14,200 in outstanding commercial paper notes, and (iii) pay the cost of issuance. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On February 22, 2007, SAWS issued \$311,160 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2007. The proceeds from the sale of the bonds were used to (i) refund \$49,950 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 1997 (Series 1997 Bonds), (ii) refund \$237,610 in outstanding commercial paper notes, (iii) advance refund \$25,775 City of San Antonio Water System Revenue Bonds, Series 2002-A (Series 2002-A Bonds), and (iv) pay the cost of issuing the bonds. In addition to the bond proceeds used to refund \$49,950 Series 1997 Bonds, SAWS utilized \$25,000 of renewal and replacement funds to redeem the remaining balance of the Series 1997 Bonds. The refunding of the Series 1997 Bonds reduced total debt service payments over the next nine years by approximately \$8,900 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately \$3,100. The advance refunding of the Series 2002-A Bonds reduced total debt service over the next 11 years by approximately \$2,000 and provided an economic gain of approximately \$1,500.

Senior Lien Water System Revenue Bonds, comprised of Series 2001, Series 2002, Series 2002-A, Series 2004, Series 2005 and Series 2007, outstanding in the amount of \$1,153,935 at December 31, 2007, are collateralized by a senior lien and pledge of the gross revenues of SAWS after deducting and paying the current expenses of operation and maintenance of SAWS and maintaining a two-month operating reserve for such expenses.

Junior Lien Water System Revenue Bonds, comprised of Series 1999, Series 1999-A, Series 2001, Series 2001-A, Series 2002, Series 2002-A, Series 2003, Series 2004, Series 2004-A, Series 2007 and Series 2007-A outstanding in the amount of \$244,585 at December 31, 2007, are collateralized by a junior lien and pledge of the gross revenues of SAWS after deducting the current expenses of operation and maintenance of SAWS, maintaining a two-month operating reserve for such expenses, and paying debt service on senior lien debt.

Subordinate Lien Water System Revenue Bonds, comprised of Series 2003-A and 2003-B, outstanding in the amount of \$113,990 at December 31, 2007, are collateralized by a subordinate lien and pledge of the gross revenues of SAWS after deducting and paying the current expenses of operation and maintenance of SAWS, maintaining a two-month operating reserve for such expenses, and paying debt service on senior lien and Junior lien debt.

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Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

Revenue bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Build, Improve, Extend, Enlarge, and Repair the System	0.40-6.25%	\$ 1,512,510

The following summarizes transactions of the Revenue Bonds for the year-ended December 31, 2007:		
	Beginning Balance	Ending Balance
Bonds Payable	Jan. 1, 2007	Dec. 31, 2007
	\$ 1,283,510	\$ 1,512,510
Deferred Amounts for Issuance (Discounts)/Premiums/(Losses)		
	(25,868)	(19,645)
Total Bonds Payable, Net	\$ 1,257,642	\$ 1,492,865

The following table shows the annual debt service requirements on SAWS' debt obligations for each of the next five years and then in five year increments:

Year Ended December 31,	Senior Lien		Junior Lien		Subordinate Lien	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 15,505	\$ 56,643	\$ 9,750	\$ 8,010	\$ 2,375	\$ 4,765
2009	17,655	55,874	11,990	7,690	2,485	4,665
2010	16,535	55,049	14,305	7,314	2,600	4,562
2011	17,340	54,225	14,745	6,885	2,720	4,453
2012	18,195	53,366	15,205	6,426	2,840	4,339
2013-2017	108,970	251,077	84,335	24,052	16,265	19,804
2018-2022	174,470	215,725	72,110	9,096	20,320	16,080
2023-2027	260,955	160,060	22,145	1,359	25,405	11,427
2028-2032	183,460	100,963			31,740	5,611
2033-2037	219,325	57,871			7,240	303
2038-2040	121,525	9,284				
Total	\$ 1,153,935	\$ 1,070,137	\$ 244,585	\$ 70,832	\$ 113,990	\$ 76,009

Pay-Fixed, Receive-Variable Interest Rate Swap - On March 27, 2003, SAWS entered into an interest rate swap agreement in connection with its City of San Antonio, Texas Water System Subordinate Lien Revenue and Refunding Bonds, Series 2003-A and 2003-B (the Series 2003 Bonds) issued in a variable interest rate mode. The Series 2003 Bonds were issued to provide funds for the SAWS' Capital Improvement Program and to refund certain outstanding commercial paper notes. The swap was used to hedge interest rates on the Series 2003 Bonds to a synthetic fixed rate that produced a lower expected interest rate cost than traditional long-term fixed rate bonds.

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Terms - The terms, including the counterparty credit ratings of the outstanding swap, as of December 31, 2007, are included in the following table. SAWS' swap agreement contains scheduled reductions to the outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2003 Bonds were issued on March 27, 2003, with a principal amount of \$122,500. The swap was structured to match the principal amortization structure and dates of the Series 2003 Bonds. The counterparty to the swap is Bear Stearns Financial Products, Inc. (Bear Stearns) with the index for the variable-rate leg of the swap being the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index.

Related Bonds	Maturity	Counterparty	CP Rating by		Fixed Rate	Market Value at December 31, 2007
			Moody's/S&P/Fitch	Variable-Rate Received		
Series 2003	May 1, 2033	Bear Stearns FPI	Aaa/AAA/AAA	SIFMA	4.18%	\$ (6,277)

The combination of variable-rate bonds and a floating-to-fixed swap creates a synthetic fixed rate issue. The synthetic fixed rate protects against the potential of rising interest rates in conjunction with SAWS' Series 2003 Bond issued in a weekly mode and achieved a lower fixed rate than in the traditional fixed rate bond market at the time of issuance.

Fair Value - The swap had a negative fair value as of December 31, 2007 of \$6,277. This value was calculated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These net payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit Risk - As of December 31, 2007, SAWS was not exposed to credit risk on its outstanding swap because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, SAWS would be exposed to credit risk in the amount of the swap's fair value. The swap counterparty, Bear Stearns FPI, was rated AAA by Fitch's Ratings and Standard & Poor's and Aaa by Moody's Investor Service as of December 31, 2007. The swap agreement contains a collateral agreement with the counterparty. Collateralization of the fair value of the swap is required should Bear Stearns FPI credit rating fall below the applicable thresholds in the agreement.

Basis Risk - SAWS is exposed to basis risk to the extent that the interest payments on its variable-rate bonds do not match the variable-rate payments received on the associated swap. SAWS attempts to mitigate this risk by (a) matching the notional amount and amortization schedule of the swap to the principal amount and amortization schedule of the Series 2003 Bonds, and (b) selecting an index for the variable-rate leg of the swap that is reasonably expected to closely match the interest rate resets on the Series 2003 Bonds over the life of the issue.

Termination Risk - SAWS may terminate the swap at any time for any reason. Bear Stearns FPI may terminate the swap if SAWS fails to perform under the terms of the agreement. The ongoing payment obligations under the swap are insured, and Bear Stearns FPI cannot terminate as long as the insurer does not fail to perform. If at the time of the termination the swap has a negative fair value, SAWS would be liable to the counterparty for a payment equal to the swap's fair value.

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Swap Payments and Associated Debt - As of December 31, 2007, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, are detailed in the following table. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year	Variable-Rate Bonds		Interest Rate Swap, Net		Total
	Principal	Interest	Swap	Net	
2008	\$ 2,375	\$ 3,899	\$ 866	\$ 7,140	
2009	2,485	3,817	848	7,150	
2010	2,600	3,732	829	7,161	
2011	2,720	3,643	810	7,173	
2012	2,840	3,550	789	7,179	
2013-2017	16,265	16,203	3,601	36,069	
2018-2022	20,320	13,157	2,924	36,401	
2023-2027	25,405	9,349	2,078	36,832	
2028-2032	31,740	4,591	1,020	37,351	
2033	7,240	248	55	7,543	
Total	\$ 113,990	\$ 62,189	\$ 13,820	\$ 189,999	

Debt Covenants - SAWS is required to comply with various provisions included in the ordinance which authorized the bond issuances. SAWS is in compliance with all significant provisions of the ordinance.

Prior Years Defeasance of Debt - In current and prior years, SAWS defeased certain revenue bonds by placing revenues or proceeds of new bond issues in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in SAWS' financial statements. At December 31, 2007, \$125,540 of bonds outstanding are considered defeased.

Note Payable - During fiscal year 2000, a contract was entered into between SAWS and CPS Energy whereby SAWS acquired water rights valued at \$3,593 from certain CPS Energy owned properties. In exchange for these water rights, a note was signed for 116 payments of \$40 at an interest rate of 7.5%. The liability as of December 31, 2007 is reflected in the Statement of Net Assets for both the current portion of \$453 and long-term amount of \$118. The annual principal and interest requirements are as follows:

Year Ending	San Antonio Water System		Total Annual
	Principal	Interest	
December 31,			Requirements
2008	\$ 453	\$ 27	\$ 480
2009	118	2	120
Total	\$ 571	\$ 29	\$ 600

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Accrued Vacation Payable - SAWS records an accrual for vacation payable for all full-time employees and pays unused vacation hours available at the end of employment with the final paycheck.

Year Ended	Liability		Liability	
	Balance at Beginning of Fiscal Year	Current-Year Accruals	Balance at End of Fiscal Year	Estimated Due Within One Year
December 31, 2007	\$ 5,220	\$ 4,033	\$ (3,541)	\$ 5,712
				\$ 3,541

Note 7 Commercial Paper Programs

Primary Government (City)

Commercial Paper

In May 2007, the City adopted an ordinance authorizing the issuance of up to \$50,000 in Sales Tax Revenue Commercial Paper Notes, Series A. Proceeds from the sale of the Commercial Paper Notes are to provide funds to acquire property for a conservation easement or open-space preservation program with the intent of protecting water in the Edwards Aquifer as contemplated by the "Edwards Aquifer Protection Venue Project" (authorized at an election held on May 7, 2005). As of September 30, 2008, \$10,500 of Commercial Paper Notes are outstanding with various maturities ranging from 1 to 270 days.

The Commercial Paper Notes are supported by an irrevocable direct-pay Letter of Credit dated as of May 23, 2007 issued by Bank of America, N.A. The role of the Letter of Credit provider is to assure the timely payment of principal and interest on the Commercial Paper Notes at maturity. The Letter of Credit provider has issued its irrevocable, direct-pay Letter of Credit for the account of the City and for the benefit of the issuing and paying agent on behalf of the note holders. The dealer for the Commercial Paper Notes is Ramirez & Co., Inc. as of July 1, 2008 and the issuing and paying agent is Wells Fargo, N.A. The Letter of Credit in an amount equal to \$53,699 enables the City to pay at maturity the principal amount of the Commercial Paper Notes plus up to 270 days interest, at an assumed interest rate of 10.0% per year; provided however that none of the Commercial Paper Notes shall mature later than August 1, 2017. Under the terms of the Letter of Credit, the City may borrow up to an aggregate amount not to exceed \$50,000 for the purpose of paying principal due under the Commercial Paper Notes. The Letter of Credit agreement will expire April 30, 2012, unless previously terminated or extended. As of September 30, 2008, there have been no borrowings under the Letter of Credit.

The Commercial Paper Notes have been classified as long-term in accordance with the refinancing terms of the revolving credit agreement included in the Letter of Credit. The Commercial Paper Notes are secured by and payable from a pledge of and lien on two-thirds of one-eighth of one percent (1/8 of 1.0%) sales and use tax in an amount not to exceed \$90,000.

Commercial Paper			
Issue	Balance Outstanding October 1, 2007	Additions	Deletions
Series A (2007)	\$ 4,000	\$ 6,500	\$ -
			Balance Outstanding September 30, 2008
			\$ 10,500

Note 7 Commercial Paper Programs (Continued)

CPS Energy

Commercial Paper

In 1988, the City Council adopted an ordinance authorizing the issuance of up to \$300,000 in Tax-Exempt Commercial Paper (TECP). This ordinance, as amended in June 1997, provides for funding to assist in the financing of eligible projects in an aggregate amount not to exceed \$450,000. Eligible projects include fuel acquisition, capital improvements to the utility systems, and refinancing or refunding any outstanding obligations which are secured by and payable from a lien and/or a pledge of net revenues of CPS Energy. The program's scheduled maximum maturities cannot extend beyond November 1, 2028.

The TECP has been classified as long-term in accordance with the refinancing terms under a revolving credit agreement with a consortium of banks, which supports the commercial paper. Under the terms of the amended revolving credit agreement, effective September 6, 2007, CPS Energy may borrow up to an aggregate amount not to exceed \$450,000 for the purpose of paying principal due under the TECP. On September 6, 2007, the revolving credit agreement was extended until November 1, 2012, and may be renewed for an additional year.

As of January 31, 2008, there have been no borrowings under the revolving credit agreement. The TECP is secured by the net revenues of CPS Energy. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing New Series Bonds and Junior Lien Obligations.

CPS Energy issued \$100,000 of TECP on September 10, 2007. These proceeds will be used to fund generation projects. The current outstanding TECP balance as of January 31, 2008, is \$450,000.

TECP Outstanding	\$ 450,000
TECP New Money Issues	\$ 100,000
Weighted Average Interest Rate of Outstanding TECP	3.2%
Average Life of Outstanding TECP (Approximate Number of Days)	109

San Antonio Water System (SAWS)

Commercial Paper

SAWS maintains a commercial paper program that is used to provide funds for the interim financing of a portion of its capital improvements.

On November 17, 2005, the City Council of the City of San Antonio approved the expansion of the commercial paper program from \$350,000 to \$500,000. The increase in the program provides additional interim financing capacity for the increased level of future expenditures on water resource projects. Notes payable under the program cannot exceed maturities of 270 days.

The City has covenanted in the ordinance authorizing the commercial paper program (the Note Ordinance) to maintain at all times credit facilities with banks or other financial institutions which would provide available borrowing capacity sufficient to pay the principal of the commercial paper program. The credit facility is maintained under the terms of a revolving credit agreement.

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Note 7 Commercial Paper Programs (Continued)

San Antonio Water System (SAWS) (Continued)

Commercial Paper (Continued)

The issuance of commercial paper is further supported by the following agreements and related participants:

- Dealer Agreements with Goldman, Sachs & Co., J.P. Morgan Securities Inc., and Ramirez & Co., Inc.
- Revolving Credit Agreement with Bank of America, N.A.
- Issuing and Paying Agency Agreement with the Bank of New York.

The borrowings under the commercial paper program are equally and ratably secured by and are payable from (i) the proceeds from the sale of bonds or additional borrowing under the commercial paper program and (ii) borrowing under and pursuant to the Revolving Credit Agreement.

Commercial paper notes of \$100,000 are outstanding as of December 31, 2007. The proceeds of the notes have been used solely for financing of capital improvements. Consistent with prior years, commercial paper notes have been classified as long-term in accordance with the refinancing terms of the Revolving Credit Agreement. Interest rates on the notes outstanding at December 31, 2007 range from 3.1% to 3.7% and maturities range from 29 to 131 days. The outstanding notes had an average rate of 3.3% and averaged 86 days to maturity.

The following summarizes transactions of the program for the year-ended December 31, 2007.

	Beginning Balance		Ending Balance	
	January 1, 2007	December 31, 2007	January 1, 2007	December 31, 2007
Tax Exempt Commercial Paper Notes	\$ 237,360	\$ 115,000	\$ 252,360	\$ 100,000

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Note 8 Pension and Retirement Plans

Primary Government (City)

General Plan Information

The City of San Antonio, SAWS, and CPS Energy participate in several contributory retirement plans. These are funded plans covering substantially all full-time employees. Payroll and contribution information as of the year-end for each entity is presented as follows:

Entity	Title	Type of Plan	Contributory Pension and Retirement Plans		Total Contribution
			Covered Payroll	Employee Contribution	
City	Fire and Police Pension Fund	Single Employer Defined Benefit Plan	\$ 229,547	\$ 29,050	\$ 58,101
		Nontraditional Hybrid Defined Benefit Agent Plan	\$ 244,530	\$ 14,681	\$ 30,538
	Texas Municipal Retirement System (TMRS)	Nontraditional Defined Benefit Agent Plan	\$ 65,078	\$ 2,074	\$ 2,386
	1 PWLIC Contract	Single Employer Defined Benefit Plan	\$ 63,462	\$ -	\$ 4,710
CPS Energy	1 CPS All Employee Plan	Single Employer Defined Benefit Plan	\$ 209,070	\$ 10,378	\$ 22,841
		Employer Defined Benefit Plan			\$ 33,219

¹ Plan year ended December 31, 2007

² Fiscal year ended January 31, 2008

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Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan

The Pension Fund is a single-employer defined benefit retirement plan established in accordance with the laws of the State of Texas. The governing document for the Pension Fund is found in Vernon's Texas Civil Statutes, Article 6243o. The pension law governing the Pension Fund was amended on October 1, 2007. The Pension Fund is administered by a nine-member board of trustees (Board), which includes two City Council members, the mayor or his appointee, two police officers, two fire fighters, and two retirees. The Pension Fund meets the criteria of a "fiduciary fund" of the City of San Antonio as established by *Governmental Accounting Financial and Reporting Standards* and is therefore included in the City's financial statements as a pension trust fund. A more complete description of the Plan is provided in the summary plan description. At September 30, 2008, membership of the Pension Fund consisted of:

Retirees and beneficiaries receiving benefits	2008
	1,983
Active participants	3,622
Total	5,605

Currently, the Pension Fund provides retirement benefits to eligible employees of the fire and police departments of the City who have served for 20 years or more. As of October 1, 2007, employees who terminate prior to accumulating 20 years of service may apply to receive a refund of their contributions. Upon application for a service retirement pension from the Pension Fund, retiring employees are entitled to a retirement annuity computed based on the average of the employee's total salary, excluding overtime pay, for the highest three years of the last five years. The retirement annuity computation (Annuity Computation) for employees retiring after September 30, 2007 is 2 1/4 percent of such average for each of the first 20 years served, plus 3 percent of the member's average total salary for each of the next seven years, plus two percent of the member's average total salary for each of the next three years of service, with fractional years of service prorated based on full months served as a contributing member. In making the computation for a year, the year is considered to begin on the first day a contribution is made. A retirement annuity under this subsection may not exceed, as of the date of retirement, 87 1/2 percent of the member's average total salary. As of October 1, 2007, the minimum monthly pension provided to a member or the member's beneficiaries is \$1,850 (please note figure not reflected in thousands), if there is more than one beneficiary, the minimum pension is divided between them.

There is a provision for the Backwards Deferred Retirement Option Plan (BackDROP), which, as of October 1, 2007, permits retiring members who had actual service credit of at least 20 years and one month to elect to receive a lump-sum payment for a number of full months of service elected by the member that does not exceed the lesser of the number of months of service credit the member had in excess of 20 years or 48 months and a reduced annuity payment. For purposes of a BackDROP benefit calculation, the participant's salary beyond 34 years of service is used to determine the participant's average salary.

There is also a provision for a thirteenth and fourteenth pension check. At the end of each fiscal year, the Board may authorize the disbursement of a thirteenth monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 100 basis points. In the same way, the Board may authorize a fourteenth monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 300 basis points. The thirteenth and fourteenth pension checks are paid to each retiree and beneficiary receiving a pension at the end of the fiscal year and are in an amount equal to the pension check paid in the last month of the preceding fiscal year and no check will be paid to members who retired after the end of the fiscal year. Authorization for one year does not obligate the Board to authorize a thirteenth and fourteenth check for any other year. The Pension Fund met the criteria for the thirteenth and fourteenth checks for the year-ended September 30, 2007, but it did not meet the criteria for 2008. The Board did approve a thirteenth and fourteenth check based on the investment returns for the five years ended September 30, 2007. The checks were issued in November of 2007.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

The Pension Fund also provides benefits when service is terminated by reason of death or disability, the employee's beneficiary or the employee shall be entitled to one-half of the average of the employee's total salary, excluding overtime pay, or vested benefit, as is provided in the computation of normal retirement benefits, whichever is higher, if a member dies after retiring, spouses or beneficiaries who were married to or dependents of the member at the time of retirement receive the same annuity paid to the member as of the date of the member's death up to the maximum benefit. The maximum benefit for surviving spouses and dependent children is equal to a 27-year service pension. The spousal death benefit for a spouse who married a retiree after retirement and less than five years but more than 2½ years prior to the date of the retiree's death is \$2,500 (please note figure not reflected in thousands), if there are no other beneficiaries.

Effective October 1, 2007, the Pension Fund provides a disability annuity equal to 87.5% of average total salary, if the member suffers a catastrophic injury. A catastrophic injury is described as an irreparable physical bodily injury suffered during the performance of high-risk line of duty activities, when the injury results in the individual being unable to obtain any sort of employment sufficient to generate income above the poverty level.

The surviving spouse of an active member may elect to receive benefits in the form of a lump-sum payment and reduced annuity, similar to a BackDROP election made by a retiring member. The maximum service credit allowed in determining the spousal BackDROP lump-sum is 30 years.

As of October 1, 2007, the estate of an active member who dies and does not leave a beneficiary will receive either 10 times the amount of an annuity computed according to the Annuity Computation mentioned above using the deceased member's service credit and average total salary as of the date of death or the deceased member's contributions that were picked up by the City. Effective October 1, 2007, the estate of a retired member who dies and does not leave a beneficiary will receive a lump-sum benefit equal to 10 times the amount of the annuity awarded by the Board effective on the retiree's date of retirement, less any retirement or disability annuity and any lump-sum payments paid to the retiree.

The Pension Fund also provides benefits when an eligible member is killed in the line of duty. The member's surviving spouse and dependent children are entitled to a total pension equal to the member's base salary at the time of death.

Another important provision of the Pension Fund is the Cost of Living Adjustment (COLA). The COLA is based on the Consumer Price Index for all Urban Consumers - U.S. City Average (CPI) as published by the Bureau of Labor Statistics. Members whose retirement, disability, or death occurred before August 30, 1971, received an increase equal to 100.0% of the increase in the CPI. Members whose retirement, disability, or death occurred after August 30, 1971, but before October 1, 1997, received an increase equal to 100.0% of the increase in the CPI up to 8.0%, and 75.0% of the increase in the CPI in excess of 8.0%. Members whose retirement, disability, or death occurred after October 1, 1997 received an increase equal to 75.0% of the increase in the CPI. On October 1, 2007 a special cost of living increase of \$200 per month (please note figure not reflected in thousands) was awarded to members who retired prior to October 1, 1989 or their beneficiaries. If there is more than one beneficiary, the special COLA is divided between them. The cost of living increase is awarded prior to determining the minimum monthly pension.

The Pension Fund is funded in accordance with Texas state statutes. The City was required to contribute 24.6% of salary, excluding overtime pay, in 2008. The employee contribution rate was 12.3% in 2008. New fire fighters and police officers are immediately eligible for membership after they receive state certification and complete all other requirements. The new member contributes to the Pension Fund upon becoming eligible. Beginning October 1, 2006, the City began matching the contributions of new fire fighters and police officers during the probationary period.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

The annual required contributions for fiscal year 2008 were determined as part of the October 2007 actuarial valuations, using the entry-age actuarial cost method. The actuarial assumptions included (a) an 8.0% investment rate of return and (b) a projected annual salary increase of 4.2%. Both (a) and (b) include inflation components of 4.3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at October 1, 2007 was 8.7 years which, as reported under GASB guidelines, does not consider the assumption of payroll growth rate. The amounts of the actuarial value of assets represent estimates based upon the assumptions described above. Changes in those assumptions will result in changes in such estimates in the future. The amounts of benefits ultimately to be paid could differ materially from the current estimates.

Contribution requirements are established by state law, and are not actuarially determined. Contributions for the year-ended September 30, 2008 are as follows:

2008	
	Percentage of Covered Payroll
Employer	\$ 58,101 24.6%
Employee	29,050 12.3%
Total	<u>\$ 87,151</u>

The Board of the Pension Fund has historically recommended changes to benefits provided by the governing statute controlling the Fund that are actuarially prudent, keeping in mind the goal of reducing the unfunded liability of the Pension Fund over time. The Legislative Program has worked by soliciting the input of all affected interest groups and the advice of external professionals to reach agreement on a package of benefits that is actuarially prudent.

The Board reaffirms this commitment to a program of prudent legislative changes that result in greater retirement security for its members while at the same time moving towards full funding from an actuarial perspective. To evidence this policy, the Board adopted several guidelines for determining whether to recommend legislative amendments in the future. Two highlights of these guidelines include utilizing external actuarial analysis to determine the years to full funding based on reports as of October 1 every two years, commencing with the 2005 Actuarial Valuation Report, adjusted to include the 2007 Legislative Package. The actuarial cost of benefits enhancements recommended by the Board will not exceed 50.0% of any actuarial improvements, as measured by the years to full funding in any two year cycle. Any improvements in years to full funding not used for legislative benefit changes in any two year cycle may be banked for future benefits in subsequent two year cycles.

Another guideline adopted by the Board is that any decrease in the years to full funding resulting from modifications of actuarial assumptions may form the basis for recommending legislative benefits enhancements, except for any modification of the Inflation Rate Assumption regarding the amount of the rate that would reduce such rate below 4.3%.

This policy reflects the current statement of Board policy and may be changed at any time by the current Pension Board or any future Board.

The City of San Antonio is responsible for funding the deficiency, if any, between the amount available to pay all retirement annuities and other benefits owed by the Pension Fund and the amount required to pay such benefits.

Note 8 Pension and Retirement Plans (Continued)**Primary Government (City) (Continued)****Fire and Police Pension Plan (Continued)**

On October 1, 2007, new legislation became effective that modified the description for the pension plan. The major changes enacted during the 2007 legislative session are (i) the creation of a catastrophic injury disability annuity (87.5% of average total salary) to be granted to members who suffer irreparable physical bodily injury during the performance of high-risk line of duty activities, when the injury results in the individual being unable to obtain any sort of employment sufficient to generate income above the poverty level, (ii) a revision of the spousal death benefit to provide that a spouse who married a retiree after retirement, and at least five years prior to the date of the retiree's death, is treated in the same manner as a spouse who married a member prior to retirement, (iii) a modification of the retirement pension computation, (iv) the implementation of a \$200 per month increase in all pensions awarded prior to October 1, 1989, (v) the establishment of a \$1,850 minimum monthly pension (vi) the expansion of the "BackDROP" lump-sum payment option from three to four years, (vii) the elimination of the requirement that a member serve at least five years before becoming entitled to a refund of contributions upon termination of employment, and (viii) the establishment of the Mayor's ability to appoint a representative to serve as a Trustee in place of the Mayor.

The Pension Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the Fire and Police Pension Fund of San Antonio, 311 Roosevelt, San Antonio, Texas 78210-2700 or by calling (210) 534-3262.

Texas Municipal Retirement System (TMRS)

The City provides benefits for all eligible employees (excluding firefighters and police officers) through a nontraditional, joint contributory, hybrid defined benefit plan in the TMRS. The TMRS is a statewide agent multiple-employer public employee retirement system created by law in 1948 to provide retirement and disability benefits to City employees. TMRS as of December 31, 2007, is the agent for 827 participating entities. It is the opinion of the TMRS management that the plans in TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the TMRS plan.

At its December 8, 2007 meeting, TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (CAFR).

Since its inception, TMRS has used the traditional Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date but does not project the potential future liability of provisions adopted by a participating government. Two-thirds of the governments participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. These provisions are considered to be "committed" benefits (or likely to be guaranteed) as such, for the December 31, 2007 valuation, TMRS' Board has adopted the Projected Unit Credit (PUC) actuarial funding method, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis.

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Note 8 Pension and Retirement Plans (Continued)**Primary Government (City) (Continued)****Texas Municipal Retirement System (TMRS) (Continued)**

In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustees provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period may be increased up to 30 years, unless a participating government requests that the period remain at 25 years. For governments with repeating features, these changes will likely result initially in higher required contributions and lower funded ratios. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow governments the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate). The actuarial valuation for year-ended December 31, 2007 resulted in a \$317,700 unfunded actuarial accrued liability utilizing the adopted actuarial assumption and changed funding method. The projected calendar year 2009 contribution rate under a 30-year amortization period for the City was estimated by TMRS to be 16.6%. However, under the phase-in option the rate would be 13.0% for calendar year 2009.

During fiscal year 2008, the City created a work plan to review and address the changes made by TMRS, was successful in obtaining a voting seat on the TMRS Board, and conducted six focus groups with employees and retirees that resulted in City employees, as well as retirees, being mailed a survey in April 2008 asking input on their TMRS benefits and priorities. The survey results will provide valuable input as the City continues to evaluate its options.

The City also contracted with a legal firm to provide legal advice and assistance on TMRS and other pension related issues. The legal firm engaged an actuarial firm to evaluate the assumptions and results of TMRS' report, to provide a historical performance analysis of the funds within TMRS, and will assist in exploring viable pension alternatives. A task force of current employees and retirees will be formed to provide input regarding the work to be completed by this actuarial firm.

Finally, City staff is being proactive in preparing for increased future costs. The City has included in its financial forecast the additional costs to include a phased-in approach in order to increase contributions gradually to the full rate. Throughout this process, the City will work with TMRS, current employees and retirees to determine the best course of action.

Benefits depend upon the sum of the employee's contributions to the TMRS plan, with interest, and the City-financed monetary credits, with interest. At the date the TMRS plan began, the City granted monetary credits for service rendered before the TMRS plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the TMRS plan. Monetary credits for service since the TMRS plan began are a percentage of the employee's accumulated contributions. In addition, the City may grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the TMRS plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percentage had always been in existence and if the employee's salary had always been the average salary for the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the City-financed monetary credits with interest were used to purchase an annuity.

Members are eligible to retire upon attaining the normal retirement age of 60 and above with 5 or more years of service, or with 20 years of service regardless of age. The TMRS plan also provides death and disability benefits. A member is vested after five years, but must leave accumulated contributions in the TMRS plan, if a member withdraws the contributions with interest, the member would not be entitled to the City-financed monetary credits, even if vested.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

TMRS provisions and contribution requirements are adopted by the governing body of the City within the options available in the state statutes governing TMRS and within the actuarial constraints contained in the statutes.

Contribution requirements are actuarially determined by TMRS' actuary (see summary of TMRS Actuarial Assumptions and Methods at the end of Note 8). The contribution rate for the City's employees is 6.0% and the matching percent is currently 12.54%, both as adopted by the governing body of the City (see summary of contribution information at the beginning of Note 8.) Under the state law governing TMRS, the employer's contribution rates are annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percentage of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percentage, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percentage of payroll necessary to satisfy the obligation of the City to each employee at the time the employee's retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 30-year amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is being amortized over a new 30-year period. Currently, the unfunded actuarial liability is amortized over a constant 30-year period as a level percentage of payroll. Contributions are made monthly by both the employees and the City. All current year required contributions of the employees and the City were made to TMRS. Due to the fact that the City requires the contribution rates in advance for budget purposes, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

The required schedule of funding progress follows immediately the notes to the financial statements, and they present multi-year trend information regarding the actuarial value of plan assets relative to the actuarial liability for benefits.

TMRS issues a publicly available financial report that includes financial information related to participating municipalities. The report may be obtained by writing to the TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling (512) 476-7577.

San Antonio Water System (SAWS)

SAWS' retirement program includes benefits provided by the Texas Municipal Retirement System (TMRS), the San Antonio Water System Retirement Plan, the San Antonio Water System Deferred Compensation Plan, and Social Security. The following information related to the TMRS was prepared as of December 31, 2006, while the information related to the San Antonio Water System Retirement Plan has been prepared as of January 1, 2007.

Texas Municipal Retirement System (TMRS)

SAWS provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide TMRS, one of more than 821 administered by TMRS, an agent multiple-employer public-employee retirement system.

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Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and SAWS financed monetary credits, with interest. At the date the plan began, SAWS granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to the establishment of the plan. Monetary credits for service since the plan began are a percentage (100.0%, 150.0%, 200.0%) of the employee's accumulated contributions. In addition, SAWS can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount that when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and SAWS matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by SAWS within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

The contribution rate for the employees is 3.0% of salary. SAWS' matching percent ratio is currently 1 to 1, as adopted by SAWS. Under the state law governing TMRS, the actuary annually determines SAWS' contribution rate (see summary of TMRS's Actuarial Assumptions and Methods at the end of Note 8) using the unit credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year.

The normal cost contribution rate finances the currently accruing monetary credits due to SAWS matching percent, which are the obligation of SAWS as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of SAWS to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period.

Both the employees and SAWS make contributions monthly. Since SAWS needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis of the rate and the calendar year when the rate goes into effect (i.e. December 31, 2006; valuation is effective for rates beginning January 2009).

TMRS	
Schedule of Contributions	
	2007
Employer Contribution	\$ 2,386
Employee Contribution	\$ 2,074
Employer Contribution Rate	3.5%

Note 8 Pension and Retirement Plans (Continued)**San Antonio Water System (SAWS) (Continued)****Texas Municipal Retirement System (TMRS) (Continued)**

Changes to Actuarial Assumptions - At its December 8, 2007 meeting, the TMRS board of trustees adopted actuarial assumptions to be used in the actuarial valuation for the year-ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (CAFR).

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date but does not project the potential future liability of the provisions adopted by a participating government. Two-thirds of governments participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. SAWS adopted the Updated Service Credit provision in 1992, on a repeating basis. Additionally, SAWS adopted annuity increases for its retirees, on a repeating basis in 1992 equal to 70.0% of the change in the consumer price index.

For the December 31, 2007 valuation, the TMRS board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the board also adopted a change in the amortization period from a 25 year - open period to a 25 year - closed period.

TMRS board of trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contributions rate in an amount greater than 0.5%, the amortization period may be increased up to 30 years, unless a participating government requests that the period remain at 25 years. For governments with repeating features, these changes will likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, TMRS also approved an eight-year phase-in period, which will allow governments the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate). SAWS has elected to increase the amortization period to 30 years and to transition the increase in its contribution rate over the eight-year phase-in period.

TMRS is currently working on its legislative package for 2009. There is a possibility that the investment rate of return (IRR) assumption of 7.0% would need to be lowered if desired legislation for the 2009 session is unsuccessful. Maintaining a 7.0% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, form an almost exclusive bond portfolio to a portfolio that includes equities as well. If state legislation needed to facilitate the continued diversification is not enacted, TMRS may have to revisit the continued diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases to SAWS contributions rates, following the December 31, 2009 actuarial valuation.

San Antonio Water System Retirement Plan (SAWSRP)

The San Antonio Water System Retirement Plan (SAWSRP) is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 75686, which serves as a supplement to TMRS and Social Security benefits. SAWSRP is governed by SAWS, which may amend plan provisions and which is responsible for the management of plan assets. SAWS has delegated the authority to manage certain plan assets to Principal Financial Group.

SAWS provides supplemental pension benefits for all persons customarily employed at least 20 hours per week and five months per year through this defined benefit pension plan. Employees are eligible to participate in SAWSRP on January 1 of the calendar year following date of hire. A member does not vest in this plan until completion of five years of service.

Note 8 Pension and Retirement Plans (Continued)**San Antonio Water System (SAWS) (Continued)****San Antonio Water System Retirement Plan (SAWSRP) (Continued)**

Covered employees are eligible to retire upon attaining the normal retirement age of 65. An employee may elect early retirement, with reduced benefits, upon attainment of:

1. Twenty years of vesting service regardless of age, or
2. Five years of vesting service and at least age 60.

The normal retirement benefit is based upon two factors, average compensation and years of vesting service. Average compensation is defined as the monthly average of total compensation received for the three consecutive years ending December 31st, out of the last ten compensation years prior to normal retirement date, which gives the highest average.

The normal retirement benefit under the Principal Financial Group contract is equal to the following:

1. 1.2% of the average compensation, times years of credited service not in excess of 25 years, plus
2. 0.8% of the average compensation, times years of credited service in excess of 25 years but not in excess of 35 years, plus
3. 0.4% of the average compensation, times years of credited service in excess of 35 years.

Upon retirement, an employee must select from one of seven alternative payment plans. Each payment plan provides for monthly payments as long as the retired employee lives. The options available address how plan benefits are to be distributed to the designated beneficiary of the retired employee. The program also provides death and disability benefits.

An employee is automatically 100.0% vested upon attainment of age 65 or upon becoming totally and permanently disabled. Benefits for retired employees are fully guaranteed at retirement. The pension plan's unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities or pay administrative expenses charged by Principal Financial Group (PFG). Funds under the contract that have been allocated and applied to purchase annuities are excluded from the pension plan's assets. The pension plan's unallocated separate accounts are valued at fair value.

The plan's funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. The actuarial cost method is known as the Entry Age Normal-Frozen Initial Liability Method. This method estimates the total cost of the projected pension benefits for each employee evenly from the date the employee is first eligible for the plan to the employee's assumed retirement. As plan benefits are related to compensation, the cost is spread as a level percentage of compensation. The total of annual amounts for all employees combined is called the Normal Cost. The employee's Entry Age is determined as if the plan had always been in existence. As the plan effective date, there are some accumulated Normal Costs for past years that have not been paid. The value of these costs is called the Frozen Initial Liability.

In subsequent years the Frozen Initial Liability is reduced by employer deposits to the plan in excess of employer Normal Cost and interest requirements. This reduced amount is known as the Unfunded Frozen Initial Liability. Contribution requirements are established and may be amended by SAWS. Active members are not required to contribute to the plan. Any obligation with respect to the pension plan shall be paid by SAWS. The actuarial valuation which was performed for the plan year-ended December 31, 2006, reflects an unfunded frozen initial liability of \$15,458.

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

San Antonio Water System Deferred Compensation Plan (SAWSDCP)

If the Normal Cost or Unfunded Frozen Initial Liability becomes negative through the normal operation of the plan, the Unfunded Frozen Initial Liability will be reestablished using the Entry Age Normal method. If the reestablishment would result in a negative Normal Cost or Unfunded Frozen Initial Liability, the method will be changed to the aggregate method. If the actuarial value of assets exceeds the total present value of benefits, the Aggregate Normal Cost will be zero. Then the Frozen Initial Liability will be reestablished when a positive Entry Age Normal unfunded liability results from a change in assumptions or a plan amendment. A summary of the actuarial assumptions utilized in determining SAWS' contribution requirements is as follows:

SAWSRP Actuarial Assumptions	
Actuarial Cost Method	Entry Age Normal - Frozen Initial Liability Period Level Dollar
Amortization Method	35 Years - Closed Period
Remaining Amortization Period	Amortization Cost
Asset Valuation Method	8.0%
Investment Rate of Return	None
Inflation Rate	Table S-5 from the Actuary's Pension Handbook plus 3.4%
Salary Scale	None
Cost of Living Adjustments	None
Wage Base Increase	4.0% each year until retirement
Postemployment Benefits	None

The Pension Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Principal Financial Group, 711 High Street, Des Moines, Iowa 50392 or by calling (800) 986-3343.

SAWS has a deferred compensation plan for its employees, created in accordance with Internal Revenue Code Section 457. SAWSDCP, available to all regular employees, permits them to defer a portion of their salary until future years. The compensation deferred under this plan is not available to employees until termination, retirement, death, or qualifying unforeseeable emergency. Participation in SAWSDCP is voluntary, and SAWS does not make any contributions. SAWS has no liability for losses under SAWSDCP, but does have the usual fiduciary responsibilities of a plan sponsor.

CPS Energy

All Employee Plan

The CPS Energy Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan (Plan) covering substantially all employees who have completed one year of service. It is an unconsolidated entity within which normal retirement is age 65; however, early retirement is available with 25 years of benefit service, as well as to those employees who are ages 55 or older with at least ten years of benefit service. Retirement benefits are based on length of service and compensation, and benefits are reduced for retirement before age 55 with 25 years or more of benefit service or before age 62 with less than 25 years of service.

Note 8 Pension and Retirement Plans (Continued)

CPS Energy (Continued)

All Employee Plan (Continued)

The plan is sponsored by and may be amended at any time by CPS Energy, acting by and through an Oversight Committee, which includes the General Manager and CEO, the Chief Financial Officer and the Audit Committee Chair of CPS Energy's board of trustees. Its assets are segregated from CPS Energy's assets and are separately managed by an Administrative Committee whose members are appointed by the Oversight Committee.

The Plan reports results on a calendar-year basis, and the separately audited financial statements, which contain historical trend information, may be obtained by contacting Employee Services at CPS Energy by email at BP5tiller@CPSEnergy.com. Plan net assets had a market value of \$1,100,000 at December 31, 2007.

In addition to the defined-benefit pension plan, CPS Energy has two Restoration Plans that were effective as of January 1, 1998, which supplement benefits paid from the Pension Plan due to federal tax restrictions on benefit amounts. The benefits due under those Restoration Plans have been paid annual by CPS Energy.

Employees who retired prior to 1983 receive annuity payments from an insurance carrier, as well as some benefits directly from CPS Energy. The costs for the benefits directly received from CPS Energy were \$150 for fiscal year 2008. These costs were recorded when paid.

Funding Policy - The current policy of CPS Energy is to establish funding levels, considering annual actuarial valuations and recommendations of the Administrative Committee, using both employee and employer contributions. Generally, participating employees contribute 5.0% of their total compensation and are normally fully vested in CPS Energy's contribution after completing seven years of credited service or upon reaching age 40. Employee contributions commence with the effective date of participation and continue until normal or early retirement, completion of 44 years of benefit service, or termination of employment. The employee contribution interest rate was 8.0% for fiscal year 2008.

The balance of Plan contributions is the responsibility of CPS Energy, giving consideration to actuarial information, budget controls, legal requirements, compliance, and industry and/or community norms. For fiscal year 2008, the amount to be funded was established using a general target near the 20-year funding contribution level as determined by the Plan's actuary. CPS Energy's contributions in relation to the annual required contribution (ARC) amounted to 10.4% of covered payroll in fiscal year 2008.

Annual Pension Cost and Net Pension Obligation - CPS Energy's annual pension cost (APC) and net pension obligation (NPO) for fiscal year 2008 is presented below. The NPO may be either positive, reflecting a liability, or negative, reflecting an asset. The term net pension obligation, as used in this Note, refers to either situation.

	January 31, 2008
Annual required contribution	\$ 20,868
Annual pension cost	20,868
Employer contributions in relation to ARC	(22,841)
Decrease in net pension obligation	(1,973)
Net pension obligation - beginning of year	
Net pension obligation - end of year	\$ (1,973)

Note 8 Pension and Retirement Plans (Continued)

CPS Energy (Continued)

Funded Status and Funding Progress - The funded status of the Plan as of January 1, 2007, valuation date was as follows:

	January 1, 2007
Actuarial value of plan assets (a)	\$ 1,012,067
Actuarial accrued liability (b)	1,041,471
Unfunded actuarial accrued liability	
(funding excess) (b) - (a)	\$ 29,404
Funded ratio (a) / (b)	97.2%
Covered payroll (c)	\$ 209,070
Unfunded actuarial accrued liability	
(funding excess) as a percentage	
of covered payroll ((b) - (a)) / (c)	14.1%

The schedule of funding progress, presented as required supplementary information, presents multi-year trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions - Actuarial valuation methods used for January 1, 2007, 2006 and 2005 included (a) the five-year smoothed market for asset valuation, (b) the projected unit credit for the actuarial accrued liability, and (c) the level dollar open for amortization of pension service costs. The remaining amortization period for January 1, 2006, was 29.4 years. Effective with the January 1, 2007, valuation, CPS Energy elected to establish an amortization period of 20 years to be used for actuarial valuations for the current and future periods.

The actuarial assumptions were changed for January 1, 2007, as a result of an experience study and actuarial assumption review covering 2007 through 2006 actuarial valuation data. The assumed termination, retirement, mortality, base salary increases and overtime rates were updated to reflect recent experience and future expectations, and a separate incentive pay assumption was adopted based on current policies and expectations. The changes in actuarial assumptions increased the actuarial accrued liability as of January 1, 2007, by \$77,700 (from \$964,300 under the prior assumptions to \$1,042,000 under the new assumptions) and increased the employer normal cost from 8.0% of reported earnings to 9.8% of reported earnings.

Significant actuarial assumptions used for the January 1, 2007, actuarial valuation included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases averaging 5.8%, and (c) post retirement cost-of-living increases of 1.8%. The projected salary increases included an inflation rate of 3.5%.

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Note 8 Pension and Retirement Plans (Continued)

Three-Year Trend Information

Trend information compares the annual required contribution to annual pension cost and the resultant net pension obligation, as required by GASB Statement No. 27.

Pension Plan	Fiscal Year	Three-Year Trend Information					Net Pension Obligation at End of Year	Percentage of APC Contributed
		Actual Required Contribution (ARC)	Interest on Net Pension Obligation (NPO)	Adjustment To ARC	Pension Cost (APC)	Increase (Decrease) in NPO		
Fire and Police Pension Fund City of San Antonio	2006	\$ 51,614	\$ 54,952	\$ 51,614	\$ 54,952	\$ (3,338)	100.0%	
	2007	54,952	58,101	54,952	58,101	(3,149)	100.0%	
TMRs - City of San Antonio	2006	\$ 27,077	\$ 27,077	\$ 27,077	\$ 27,077	\$ 0	100.0%	
	2007	28,455	28,455	28,455	28,455	1,378	100.0%	
CPS All Employee Plan ¹	2006	\$ 30,538	\$ 30,538	\$ 30,538	\$ 30,538	\$ 0	100.0%	
	2007	7,162	7,162	7,162	7,162	\$ 0	100.0%	
TMRs - PHILC - SAWS ²	2006	\$ 20,866	\$ 20,866	\$ 20,866	\$ 20,866	\$ 0	100.0%	
	2007	2,101	2,101	2,101	2,101	\$ 0	100.0%	
SAWS ²	2006	\$ 2,386	\$ 2,386	\$ 2,386	\$ 2,386	\$ 0	100.0%	
	2007	3,689	3,689	3,689	3,689	\$ 1,303	100.0%	
SAWS ²	2006	\$ 4,575	\$ 4,575	\$ 4,575	\$ 4,575	\$ 0	100.0%	
	2007	4,710	4,710	4,710	4,710	\$ 135	100.0%	

¹ Fiscal year-ended January 31, 2008
² Plan year-ended December 31, 2007

Significant TMRs Actuarial Assumptions and Methods

Significant assumptions used in the actuarial valuation of December 31, 2007, by the Texas Municipal Retirement System's (TMRs) actuary are provided in the following table for both the City and SAWS:

TMRs Actuarial Assumptions and Methods	Projected Unit Credit
Actuarial Cost Method	Level Percent of Payroll
Amortization Method	30 Years - Closed Period
Remaining Amortization Period	Amortization Cost
Asset Valuation Method	7.0%
Investment Return - City	Varies by Age and Service
Investment Return - SAWS	3.0%
Projected Salary Increases	2.1%
Includes Inflation At	
Cost of Living Adjustments	

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Note 9 Postemployment Retirement Benefits

Primary Government (City)

Plan Description

In addition to the pension benefits discussed in Note 8, Pension and Retirement Plans, the City provides all their retired employees with certain health benefits under two postemployment benefit programs. The first of the two programs is a health insurance plan, which provides benefits for all nonuniformed City retirees and for all pre-October 1, 1989 uniformed (fire and police) retirees, through a single-employer defined benefit plan administered by the City. This plan may be amended at any time by the City Council. Currently, there are 5,976 active civilian employees who may become eligible in the future. Employees become eligible for the program when they reach eligibility for the TMRs Pension Plan. An employee retiring at age 60 must have at least 20 years or service with the City and a nonuniformed City employee retiring at age 60 or over must have at least 5 years of service with the City. Retiree medical benefits continue for the life of the retiree and their surviving eligible dependents that were covered at the time of the employee's retirement. Nonuniformed City employees who qualify for a disability pension under TMRs rules are also eligible to receive the retiree medical benefit under this plan. At September 30, 2008, there were 1,485 retirees participating in the program. Of the 942 participating Medicare retirees, 228 participate in a fully insured Medicare HMO and 714 participate in a self-insured Medicare PPO which pays 100% of eligible expenses after the member has satisfied a \$125 Medicare deductible and a \$1,000 Carve Out Coordination of Benefit limit. Please note that the number of employees, retirees, and deductible amounts in this paragraph are not expressed in thousands. Non-Medicare retirees are provided a choice of three PPO Medical plans each with separate deductible and coinsurance amounts.

Funding Policy

The cost of the program is reviewed annually, and the costs of medical claims are funded jointly by the City and retirees on a pay-as-you-go basis, shared on a targeted 67.0% City, 33.0% retiree cost allocation. For retirees, total program expenses were \$11,050 of which \$9,873 were medical claims. For the year-ended September 30, 2008, total contributions were as follows:

Total Contributions	
City	\$ 7,759
Retiree Premiums	3,291
Total Contributions	\$ 11,050

No contributions were made in fiscal year 2008 to prefund benefits.

The Medicare Prescription Drug Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D entitled the health plan to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by the health plan on behalf of certain plan participants. As of September 30, 2008, the City received \$316 in payments. In accordance with GASB Technical Bulletin 2006-01, *Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*, future projected payments from the federal government have not been used to lessen total projected obligations under the City's plan.

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Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Annual OPEB Cost and Net OPEB Obligation

For the fiscal year-ended September 30, 2008, the City's annual postemployment benefits other than pension (OPEB) cost was equal to its annual required contribution (ARC) to the plan. The City's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial balance over thirty years. The following table shows the components of the City's annual OPEB cost, the amount actually contributed to the plan and changes in the net OPEB obligation for the year-ended September 30, 2008:

Annual Required Contribution	\$ 29,786
Annual OPEB costs	29,786
Contributions made	(7,914)
Increase in net OPEB obligation	21,872
Net OPEB obligation - October 1, 2007	
Net OPEB obligation - September 30, 2008	\$ 21,872

The City's annual OPEB cost, the percentage cost contributed to the plan, and the net OPEB obligation for fiscal year 2008 were as follows:

Annual OPEB Cost	29,786	Percentage of Annual OPEB Cost Contributed	26.6%	Net OPEB Obligation	21,872
\$	\$			\$	\$

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Below are the health care cost trend assumptions used for the City's January 1, 2006 actuarial study for the fiscal year-ended September 30, 2008:

City's Health Care Cost Trend Assumptions		
Year	Medical	Prescription Drugs
2006	10.0%	12.0%
2007	9.0%	11.0%
2008	8.0%	10.0%
2009	7.0%	9.0%
2010	6.0%	8.0%
2011	5.0%	7.0%
2012	5.0%	6.0%
2013 +	5.0%	5.0%

In the January 1, 2006 actuarial valuation, the projected unit credit (level dollar) actuarial cost method was utilized to determine the City's OPEB. Under this method, the normal cost is calculated by allocating the present value of projected benefits uniformly over the expected future working life of each employee. The investment return assumption (discount rate) of 4.5% was used, based on the expected long-term investment return on City general assets. The City will not be funding the ARC at this time. The Unfunded Actuarial Accrued Liability (UAAL) is being amortized over a thirty year open period. The remaining amortization period at September 30, 2008 is thirty years.

The City's retiree participation rate is estimated to be at 60.0%. This estimate is based on evaluation of City retirees' enrolled in the City's retiree plan, versus those enrolled in TMRs. Numerous City retirees are former military, or are able to obtain healthcare through spouses insurance, etc.

Fire and Police Retiree Health Care Fund

Plan Description - The second postemployment benefit program of the City the Fire and Police Retiree Health Care Fund, San Antonio (Health Care Fund) is a Texas statutory retirement health trust for firefighters and police officers of the City. The trust holds assets and liabilities of the City's Fire and Police Retiree Health Care Plan (Plan). This Plan is a single-employer defined benefit postemployment health care plan that was created in October 1989 in accordance with provisions established by contract with the local fire and police unions to provide postemployment health care benefits to police officers and firefighters of the City of San Antonio retiring after September 30, 1989. Authority to establish and amend the plan's postemployment health care benefits is based on such contracts and the Texas Legislature enacts regulations that control the operation of the Fund. The statutory trust is governed by a board of trustees that meets on a monthly basis. The board consists of nine members: the Mayor or his appointee; two members of the City Council; one retired and two active duty police officers; and one retired and two active duty firefighters. The Health Care Fund board has the ability to modify benefits within certain parameters. The City is the only participating employer in the Plan. WEB-TPA Employer Services, LLC serves as the third party administrator for the Health Care Fund. Additional administrative services were provided to the Health Care Fund by PTRX, Inc. during fiscal year 2008.

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Contributions - Since its inception, the Health Care Fund has been funded primarily by contributions from the City and City active firefighters and police officers, as part of the compensation for services rendered by the union members, and by contributions made by retirees for their dependents. Effective October 1, 2007, the board implemented state-mandated changes to increase contributions from the Plan's single employer, the City, and plan members in order to reduce actuarially determined funding deficits and ensure the existence of the Fund for future retired firefighters and police officers. The increased contributions were initiated to take effect over a span of years through October 2011. The state-mandated changes also called for a decrease in the level of benefits.

The contribution amounts for each fiscal year, beginning October 1, 2007, are based on statutory contribution rates and on the average member salary expected for that fiscal year, which is to be determined by the Health Care Fund's actuary. For the years ending September 30, 2008, 2009, 2010, 2011, and years thereafter, the specified employee contribution rates were 2.0%, 2.7%, 3.4%, 4.1% and 4.7%, respectively. The City's contributions will be set at 9.4% of the specified wage base. The table below summarizes the actuary's determinations of the contribution amount for the fiscal year-ended September 30, 2008:

Biweekly Contributions:	
Active Fire and Police Members	\$ 46.62
City of San Antonio for Each Member	\$ 219.13
Monthly Contributions for Each Retiree with Under 30 Years of Service who Retires after October 1, 2007	\$ 101.30

Total contributions by active firefighters and police officers were \$4,265 for the year ended September 30, 2008. Membership in the Plan consisted of the following at September 30, 2008:

Retirees and Beneficiaries Receiving Benefits	2,666
Active Plan Members	3,579
Total Membership	<u>6,245</u>

Funding Status and Funding Progress - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of the plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by the City in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuations follows:

Valuation Date	10/1/2007
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Pay, Open
Remaining Amortization Period	Open, 30 Years
Asset Valuation Method	5-Year Adjusted Market Rate
Actuarial Assumptions:	
Investment Rate of Return	8.0% *
Health Care Cost Rate Trend:	10.0% Initial
	5.5% Ultimate

* Assumed investment rate of return consists of 4.0% net real rate of return plus 4.0% inflation.

CPS Energy

CPS Energy provides certain health and life insurance benefits for employees. Additionally, most CPS Energy employees are also eligible for these benefits upon retirement from CPS Energy. Assets of the plans are held in three separate, single-employer contributory plans:

- City Public Service of San Antonio Group Health Plan (Health Plan) - a contributory group health plan that provides health, dental and vision benefits.
- City Public Service of San Antonio Group Life Insurance Plan (Life Plan) - a contributory plan that provides life insurance benefits.
- City Public Service of San Antonio Group Disability Plan (Disability Plan) - an employer funded plan that provides disability income benefits.

The Employee Benefit Plans' assets are segregated from CPS Energy's assets and are separately managed by an Administrative Committee whose members are appointed by the Oversight Committee. These plans report results on a calendar-year basis and issue separately audited financial statements that may be obtained by contacting Employee Services at CPS Energy by email at BFStiller@CPSEnergy.com.

Prior to fiscal year 2008, the Employee Benefit Plans were reported as component units of CPS Energy, and their financial results were blended with those of CPS Energy. In order to properly implement GASB Statement No. 45, the Employee Benefit Plans have been removed from the CPS Energy financial statements as component units in fiscal year 2008. The financial statements for these Plans have been separately audited.

Funding Policy - The funding requirements for both the Plan participants and the employer are established by and may be amended by CPS Energy. Funding is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by CPS Energy.

Note 9 Postemployment Retirement Benefits (Continued)

CPS Energy (Continued)

Retired employees contribute to the Health Plan in varying amounts depending upon an equity formula that considers age and years of service. Individuals who retired before February 1, 1993, contribute a base rate plus 2% of the difference between that amount and the aggregate rate for each year that the sum of age and service is less than 95. Those who retired on or after February 1, 1993, contribute a base rate plus a percentage of the CPS Energy contribution, based on the number of years of service, if they retired with less than 35 years of service. Retirees and covered dependents contributed \$2,600 in fiscal year 2008. Prior to fiscal year 2008, CPS Energy reimbursed a percentage of the Medicare Part B monthly premium to certain retirees and their spouses enrolled in Medicare Part B. In fiscal year 2008, in place of the reimbursement, Health Plan premiums for retirees were reduced to cover a portion of their cost for Medicare Part B.

CPS Energy's contributions in relation to the ARC for the Health Plan amounted to 21.0% of covered payroll in fiscal year 2008. In fiscal year 2008, CPS Energy elected to advance fund \$30,000 of the Health Plan AAL.

The Medicare Prescription Drug Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D entitled the Health Plan to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by the Health Plan on behalf of certain Plan participants. The Plan began receiving subsidy payments in the third quarter of fiscal year 2007; these payments totaled \$771 for fiscal year 2008. In accordance with GASB Technical Bulletin 2006-01, *Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*, future projected payments from the federal government have not been used to lessen total projected obligations under CPS Energy's Plan.

Employees who retired prior to February 1, 1993, contribute to the Life Plan at a rate of \$0.13 per \$1,000 of insurance per month on amounts in excess of \$20,000 plus 2% of the difference between that amount and the aggregate rate for retiree coverage for each year the sum of retirement age and service is less than 95. Those who retired on or after February 1, 1993, contribute \$0.13 per \$1,000 of insurance per month on amounts in excess of \$20,000 plus a percentage of the CPS Energy contribution, based on number of years of service, if they retired with less than 35 years of service. Retirees and covered dependents contributed \$69 in fiscal year 2008 for their life insurance benefits. CPS Energy's contributions in relation to the ARC for the Life Plan amounted to 0.2% of covered payroll in fiscal year 2008.

The Disability Plan is funded completely by CPS Energy. CPS Energy's contributions in relation to the ARC were 0.5% of covered payroll in fiscal year 2008.

Annual OPEB Cost and Net OPEB Obligation - CPS Energy's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The annual OPEB cost consists of the ARC, interest on the net OPEB obligation and adjustments to the ARC for the Health, Life and Disability Plans. The annual OPEB cost was \$13,377 for fiscal year 2008. The following table shows the components of CPS Energy's annual OPEB cost for fiscal year 2008, the contributions in relation to the ARC, and changes in the net OPEB obligation for each of the Plans. Since GASB Statement No. 45 was implemented prospectively, there was a zero net OPEB obligation at the beginning of fiscal year 2007. The net OPEB obligation may be either positive, reflecting a liability, or negative, reflecting an asset. The term net OPEB obligation, as used in this Note, refers to either situation.

Note 9 Postemployment Retirement Benefits (Continued)

CPS Energy (Continued)

	Health Plan	Life Plan	Disability Plan	Total
Annual required contribution	\$ 13,181	\$ -	\$ 209	\$ 13,390
Interest on net OPEB obligation	71	(7)	9	73
Adjustment to annual required contribution	(84)	8	(10)	(86)
Annual OPEB cost	13,168	1	208	13,377
Contributions in relation to ARC	(43,864)	(349)	(291)	(44,504)
Decrease in net OPEB obligation	(30,696)	(348)	(83)	(31,127)
Net OPEB obligation - beginning of year	893	(90)	106	909
Net OPEB obligation - end of year	\$ (29,803)	\$ (438)	\$ 23	\$ (30,218)

CPS Energy's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for fiscal year 2008 for each of the Plans were as follows:

	Health Plan	Life Plan	Disability Plan	Total
Annual OPEB cost	\$ 13,168	\$ 1	\$ 208	\$ 13,377
Percentage of annual OPEB cost contributed	333.1%	27007.3%	140.0%	332.7%
Net OPEB obligation	\$ (29,803)	\$ (438)	\$ 23	\$ (30,218)

Funded Status and Funding Progress - CPS Energy began partial funding of projected future benefits in 1992. The funded status of the Plans as of the January 1, 2007, valuation date was as follows:

	Health Plan	Life Plan	Disability Plan
Actuarial value of plan assets (a)	\$ 150,818	\$ 47,809	\$ 3,925
Unfunded actuarial accrued liability (b)	220,691	31,219	5,211
(funding excess) (b) - (a)	\$ 69,873	\$ (16,590)	\$ 1,286
Funded ratio (a) / (b)	68.3%	153.1%	75.3%
Covered payroll (c)	\$ 209,070	\$ 177,558	\$ 177,558
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((b) - (a)) / (c)	33.4%	-9.3%	0.7%

Actuarial Methods and Assumptions - Actuarial valuations of ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The schedules of funding progress, presented as required supplementary information, present multiyear trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Note 9 Postemployment Retirement Benefits (Continued)

CPS Energy (Continued)

For the Health Plan, the actuarial cost method used was the projected unit credit actuarial cost method. For the Life and Disability Plans, the aggregate actuarial cost method was used to determine the cost of benefits. Since this method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress was prepared using the entry age actuarial cost method, which is intended to approximate the funding progress of the Plans.

The amortization method used for all three Plans was the level dollar open method. Effective with the January 1, 2007, valuation, CPS Energy elected to establish an amortization period of 20 years to be used for actuarial valuations for the current and future periods. The asset valuation method used for all three Plans was the five-year smoothed market valuation method.

A factor that significantly affected the identification of trends from calendar-year 2006 to calendar-year 2007 was a change in actuarial assumptions for termination, retirement, mortality, base salary increases, overtime and incentive pay. Significant actuarial assumptions used in the calculations for January 1, 2007, included (a) a rate of return on the investment of present and future assets of 8.0% for the Health, Life and Disability Plans, (b) a Consumer Price Index increase of 4.0% for the Disability Plan, (c) projected salary increases for the Health Plan ranging from 4.1% to 10.5% depending on age for base and other salaries and an inflation rate for salary increases of 3.5% for the Life and Disability Plans, and (d) medical cost increases projected at 9.5% for 2007 decreasing to 5.5% in 2016 and thereafter.

San Antonio Water System (SAWS)

SAWS provides certain healthcare and life insurance benefits for eligible retirees, their spouses, and their dependents through a single-employer defined benefit plan administered by SAWS. The authority to establish and amend the OPEB provisions is vested in the SAWS board of trustees.

The eligibility requirements for participation in plan are dependent upon initial hire date and retirement eligibility as follows:

- Hired prior to September 1, 2002:
 - 60 years old and at least five years of credible combined service, or
 - No age requirement and at least 20 years of credible combined service

Hire on or after September 1, 2002:

- 60 years old and at least ten years of credible combined service, or
- No age requirement and at least 20 years of credible combined service with at least ten years of service with SAWS

For participants not eligible to retire as of December 31, 2007, the later of the following:

- 55 years old and at least ten years of service with SAWS, and
- Earlier of 60 years old and ten years of service with SAWS, or no age requirement and 20 years of credible combined service with at least ten years of service with SAWS.

Retirees can purchase coverage for their spouse at SAWS' group rates. After age 65, healthcare benefits under the plan are supplemental to Medicare benefits.

Note 9 Postemployment Retirement Benefits (Continued)

San Antonio Water System (SAWS) (Continued)

The following is the participant summary as of January 1, 2007 (the most recent actuarial valuation date):

Active employees	1,558
Retired employees	539
Spouses of retired employees	392
Total	2,489

Funding Policy - The contribution requirements of plan members and SAWS are established and may be amended by the SAWS board of trustees. To date, SAWS has funded all obligations arising under these plans on a pay-as-you-go basis. Going forward, SAWS' required contribution will be based on a projected pay-as-you-go financing requirement, with an additional amount to prefund benefits as determined annually by SAWS' board of trustees. It is currently the intention of SAWS to phase-in full funding of the actuarially determined annual required contribution over a five year period beginning in 2008.

Plan members' required contributions vary depending on the health plan selected by the retiree as well as the number of years of service at the time of retirement. For the year-ended December 31, 2007 SAWS' contribution to the plan equaled the current premiums of \$4,479, while plan members receiving benefits contributed \$116 through their required contribution. No contributions were made in 2007 to prefund benefits.

Annual OPEB Cost and Net OPEB Obligation - For the year-ended December 31, 2007, SAWS' annual OPEB cost is calculated based on the annual required contributions (ARC). The following table shows the components of SAWS' annual OPEB cost, the amount actually contributed to the plan and changes in the net OPEB obligation for the year-ended December 31, 2007:

Annual Required Contribution	\$ 17,696
Annual OPEB costs	17,696
Contributions made	\$ (4,479)
Increase in net OPEB obligation	13,217
Net OPEB obligation - January 1, 2007	\$ 13,217
Net OPEB obligation - December 31, 2007	<u>\$ 13,217</u>

SAWS' annual OPEB cost, the percentage cost contributed to the plan, and the net OPEB obligation for 2007 were as follows:

	Annual OPEB Cost	Percentage of
	Cost	Contributed
\$	17,696	25.3%
	Net OPEB Obligation	
	\$ 13,217	

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

Note 9 Postemployment Retirement Benefits (Continued)

San Antonio Water System (SAWS) (Continued)

In the January 1, 2007 actuarial valuation, the projected unit credit funding method was used. The investment return assumption used in the calculation of the AAL was 5.8%, which is a blended rate of the estimated long-term investment return on the investments that are expected to be used to finance the payment of benefits. The investment return assumes SAWS will phase-in fully funding the annual required contribution over the next five years. The UAAL is being amortized as a level dollar amount over thirty years. The remaining amortization period at December 31, 2007 was twenty-nine years.

Health care cost trend rates are used to anticipate increases in medical benefit costs expected to be experienced by the retiree health plan in each future year. The trend rates used are as follows:

Year Beginning January 1	Medical Annual Rate of Increase	Prescription Drugs Annual Rate of Increase
2007	8.0%	12.0%
2008	7.0%	11.0%
2009	6.0%	10.0%
2010	5.0%	9.0%
2011	5.0%	8.0%
2012	5.0%	7.0%
2013	5.0%	6.0%
2014+	5.0%	5.0%

Note 10 CPS Energy South Texas Project (STP)

Joint Operations

Units 1 and 2 - CPS Energy is one of three participants in STP, a two-unit nuclear power plant with each unit having a nominal output of approximately 1,360 megawatts. The units, along with their support facilities and administrative offices, are located on a 12,220-acre site in Matagorda County, Texas. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. The other participants in STP are NRG South Texas LLP, a wholly owned subsidiary of NRG Energy, Inc. (NRG) and the City of Austin.

CPS Energy's 40.0% ownership in STP represents 1,080 megawatts of total plan capacity. See Note 4, Capital Assets for more information about CPS Energy's capital investments in STP.

Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated. At that time, the STPNOC, a Texas nonprofit, nonmember corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC.

CPS Energy amortizes its share of nuclear fuel for STP to fuel expense on a units-of-production method. Under the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS Energy is charged a fee for disposal of spent nuclear fuel, which is based upon CPS Energy's share of STP generation that is available for sale to CPS Energy customers. This charge is included in fuel expense monthly.

Note 10 CPS Energy South Texas Project (STP) (Continued)**Joint Operations (Continued)**

Units 3 and 4 Project - On June 28, 2006, NRG announced plans to construct two additional reactors at the currently functioning two-unit STP site (STP Units 3 and 4). With this addition, energy production at that site is projected to increase by 2,700 megawatts. In response to NRG's announcement, in July 2006 CPS Energy formed a cross-functional task force of more than 30 in-house staff from various disciplines and consultants who conducted an extensive feasibility study comparing the proposed development of new nuclear plants against CPS Energy's alternatives for other sources of baseload generation (Feasibility Study). The initial results of the Feasibility Study were reported to the CPS Energy Board in early 2007, and an ongoing due diligence team has been established to monitor project developments and make additional recommendations regarding CPS Energy's potential participation in STP Units 3 and 4.

On September 24, 2007, NRG and CPS Energy signed the South Texas Project Supplemental Agreement (Supplemental Agreement) under which CPS Energy elected to participate in the development of STP Units 3 and 4 pursuant to the terms of the current participation agreement among the STP owners and agreed to potentially own up to 50.0% of STP Units 3 and 4. The Supplemental Agreement provides for CPS Energy to reimburse NRG for its pro rata share, based on its ownership percentage, of initial project costs incurred and to pay its pro rata share of future development costs. The Boards of CPS Energy and NRG subsequently approved the Supplemental Agreement, which became effective on October 29, 2007. CPS Energy's adoption of its resolution to participate in the initial development of STP Units 3 and 4 does not constitute a commitment to make the complete investment in the proposed construction and operation of new nuclear units at STP; however, should both parties decide to withdraw from the project, the project shall cease and the parties shall share proportionately the termination costs, including demobilization and cancellation charges. If only one party decides to withdraw, the withdrawing party is liable for payment obligations incurred up to 30 days of issuing the withdrawal date.

Also on September 24, 2007, STPNOC, on behalf of CPS Energy and NRG, filed a combination construction and operating license application (CCOLA) to build and operate STP Units 3 and 4 with the NRC. The CCOLA for STP Units 3 and 4 was the first complete application for new commercial nuclear units to be filed with the NRC in nearly 30 years. On November 29, 2007, the NRC announced that it had accepted the CCOLA for review.

As a result of CPS Energy's commitment to participate in the early project development phase of STP Units 3 and 4 and to pay its proportionate share of the costs associated with development and filing of the CCOLA, the costs associated with the Feasibility Study were accumulated in a deferred account during the evaluation process. As of January 31, 2008, the feasibility costs, along with other STP Units 3 and 4 project costs are included in construction-in-progress.

On March 26, 2008, NRG announced the formation of Nuclear Innovation North America, LLC (NINA). NRG has an 88.0% ownership in NINA, while Toshiba Corporation owns the remaining 12.0%. Upon the formation of NINA, NRG contributed its 50.0% ownership of, and its development rights to, STP Units 3 and 4 to NINA. As a result, NINA will now be CPS Energy's partner for co-development of STP Units 3 and 4.

Nuclear Insurance

The Price-Anderson Act is a comprehensive statutory arrangement for providing limitations on liability and governmental indemnities with respect to nuclear accidents or events. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is \$100,600, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at \$10,000 per year per reactor for each nuclear incident. CPS Energy and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests. For purposes of these assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC in accordance with the financial protection requirements of the Price-Anderson Act. A Master Worker Nuclear Liability policy, with a maximum limit of \$300,000 for the nuclear industry as a whole, provides protection from nuclear-related claims.

Note 10 CPS Energy South Texas Project (STP) (Continued)**Nuclear Insurance (Continued)**

NRG regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of approximately \$1,100,000. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP currently maintain approximately \$2,800,000 of nuclear property insurance, which is above the legally required amount of \$1,100,000, but is less than the total amount available for such losses. The \$2,800,000 of nuclear property insurance consists of \$500,000 in primary property damage insurance and \$2,300,000 of excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited (NEL). A retrospective assessment could occur if property losses, as a result of an accident at any nuclear plant insured by NEL, exceed the accumulated funds available to NEL.

Nuclear Decommissioning

CPS Energy, together with the other owners of STP, files a certificate of financial assurance with the Nuclear Regulatory Commission (NRC) for the decommissioning of the nuclear power plant every two years or upon transfer of ownership. The certificate assures that CPS Energy and the other owners meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. The most recent cost study conducted by the owners in 2007 showed that CPS Energy's share of decommissioning costs was \$385,200 in 2007 dollars. Based on the level of funds accumulated in the 28.0% Decommissioning Trust and an analysis of this cost study, CPS Energy determined that no annual contribution will be required in fiscal year 2009. In accordance with a decommissioning study in 2004, which reflected a cost of \$347,500 in 2004 dollars for CPS Energy's share of decommissioning costs, CPS Energy's minimum annual contribution requirement was \$5,000 for fiscal year 2008. Decommissioning costs for both the 2007 and 2004 studies included a 10.0% contingency component as required to comply with the PUCT.

In 1991, CPS Energy started accumulating the decommissioning funds for their original 28.0% portion in an external trust in accordance with the NRC regulations. The 28.0% Decommissioning Trust's assets and related liabilities are included in CPS Energy's financial statements as a component unit. Excluding securities lending cash collateral, as of December 31, 2007, CPS Energy had accumulated approximately \$277,000 in that 28.0% Trust. Based on the most recent annual calculation of financial assurance required by the NRC, CPS Energy's 28.0% Decommissioning Trust balance exceeded the calculated financial assurance amount of \$87,300 at December 31, 2006. No financial assurance calculation was required at December 31, 2007.

In conjunction with the acquisition of the additional 12.0% interest in STP in May 2005, CPS Energy also assumed control of a relative portion of the Decommissioning Trust previously established by the prior owner, American Electric Power (AEP). This is referred to as the 12.0% Decommissioning Trust, and its assets and related liabilities are also included in CPS Energy's financial statements as a component unit. Subject to PUCT approval as requested in the future, credits or deficiencies in the funding of this Trust will be received from or distributed to AEP customers. Excluding securities lending cash collateral, as of December 31, 2007, the Trust had accumulated approximately \$91,400. Based on the most recent annual calculation of financial assurance required by the NRC, the 12.0% Decommissioning Trust balance exceeded the calculated financial assurance amount of \$37,400 at December 31, 2006. As noted above, no financial assurance calculation was required at December 31, 2007.

Both Decommissioning Trusts also have separate calendar-year financial statements. These separately audited financial statements can be obtained by contacting the Controller at CPS Energy by email at SRAlbert@CPSEnergy.com.

Note 10 CPS Energy South Texas Project (STP) (Continued)

Nuclear Decommissioning (Continued)

STP Pension Plan and Other Postretirement Benefits - STP maintains a noncontributory defined-benefit pension plan covering most employees. Retirement benefits are based on length of service and compensation. Plan assets are invested in various equity and fixed-income securities. Pension contributions in the amount of \$9,900 were made by STP in the 2006 calendar year, of which \$7,900 were for the 2005 plan year. Pension contributions in the amount of \$27,700 were made by STP in the 2007 calendar year, all of which were for the 2006 plan year. No additional funding is required in the 2008 calendar year for the 2007 plan year.

In September 2006, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106 and 132(R)*. FASB Statement No. 158 required STP, as the sponsor of a plan, to (a) recognize on its balance sheets as an asset the plan's overfunded status or as a liability the plan's underfunded status, (b) measure the plan's assets and obligations as of the end of the calendar year, and (c) recognize changes in the funded status of the plans in the year in which changes occur. Additional minimum liabilities are also derecognized upon adoption of the new standard. FASB Statement No. 158 required STP to recognize additional liabilities and eliminate the intangible asset related to certain of its qualified and nonqualified plans. The effect of the implementation of FASB Statement No. 158 to CPS Energy of \$21,174 is reflected as a reduction in Changes in Net Assets on the Statement of Activities.

Employees whose pension benefits exceed \$225 for the 2007 Employee Retirement Income Security Act limitations are covered by a supplementary nonqualified, unfunded pension plan, which is provided for by charges to operations sufficient to meet the projected benefit obligation. The accruals for the cost of that plan are based on substantially the same actuarial methods and economics as the noncontributory defined-benefit pension plan.

STP also maintains a defined-benefit postretirement plan that provides medical, dental and life insurance benefits for substantially all retirees and eligible dependents. The cost of these benefits is recognized in the project statements during an employee's active working career. STP has a trust to partially meet the obligations of the plan.

The owners of STP, including CPS Energy, share in all plan costs in the same proportion as their respective ownership percentages.

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Note 10 CPS Energy South Texas Project (STP) (Continued)

Nuclear Decommissioning (Continued)

STP Pension Plan		
Schedule of Funding Status (RSI-Unaudited)		
Calendar Year 2007		
	Pension Benefits	Other Benefits
Change in benefit obligation:		
Benefit Obligation - Beginning	\$ 178,200	\$ 53,186
Service Cost	7,596	4,202
Interest Cost	10,175	2,987
Actuarial Loss	10,901	2,078
Benefits Paid	(2,222)	(1,953)
Benefit Obligation - Ending	204,650	60,500
Change in Plan Assets:		
Fair Value of Plan Assets - Beginning	117,686	10,426
Actual Return on Plan Assets	15,042	1,030
Employer Contributions	27,768	1,757
Benefits Paid	(2,222)	(1,953)
Fair Value of Plan Assets - Ending	158,274	11,260
Funded Status - Ending	(46,376)	(49,240)
Unrecognized Net Actuarial Loss	38,049	23,879
Unrecognized Prior Service Cost	9,386	(15,231)
Unrecognized Transition Obligation		376
Net Amount Recognized	1,059	(40,216)
Accrued Benefit Cost	\$ 1,059	\$ (40,216)
Weighted-average Assumptions:		
Discount Rate	6.3%	6.3%
Expected Return on Plan Assets	8.5%	8.5%
Rate of Compensation Increase	4.0%	3.0%

Note 11 Commitments and Contingencies

Primary Government (City)

Grants

The City has received significant financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a materially adverse effect on the City's financial position at September 30, 2008. Grants awarded by federal, state, and other governmental agencies but not yet earned as of September 30, 2008 were \$25,955.

Note 11 Commitments and Contingencies (Continued)**Primary Government (City) (Continued)****Capital Improvement Program**

The City will be undertaking various capital improvements during fiscal year 2009. The estimated cost of these improvements is \$772,504, of which \$255,548 is related to the Airport System. These projects are scheduled to be funded with a combination of grants, contributions from others, bonds and other designated City resources.

Litigation

The City is a party to various lawsuits alleging personal and property damages, wrongful death, breach of contract, property tax assessment disputes, environmental matters, class actions, employment claims and cases. The estimated liability, including an actuarially determined amount of incurred but not reported claims, is recorded in the Insurance Reserve Fund in the amount of \$19,435. The City estimates the amounts of unsettled claims under its self-insurance program and believes that the self-insurance reserves recorded in the Insurance Reserve Fund are adequate to cover losses for which the City may be liable. Whether additional claims or revisions to estimates required for settlement on existing claims could have a material effect on the general purpose financial statements cannot be determined.

Charles and Tracy Pollock, Individually and as next friend of Sarah Jane Pollock, a minor, child v. City of San Antonio. This case involves allegations that benzene gas emitted from the West Avenue Landfill caused chromosomal damage to a fetus during the period of gestation, resulting in child's contraction of acute lymphoblastic leukemia. Although the jury at trial entered a judgment of more than \$23,000 against the City, the trial court immediately reduced the judgment by \$6,000. On appeal, the Fourth Court of Appeals sided with the City and reduced the judgment further by eliminating \$10,000 in exemplary damages. The remaining issue is whether personal injuries are recoverable under the theory of nuisance. The City believes they are not and that even if they are recoverable, damages are capped at \$250 under the Texas Tort Claims Act. The case was argued to the Texas Supreme Court on October 18, 2006. The Court has not made a decision.

Brooks Hardee, et. al. v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio; En Seguido, Ltd. v. City of San Antonio; John M. Schaefer, et. al. v. City of San Antonio; WVC Ltd. v. City of San Antonio. et. al.; Lakeside Joint Venture, et. al. v. City of San Antonio These are similar cases brought by the same developer/landowner under different entities. These cases all raise complex issues of fact and law and collectively, challenge the City's authority to regulate land development, including but not limited to challenging the City's vested rights determinations for the landowner's projects. There are approximately six related cases still pending. The City's legal team is confident that many of the allegations are without merit. Nevertheless, it is proceeding carefully and deliberately to defend its regulations and its power to protect the public. The City has coordinated its defense with the San Antonio Water System.

Samantha Rivera v. et. al. v. City of San Antonio and SAPD Officers Remaldo Montes and Rachel Barnes This is a case involving use of deadly force. Plaintiff claims that Defendant officers entered her home forcibly and with deadly force, killed Plaintiff's decedent husband in violation of his civil rights. Plaintiff alleges federal constitutional violations as well as battery under state law. Plaintiff seeks \$25,000 against the City. Summary Judgment was granted in favor of the City; however, claims remain against the officers. The case was taken off of the docket for February 17, 2009 and has not been reset pending mediation. Mediation is set for March 31, 2009.

Shaw v. City of San Antonio et. al. Plaintiffs contend they were subjected to excessive force and physical beatings by police officers. The police officers were called to Plaintiffs' home on a domestic violence call on Mother's Day in 2006. Plaintiffs' claim the fight had stopped but the police officers beat them. Plaintiffs' claim Fourth, Fifth, Sixth, Eighth, and Fourteenth Amendment violations under 42 U.S.C. 1983. Plaintiffs have pled for damages of \$7,500. Shaw has not obtained counsel and the Court has given her until the end of April 2009 to find a new lawyer and has entered a new scheduling order with a trial to begin on November 30, 2009.

Note 11 Commitments and Contingencies (Continued)**Primary Government (City) (Continued)****Litigation (Continued)**

Aronaut Southwest Insurance Company v. City of San Antonio The Plaintiff's insurance company sued the City alleging breach of an insurance contract related to the Convention Center Expansion Project and failure to pay premiums. Plaintiff claims damages in excess of \$500. This case was settled in February 2009 for \$200.

John Foddzili v. City of San Antonio Plaintiff was employed as a Telecommunications Manager in the City's Information and Technology Services Department. Plaintiff was terminated in April, 2006 for job performance. Plaintiff had previously filed complaints with the City's Municipal Integrity Unit alleging misuse of funds which were unfounded. He filed suit against the City under the Texas Whistleblower Act and seeks damages in excess of \$500. On February 11, 2009, a jury found in favor of the City and judgment will be entered accordingly. The plaintiff still has the ability to appeal this verdict; the City believes that its exposure in this case has significantly decreased due to the jury's verdict and lack of any significant error likely to result in reversal on appeal.

Erin McCutcheon v. Sheryl Sculley, et. al. Plaintiff was arrested by an SAPD officer for a public disturbance at a night club. Plaintiff, a minor, was intoxicated, and exhibited violent behavior. After being placed in the police cruiser, and in route to the detention facility, Plaintiff kicked out one of the windows in the car. The officer pulled over the car and another officer arrived on the scene to assist. Plaintiff tried to exit the vehicle and the officers attempted to restrain her in the car. The Plaintiff continued to act violently, kicking the officers, and they eventually used force to place her back in the vehicle. Plaintiff has filed suit against the officers, and the night club, alleging use of excessive force by the officers. The City has been dismissed from the suit. Damages could exceed \$250. The City estimates the costs of representing the officers to be approximately \$40 to \$50. This case is set for trial on August 17, 2009.

Mark DeLeon v. City of San Antonio, et. al. Plaintiff alleges that while standing in the street outside a friend's house, and unmarked vehicle pulled up and two people identifying themselves as police got out of the vehicle with weapons drawn. Plaintiff alleges that he initially placed his hands on a truck as instructed, but then decided to make a run for the house. When he ran, one of the officers discharged his weapon, hitting Plaintiff in the arm. Plaintiff filed suit against the City and the police officers. Damages could be in excess of \$250.

Koplow Development, Inc. v. City of San Antonio Plaintiff contends that certain public work drainage and detention improvements resulted in an easement across its property and effectively constituted a taking of property. This matter was tried in July 2008 and a verdict of \$1,500 was entered against the City. This case was tried on March 16, 2009. The jury rendered a verdict in the amount of \$690.

Vanessa Samudio v. City of San Antonio Plaintiff was involved in a head-on motor vehicle accident with a San Antonio Police Officer. Plaintiff alleges that the officer was driving at an excessive speed. Plaintiff has incurred in excess of \$100 in medical expenses alone. Damages in this case could be at the statutory cap of \$250. This case is set for trial June 15, 2009.

Natalia Vargas, et. al. v. City of San Antonio, et. al. Minor plaintiff was apprehended by police officer who allegedly used his vehicle to pin minor plaintiff against a wall, injuring minor plaintiff's leg resulting in amputation. Plaintiffs allege that City and officers violated minor plaintiff's civil rights by use of excessive force. This case is recently filed and discovery is ongoing. Damages could exceed \$250.

Shawn Rosenbaum, et. al. v. City of San Antonio, et. al. Plaintiff's decedent, Diane Rosenbaum, was operating her motorized wheelchair, crossing a parking area. Ms. Rosenbaum drove in front of a City brush truck. The driver of the truck did not see Ms. Rosenbaum and struck her, causing the wheelchair to become stuck under the truck and Ms. Rosenbaum to be drug across the parking area. Ms. Rosenbaum later died, allegedly as a result of this incident. This case is recently filed and discovery is ongoing. Damages could exceed \$250.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Litigation (Continued)

Suleman Savani v. City of San Antonio and City South Management Authority In 2005, City of San Antonio enacted a limited purpose annexation for property located in south Bexar County. Plaintiff entered into an option contract to purchase property located in the limited purpose annexation area if the property was ever rezoned for residential development. In 2008, City Council rezoned the property at issue, the Plaintiff purchased the property. Approximately one month later, the limited purpose annexation expired and zoning authority for the area passed to City South Management Authority (CSMA). In March 2008, CSMA rezoned the property back to re-enact an industrial buffer zone. Plaintiff has filed suit alleging a taking of his property due to the zoning. This case was filed in November 2008. Discover is currently on-going. Damages in this case could exceed \$250.

Arbitrage

The City has issued certain tax-exempt obligations that are subject to Internal Revenue Service (IRS) arbitrage regulations. Noncompliance with these regulations, which pertain to the utilization and investment of proceeds, can result in penalties, including the loss of the tax-exempt status of the applicable obligations retroactive to the date of original issuance. In addition, the IRS requires that interest income earned on proceeds in excess of the arbitrage rate on applicable obligations be rebated to the federal government. The City monitors its bond proceeds in relation to arbitrage regulations, and "arbitrage rebate" is estimated and recorded in the government-wide and proprietary financial statements when susceptible to accrual, and in the governmental fund type when matured. Arbitrage rebates of \$501, \$7, and \$1 were accrued for the governmental activities and business-type activities for the Airport System, and Environmental Services, respectively at September 30, 2008.

Leases

The City leases City-owned property to others consisting of buildings, real property, and parking spaces. Costs of specific leased components are not readily determinable. Total rental revenue on operating leases for the fiscal year-ended September 30, 2008 was \$30,046. As of September 30, 2008, the leases provide for the following future minimum rentals:

Fiscal year ending September 30:	Leases Revenues			Total
	Governmental Activities	Airport System	Parking System	
2009	\$ 2,826	\$ 30,241	\$ 143	\$ 33,210
2010	1,898	14,815	177	16,890
2011	1,604	14,131	155	15,890
2012	1,386	13,351	155	14,892
2013	993	4,236	121	5,350
2014-2018	4,361	14,444	500	19,305
2019-2023	3,025	4,447	500	7,972
2024-2028	2,154	4,727	300	7,181
2029-2033	1,459	446		1,905
2034-2038	513			513
2039-2043	470			470
2044	23			23
Future Minimum Lease Rentals	\$ 20,712	\$ 98,384	\$ 2,051	\$ 121,147

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Landfill Postclosure Care Costs

In October 1993, the City Council approved closure of the Nelson Gardens Landfill, which immediately stopped accepting solid waste. Subsequent to landfill closure, federal and state laws required the City to incur certain postclosure care costs over a period of 30 years. As of September 30, 1994, the City estimated these costs for postclosure of the Nelson Gardens Landfill at \$3,825. The estimate was based on estimated costs for installation of a leachate and groundwater collection system, installation of a methane recovery system, geotechnical and environmental engineering services, and monitoring and maintaining the facility for a 30-year period. In accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Cost*, the estimated postclosure cost of \$3,825 for the Nelson Gardens Landfill was recorded as a liability and expensed in the Environmental Services Fund in fiscal year 1994. This cost is an estimate and is subject to changes resulting from inflation/deflation, advances in technology, or changes in applicable laws or regulations. Each fiscal year, the City performs an annual re-evaluation of the postclosure care costs associated with the Nelson Gardens Landfill. The annual re-evaluation conducted for the fiscal year-ended September 30, 2008 resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of \$2,036. This represents an increase of \$561 from the prior fiscal year for expenditures incurred for geotechnical and environmental engineering services, as well as a re-estimation of ground water monitoring costs resulting from the cancellation of a third party contract that occurred in the second quarter of fiscal year 2008.

Texas Commission on Environmental Quality (TCEQ) Financial Assurance

The City is required under the provision of the Texas Administrative Code to provide financial assurance to the Texas Commission on Environmental Quality (TCEQ), formerly known as the Texas Natural Resource Conservation Commission, related to the closure of municipal solid waste operations including, but not limited to, storage, collection, handling, transportation, processing, and disposal of municipal solid waste. As such, financial assurance is required to ensure that funds are available, when needed, to meet costs associated with the closure of the City's North East Transfer Station. Additionally, financial assurance is required to demonstrate financial responsibility for underground storage petroleum facilities. As of September 30, 2001, the permit for the North East Transfer Station has been transferred from the City, and the new permittee has provided adequate financial assurance and assumes all liabilities for this facility. Based on the number of underground petroleum storage tanks, the City is required to provide \$1,000 of financial assurance related to the underground storage facilities.

Brooks City-Base - Electric and Gas Utilities

The Brooks City-Base Project is a collaborative effort between the U.S. Air Force (the Air Force) and the City designed to retain the Air Force missions and jobs at Brooks Air Force Base, improve mission effectiveness, assist in reducing operating costs, and promote and enhance economic development at Brooks City-Base. On July 22, 2002, the land and improvements were transferred to the Brooks Development Authority (BDA) for the purpose of creating the Brooks Technology and Business Park, a facility that will foster the development of key targeted industries. The Air Force is currently the Park's anchor tenant and is leasing back facilities to perform its missions.

In the fiscal year 2003, CPS Energy entered into a 20-year agreement with Brooks Development Authority (BDA) to upgrade the electric and gas utility systems located within the Brooks City-Base. CPS Energy and BDA have each committed to invest \$6,300 (\$4,200 in year 2002 dollars, which accumulates interest at the rate of 3.7% compounded annually) to upgrade the infrastructure at the location. BDA is required to pay its annual minimum payment from its available operating revenues. If BDA's operating revenues cannot cover the annual minimum payment, then the City will fund the obligation for that fiscal year. Obligations for fiscal year 2008 were fully funded through BDA operating revenues. BDA's obligations are additionally reduced annually, in accordance with contract terms, for economic development that benefits CPS Energy's electric and gas systems at the Brooks City-Base. BDA's obligation is backed by the City.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

To the extent that the capital renewals and upgrades do not total \$12,600 by September 2022 BDA's and CPS Energy's obligations each will be reduced equally. To date, CPS Energy has invested \$5,000 and BDA has reduced its obligation, net of annual interest, by \$2,000.

CPS Energy

Litigation

In the normal course of business, CPS Energy is involved in legal proceedings related to alleged personal and property damages, breach of contract, condemnation appeals, and discrimination cases. In addition, CPS Energy's power generation activities and other utility operations are subject to extensive state and federal environmental regulation. In the opinion of CPS Energy's management, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS Energy.

Leases

Capital Leases - CPS Energy has capital lease arrangements for the use of computer equipment and for the use of one truck. The value of the assets acquired through capital leases at January 31, 2008, was as follows:

	January 31,
	2008
Equipment	\$ 2,749
Accumulated Depreciation	(666)
Net book value	<u>\$ 2,083</u>

The future minimum lease payments and the net present value of these lease payments as of January 31, 2008, were as follows:

	Year Ended January 31,	Capital Lease
	2009	Payments
	2010	\$ 717
Total future minimum lease payments		1,434
Amount representing interest		(22)
Present value of minimum lease payments		<u>\$ 1,412</u>

Operating Leases - CPS Energy has entered into operating lease agreements to secure the usage of natural gas storage facilities, land, a building, office space, parking lot space and engineering equipment. The lease of the building contains a lease payment escalation clause whereby the minimum monthly lease payments will increase by \$3 per month beginning in December 2011. Additionally, the lease contains an option to purchase the facility before the end of the third year of the lease.

Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Leases (Continued)

As of January 31, 2008, the future minimum lease payments for noncancelable operating leases with terms in excess of one year were as follows:

	Year Ended January 31,	Operating Lease
	2009	Payments
	2010	\$ 6,027
	2011	5,693
	2012	4,791
	2013	2,222
	Later years	405
Total future minimum lease payments		<u>19,623</u>

CPS Energy's minimum lease payments for all operating leases for which CPS Energy was the lessee amounted to \$5,500 in fiscal year 2008. There were no contingent lease or sublease payments in fiscal year 2008.

CPS Energy has entered into operating lease agreements allowing cable and telecommunication companies to attach telephone, cable and fiber-optic lines to CPS Energy's electric poles. Operating leases also exist between CPS Energy and telecommunication companies allowing the companies to attach communication equipment to CPS Energy's telecommunication towers. Additionally, CPS Energy has two operating leases for the use of land that CPS Energy owns. The majority of the operating leases pertaining to the use of CPS Energy's communication towers contain a provision for contingent lease receipts that will equal the lesser of a 15.0% increase in the prior five-year lease payment or the percentage increase in the Consumer Price Index over the same five-year period. Furthermore, the two land leases also contain a provision for contingent lease receipts based on the Consumer Price Index.

As of January 31, 2008, the future minimum lease receipts for noncancelable operating leases with terms in excess of one year were as follows:

	Year Ended January 31,	Operating Lease
	2009	Receipts
	2010	\$ 2,176
	2011	2,176
	2012	2,176
	2013	2,176
	Later years	3,615
Total future minimum lease payments		<u>14,495</u>

CPS Energy's minimum lease receipts for all operating leases for which CPS Energy was the lessor amounted to \$8,000 in fiscal year 2008. Contingent lease receipts amounted to \$246 for fiscal year 2008. There were no sublease receipts in fiscal year 2008.

Note 11 Commitments and Contingencies (Continued)**CPS Energy (Continued)****Leases (Continued)**

Lease/Leaseback - In June 2000, CPS Energy entered into a lease/leaseback transaction with an affiliate of Exelon involving CPS Energy's Spruce 1 coal-fired electric generating unit. The transaction included a lease for a term of approximately 65 years in combination with a leaseback of the facility by CPS Energy for approximately 32 years.

CPS Energy retains fee simple title to and operating control of, the facility and retains all revenues generated from sales of electricity produced from the facility. CPS Energy received the appraised fair value of the unit, \$725,000, which is being amortized over 381 months. The transaction expenses and leaseback costs of \$628,300 were recorded as prepaid items in 2001 and are being amortized over 381 months.

CPS Energy has the option to cancel the leaseback after it expires by making a payment to Exelon's affiliate. CPS Energy entered into a collateralization payment-undertaking agreement that will generate amounts sufficient to fund the cancellation option.

CPS Energy's net benefits associated with the transaction were approximately \$88,000. The City was paid \$12,300 in accordance with the provisions of the New Series Bond Ordinance that permit 14.0% of this net benefit to be distributed. The distribution was recorded as a prepayment in 2001 and is being amortized over 381 months, or approximately 32 years. As a result, net proceeds from the transaction of approximately \$75,700 are being reported over the 32-year leaseback term. In fiscal year 2008, the net amount recorded as income by CPS Energy was \$2,800.

On January 12, 2009, the board of trustees authorized management to explore the feasibility of early termination of this agreement. Preliminary discussions with Exelon are currently in progress.

Lignite Mining Lease and Assignment Agreement - CPS Energy entered into a lignite mining lease with Aluminum Company of America (Alcoa) effective December 28, 1998, covering all of CPS Energy's lignite reserves in Bastrop and Lee Counties of Texas. Alcoa began making advance royalty payments to CPS Energy under the lease in January 1999, which converted to a production royalty when mining began in July 2005. All advance royalties previously received by CPS Energy were deducted from production royalties at the same rate at which they were paid. The CPS Energy royalty fell within industry standard terms and was based on production volumes subject to certain minimum annual amounts.

On August 24, 2007, CPS Energy completed a Purchase and Sale Contract with a third party for the sale of the lignite properties, including the right to all coal and lignite interests.

Other

Purchase and construction commitments amounted to approximately \$3,000,000 at January 31, 2008. This amount includes provisions for natural gas purchases expected through June 2027; the actual amount to be paid will depend upon CPS Energy's actual requirements during the contract period and the price of gas. Also included are provisions for coal purchases through December 2021 and for coal transportation through December 2014.

CPS Energy also has other purchase commitments totaling \$1,700,000. This amount includes provisions for wind power through December 2027, landfill power through December 2020, capacity and other power purchases through December 2009, and raw uranium associated with STP fabrication and conversion services needed for refueling through May 2026.

Note 11 Commitments and Contingencies (Continued)**CPS Energy (Continued)****Other (Continued)**

During fiscal year 2008, CPS Energy entered into a Natural Gas Supply Agreement with the SA Energy Acquisition Public Facility Corporation (PFC), a component unit of the City, to purchase, to the extent of its gas utility requirements, all natural gas to be delivered under a Prepaid Natural Gas Sales Agreement. Under the Prepaid Natural Gas Sales Agreement between the PFC and a third-party gas supplier, the PFC has prepaid the cost of a specified supply of natural gas to be delivered over 20 years. CPS Energy's 20-year commitment under the Natural Gas Supply Agreement is included in the aforementioned \$3,000,000 purchase and construction commitments amount.

In fiscal year 2003, CPS Energy entered into a 20-year agreement with Brooks Development Authority (BDA) to upgrade the electric and gas utility systems located within the Brooks City-Base. CPS Energy and BDA have each committed to invest \$6,300 (\$4,200 in year 2002 dollars, which accumulates interest at the rate of 3.7% compounded annually) to upgrade the infrastructure at that location. BDA is required to pay its annual minimum payment from its available operating revenues. If BDA's operating revenues cannot cover the annual minimum payment, then the City will fund the obligation for that fiscal year. Obligations for fiscal year 2008 were fully funded through BDA operating revenues. BDA's obligations are additionally reduced annually, in accordance with contract terms, for economic development that benefits CPS Energy's electric and gas systems at the Brooks City-Base. BDA's obligation is backed by the City.

To the extent that the capital renewals and upgrades do not total \$12,600 by September 2022, BDA's and CPS Energy's obligations each will be reduced equally. To date, CPS Energy has invested \$4,700 and BDA has reduced its obligation, net of annual interest, by \$2,000.

In December 2007, CPS Energy and Exelon signed an agreement granting CPS Energy an option to participate in a possible joint investment in a nuclear-powered electric generation facility in Southeast Texas (the Exelon Project). Preliminary plans indicate that the Exelon Project would be located in Victoria County, Texas, and would involve the development of two Economic Simplified Boiling Water Reactors, nominally rated at 1,550 megawatts each. Under this agreement, CPS Energy has the option to acquire between 25.0% and a 40.0% ownership in the Exelon Project. Exelon is continuing its due diligence and development of a construction and operating license application for the Exelon Project and is expected to make its decision on whether to build some time in late 2009.

In October 2008, CPS Energy agreed to a force majeure settlement with Calaveras Power Partners, L.P. under which CPS Energy will make an initial payment of \$30,000 and an additional payment of \$10,000 based on project milestones over the remaining term of the Spruce 2 construction contract. Furthermore, in the event the construction project is completed by the planned commercial operation date of June 2010, an additional \$10,000 will be paid to Calaveras Power Partners, L.P.

San Antonio Water System (SAWS)**Litigation**

SAWS is the subject of various claims and potential litigation, which arise in the ordinary course of its operations. Management, in consultation with legal counsel, makes an estimate of potential costs that are expected to be paid in the future as a result of known claims and potential litigation and records this estimate as a contingent liability. The amount of such contingent liability totaled \$3,000 at December 31, 2007. While the exact amount of any potential liability that may arise from these claims and potential litigation is indeterminable, management believes that the amounts recorded are a reasonable estimate.

Note 11 Commitments and Contingencies (Continued)

San Antonio Water System (SAWS) (Continued)

Litigation (Continued)

In March 2007, SAWS was orally notified by Region 6 of the Environmental Protection Agency (the "EPA") of alleged failures to comply with the Clean Water Act (33 U.S.C. 1251, et seq.) due to the occurrence of sanitary sewer overflows. SAWS and EPA engaged in settlement negotiations to resolve these claims. The EPA subsequently referred the matter to the United States Department of Justice (the "DOJ") for an enforcement action. SAWS continued settlement negotiations with the EPA and the DOJ to resolve the allegations. These negotiations are ongoing. SAWS continued settlement negotiations with the EPA and the DOJ to resolve the allegations. These negotiations are ongoing. SAWS expects that any settlement or enforcement action will result in required capital improvements and increased annual maintenance and operating expenses to the System that are phased in over the term of the settlement agreement. SAWS currently expects to finalize negotiations with the EPA and DOJ some time during the calendar year 2009.

Other

As of December 31, 2007, SAWS has various commitments relating to the production of future water supplies. A summary of these commitments for the next 30 years is provided below. As with any estimates, the actual amounts paid could differ materially.

	2008	2009	2010	2011	2012	Thereafter
Firm purchased water obligations	\$ 5,024	\$ 5,143	\$ 5,268	\$ 4,372	\$ 4,480	\$ 156,432
Firm purchased water obligations (acre feet)	8	8	8	6	6	108
Variable purchased water obligations	\$ 6,152	\$ 6,301	\$ 6,458	\$ 6,624	\$ 6,798	\$ 66,018
Variable purchased water obligations (acre feet)	7	7	7	7	7	54
Leased water rights	\$ 2,583	\$ 2,220	\$ 2,032	\$ 3,083	\$ 2,192	\$ 66,655

SAWS' firm and variable purchased water obligations relate to the contractual commitments made in connection with SAWS' wholesale water contracts with Guadalupe Blanco River Authority (GBRA) and two wholesale agreements for the supply of raw water from the Trinity Aquifer. All water provided under these contracts is subject to availability. Under the contract with GBRA, SAWS will receive between 4,000 and 10,750 acre feet of water annually during the years 2008-2037 at prices ranging from \$916 to approximately \$2,411 per acre foot. SAWS has an option to extend this contract until 2077 under new payment terms (figures in this paragraph are not in thousands).

In 2002, SAWS entered into a wholesale contract with the Massah Development Corporation to deliver raw water from the Lower Glen Rose/Cow Creek formations of the Trinity Aquifer in northern Bexar County. SAWS determined the sustainable yield of the project to be 4,685 acre feet. Under this contract, SAWS is required to take or pay for 50.0% of the determined sustainable yield of the project, or 2,343 acre feet annually from 2008-2010 at prices ranging from \$391 - \$425 per acre foot (figures in this paragraph are not in thousands).

In 2006, SAWS renegotiated the terms of a contract with Sneekner Partners, Ltd. to supply raw water from the Trinity Aquifer. Under this contract, SAWS is required to take or pay for 1,500 acre feet annually at a minimum annual cost of \$225 per acre foot through 2020 (these figures not in thousands). SAWS has an option to extend the contract through 2026, if it desires. As part of this contract, SAWS agreed to make payments quarterly for any residential customers within a defined, currently undeveloped geographical area that begin taking water service from SAWS. While it is impossible to estimate the exact amount of any potential future payments associated with this provision of the agreement, management estimates of this potential contingent liability are less than \$5,000.

Note 11 Commitments and Contingencies (Continued)

San Antonio Water System (SAWS) (Continued)

Other (Continued)

SAWS has entered into water leases to obtain rights to pump water out of both the Edwards and Carrizo aquifers. The term of these agreements vary, with some expiring as early as 2008 and others continuing until cancelled by SAWS. In 2008, the annual cost per acre foot for water leases from the Edwards Aquifer ranges from \$77 - \$127 annually. In 2008, SAWS will pay a series of reservation fees, which begin at \$15 per surface acre leased, for its Carrizo Aquifer leases. Once the project commences production, the annual cost per acre foot for water leases will begin at \$62-50. All Carrizo Aquifer leases and certain Edwards Aquifer leases contain future price escalators (figures in this paragraph are not in thousands).

SAWS is also committed under various contracts for completion of construction or acquisition of utility plant totaling approximately \$243,400 as of December 31, 2007. Funding of this amount will come from excess revenues, contributions from developers, restricted assets and available commercial paper capacity.

Note 12 Risk Financing

Primary Government (City)

Property and Casualty Liability

As of September 30, 2008, the City maintains excess liability insurance coverage through Star Insurance Company. The policy provides general liability, law enforcement legal liability, public official's liability, employee benefits liability, and workers' compensation excess liability coverage. Great American Insurance Company provides coverage for the City's real property and contents. The City utilizes a third-party administrator to adjust its claims.

Obligations for claims under these programs are accrued in the City's Self-Insurance Reserve Fund based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported. The departments are assessed contributions to cover expenditures. There were no significant reductions in insurance coverage. Claims settlements have not exceeded insurance coverage limits for the past three (3) years.

Employee Health Benefits

The City provides its current employees with a comprehensive employee health benefits program including coverage for medical, dental, and life insurance, vision, dependent care reimbursement accounts, and additional life insurance for its employees and their dependents. The City's self-insured medical programs are provided to all City employees. Obligations for benefits are accrued in the City's Employee Health Benefits Insurance Fund based upon the City's estimates of the aggregate liability for unpaid benefits.

Retiree Health Benefits

The City provides medical coverage for its retirees and their dependents (retirees). The City's self-insured medical programs are provided to retirees who meet the eligibility for the TARS Pension Plan. Obligations for benefits are accrued in the City's Retiree Health Benefits Insurance Fund based upon the City's estimates of the aggregate liability for unpaid benefits. The City additionally, determined and accrues OPEB liabilities based on an actuarial assessment of historical claim data performed bi-annually and reviewed annually. Current year unpaid benefit liabilities for retirees are netted against the OPEB liability as additional contributions.

Note 12 Risk Financing (Continued)

Primary Government (City) (Continued)

Workers' Compensation

As of September 30, 2008, the City maintains excess workers' compensation insurance coverage through Star Insurance Company. The policy provides coverage for claims by or on behalf of injured workers where the total liability exceeds the City's self-insured retention of \$500. The City utilizes a third-party administrator to adjust its claims.

Obligations for claims under these programs are accrued in the City's Self-Insurance Reserve Fund based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported. The departments are assessed contributions to cover expenditures. There were no significant reductions in insurance coverage. Claims settlements have not exceeded insurance coverage limits for the past three (3) years.

Unemployment Compensation Program

The Unemployment Compensation Program Fund provides a central account for payment of unemployment compensation claims. As of the fiscal year-end, claims were being administered externally and are paid to the Texas Workforce Commission on a reimbursement basis. All costs incurred are recorded on a claim paid basis.

Extended Sick Leave Program

The Extended Sick Leave Program Fund is used to pay benefits associated with the City's employee long-term disability plan. Benefits are administered by the City. Actual costs are incurred when extended leave is taken.

Employee Wellness Program

The Employee Wellness Program Fund is used to account for revenues and operating expenses of the City Occupational Health Clinic operated by the San Antonio Metropolitan Health District. The clinic's operation is supported by transfers from the Workers' Compensation Fund and the Employee Health Benefits Fund as expenses are incurred. In fiscal year 1999, the Employee Assistance Program Fund was established to offer City employees short-term mental health, marital, and financial counseling, as well as substance abuse intake and assessment.

Claims Liability

The liability for the Employee Health Benefits Program is based on the estimated aggregate amount outstanding at the statement of net assets date for unpaid benefits. Liabilities for the Insurance Reserve and Workers' Compensation Programs are reported when it is probable that a loss has occurred as of the statement of net assets date, and the amount of the loss can be reasonably estimated. These liabilities include allocable loss adjustment expenses, specific incremental claim adjustment expenses such as the cost of outside legal counsel, and a provision for claims that have been incurred but not reported (IBNR). Unallocated claim adjustment expenses have not been included in the calculation of the outstanding claims liability, as management of the City feels it would not be practical or cost beneficial. In addition, based on the difficulty in determining a basis for estimating potential recoveries and the immateriality of prior amounts, no provision for subrogation or salvage has been included in the calculation of the claims liability. The claims liability reported in the accompanying financial statements for both the Insurance Reserve and Workers' Compensation Programs is based on a 3.0% discount rate.

Note 12 Risk Financing (Continued)

Primary Government (City) (Continued)

Claims Liability (Continued)

The following is a summary of changes in claims liability for the City's Insurance Reserve, Employee Health Benefits, and Workers' Compensation Programs Funds for the year-ended September 30, 2008:

Fund	October 1,	Estimates	Claims	Payments	September 30,
Insurance Reserve:					
Fiscal Year 2007	\$ 19,213	\$ 70	\$ 6,712	\$ (6,712)	\$ 19,283
Fiscal Year 2008	19,283	132	4,719	(4,719)	19,435
Employee Health Benefits: ¹					
Fiscal Year 2007	\$ 10,586	\$ 1,382	\$ 78,072	\$ (78,072)	\$ 11,968
Fiscal Year 2008	10,376	(2,164)	61,646	(61,646)	8,212
Retiree Health Benefits: ¹					
Fiscal Year 2008	\$ 1,592	\$ (193)	\$ 9,873	\$ (9,873)	\$ 1,399
Workers' Compensation: ²					
Fiscal Year 2007	\$ 24,004	\$ 19	\$ 8,290	\$ (8,290)	\$ 24,023
Fiscal Year 2008	24,023	524	9,256	(9,256)	24,547

¹ The retiree portion of incurred but not reported claims in the amount of \$1,592 was recorded in the Employee Health Benefit Fund. Due to implementation of GASB Statement No. 45, this balance was moved to the Retiree Health Benefits Fund.

² The Workers' Compensation Liability Balance of \$24,547 is comprised of \$22,221 recorded in the Workers' Compensation Fund, and the remaining liability of \$2,326 is recorded in proprietary funds.

CPS Energy

CPS Energy is exposed to various risks of loss including, but not limited to those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS Energy maintains property and liability insurance programs that combine self-insurance with commercial insurance policies to cover major risks. The property insurance program provides \$5,000,000 of replacement-value coverage for property and boiler machinery/loss, including comprehensive automobile coverage, fire damage coverage for construction equipment, and valuable papers coverage. The deductible for the property insurance policy is \$5,000 per occurrence with a secondary deductible of \$1,000 for non-power plant and non-substation property locations. CPS Energy did not have any claims settlements that have exceeded coverage for the last three fiscal years. The liability insurance program includes:

- \$100,000 of excess general liability coverage over a retention amount of \$2,000;
- \$25,000 of fiduciary liability coverage;
- \$20,000 of employment practice liability coverage; and
- Other property and liability insurance coverage, which includes commercial crime, employee travel, event insurance.

CPS Energy also manages its own workers' compensation program. Additionally, to support this program, \$35,000 of excess workers' compensation coverage over a retention amount of \$2,000 is maintained.

Actuarial studies are performed periodically to assess and determine the adequacy of insurance reserve retentions. An actuarial study was performed in fiscal year 2008.

Note 12 Risk Financing (Continued)

CPS Energy (Continued)

The remaining balance under the property reserves column at January 31, 2008, relates to estimated obligations for the clean up, closure, and postclosure care requirements of CPS Energy's landfills. CPS Energy has seven landfill sites -- four of which are at full capacity. The estimates for landfill liability are based upon capacity to date and are subject to change due to inflation or deflation, as well as new developments in technology, applicable laws, or regulations.

Beginning in fiscal year 2007, CPS Energy's reserve program was modified to record all claims against the reserve, whereas in prior years only significant claims were recorded against the reserve.

Fund	CPS Energy Schedule of Changes in Claims Liability				Liability January 31,
	Liability February 1,	Claims Adjustments	Claims Payments	Liability	
Property Insurance:					
Fiscal Year 2007	\$ 3,637	\$ 101	\$ -	\$ 3,738	
Fiscal Year 2008	3,738	(55)	(12)	3,671	
Employee and Public Liability Claims:					
Fiscal Year 2007	\$ 9,143	\$ 2,118	\$ (2,590)	\$ 8,671	
Fiscal Year 2008	8,671	3,677	(4,103)	8,245	

Hedging - The 1999 Texas utility deregulation legislation, Senate Bill 7, contained provisions modifying the Texas Public Funds Investment Act to allow municipal utilities the ability to purchase and sell energy-related financial instruments in order to hedge or mitigate the effect of market price fluctuations of natural gas, fuel oil, and electric energy.

On December 17, 2007, the CPS Energy board of trustees reaffirmed the Energy Price Risk Management Policy, which sets forth the guidelines for the purchase and sale of certain financial instruments and certain physical products, collectively defined as hedge instruments. The essential goal of the Energy Price Risk Management Policy is to provide a framework for the operation of a fuel and energy price hedging program to better manage CPS Energy's risk exposures in order to stabilize pricing and costs for the benefit of CPS Energy and its customers.

The hedge instruments are reported at cost on the balance sheet. Gains and losses related to the hedge instrument transactions are netted to fuel expense in the period realized. For fiscal year 2008, the commodity options and/or hedge instruments offset one another to achieve unrealized gains of approximately \$1,100. Through the nine months ended October 31, 2008, these options and/or instruments have achieved unrealized losses of \$18,700.

CPS Energy follows GASB Technical Bulletin No 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*. Accordingly, the following information is provided regarding CPS Energy's outstanding financial hedge instruments as of January 31, 2008:

Fuel Derivative Transactions as of January 31, 2008		
Type of Transaction	Duration	Volumes in MMBTU
Long Call	Mar 2008 - Nov 2008	7,460,000
Short Call	Mar 2008 - Oct 2008	710,000
Long Put	Mar 2008 - Nov 2008	5,610,000
Short Put	Mar 2008 - Nov 2008	6,080,000
Long NG Futures	Mar 2008 - Dec 2009	5,840,000
Short NG Futures	Apr 2008 - Dec 2008	1,140,000
Long Basis Swap	Feb 2008 - Dec 2008	920,000

Note 12 Risk Financing (Continued)

CPS Energy (Continued)

The fair value of option contracts is determined using New York Mercantile Exchange (NYMEX) closing settlement prices as of the last day of the reporting period. For futures and basis swap contracts, the fair value is calculated by deriving the difference between the closing futures prices on the last day of the reporting period and the futures or basis swap purchase prices at the time the positions were established, less applicable commissions. As of January 31, 2008, the total cost of the outstanding hedge instruments was \$2,300, with a fair value of \$3,400. For the nine months ended October 31, 2008, the total cost of outstanding hedge instruments was \$2,800, with a fair value of \$(15,900).

In the event purchased options are allowed to expire, the related premiums paid to acquire those options will be lost. When a short position is established and options are sold, premiums are received and an obligation to honor the terms of the option contract, if exercised, is created. The decision to exercise the options or let them expire rests with the purchasing party.

Futures contracts represent a firm obligation to buy or sell the underlying asset. If held to expiration, the contract holder must take delivery of, or deliver, the underlying asset at the established contract price. Basis swap contracts represent a financial obligation to buy or sell the underlying delivery point basis. If held to expiration, the financial difference determined by mark-to-market valuation must be settled on a cash basis. An exchange for physical assets may take place only if expressly requested in advance.

The hedging contracts expose CPS Energy to a minimal amount of credit risk. In the event of default or nonperformance by brokers or NYMEX, the operations of CPS Energy could be materially affected. However, CPS Energy does not expect the brokerages to fail to meet their obligations given their high credit rating and the strict and deep credit requirements upheld by NYMEX, of which these brokerage firms are members. Termination risk for exchange-traded instruments is greatly reduced by the strict rules and guidelines established by NYMEX, which is governed by the Commodity Futures Trade Commission.

Securities Lending - CPS Energy and the Decommissioning Trusts began engaging in securities lending transactions in fiscal year 2007 under a contract with their lending agent, Frost National Bank. Authority to engage in these transactions is granted under each entity's Investment Policy. The entities are authorized to loan up to 100.0% of their investments in securities lending transactions.

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, provides guidance for entities reporting and disclosing securities lending transactions. This guidance includes reporting certain securities lending collateral on the Balance Sheet as an asset, with a corresponding liability for the obligation to repay the collateral.

In securities lending transactions, CPS Energy and the Decommissioning Trusts, through their lending agent, transfer securities to brokers/dealers in exchange for collateral and simultaneously agree to return the collateral for the same securities in the future. Cash collateral received from the borrower is invested in AAA-rated money market mutual funds. The maturities of these investments do not necessarily match the term of the loans, rather the investments are managed to maintain an average maturity of 30 days.

Lending income is earned if the returns on the cash collateral invested exceed the rebate paid to borrowers of the securities. The income is then shared with the lending agent to cover its fees based on a contractually negotiated rate split. However, if the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, part of the payment to the borrower would come from CPS Energy's or the Decommissioning Trusts' resources and the lending agent based on the rate split.

Note 12 Risk Financing (Continued)

CPS Energy (Continued)

Loans that are collateralized with securities generate income when the borrower pays a loan premium for the securities loaned. This income is split at the same ratio as the earnings for cash collateral. The collateral pledged to CPS Energy or the Decommissioning Trusts for the loaned securities is held by the lending agent. These securities are not available to CPS Energy or the Decommissioning Trusts for selling or pledging unless the borrower is in default of the loan.

Any collateral received is required to have a fair value of 102.0% of the loaned securities. Securities are marked to market daily and additional cash or securities are required from the borrower if the market value of the collateral falls below 100.0%. Cash collateral is reported on the Balance Sheet as an asset, with a corresponding liability for the obligation. Noncash collateral for securities lending activities is not recorded as an asset because it remains under the control of the transferor, except in the event of default.

In the event of default, where the borrower is unable to return the securities loaned, CPS Energy and the Decommissioning Trusts have authorized the lending agent to seize the collateral held. The collateral would then be used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities may not be able to be replaced. The lending agent has indemnified CPS Energy and the Decommissioning Trusts from any loss due to borrower default in the event the collateral is not sufficient to replace the securities.

At January 31, 2008, neither CPS Energy nor the Decommissioning Trusts had any credit risk exposure to borrowers because the amounts CPS Energy and/or the Decommissioning Trusts owed to borrowers exceeded the amounts the borrowers owed. There were no violations of legal or contractual provisions nor were there any borrower or lending agent default losses in fiscal year 2008.

Direct Investments - At January 31, 2008, there was a total of \$833,500 in securities, or 59.1% of CPS Energy's direct investments, out on loan to brokers/dealers. In exchange, CPS Energy received \$400,300 in cash collateral and \$447,500 in securities collateral, or 101.7% of the market value of the corresponding securities loaned. Income generated from securities lending transactions amounted to \$1,300 in fiscal year 2008, of which 30.0% was paid as fees to the lending agent totaling \$383.

Decommissioning Trusts - For the 28.0% Decommissioning Trust at December 31, 2007, there was a total of \$54,400 in securities, or 19.7% of the Decommissioning Trust's investments, out on loan to brokers/dealers. In exchange, the Trust received \$55,000 in cash collateral and \$1,400 in securities collateral, or a total of 103.6% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for the Decommissioning Trust amounted to \$153 in calendar year 2007, of which 30.0% was paid as fees to the lending agent totaling \$46.

For the 12.0% Decommissioning Trust at December 31, 2007, there was a total of \$22,000 in securities, or 24.1% of the Decommissioning Trust's investments, out on loan to brokers/dealers. In exchange, the Trust received \$21,700 in cash collateral and \$1,000 in securities collateral, or a total of 103.6% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for this Decommissioning Trust amounted to \$64 in calendar year 2007, of which 30.0% was paid as fees to the lending agent totaling \$19.

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Note 12 Risk Financing (Continued)

CPS Energy (Continued)

San Antonio Water System (SAWS)

Risk Management

SAWS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. SAWS is self-administered and self-insured for the first \$500 of each workers' compensation, general liability, automobile liability and public official's liability claim and for the first \$250 for each pollution legal liability claim. Claims that exceed the self-insured retention limit are covered through SAWS' comprehensive commercial insurance program. For the year-ended December 31, 2007, there were no reductions in insurance coverage from the previous year and there was one claim incurred during the period that exceeded the self-insured retention limit. Settled claims have never exceeded the insurance coverage in any year. SAWS has recorded accrued claims liability in the amount of \$2,312 as of December 31, 2007, which is reported as a current liability. The claims liability, including incurred but not reported claims, is based on the estimated ultimate cost of settling the claims. Changes in the liability amount for the last three fiscal years were as follows:

San Antonio Water System Schedule of Changes in Claims Liability						
Year Ended	Balance at Beginning of Fiscal Year	Claims and Adjustments	Payments	Balance at End of Fiscal Year	Estimated Due Within	
					Fiscal Year	One Year
Dec. 31, 2007	\$ 2,803	\$ 2,550	\$ (3,041)	\$ 2,312	\$ 2,312	\$ -
Dec. 31, 2006	\$ 2,552	\$ 2,003	\$ (1,752)	\$ 2,803	\$ 2,803	\$ 2,803
Dec. 31, 2005	\$ 2,477	\$ 1,542	\$ (1,467)	\$ 2,552	\$ 2,552	\$ 2,552

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Note 13 Interfund Transfers

The following is a summary of Interfund transfers for the City for the year-ended September 30, 2008:

	Summary Table of Interfund Transfers Year-Ended September 30, 2008	
	Transfers From Other Funds	Transfers To Other Funds
General Fund:	\$ 69	\$ -
Airport System		6,315
Categorical Grant-in-Aid	1,880	4,269
Internal Service Funds	16,470	77,740
Nonmajor Governmental Funds	301	5,406
Nonmajor Enterprise Fund	18,720	93,730
Total General Fund		
Debt Service Funds:		1,626
Nonmajor Enterprise Funds		1,626
Nonmajor Governmental Funds	25,066	
Total Debt Service Funds	25,066	1,626
Categorical Grant-in Aid:		
General Fund	6,315	214
Nonmajor Governmental Funds	4,082	156
Nonmajor Enterprise Funds	10,397	370
Total Categorical Grant-in Aid		
Airport System Fund:		69
General Fund		165
Internal Service Funds	300	5
Nonmajor Governmental Funds	300	239
Total Airport System Fund		
Internal Service Funds:		1,880
General Fund	4,269	1,880
Airport System	165	
Internal Service Funds	5,178	5,178
Nonmajor Governmental Funds	377	1,576
Nonmajor Enterprise Funds	374	1,576
Total Internal Service Funds	10,363	8,634
Nonmajor Governmental Funds:		
General Fund	77,740	16,470
Debt Service		25,066
Categorical Grant-in Aid	214	4,082
Airport System	5	300
Internal Service Funds	1,576	377
Nonmajor Governmental Funds	206,119	206,119
Nonmajor Enterprise Funds	1,390	
Total Nonmajor Governmental Funds	287,044	252,414
Nonmajor Enterprise Funds:		301
General Fund	5,406	
Debt Service Fund	1,626	
Categorical Grant-in Aid	156	
Internal Service Funds		374
Nonmajor Governmental Funds	1,390	
Total Nonmajor Enterprise Funds	7,188	2,065
Total	\$ 359,078	\$ 359,078

Amounts are expressed in thousands

Note 13 Interfund Transfers (Continued)

Transfers are made to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds. These transfers are in the form of operating subsidies, grant matches, and funding for capital projects. In addition, transfers are routinely made from other funds to fund debt service payments and for other restricted purposes. All transfers are in accordance with budgetary authorizations.

Note 14 Reconciliation of Government-Wide and Fund Financial Statements

Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Assets

The governmental funds Balance Sheet includes reconciliation between total fund balances - total governmental funds and total net assets governmental activities as reported in the government-wide Statement of Net Assets.

One element of this reconciliation states, "Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures, and therefore, are not reported in the governmental funds." The detail of the \$3,647 is as follows:

Revenues previously reported as unearned in the fund financial statements	\$ 12,620
Unearned revenues previously reported as income in the fund financial statements	(8,973)
Revenues collected after year end, but not available soon enough to pay for the current period's expenditures and, therefore, are not reported in the governmental funds	<u>\$ 3,647</u>

Explanation of Certain Differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances includes reconciliation between net change in fund balances - total governmental funds and change in net assets of governmental activities as reported in the government-wide Statement of Activities.

Another element of this reconciliation states, "Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of the \$49,374 are as follows:

Compensated Absences	\$ (46,266)
Interest Expense	(4,863)
Arbitrage Expense	327
Principal Reduction on Long-term Payables	17,599
Net OPEB Obligation	(16,171)
Net adjustment to decrease net change in fund balances - total governmental funds to arrive at change in net assets of governmental activities	<u>\$ (49,374)</u>

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Amounts are expressed in thousands

Note 15 Deficits in Fund Balances / Net Assets**Special Revenue Funds**

During the course of the fiscal years 2006 and 2007, the Financial Department conducted a comprehensive review and validation effort in coordination with City Departments of all current and past grants in order to reconcile departmental grant records to the accounting records. This effort resulted in a \$10,504 deficit fund balance in the Categorical Grant-In-Aid Fund and \$979 in the Community Development Program Fund. Due to further research as well as funding provided by the City's annual budget process, this deficit has been reduced to \$7,873 and \$0 deficit fund balance amounts in the Categorical Grant-In-Aid Fund and the Community Development Program Fund, respectively. These deficits are primarily attributed to the City providing additional program services to the community beyond what monies were provided by grantor agencies. The uncollectible amounts have been incorporated into the City's annual budget process and are scheduled to be funded over the next four years.

The Golf Course Fund had a deficit fund balance of \$1,851 as of September 30, 2008. The deficit is attributable to a decline in revenues in recent years due to increased competition by the private sector and extreme weather patterns. In addition, increased labor, fuel, and equipment maintenance costs have contributed to the deficit. The City and MGA-SA entered into an agreement for MGA-SA to begin managing City-owned golf courses starting October 2007 with a complete transition by March 2009. The agreement included that the City shall be paid 50.0% excess revenue from the courses' operations to reduce the City deficit. In addition MGA-SA would also reimburse the City for personnel and equipment costs paid by the City for MGA-SA operations.

Development and Planning Services Fund had a deficit fund balance of \$950 as of September 30, 2008. The deficit is attributable to a significant decrease in new residential building permits. In addition to the negative general economic forces that have emerged as a result of the slump in the construction and real estate markets. The City imposed expenditure cuts across the department to assist in reducing further deficiencies including, but not limited to, the elimination of positions in the department until such time as business returns, which the City estimates to be 2011.

Capital Projects Funds

As of September 30, 2008, deficit fund balances are reported in the General Obligation Project Fund, Certificates of Obligation Project Fund, 2008 Certificates of Obligation Bond Fund, and the Improvement Projects Fund in the amounts of \$11,281, \$4,354, \$466, and \$6,773 respectively. These deficit balances were identified during a capital project review and clean up which began in fiscal year 2007 and will extend through fiscal year 2009. These deficits will be addressed by identifying the appropriate bond authorization and transferring funds, or other funds, as necessary.

Note 16 Other Disclosures**Donor Restricted Endowment**

The City has four Permanent Funds: the San Jose Burial Park Fund, the Carver Cultural Center Endowment Fund, the San Antonio Housing Trust Fund, and the William C. Morris Endowment Fund. The City is only allowed to spend interest proceeds generated from the principal amount for each of these funds. The net assets from these endowment funds are classified as restricted net assets and are reported in the government-wide financial statements. The principal is required to be retained in perpetuity while the interest is available to cover specific expenditures.

The San Jose Burial Park Fund generated \$73 in interest to be expended for specified purposes. Chapter 713 of the Texas Health and Safety Code governs what expenditures the City may incur when spending the interest income. Per Chapter 713, the revenue can be spent for the maintenance and care of the graves, lots, and burial places, and to beautify the entire cemetery. The principal amount of this fund is increased each year by sales of lots from the San Jose Cemetery.

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Note 16 Other Disclosures (Continued)**Donor Restricted Endowment (Continued)**

The Carver Cultural Center Endowment Fund generated \$13 in interest. These earnings can be used for the Carver Community Cultural Center's operating program, or reinvestment expenses (as detailed in the grant agreement). This fund is managed in accordance with the Uniform Management of Institutional Funds Act, which is codified as Section 163.001 in the Texas Property Code. The principal portion of the fund came from a one-time grant from the National Endowment for the Arts.

The San Antonio Housing Trust Fund generated \$488 in interest. These earnings may be disbursed to projects with particular emphasis on housing programs as grants or secured loans. All distributions or disbursements of San Antonio Housing Trust shall be made for the primary purpose of providing additional and continuing housing opportunities for low and moderate income families. This trust shall at all times be governed, administered, regulated, and administered in all respects under the laws of the State of Texas.

The William C. Morris Endowment Fund generated \$11 in interest. These earnings are used on an annual basis to enhance the City Library's Educational Programming and Services for Children. Any net income or net appreciation of the funds not used shall be accumulated and added to the principal of the funds. The earnings of the funds will be expended in accordance with the spending policy of the Library's board of directors or trustees.

Note 17 Prior Period Restatement**Primary Government (City)****City South Management Authority**

City South Management Authority, a discretely presented component unit, is handled by City staff with financial activity included in the City's general ledger system in the General Fund. After further analysis of component units this fiscal year it was determined that City South Management Authority is a discretely presented component unit. As a result an ending net asset/fund balance of \$(607) was removed from the City's beginning balance and included in the discretely presented component unit's financials for the fiscal year-ended September 30, 2008.

San Antonio Public Library Foundation

San Antonio Public Library Foundation (SAPLF), a blended component unit, in previous years was not reported on the City's CAFR. After further analysis of component units this fiscal year it was determined that the San Antonio Public Library Foundation is a blended component unit of the City. Since financial activity was not reported in prior years, the beginning net asset and fund balances in the Statement of Activities and the Statement of Revenues, Expenditures, and Changes in Fund Balances has been adjusted by \$3,199 and \$2,661, respectively.

San Antonio Local Development Company

San Antonio Local Development Company (SALDC) recorded a prior year adjustment of \$77 to the beginning net assets of Microloan Revolving Fund at September 30, 2008. In 2007, SALDC implemented the use of an allowance for doubtful accounts based on previous years' experience of bad debts. The allowance was recorded with expense to the income of 2007 in its respective loan funds. However, the Microloan Revolving Loan Fund is different from the loan funds because the Small Business Administration (SBA) requests that actual cash be set aside in this fund before any loan is approved or disbursed. Due to that fact, SALDC considered that the reserve for the Microloan Revolving Fund did not have to be charged to only one year's income, 2007, but to adjust the beginning net assets, to recognize that this reserve had already been created several years before, at each time SALDC received an SBA loan for the revolving loan program. This program started more than ten years ago at SALDC.

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Amounts are expressed in thousands

Note 17 Prior Period Restatement (Continued)**San Antonio Development Agency**

In February 2009, San Antonio Development Agency completed an internal analysis and corrective reconciliation of certain errors that had occurred in the prior year resulting in the misstatement of land and building inventories, accounts receivable, notes receivable, accounts payable, notes payable and net assets for that year. An adjustment for \$385 has been made to increase unrestricted net assets to \$636; and an adjustment for \$385 to increase fund balance as of September 30, 2007 to \$636.

CPS Energy

Prior to fiscal year 2008, the Employee Benefit Plans were reported as component units of CPS Energy, and their financial results were blended with those of CPS Energy. In order to properly implement GASB Statement No. 45, the Employee Benefit Plans have been removed from the CPS Energy financial statements as component units in fiscal year 2008.

Note 18 Subsequent Events**Primary Government (City)****Real Estate Exchange**

On November 25, 2008, the City engaged in a real estate exchange transaction with Hixon Properties, Inc. The City sold the River Bend Parking Garage property valued at \$22,400 for other downtown property valued at \$15,500 and cash proceeds of \$6,900, less related closing fees. This new property will be used to construct a new Public Safety Headquarters, which will serve as a downtown headquarters for both the Fire and Police Departments.

Debt Transactions

On November 13, 2008, the City issued \$10,120 in Taxable General Improvement Refunding Bonds, Series 2008. The Bonds were issued to refund the City's outstanding Parking System Revenue Bond indebtedness which was used to finance certain parking facilities owned and operated by the City. Refunding these obligations will eliminate certain operating and revenue covenants and certain restrictions imposed by federal income tax laws relating to use of facilities financed with the tax-exempt obligations. The Bonds have maturities ranging from 2017 to 2024, with interest rates ranging from 5.8% to 6.6%.

On December 17, 2008, the City issued \$75,060 General Improvement Bonds, Series 2008. The Bonds were issued to finance the construction of general improvements of the City and to pay the costs of issuance of the 2008 Bonds. Concurrently, the City issued \$85,005 Combination Tax and Revenue Certificates of Obligation, Series 2008, whose proceeds will be used for making permanent public improvements and for other public purposes. The Bonds and Certificates have maturities ranging from 2009 to 2028, with interest rates ranging from 3.5% to 5.5%. Additionally, on December 17, 2008, the City issued \$15,320 in Tax Notes, Series 2008. The proceeds of the Notes will be utilized to fund computer and information technology system improvements and payments of administrative costs relating to the Note sale. The Notes are payable from the proceeds of an annual ad valorem tax levied upon all taxable property within the limitations prescribed by law. The Notes will have maturities ranging from 2009 to 2013, with interest rates ranging from 3.5% to 5.0%.

Note 18 Subsequent Events (Continued)**Primary Government (City) (Continued)****Fire and Police Pension Fund**

The Pension Fund had their actuarial study as of October 1, 2008 completed and issued in January 2009. The results of the study include an increase in the Fund's Unfunded Actuarially Accrued Liability (UAAL) from \$182,995 as of October 1, 2007 to \$254,060 and an increase in the years to amortize the UAAL from 8.7 years to 12.03 years as a level percent of payroll.

As is the case with most public pension plans, the Pension Fund has incurred substantial investment losses due to financial market conditions. The actuarial valuation includes a five-year smoothed market approach for the value of assets which provides for asset gains or losses to be smoothed over a five-year period. As such, under this approach, the Fund's investment losses as of September 30, 2008 have been smoothed which results in the deferral of \$21,013 in investment losses. These investment losses will be recognized in future year's actuarial valuations to the extent they are not offset by recognition of investment gains above the Fund's assumed investment return of 8.0%. Additionally, as of February 25, 2009, the Fund has incurred additional investment losses of approximately \$377,000.

Contribution rates for the members of the Pension Plan and the City are established under Texas state statutes and do not change with the results of the annual actuarial valuations. Staff of the Pension Fund and the City will continue to monitor the situation closely. Please see Note 8, Pension and Retirement Plans for more information on the Fire and Police Pension Plan.

Fire and Police Retiree Health Care Fund

The Fire and Police Retiree Health Care Fund had an available draft of its actuarial study as of October 1, 2008, with a projected completion date of late March 2009. The results of the study include an increase in the Fund's Unfunded Actuarially Accrued Liability (UAAL) from \$325,337 as of October 1, 2007 to \$352,650. In order to maintain an amortization of the UAAL over a period of 30 years, contribution and benefit rates would have to increase beyond those currently included in the Fund's governing statute. However, these contribution and benefit rates would only be required to be implemented if the amortization period of the UAAL exceeds 30 years with the actuarial valuation to be conducted in 2017.

As is the case with most pension and postemployment plans, the Retiree Health Care Fund has incurred substantial investment losses due to financial market conditions. The actuarial valuation includes a five-year smoothed market approach for the value of assets which provides for asset gains or losses to be smoothed over a five-year period. As such, under this approach, the Retiree Health Care Fund's investment losses as of September 30, 2008 have been smoothed which results in the deferral of \$22,760 in investment losses. These investment losses will be recognized in future year's actuarial valuations to the extent they are not offset by recognition of investment gains above the Fund's assumed investment return of 8.0%. Additionally, as of December 31, 2008, the Fund has incurred additional investment losses of approximately \$20,206.

Staff of the Retiree Health Care Fund and the City will continue to monitor the situation closely. Please see Note 9, Postemployment Retirement Benefits for more information on the Retiree Health Care Fund.

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Note 18 Subsequent Events (Continued)CPS Energy

On December 23, 2008, CPS Energy issued \$158,000 of tax-exempt New Series 2008A Revenue Refunding Bonds. On February 1, 2009, the bond proceeds will be used to refund \$165,300 par value of the tax-exempt New Series 1998A Bonds. This refunding transaction will result in a net present value debt service savings of \$6,200, or 3.8% of the par amount of the bonds refunded.

On June 25, 2008, CPS Energy issued \$287,900 of tax-exempt New Series 2008 Revenue Bonds. Total bond proceeds, including net original issue premium, will be used to fund generation, as well as electric and gas distribution construction projects.

On February 19, 2009, the City Council authorized the issuance of "Revenue Refunding Bonds, New Series 2009A", in an amount not to exceed \$450,000. These proceeds will be utilized to refund existing tax-exempt Commercial Paper. The City Council also authorized on February 19, 2009, that CPS Energy may enter into a \$100,000 revolving Line of Credit and issue Notes as needed. CPS Energy will have the Line of Credit available as back-up liquidity that could allow for postponement of debt issuances during unfavorable market downturns.

San Antonio Water System (SAWS)Environmental Exposure

On March 4, 2008, SAWS received notification from the Texas Commission on Environmental Quality (TCEQ) informing SAWS that allegations of violations of permit effluent limits under a SAWS Texas Pollutant Discharge Elimination System (TPDES) permit were noted during a record review. As TCEQ has not made a determination on these allegations, no estimate of liability can be made at this time.

Debt Transactions

On December 30, 2008, SAWS issued \$30,000 City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2008 through the Texas Water Development Board. The bonds were sold under the Federal Cross Collateral Program with interest rates ranging from 0.1% to 4.0%. The proceeds from the sale of the bonds were used to (i) finance capital improvement projects which qualify under the Texas Water Development Board program, and (ii) pay the cost of issuance. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On December 30, 2008, SAWS issued \$23,260 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2008A through the Texas Water Development Board. The bonds were sold under the State Revolving Fund (SRF) Program with interest rates ranging from 1.1% to 5.0%. The proceeds from the sale of the bonds were used to (i) finance capital improvement projects which qualify under the Texas Water Development Board program, (ii) refund \$3,000 in outstanding commercial paper notes, and (iii) pay the cost of issuance. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On February 12, 2009, SAWS issued \$163,755 City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2009. The proceeds from the sale of the Bonds were used to (i) finance capital improvement projects, (ii) refund \$143,000 in outstanding commercial paper notes, and (iii) pay the cost of issuance. The bonds are secured together with other currently outstanding Senior Lien Obligations solely by a lien on a pledge of net revenues.

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Amounts are expressed in thousands

Note 18 Subsequent Events (Continued)San Antonio Water System (SAWS) (Continued)Hedges

As discussed in Note 6, Long-Term Debt, to hedge against changes in interest expense associated with the currently outstanding Subordinate Lien Obligations designated as the City of San Antonio, Texas Water System Subordinate Lien Revenue and Refunding Bonds, Series 2003A and 2003B (the Subordinate Lien Obligations), which were issued in a weekly interest reset mode, SAWS has entered into an agreement with Bear Stearns Financial Products Inc. Under the agreement, SAWS must pay any excess monthly (and the counterparty must pay any deficit monthly) of 4.2% per annum over the Municipal Swap Index published by The Securities Industry and Financial Markets Association applied to a specified notional amount that reduces annually through the date of stated termination. SAWS' obligations under the agreement (up to stated policy limits upon termination) are insured by MBI Insurance Corporation (MBIA); the counterparty's obligations are not insured or guaranteed. SAWS and the counterparty may each terminate the agreement if the other party (or in some cases, its insurer) commits an event of default (including under other specified transactions and indebtedness) or certain acts of insolvency, or may not legally perform its obligations under the agreement, or merges or otherwise combines with or transfers substantially all of its assets to a materially less creditworthy entity. In that case, neither party may terminate the agreement without the consent of MBIA. The counterparty may also terminate the agreement if (a) MBIA defaults on the hedge insurance policy, (b) MBIA fails to maintain an A3 rating from Moody's and an A- rating from S&P (the counterparty's ability to exercise the right to terminate upon the occurrence of either of (a) or (b) requires also that an event of default occurs and is continuing with respect to SAWS or a termination event occurs and is continuing with respect to SAWS, or (c) the ratings assigned to the Subordinate Lien Obligations are reduced below A2 by Moody's or A by S&P and the claims paying ability of MBIA are reduced below A2 by Moody's or below A by S&P. Under certain circumstances, MBIA may exercise the parties' termination rights. If either party terminates the agreement, SAWS must pay to the counterparty (or the counterparty must pay to SAWS) the mean or median average of amounts quoted by leading dealers to be paid to or by the counterparty to enter into an economically equivalent agreement with the counterparty, regardless of whether SAWS or the counterparty was the defaulting party.

In March 2008, JPMorgan Chase & Co. announced its acquisition of The Bear Stearns Companies Inc., the parent of Bear Stearns Financial Products Inc. The transaction closed on May 30, 2008. JPMorgan Chase has guaranteed the trading obligations of Bear Stearns and its subsidiaries. SAWS' obligations under the agreement will be secured by a lien on the Net Revenues of the System on a parity with the lien securing the Subordinate Lien Obligations and other Additional Subordinate Lien Obligations, except that the lien securing any uninsured portion of SAWS' termination obligations is subordinate to that lien. Any amounts received by SAWS under that agreement will be revenues of the System. They will not be available to pay the Subordinate Lien Obligations and the Junior Lien Obligations. The counterparty's indexed obligations on the Subordinate Lien Obligations and Commercial Paper Notes so long as the credit of the credit enhancer and liquidity bank and the tax-exempt status on the Subordinate Lien Obligations and Commercial Paper Notes are maintained. If the counterparty's obligations do not correlate closely, or if the counterparty defaults in payment under the agreement, SAWS would be exposed to possible increases in the rate of interest on the Subordinate Lien Obligations and Commercial Paper Notes.

On August 7, 2008, SAWS issued a Notice of Partial Redemption for \$110,615 of the Subordinate Lien Obligations due to the continued unfavorable market conditions relating to variable rate demand obligations insured by MBIA, resulting in the related interest rate hedge agreement not providing an effective hedge against short term interest rate movements applicable to the related obligations. The Subordinate Lien Obligations were redeemed with Commercial Paper Notes. With the partial redemption which was completed on August 27, 2008, \$1,000 of the Subordinate Lien Obligations remain outstanding. SAWS is evaluating different approaches to further mitigate the risk associated with the remaining outstanding Subordinate Lien Obligations and the associated interest rate hedge agreement. SAWS management does not expect the recent transactions to redeem the Subordinate Lien Obligations and any subsequent transactions regarding the remaining Subordinate Lien Obligations and associated interest rate hedge agreement to have a materially adverse impact on SAWS financial position or results of operations.

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Amounts are expressed in thousands

Note 18 Subsequent Events (Continued)

San Antonio Water System (SAWS) (Continued)

Hedges (Continued)

If the interest rate hedge agreement is terminated, SAWS could be obligated to make a substantial payment to the counterparty, depending on market conditions. SAWS may also enter into other interest rate hedging transactions payable from operating revenues in the future, with comparable risks

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City of San Antonio, Texas



***Required Supplementary Information Other Than MD&A
(Unaudited)***

Budgetary Comparison Schedule
General Fund
Year-Ended September 30, 2008
(In Thousands)

2008

	BUDGETED AMOUNTS		BUDGETARY	VARIANCE WITH
	ORIGINAL	FINAL	BASIS ACTUAL	FINAL BUDGET POSITIVE (NEGATIVE)
Resources (Inflows):				
Taxes	\$ 459,403	\$ 459,402	\$ 468,495	\$ 9,093
Licenses and Permits	5,778	7,201	7,756	555
Intergovernmental	6,063	6,259	6,468	209
Revenues from Utilities	263,388	263,388	304,158	40,770
Charges for Services	43,493	42,157	43,010	853
Fines and Forfeits	10,957	10,900	12,249	1,349
Investment Earnings	6,890	6,171	4,940	(1,231)
Miscellaneous	5,179	5,748	10,982	5,234
Transfers from Other Funds	25,735	18,581	18,720	139
Amounts Available for Appropriation	826,886	819,807	876,778	56,971
Charges to Appropriations (Outflows):				
General Government	95,325	113,531	84,270	29,261
Public Safety	463,611	467,555	456,687	10,868
Public Works	11,290	11,301	11,477	(176)
Health Services	63,178	63,908	65,892	(1,984)
Sanitation	3,113	3,465	3,446	19
Welfare	44,136	47,962	46,712	1,250
Culture and Recreation	76,202	77,095	74,574	2,521
Economic Development and Opportunity	3,561	3,707	3,143	564
Transfers to Other Funds	92,143	95,290	95,755	(465)
Total Charges to Appropriations	852,559	883,814	841,956	41,858
Excess (Deficiency) of Resources Over (Under) Charges to Appropriations	(25,673)	(64,007)	34,822	98,829
Fund Balance Allocation	25,673	64,007	(34,822)	(98,829)
Excess (Deficiency) of Resources Over (Under) Charges to Appropriations	\$ -	\$ -	\$ -	\$ -
Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures				
Sources/Inflows of Resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 876,778
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes				(18,720)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds				\$ 858,058
Uses/Outflows of Resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 841,956
Differences - budget to GAAP:				
Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes				(8,404)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes				(95,755)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds				\$ 737,797

General Fund Budgetary Information

The City Charter establishes requirements for the adoption of budgets and budgetary control. Under provisions of the Charter, expenditures of each City function within individual funds cannot legally exceed the final budget approved by the City Council. Amendments to line items within a departmental budget may be initiated by Department Directors.

The City prepares an annual budget for the General Fund on a budgetary basis, which is consistent with generally accepted accounting principles. The annual budgetary data reported for the General Fund represents the original appropriation ordinance and amendments thereto as adopted by the City Council, adjusted for encumbrances outstanding at the beginning of the fiscal year. All annual appropriations lapse at fiscal year-end.

The City noted budget violations within the Public Works, Health Services and Transfers to Other Funds functions. However, as sufficient actual revenues or fund balance covered individual functional excesses they were not deemed to be material violations.

(unaudited - see accompanying auditors' report)

City of San Antonio, Texas



Pension and Postemployment Schedules

CITY OF SAN ANTONIO, TEXAS

Required Supplementary Information - (Unaudited)

Pension Schedules

Schedules of Funding Progress

Last Three Fiscal Years

(In Thousands)

FIRE AND POLICE PENSION PLAN - CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
10-01-07	\$ 2,017,856	2,200,851	\$ 182,995	91.7%	\$ 229,547	79.7%
10-01-06	1,824,386	2,028,761	204,375	89.9%	221,539	92.3%
10-01-05	1,676,075	1,910,789	234,714	87.7%	207,145	113.3%

TEXAS MUNICIPAL RETIREMENT SYSTEM - CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-07	\$ 479,005	796,725	\$ 317,720	60.1%	\$ 244,530	129.9%
12-31-06	464,287	642,808	178,521	72.2%	231,262	77.2%
12-31-05	475,325	642,202	166,877	74.0%	209,176	79.8%

CPS ENERGY - ALL EMPLOYEE PLAN

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL) *	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-07	\$ 1,012,067	1,041,471	\$ 29,404	97.2%	\$ 209,070	14.1%
01-01-06	955,300	906,400	(48,900)	105.4%	210,074	(23.3)%
01-01-05	902,100	837,600	(64,500)	107.7%	198,441	(32.5)%

* Actuarial assumptions were changed for the January 1, 2007, valuation as a result of an experience study and actuarial assumption review covering 2001 through 2006 actuarial valuation data.

¹ In December 2007, TMRS adopted the projected unit credit actuarial funding method. Previously TMRS used the traditional unit credit method.

(unaudited - see accompanying auditors' report)

Required Supplementary Information - (Unaudited)

Pension Schedules

Schedules of Funding Progress

Last Three Fiscal Years

(In Thousands)

SAN ANTONIO WATER SYSTEM - TMRS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-07	\$ 62,023	90,776	\$ 28,753	68.3%	\$ 68,412	42.0%
12-31-06	59,801	75,652	15,851	79.0%	65,078	24.4%
12-31-05	55,902	70,703	14,801	79.1%	62,619	23.6%

SAN ANTONIO WATER SYSTEM - PMLIC

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-07	\$ 66,129	81,587	\$ 15,458	81.1%	\$ 63,462	24.4%
01-01-06	57,847	75,097	17,250	77.0%	60,836	28.4%
01-01-05	52,412	63,064	10,652	83.1%	59,476	17.9%

Required Supplementary Information - (Unaudited)

Postemployment Schedules
Schedules of Funding Progress

Last Three Fiscal Years

(In Thousands)

CPS ENERGY - HEALTH PLAN

ACTUARIAL VALUATION DATE ¹	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL) ²	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	PERCENTAGE OF COVERED PAYROLL
01-01-07	\$ 150,818	\$ 220,691	\$ 69,873	68.3%	\$ 209,070	33.4%
01-01-06	133,851	228,446	94,595	58.6%	202,072	46.7%

CPS ENERGY - DISABILITY PLAN

ACTUARIAL VALUATION DATE ¹	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL) ³	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) ⁵	FUNDED RATIO	COVERED PAYROLL	PERCENTAGE OF COVERED PAYROLL
01-01-07	\$ 3,925	\$ 5,211	\$ 1,286	75.3%	\$ 177,558	0.7%
01-01-06	4,109	6,013	1,904	68.3%	175,102	1.1%

CPS ENERGY - LIFE PLAN

ACTUARIAL VALUATION DATE ¹	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL) ⁴	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) ⁵	FUNDED RATIO	COVERED PAYROLL	PERCENTAGE OF COVERED PAYROLL
01-01-07	\$ 47,809	\$ 31,219	\$ (16,590)	153.1%	\$ 177,558	(9.3)%
01-01-06	46,662	40,009	(6,653)	116.6%	175,102	(3.8)%

¹ Per GASB Statement No. 43, the AAL is not being reported for the actuarial valuation date of January 1, 2005, since it was not calculated in accordance with this Statement.

² The AAL consisted of the liability for both retired employees and active employees. The AAL for retired employees was \$97,900 for January 1, 2007; \$101,600 for January 1, 2006, and \$104,500 for January 1, 2005.

³ The AAL for the January 1, 2006, valuation date disclosed in the fiscal year 2007 Notes to the Basic Financial Statements of \$6,000 was an estimate based on information available at the time.

⁴ The AAL for the January 1, 2006, valuation date that was previously reported as \$60,903 was not prepared in accordance with GASB Statement No. 43. The \$40,009 shown above was calculated in accordance with GASB Statement No. 43.

⁵ CPS Energy has selected the aggregate cost method for determining Life Plan funding amounts. Since this method does not identify or separately amortize unfunded actuarial liabilities, information about the funded status and funding progress has been prepared using the entry age actuarial cost method, which approximates the funding progress of the Plan.

(unaudited - see accompanying auditors' report)

Required Supplementary Information - (Unaudited)

Postemployment Supplement Schedules
Schedules of Funding Progress

Last Three Fiscal Years

(In Thousands)

CITY OF SAN ANTONIO RETIREE HEALTH BENEFITS FUND

ACTUARIAL VALUATION DATE ¹	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-06	\$ -	\$ 258,428	\$ 258,428	0.0%	\$ 229,547	112.6%

FIRE AND POLICE RETIREE HEALTH CARE FUND

ACTUARIAL VALUATION DATE ²	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL) ³	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
10-01-07	\$ 188,147	\$ 513,484	\$ 325,337	36.6%	\$ 213,446	1.5%
10-01-06	162,777	497,382	334,605	32.7%	197,000	2.7%

SAN ANTONIO WATER SYSTEM - OPEB PLAN

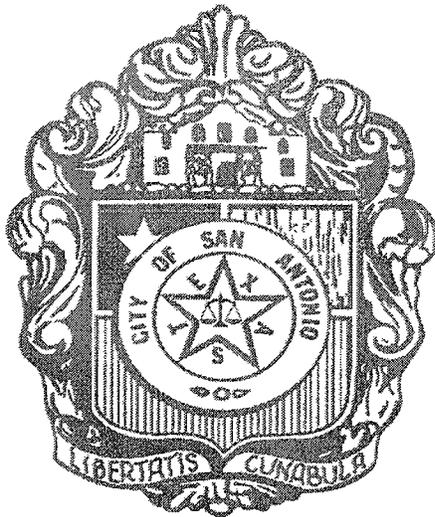
ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-08	\$ 73,777	\$ 89,098	\$ 15,321	82.8%	\$ 66,996	22.9%
01-01-07		200,083	200,083	0.0%	69,288	288.8%

¹ City will perform actuarial studies bi-annually and review annually assumptions and changes in plan design to compute OPEB liability for the Retiree Health Benefits Fund.

² The Health Care Fund's only contributing employer, the City of San Antonio, Texas, implemented GASB 43 in fiscal year 2007 resulting in only two years of ARC and AAL data for the fiscal year-ended September 30, 2008. Subsequent year's actuarial valuations will be presented in this schedule resulting in the presentation of multiple periods - ultimately for the three most recent valuations.

³ The 10/01/06 Actuarial Valuation report did not include State mandated plan changes that were effective as of 10/01/07, and the 10/01/06 report showed an AAL of \$702,909. The 10/01/07 Actuarial Valuation report, however, reflects a 10/01/06 AAL of \$497,382 based upon the effects of the 10/01/07 mandated changes. Mandated changes call for increased plan contributions and decreased plan benefits as a means with which to reduce funding deficits.

Comprehensive Annual Financial Report
Year-Ended September 30, 2008



City of San Antonio, Texas



Supplementary Budget and Actual Schedules for Legally Adopted Funds

GENERAL FUND

DEBT SERVICE FUND

SPECIAL REVENUE FUNDS:

Advanced Transportation District Fund
Capital Improvement Reserve Fund
Capital Improvement Management Services
Community and Visitor Facilities Fund
Confiscated Property Fund
Development and Planning Services
Emergency Medical Services Fund
Golf Course Fund
Hotel Motel Tax Capital Improvement Fund
International Center Fund
Job Training, Neighborhood Revitalization, and Economic Development Fund
Parks Development and Expansion Fund
Public Health Support Revenue Fund
Stormwater Operations Fund
Street Maintenance and Improvement Fund

Community Service Funds:

Animal Care Services Fund
Better Jobs
Child Safety Fund
Municipal Courts Security Fund
Municipal Court Technology Fund
Official City Store Fund
Recreation Athletic Fund
South Texas Business Fund
Starbright Industrial Development Corporation Fund
Tax Increment Financing Fund
Tree Preservation Fund

PERMANENT FUND:

San Jose Burial Park Fund

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues Compared to Budget
Budget and Actual (Budgetary Basis)

General Fund
Year-Ended September 30, 2008
(In Thousands)

	2008		VARIANCE -
	FINAL BUDGET	ACTUAL	POSITIVE (NEGATIVE)
Revenues:			
Taxes:			
Property:			
Current	\$ 226,096	\$ 229,890	\$ 3,794
Delinquent	2,683	2,603	(90)
General Sales and Use:			
City Sales	196,243	196,306	63
Selective Sales and Use:			
Alcoholic Beverages	5,200	5,712	512
Gross Receipts Business:			
Taxicabs	323	339	16
Telecommunication Access Lines Fees	15,418	18,525	3,107
Cablevision Franchise	11,027	11,575	548
Bingo	260	1,142	882
Other	97	124	27
Penalties and Interest on Delinquent Taxes	2,045	2,279	234
Total Taxes	459,402	468,495	9,093
Licenses and Permits:			
Alcoholic Beverages Licenses	402	431	29
Health Licenses	3,125	4,000	875
Amusement Licenses	353	300	(53)
Professional and Occupational Licenses	1,507	1,501	(6)
Animal Licenses		5	5
Street Permits	1,814	1,519	(295)
Total Licenses and Permits	7,201	7,756	555
Intergovernmental:			
Library Aid from Bexar County	3,317	3,521	204
Park Reservation Services	36	39	3
Bexar County - Child Support	55	53	(2)
Assistance and Detention - Bexar	1,665	1,398	(267)
EAS Contributions	580	618	38
Health Aid from Bexar County	556	606	50
Windcrest - Rackspace Settlement		180	180
Hotel/Motel Tax Collection Fee	50	53	3
Total Intergovernmental	6,259	6,468	209
Revenues from Utilities:			
CPS Energy	253,963	293,796	39,833
San Antonio Water System	9,425	10,362	937
Total Revenues from Utilities	263,388	304,158	40,770

(Continued)

- 183 - Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Schedules of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)

General Fund
Year-Ended September 30, 2008
(In Thousands)

	2008		VARIANCE -
	FINAL BUDGET	ACTUAL	POSITIVE (NEGATIVE)
Revenues:			
Taxes:			
Licenses and Permits	\$ 459,402	\$ 468,495	\$ 9,093
Intergovernmental	7,201	7,756	555
Revenues from Utilities	6,259	6,468	209
Charges for Services	263,388	304,158	40,770
Fines and Forfeits	42,157	43,010	853
Investment Earnings	10,900	12,249	1,349
Miscellaneous	6,171	4,940	(1,231)
Miscellaneous	5,248	10,982	5,734
Total Revenues	801,226	858,058	56,832
Expenditures:			
General Government	113,531	84,270	29,261
Public Safety	467,555	456,687	10,868
Public Works	11,301	11,477	(176)
Health Services	63,908	65,892	(1,984)
Sanitation	3,465	3,446	19
Welfare	47,962	46,712	1,250
Culture and Recreation	77,095	74,574	2,521
Economic Development and Opportunity	3,707	3,143	564
Total Expenditures	788,524	746,201	42,323
Excess of Revenues Over Expenditures	12,702	111,857	99,155
Other Financing Sources (Uses):			
Transfers In	18,581	18,720	139
Transfers Out	(95,190)	(95,755)	(465)
Total Other Financing Sources (Uses)	(76,709)	(77,035)	(326)
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(64,007)	34,822	98,829
Fund Balances, October 1	160,297	160,297	
Add Encumbrances		10,429	
Fund Balances, September 30	96,290	205,548	

- 182 - Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Schedule of Expenditures Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2008
(In Thousands)

	2008		VARIANCE -
	FINAL BUDGET	ACTUAL	POSITIVE (NEGATIVE)
Expenditures:			
General Government:			
Legislative:			
Personal Services	7,148	6,502	\$ 646
Contractual Services	1,855	1,404	451
Commodities	537	312	225
Other Expenditures	3,492	2,713	779
Total Legislative	13,032	10,931	2,101
Judicial:			
Personal Services	10,004	9,461	543
Contractual Services	867	848	19
Commodities	196	239	(43)
Other Expenditures	1,408	1,422	(14)
Total Judicial	12,475	11,970	505
Executive:			
Personal Services	40,489	33,872	6,617
Contractual Services	34,234	18,452	15,782
Commodities	6,052	2,736	3,316
Other Expenditures	7,209	6,091	1,118
Capital Projects	40	218	(178)
Total Executive	88,024	61,369	26,655
Total General Government	113,531	84,270	29,261
Public Safety:			
Police:			
Personal Services	225,234	225,997	(763)
Contractual Services	4,974	5,950	(976)
Commodities	1,167	959	208
Other Expenditures	15,668	14,371	1,297
Capital Projects	67	94	(27)
Total Police	247,090	247,401	(311)
Fire:			
Personal Services	110,195	118,141	(7,946)
Contractual Services	2,445	2,653	(208)
Commodities	3,206	2,656	550
Other Expenditures	13,861	14,472	(611)
Capital Projects		42	(42)
Total Fire	129,907	137,974	(8,067)

(Continued)

- 185 - Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2008
(In Thousands)

	2008		VARIANCE -
	FINAL BUDGET	ACTUAL	POSITIVE (NEGATIVE)
Charges for Services:			
General Government:			
Public Safety:			
Police Department	5,582	6,969	1,387
Fire Department	16,312	633	(15,679)
Sanitation:			
Abatement of Nuisances	233	620	387
Health and Recreation:	4,378	19,196	14,818
Tower of the Americas	589	463	(126)
Hemisphere Plaza	110	110	
La Villita	573	617	44
Recreation Fees	3,361	882	(2,479)
Concessions in Other Parks	95	82	(13)
River Boats	5,092	5,337	245
Governor's Palace	53	57	4
Swimming Pools	64	99	35
Community Centers	3	589	586
Library	870	2,661	1,791
Market Square - Markets and Warehouses	1,284	1,312	28
Cemeteries	240	260	20
Total Charges for Services	42,157	43,010	853
Fines and Forfeits:			
Municipal Court Fines	10,900	12,249	1,349
Investment Earnings:			
Interest	6,171	4,940	(1,231)
Miscellaneous:			
Sales	3,400	4,501	1,101
Recovery of Expenditures	525	3,636	3,111
Annexation			
Interfund Charges	522	1,216	694
Rents, Leases, and Concessions	909	1,016	107
Other	392	613	221
Total Miscellaneous	5,748	10,982	5,234
Total Revenues	\$ 801,226	\$ 858,058	\$ 56,832

(End of Statement)

- 184 - Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Schedule of Expenditures Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2008
(In Thousands)

	2008		VARIANCE -
	FINAL	ACTUAL	POSITIVE
	BUDGET		(NEGATIVE)
Public Safety (Continued):			
Building Inspection and Regulations:			
Personal Services	272	\$ 265	\$ 7
Contractual Services	5	3	(2)
Commodities	1	3	(2)
Other Expenditures	23	22	1
Total Building Inspection and Regulations	301	297	4
Administration:			
Personal Services	28,339	12,579	15,760
Contractual Services	1,736	1,825	(89)
Commodities	1,837	1,370	467
Other Expenditures	7,575	6,862	713
Capital Projects		15	(15)
Total Administration	39,487	22,051	16,836
Other Protection:			
Personal Services	28,110	25,678	2,432
Contractual Services	5,858	5,098	760
Commodities	3,363	3,182	181
Other Expenditures	13,439	13,964	(525)
Capital Projects		442	(442)
Total Other Protection	50,770	48,364	2,406
Total Public Safety	467,555	456,687	10,868
Public Works:			
Streets:			
Personal Services	381	361	20
Contractual Services	6	11	(5)
Commodities	3	3	
Other Expenditures	40	39	1
Total Streets	430	414	16
Lighting:			
Contractual Services	90		90
Commodities	10,781	11,063	(282)
Total Lighting	10,871	11,063	(192)
Total Public Works	11,301	11,477	(176)

(Continued)

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Schedule of Expenditures Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2008
(In Thousands)

	2008		VARIANCE -
	FINAL	ACTUAL	POSITIVE
	BUDGET		(NEGATIVE)
Health Services:			
Personal Services	46,319	\$ 49,789	\$ (3,470)
Contractual Services	8,978	7,990	988
Commodities	2,081	2,347	(266)
Other Expenditures	6,530	5,582	948
Capital Projects		184	(184)
Total Health Services	63,908	65,892	(1,984)
Sanitation:			
Personal Services	2,565	2,425	140
Contractual Services		76	(76)
Commodities	388	391	(3)
Other Expenditures	436	473	(37)
Total Sanitation	3,465	3,446	19
Welfare:			
Personal Services	19,093	17,336	1,757
Contractual Services	14,991	20,430	(5,439)
Commodities	1,058	914	144
Other Expenditures	12,820	7,823	4,997
Capital Projects		209	(209)
Total Welfare	47,962	46,712	1,250
Culture and Recreation:			
Libraries:			
Personal Services	19,031	18,426	605
Contractual Services	1,650	1,731	(81)
Commodities	4,128	4,223	(95)
Other Expenditures	3,817	3,771	46
Capital Projects	70	33	37
Total Libraries	28,696	28,184	512
Parks:			
Personal Services	27,054	26,399	655
Contractual Services	6,968	6,449	519
Commodities	3,317	3,174	143
Other Expenditures	10,630	9,930	700
Capital Projects	430	438	(8)
Total Parks	48,399	46,390	2,009
Total Culture and Recreation	77,095	74,574	2,521
Economic Development and Opportunity:			
Personal Services	2,736	2,433	303
Contractual Services	466	445	21
Commodities	94	84	10
Other Expenditures	181	181	
Total Economic Development and Opportunity	3,707	3,143	564
Total Expenditures	788,524	746,201	42,323

(End of Statement)

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Debt Service Fund

Year-Ended September 30, 2008

(In Thousands)

	2008		VARIANCE -
	FINAL BUDGET	ACTUAL	POSITIVE (NEGATIVE)
Revenues:			
Taxes:			
Current	\$ 132,537	\$ 133,792	\$ 1,255
Delinquent	1,675	2,298	623
Penalties and Interests on Delinquent Taxes	1,214	1,327	113
Miscellaneous	7,721	384	(7,337)
Investment Earnings		6,430	6,430
Total Revenues	143,147	144,231	1,084
Expenditures:			
General Government		698	(698)
Principal Retirement	101,000	97,485	3,515
Interest	67,732	62,170	5,562
Arbitrage	5	5	0
Issuance Costs		1,071	(1,071)
Total Expenditures	168,737	161,424	7,313
(Deficiency) of Revenues (Under) Expenditures	(25,590)	(17,193)	8,397
Other Financing Sources (Uses):			
Transfers In			
Transfers Out	26,395	25,066	1,329
Issuance of Long-Term Debt		(1,626)	1,626
Premium/(Discount) on Long-Term Debt		164,865	(164,865)
Payments to Refunded Bond Escrow Agent		3,267	(3,267)
Release of Enterprise Fund Obligations		(170,737)	170,737
Debt Transfer to Enterprise Funds		9,645	(9,645)
Other		(9,645)	0
Total Other Financing Sources	26,395	20,835	5,560
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing (Uses)	805	3,642	2,837
Fund Balances, October 1	102,306	102,306	0
Fund Balances, September 30	\$ 103,111	\$ 105,948	\$ 2,837

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Advanced Transportation District Fund

Year-Ended September 30, 2008

(In Thousands)

	2008		VARIANCE -
	FINAL BUDGET	ACTUAL	POSITIVE (NEGATIVE)
Revenues:			
General Sales and Use:			
City Sales Tax	\$ 11,137	\$ 11,519	\$ 382
Investment Earnings:			
Interest		467	467
Total Revenues	11,137	11,986	849
Expenditures:			
Public Works:			
Personal Services	1,077	946	131
Contractual Services	88	379	(291)
Commodities	347	231	116
Other Expenditures	104	207	(103)
Total Expenditures	1,616	1,763	(147)
Excess of Revenues Over Expenditures	9,521	10,223	702
Other Financing (Uses):			
Transfers Out			
Other Financing (Uses) and Other Financing (Uses)	(21,454)	(17,116)	4,338
Fund Balances, October 1	(11,933)	(6,893)	5,040
Add Encumbrances	14,715	14,715	0
Fund Balances, September 30	\$ 2,782	\$ 12,177	\$ 9,395

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Capital Improvement Reserve Fund

Year-Ended September 30, 2008

(In Thousands)

	2008		VARIANCE - POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
Revenues:			
Investment Earnings:			
Interest	-	127	\$ 127
Excess of Revenues Over Expenditures			
Other Financing (Uses):			
Transfers In	1,105	994	(111)
Transfers Out	(196)	(196)	
Total Other Financing (Uses)	909	798	(111)
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	909	925	\$ 16
Fund Balances, October 1	3,633	3,633	
Add Encumbrances	-	155	
Fund Balances, September 30	<u>\$ 4,542</u>	<u>\$ 4,713</u>	

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Capital Improvements Management Services

Year-Ended September 30, 2008

(In Thousands)

	2008		VARIANCE - POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
Revenues:			
Charges for Services	5,171	5,594	\$ 423
Expenditures:			
Public Works:			
Personal Services	9,088	9,144	(56)
Contractual Services	434	386	48
Commodities	225	26	(199)
Other Expenditures	853	1,036	(183)
Total Expenditures	10,700	10,827	(127)
Excess of Revenues Over Expenditures	<u>(5,529)</u>	<u>(5,233)</u>	296
Other Financing Sources (Uses):			
Transfers In	5,529	5,233	(296)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	-	-	\$ -
Fund Balances, October 1	-	119	
Add Encumbrances	-	119	
Fund Balances, September 30	<u>\$ -</u>	<u>\$ 119</u>	

The City noted budget violations of excess expenditures, transfers out, and encumbrances over appropriations. As there was sufficient actual revenues or fund balance to cover these excesses, the City does not deem these violations to be material.

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances Budget and Actual (Budgetary Basis)

Special Revenue Funds
Confiscated Property Fund
Year-Ended September 30, 2008
(In Thousands)

	2008			VARIANCE -
	FINAL BUDGET	ACTUAL		POSITIVE (NEGATIVE)
Revenues:				
Investment Earnings:				
Interest	\$ 110	\$ 111	\$	1
Miscellaneous:				
Confiscated Property	742	2,817		2,075
Other		13		13
Total Revenues	852	2,941		2,089
Expenditures:				
Public Safety:				
Office of the Chief of Police:				
Personal Services	363	318		45
Contractual Services	51	276		227
Commodities	914	662		252
Other Expenditures	292	93		199
Total Expenditures	2,084	1,339		745
(Deficiency) of Revenues (Under) Expenditures	(1,232)	1,602		2,834
Other Financing (Uses):				
Transfers Out	(382)	(385)		(3)
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(1,614)	1,217		2,831
Fund Balances, October 1	2,100	2,100		
Add Encumbrances				
Fund Balances, September 30	\$ 486	\$ 3,423		

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances Budget and Actual (Budgetary Basis)

Special Revenue Funds
Community and Visitor Facilities Fund
Year-Ended September 30, 2008
(In Thousands)

	2008			VARIANCE -
	FINAL BUDGET	ACTUAL		POSITIVE (NEGATIVE)
Revenues:				
Taxes:				
Occupancy	\$ 53,133	\$ 53,211	\$	78
Penalties and Interest on Delinquent Taxes		147		147
Intergovernmental	15,302	1,524		1,524
Charters		1,800		1,800
Investment Earnings:				
Interest	1,601	1,601		498
Miscellaneous:				
Recovery of Expenditures	482	171		(311)
Other	1,085	2,298		1,333
Total Revenues	71,085	77,174		6,089
Expenditures:				
General Government:				
Contractual Service		79		(79)
Total General Government		79		(79)
Cultural and Recreation:				
Arts and Cultural Affairs:				
Personal Services	844	874		(30)
Contractual Services	1,595	1,514		81
Commodities	13	10		3
Other Expenditures	39	40		(1)
Capital Outlay	97	97		
Total Arts and Cultural Affairs	2,608	2,537		71
Convention Facilities:				
Personal Services	18,905	15,240		3,635
Contractual Services	2,251	3,846		1,595
Commodities	1,356	1,475		(119)
Other Expenditures	11,549	11,507		42
Capital Outlay	191	191		
Total Convention Facilities	33,332	32,353		979
Convention and Tourism:				
Convention and Visitors Bureau:				
Personal Services	6,496	6,726		(200)
Contractual Services	12,175	11,648		527
Commodities	244	385		(141)
Other Expenditures	544	563		(19)
Total Convention and Visitors Bureau	19,599	19,332		267
Economic Development and Opportunity:				
Personal Services	543	528		15
Contractual Services	52	42		10
Commodities	32	51		6
Other Expenditures	57	64		(7)
Total Economic Development and Opportunity	1,120	1,085		35
Nondepartmental:				
Personal Services	314	313		1
Contractual Services	1,794	1,428		356
Commodities	21	22		(1)
Other Expenditures				
Total Nondepartmental	2,122	1,763		359
Contributions to Other Agencies	5,905	5,996		(91)
Total Expenditures	64,686	63,188		1,500
Excess of Revenues Over Expenditures	6,399	17,989		7,590
Transfers In:				
Transfers Out	504	4,634		4,130
Total Other Financing Sources (Uses)	(12,824)	(12,518)		306
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	(12,370)	(7,884)		4,486
Fund Balances, October 1	(5,971)	6,105		12,076
Add Encumbrances	20,814	3,627		
Fund Balances, September 30	\$ 14,869	\$ 30,346		

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

**Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)**

**Special Revenue Funds
Development and Planning Services
Year-Ended September 30, 2008**
(In Thousands)

	2008		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services	\$ 31,813	\$ 27,543	\$ (4,270)
Miscellaneous:			
Recovery of Expenditures	392	250	(142)
Total Revenues	32,205	27,793	(4,412)
Expenditures:			
General Government:			
Personal Services	14,555	14,455	100
Contractual Services	1,805	548	1,257
Commodities	401	239	162
Other Expenditures	2,644	2,557	87
Total Development Services	19,405	17,799	1,606
Planning:			
Personal Services	2,512	2,376	136
Contractual Services	140	113	27
Commodities	150	103	47
Other Expenditures	493	503	(10)
Total Planning	3,295	3,095	200
Total Expenditures	22,700	20,894	1,806
Excess of Revenues Over Expenditures	9,505	6,899	(2,606)
Other Financing Sources (Uses):			
Transfers in	1,074	1,074	
Transfers Out	(5,767)	(6,072)	(305)
Total Other Financing Sources (Uses)	(4,693)	(4,998)	(305)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	4,812	1,901	(2,911)
Fund Balances, October 1	(2,917)	(2,917)	
Add Encumbrances		66	
Fund Balances, September 30	\$ 1,895	\$ (950)	\$ (2,911)

CITY OF SAN ANTONIO, TEXAS

**Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)**

**Special Revenue Funds
Emergency Medical Services Fund
Year-Ended September 30, 2008**
(In Thousands)

	2008		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Transfers Out	(1,039)	(1,039)	\$ -
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures	(1,039)	(1,039)	\$ -
Fund Balances, October 1	1,039	1,039	
Fund Balances, September 30	\$ -	\$ -	\$ -

Closed to General Fund in Fiscal Year 2008

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Golf Course Fund

Year-Ended September 30, 2008

(In Thousands)

	2008		VARIANCE -
	FINAL BUDGET	ACTUAL	POSITIVE (NEGATIVE)
Revenues:			
Charges for Services	\$ 4,109	\$ 3,241	\$ (868)
Investment Earnings:			
Interest		1	1
Miscellaneous:			
Other		237	237
Total Revenues	4,109	3,479	(630)
Expenditures:			
Culture and Recreation:			
Personal Services	2,305	2,481	(176)
Contractual Services	552	670	(118)
Commodities	746	587	159
Other Expenditures	1,126	1,376	(250)
Capital Projects		28	(28)
Total Expenditures	4,729	5,142	(413)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(620)	(1,663)	(1,043)
Other Financing (Uses):			
Transfers In	909	909	
Transfers Out	(3)	(3)	
Total Other Financing Sources (Uses)	906	906	
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing (Uses)	286	(757)	(1,043)
Fund Balances, October 1	(1,279)	(1,279)	
Add Encumbrances		185	
Fund Balances, September 30	(993)	(1,851)	

The City noted budget violations of excess expenditures, transfers out, and encumbrances over appropriations. As the City is in the process of transferring the courses to a component unit, and is actively monitoring this fund, the City does not deem these violations to be material.

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Hotel Motel Tax Capital Improvement Fund

Year-Ended September 30, 2008

(In Thousands)

	2008		VARIANCE -
	FINAL BUDGET	ACTUAL	POSITIVE (NEGATIVE)
Revenues:			
Taxes:			
Occupancy	\$ 15,180	\$ 15,203	\$ 23
Penalties and Interest on Delinquent Taxes	7	44	37
Investment Earnings:			
Interest	39	227	188
Intergovernmental		6,081	6,081
Excess of Revenues Over Expenditures	15,226	21,555	6,329
Other Financing (Uses):			
Transfers Out	(11,032)	(12,583)	(1,551)
Excess of Revenues Over Expenditures and Other Financing (Uses)	4,194	8,972	4,778
Fund Balances, October 1	6,225	6,225	
Add Encumbrances		74	
Fund Balances, September 30	\$ 10,419	\$ 15,271	

The City noted budget violations of excess expenditures, transfers out, and encumbrances over appropriations. As there was sufficient actual revenues or fund balance to cover these excesses, the City does not deem these violations to be material.

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

International Center Fund

Year-Ended September 30, 2008

(In Thousands)

	2008		VARIANCE - POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
Revenues:			
Charges for Services	\$ 1,357	\$ 1,278	\$ (79)
Investment Earnings:			
Interest	15	54	39
Total Revenues	1,372	1,332	(40)
Expenditures:			
Convention and Tourism:			
Personal Services	401	351	50
Contractual Services	220	204	16
Commodities	92	97	(5)
Other Expenditures	280	300	(20)
Total Expenditures	993	952	41
Excess of Revenues Over Expenditures	379	380	1
Other Financing (Uses):			
Transfers Out	(17)	(17)	
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing (Uses)	362	363	1
Fund Balances, October 1	1,370	1,370	
Add Encumbrances		63	
Fund Balances, September 30	\$ 1,732	\$ 1,796	

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Job Training, Neighborhood Revitalization, and Economic Development Fund

Year-Ended September 30, 2008

(In Thousands)

	2008		VARIANCE - POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
Revenues:			
Investment Earnings:			
Interest	\$ -	\$ 108	\$ 108
Excess of Revenues Over Expenditures		108	108
Other Financing (Uses):			
Transfers Out	(2,401)	(2,401)	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(2,401)	(2,293)	108
Fund Balances, October 1	3,581	3,581	
Add Encumbrances		437	
Fund Balances, September 30	\$ 1,180	\$ 1,725	

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Parks Development and Expansion Fund

Year-Ended September 30, 2008

(In Thousands)

	2008		VARIANCE -
	FINAL BUDGET	ACTUAL	POSITIVE (NEGATIVE)
Revenues:			
General Sales and Use:			
City Sales Tax	\$ 24,827	\$ 24,523	\$ (304)
Investment Earnings:			
Interest	1,372	1,500	128
Miscellaneous:	26,853	43	(26,810)
Other	53,052	26,066	(26,986)
Total Revenues			
Expenditures:			
Culture and Recreation:			
Contractual Services	2,364	515	1,849
Commodities		\$	(5)
Other Expenditures		149	(149)
Total Expenditures	2,364	669	1,695
Excess of Revenues Over Expenditures	50,688	25,397	(25,291)
Other Financing Sources (Uses):			
Transfers In:			
Transfers In	1,509	(1,509)	(1,509)
Transfers Out	(145,191)	(43,457)	101,734
Total Other Financing Sources (Uses)	(143,682)	(43,457)	100,225
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(92,994)	(18,060)	\$ 74,934
Fund Balances, October 1	44,595	44,595	
Add Encumbrances		13,074	
Fund Balances, September 30	\$ (48,399)	\$ 39,609	

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Public Health Support Revenue Fund

Year-Ended September 30, 2008

(In Thousands)

	2008		VARIANCE -
	FINAL BUDGET	ACTUAL	POSITIVE (NEGATIVE)
Other Financing Sources (Uses):			
Transfers Out	\$ (549)	\$ (549)	\$ -
Total Other Financing Sources (Uses)	(549)	(549)	(549)
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing (Uses)	(549)	(549)	\$ -
Fund Balances, October 1	549	549	
Fund Balances, September 30	\$ -	\$ -	

Closed to General Fund in Fiscal Year 2008

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Stormwater Operations Fund

Year-Ended September 30, 2008

(In Thousands)

	2008		VARIANCE -
	FINAL BUDGET	ACTUAL	POSITIVE (NEGATIVE)
Revenues:			
Charges for Services	\$ 40,717	\$ 38,704	\$ (2,013)
Investment Earnings:			
Interest	1,376	1,006	(370)
Miscellaneous:			
Other		44	44
Recovery of Expenditures		38	38
Total Revenues	42,093	39,782	(2,311)
Expenditures:			
Public Works:			
Administration:			
Personal Services	2,522	2,426	96
Contractual Services	4,370	5,039	(669)
Commodities	11	11	
Other Expenditures	214	191	23
Capital Outlay		57	(57)
Total Administration	7,220	7,774	(554)
Vegetation Control:			
Personal Services	2,555	2,122	433
Contractual Services	1,177	556	621
Commodities	284	360	(66)
Other Expenditures	95	854	(759)
Total Vegetation Control	4,931	3,892	1,039
River Activities:			
Personal Services	3,443	3,524	119
Contractual Services	1,381	1,101	280
Commodities	345	624	(279)
Other Expenditures	2,084	2,237	(153)
Total River Maintenance	7,453	7,476	(23)
Street Sweeping:			
Personal Services	2,282	2,106	176
Contractual Services	1,177	1,177	
Commodities	123	287	(164)
Other Expenditures	1,025	1,094	(169)
Total Street Sweeping	4,607	4,664	(57)
Tunnel Maintenance:			
Personal Services	1,326	1,257	79
Contractual Services	565	195	370
Commodities	16	16	
Other Expenditures	43	400	(357)
Total Tunnel Maintenance	2,952	2,060	892
Other Financing Sources (Uses):			
Transfers In	617	463	154
Transfers Out	34	35	(1)
Contractual Services	19	10	9
Commodities	58	70	(12)
Other Expenditures	728	578	150
Total Design Engineering	26,915	25,861	1,054
Total Expenditures	19,178	13,921	(5,257)
Excess of Revenues Over Expenditures	(30,107)	(20,105)	10,002
Other Financing Sources (Uses):			
Transfers In	(30,107)	(30,105)	10,002
Transfers Out	(14,929)	(6,184)	8,745
Total Other Financing Sources (Uses)	30,704	30,704	
Fund Balances, October 1	15,175	8,504	6,671
Add Encumbrances		31,024	
Fund Balances, September 30	\$ 15,175	\$ 31,024	\$ 15,849

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Street Maintenance and Improvement Fund

Year-Ended September 30, 2008

(In Thousands)

	2008		VARIANCE -
	FINAL BUDGET	ACTUAL	POSITIVE (NEGATIVE)
Revenues:			
Intergovernmental	\$ 423	\$ 154	\$ (269)
Charges for Services	1,134	1,153	19
Investment Earnings:			
Interest	337	1,157	820
Miscellaneous:			
Recovery of Expenditures		781	781
Total Revenues	1,894	3,245	1,351
Expenditures:			
Public Works:			
Streets and Roadways:			
Area Supervision:			
Personal Services	2,187	2,075	112
Contractual Services	8,900	8,395	505
Commodities	7,946	519	(7,427)
Other Expenditures	1,286	1,269	17
Total Area Supervision	12,519	12,258	261
Gravel and Asphalt Maintenance:			
Personal Services	8,525	7,923	602
Contractual Services	4,467	1,918	2,549
Commodities	4,739	7,621	(2,882)
Other Expenditures	4,694	4,317	377
Total Gravel and Asphalt Maintenance	20,365	21,829	(1,464)
Maintenance and Construction:			
Personal Services	1,718	1,748	(30)
Contractual Services	7,320	9,158	(1,838)
Commodities	5,750	599	5,151
Other Expenditures	1,015	981	34
Total Maintenance and Construction	15,813	12,486	3,327
Total Expenditures	46,697	46,573	124
(Deficiency) of Revenues (Under) Expenditures	(46,803)	(43,328)	3,475
Other Financing Sources (Uses):			
Transfers In	59,275	59,445	170
Transfers Out	(34,644)	(32,939)	1,705
Total Other Financing Sources (Uses)	24,631	26,506	1,875
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing (Uses)	(22,172)	(16,822)	5,350
Fund Balances, October 1	21,940	21,940	
Add Encumbrances	(232)	28,751	28,519
Fund Balances, September 30	\$ (232)	\$ 33,669	\$ 33,901

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Community Service Funds - Animal Care Services Fund

Year-Ended September 30, 2008

(In Thousands)

	2008		VARIANCE - POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
Revenues:			
Charges for Services:			
Animal Control Fees	\$ 879	\$ 483	\$ (396)
Intergovernmental:			
Contribution from Other Agencies	433	505	72
Investment Earnings:			
Interest	17	17	17
Total Revenues	1,312	1,005	(307)
Expenditures:			
Health Services:			
Personal Services	5,016	4,632	384
Contractual Services	718	644	74
Commodities	759	880	(121)
Other Expenditures	1,073	1,075	(2)
Capital Projects	40	24	16
Total Expenditures	7,606	7,255	351
(Deficiency) of Revenues (Under) Expenditures	(6,294)	(6,250)	44
Other Financing Sources (Uses):			
Transfers In	6,197	6,197	
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(97)	(53)	44
Fund Balances, October 1	109	109	
Add Encumbrances	12	101	45
Fund Balances, September 30	\$ 12	\$ 101	45

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Community Service Funds - Better Jobs

Year-Ended September 30, 2008

(In Thousands)

	2008		VARIANCE - POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
Revenues:			
Investment Earnings:			
Interest	\$ 95	\$ 19	\$ (76)
Total Revenues	95	19	(76)
Excess of Revenues Over Expenditures	95	19	(76)
Other Financing (Uses):			
Transfers Out	(559)	(559)	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(474)	(550)	(76)
Fund Balances, October 1	548	548	
Fund Balances, September 30	\$ 74	\$ (2)	(74)

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

**Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)**

Special Revenue Funds

Community Service Funds - Child Safety Fund

Year-Ended September 30, 2008

(In Thousands)

	2008		VARIANCE - POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
Revenues:			
Charges for Services:			
Parking Fines	\$ 242	\$ 233	\$ (9)
Moving Violations	183	225	42
Invergovernmental	1,647	1,564	(83)
Total Revenues	2,072	2,022	(50)
Expenditures:			
Public Safety:			
Personal Services	1,639	1,252	387
Contractual Services	3	12	(9)
Commodities	33	12	21
Other Expenditures	364	472	(108)
Capital Projects		10	(10)
Total Expenditures	2,039	1,758	281
Excess (Deficiency) of Revenues Over (Under) Expenditures	33	264	231
Other Financing (Uses):			
Transfers Out	(33)	(33)	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	\$ -	\$ 231	\$ 231
Fund Balances, October 1			
Fund Balances, September 30	\$ -	\$ 231	\$ 231

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

**Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)**

Special Revenue Funds

Community Service Funds - Municipal Courts Security Fund

Year-Ended September 30, 2008

(In Thousands)

	2008		VARIANCE - POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
Revenues:			
Charges for Services:			
Building Security	\$ 383	\$ 429	\$ 46
Investment Earnings:			
Interest		5	5
Total Revenues	383	434	51
Expenditures:			
General Government:			
Personal Services	249	123	126
Contractual Services	153	353	(200)
Commodities	37	5	32
Total Expenditures	439	481	(42)
Excess of Revenues Over Expenditures	(56)	(47)	9
Other Financing Sources:			
Transfers In	115	115	
Excess of Revenues Over Expenditures	59	68	9
Fund Balances, October 1	35	35	
Add Encumbrances			
Fund Balances, September 30	\$ 94	\$ 112	\$ 9

The City noted budget violations of excess expenditures, transfers out, and encumbrances over appropriations. As there was sufficient actual revenues or fund balance to cover these excesses, the City does not deem these violations to be material.

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Community Service Funds - Municipal Court Technology Fund

Year-Ended September 30, 2008

(In Thousands)

	2008		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services:			
Technology Improvements	\$ 510	\$ 572	\$ 62
Investment Earnings:			
Interest		26	26
Total Revenues	510	598	88
Expenditures:			
General Government:			
Personal Services	57	65	(8)
Contractual Services	311		311
Capital Projects		20	(20)
Total Expenditures	368	85	283
Excess of Revenues Over Expenditures	142	513	371
Fund Balances, October 1	532	532	
Fund Balances, September 30	674	1,045	

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Community Service Funds - Official City Store Fund

Year-Ended September 30, 2008

(In Thousands)

	2008		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Investment Earnings:			
Interest	\$ 4	\$ 4	\$ -
Charges for Services:			
Sales	340	228	(112)
Total Revenues	344	232	(112)
Expenditures:			
General Government:			
Personal Services	293	242	51
Contractual Services	36	28	8
Commodities	196	108	88
Other Expenditures	60	60	
Total Expenditures	605	436	169
(Deficiency) of Revenues (Under) Expenditures	(261)	(204)	57
Other Financing Sources (Uses):			
Transfers In	200	200	
Transfers Out	(10)	(10)	
Total Other Financing Sources (Uses)	190	190	
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	(71)	(14)	57
Fund Balances, October 1	93	93	
Add Encumbrances			
Fund Balances, September 30	22	80	

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Community Service Funds - Recreation Athletic Fund

Year-Ended September 30, 2008

(In Thousands)

	2008		VARIANCE - POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
Revenues:			
Charges for Services:			
Entry Fees	\$ 496	\$ 511	\$ 15
Investment Earnings:			
Interest	5		(5)
Miscellaneous:			
Other	8		(8)
Total Revenues	509	511	2
Expenditures:			
Culture and Recreation:			
Personal Services	219	234	(15)
Contractual Services	203	216	(13)
Commodities	38	38	
Other Expenditures	153	153	
Total Expenditures	613	641	(28)
(Deficiency) of Revenues (Under) Expenditures	(104)	(130)	(26)
Other Financing (Uses):			
Transfers In	214	214	
Transfers Out	(34)	(34)	
Total Other Financing Sources (Uses)	180	180	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	76	50	(26)
Fund Balances, October 1	(64)	(64)	
Fund Balances, September 30	12	(14)	

The City noted budget violations of excess expenditures, transfers out, and encumbrances over appropriations. The City does not deem these violations to be material.

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Community Service Funds - South Texas Business Fund

Year-Ended September 30, 2008

(In Thousands)

	2008		VARIANCE - POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
Revenues:			
Intergovernmental:			
Contributions from Other Agencies (SALDC)	\$ 602	\$ 515	\$ (87)
Total Revenues	602	515	(87)
Expenditures:			
Economic Development and Opportunity:			
Personal Services	538	594	(56)
Contractual Services	24	4	20
Commodities	6	2	4
Other Expenditures	30	29	1
Total Expenditures	598	629	(31)
(Deficiency) of Revenues (Under) Expenditures	4	(114)	(118)
Other Financing (Uses):			
Transfers Out	(5)	(5)	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(1)	(119)	(118)
Fund Balances, October 1	74	74	
Fund Balances, September 30	73	(45)	

This fund is separate and distinct from the blended component unit.

The City noted budget violations of excess expenditures, transfers out, and encumbrances over appropriations. The City does not deem these violations to be material.

CITY OF SAN ANTONIO, TEXAS

**Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)**

**Special Revenue Funds
Community Service Funds - Starbright Industrial Development Corporation Fund
Year-Ended September 30, 2008
(In Thousands)**

	2008		VARIANCE - POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
Revenues:			
Investment Earnings:			
Interest	\$ -	\$ 6	\$ 6
Total Revenues			
			6
Expenditures:			
Economic Development and Opportunity:			
Other Expenditures	1,662	1,649	13
Total Expenditures	1,662	1,649	13
(Deficiency) of Revenues (Under) Expenditures	(1,662)	(1,643)	19
Other Financing Sources (Uses):			
Transfers In	1,662	1,662	
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	81	19	19
Fund Balances, October 1	81	81	
Fund Balances, September 30			100

In fiscal year 2005-2006, the Starbright Industrial Development Corporation Fund was established to account for the proceeds from CP5 Energy to be used to repay the debt service associated with the Toyota plant land purchase. This fund is separate and distinct from the blended component unit.

CITY OF SAN ANTONIO, TEXAS

**Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)**

**Special Revenue Funds
Community Service Funds - Tax Increment Financing Fund
Year-Ended September 30, 2008
(In Thousands)**

	2008		VARIANCE - POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
Revenues:			
Charges for Services:			
Administrative Fee	\$ 387	\$ -	\$ (387)
Processing Fee	56		(56)
Total Revenues	443		(443)
Expenditures:			
General Government:			
Personal Services	285	277	8
Contractual Services	8		8
Commodities	7	1	6
Other Expenditures	31	30	1
Total Expenditures	331	308	23
Excess (Deficiency) of Revenues Over (Under) Expenditures	112	(308)	(420)
Other Financing (Uses):			
Transfers In		739	739
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing (Uses)	112	431	319
Fund Balances, October 1	(104)	(104)	
Fund Balances, September 30	8	327	319

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Community Service Funds - Tree Preservation Fund

Year-Ended September 30, 2008

(In Thousands)

	2008		VARIANCE - POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
Revenues:			
Charges for Services:			
Tree Mitigation Fee	\$ 544	\$ 533	\$ (11)
Investment Earnings:			
Interest	76	78	2
Miscellaneous:			
Other	5	5	5
Total Revenues	620	616	(4)
Expenditures:			
Culture and Recreation:			
Personal Services	138	129	9
Contractual Services	1,041	912	129
Commodities	154	111	43
Other Expenditures	14	11	3
Capital Projects	27	26	1
Total Expenditures	1,374	1,189	185
(Deficiency) of Revenues (Under) Expenditures	(754)	(573)	181
Other Financing Sources:			
Transfers Out	(192)	(192)	
Excess (Deficiency) of Revenues Over (Under) Expenditures	(946)	(765)	181
Fund Balances, October 1	2,234	2,234	
Add Encumbrances	437	437	
Fund Balances, September 30	1,288	1,906	

The City noted budget violations of excess expenditures, transfers out, and encumbrances over appropriations. As there was sufficient actual revenues or fund balance to cover these excesses, the City does not deem these violations to be material.

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Permanent Fund

San Jose Burial Park Fund

Year-Ended September 30, 2008

(In Thousands)

	2008		VARIANCE - POSITIVE (NEGATIVE)
	FINAL BUDGET	ACTUAL	
Revenues:			
Charges for Services:			
Sales	\$ 365	\$ 394	\$ 29
Investment Earnings:			
Interest	108	73	(35)
Total Revenues	473	467	(6)
Expenditures:			
Culture and Recreation:			
Personal Services	348	380	(32)
Contractual Services	9	28	(19)
Commodities	12	11	1
Other Expenditures	110	148	(38)
Total Expenditures	479	567	(88)
(Deficiency) of Revenues (Under) Expenditures	(6)	(100)	(94)
Other Financing (Uses):			
Transfers Out	(43)		43
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(49)	(100)	(51)
Fund Balances, October 1	2,196	2,196	
Fund Balances, September 30	2,147	2,096	

The City noted budget violations of excess expenditures, transfers out, and encumbrances over appropriations. As there was sufficient actual revenues or fund balance to cover these excesses, the City does not deem these violations to be material.

APPENDIX D

The information contained in Appendix D consists of the Legal Opinion of McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel for the Bonds.

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March __, 2010

**CITY OF SAN ANTONIO, TEXAS
MUNICIPAL FACILITIES CORPORATION
LEASE REVENUE REFUNDING BONDS, SERIES 2010
(DEVELOPMENT & BUSINESS SERVICES CENTER PROJECT)
DATED MARCH 1, 2010
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$9,090,000**

WE HAVE ACTED AS BOND COUNSEL for the CITY OF SAN ANTONIO, TEXAS MUNICIPAL FACILITIES CORPORATION (the "***Issuer***"), the issuer of the Bonds described above (the "***Bonds***"), solely for the purpose of rendering an opinion as to the validity of the "Lease" and the "Trust Agreement" (hereinafter defined) and the Bonds under Texas law, and the status of the interest on the Bonds under federal income tax law, and for no other purpose. In such capacity, we do not take responsibility for any matters relating to such transaction except as covered below.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the City, and other pertinent instruments authorizing and relating to the issuance of the Bonds including (i) the resolution adopted by the Board of Directors of the Issuer on March 4, 2010 which authorized the issuance of the Bonds (the "***Bond Resolution***"), (ii) the "***Amended and Restated Lease Agreement Relating to the City of San Antonio, Texas Development & Business Services Center Project***", dated as of March 1, 2010, between the Issuer, as Lessor, and the CITY OF SAN ANTONIO, TEXAS (the "***City***"), as Lessee (the "***Lease***"), (iii) one of the executed Bonds (T-1), (iv) the Escrow Agreement, dated as of March 1, 2010, between the Issuer and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as escrow agent (the "***Escrow Agreement***"), (v) the report and mathematical verifications of GRANT THORNTON LLP, certified public accountants, with respect to the adequacy of certain escrowed funds to accomplish the refunding purposes of the Bonds (the "***Verification Report***"), and (vi) the Issuer's Federal Tax Certificate of even date herewith.

WE HAVE FURTHER EXAMINED into the validity of the Bonds, bearing interest from March 1, 2010, until maturity or redemption, at the rates per annum set forth in the "***Amended and Restated Trust Agreement Relating to the Development & Business Services Center Project***", dated as of March 1, 2010 (the "***Trust Agreement***"), between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the "***Trustee***"). Interest on the Bonds is payable, and the Bonds mature, on the dates set forth in the Trust Agreement, and the Bonds are subject to redemption prior to maturity in accordance with the terms and conditions stated in the Trust Agreement and in the text of the Bonds.

WE HAVE FURTHER EXAMINED the opinion of Michael Bernard, as City Attorney of the City, upon which we rely to the extent described below.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that the Escrow Agreement has been duly authorized, executed and delivered by the Issuer and constitutes a binding and enforceable agreement in accordance with its terms and that the "**Refunded Bonds**" (as defined in the Bond Resolution) being refunded by the Bonds are outstanding under the resolution authorizing their issuance only for the purpose of receiving the funds provided by, and are secured solely by and payable solely from, the Escrow Agreement and the cash and investments, including the income therefrom, held by the Escrow Agent pursuant to the Escrow Agreement. In rendering this opinion, we have relied upon the certifications contained in the Verification Report as to the sufficiency of the cash and investments deposited pursuant to the Escrow Agreement for the purpose of paying the principal of, redemption premium, if any, and interest on the Refunded Bonds.

IT IS FURTHER OUR OPINION that the Issuer is a nonprofit local government corporation organized and existing under the laws of the State of Texas, including particularly Subchapter D of Chapter 431, Texas Transportation Code, as amended (the "**Act**"); the Bond Resolution has been duly and lawfully adopted by, and constitutes a valid and binding obligation of, the Issuer, and that the Bonds have been duly authorized, issued and delivered in accordance with Texas law and constitute legal, valid, binding and enforceable obligations of the Issuer in accordance with their terms. The principal of, redemption premium, if any, and interest on the Bonds are payable solely from "Lease Payments" (as defined in the Lease) to be made by the City as provided in the Trust Agreement and the Lease. Subject to the limitations described below, the City has agreed and is obligated to the Issuer to make periodic Lease Payments due under the Lease to the Trustee under the Trust Agreement for deposit into the Payment Account established by the Trust Agreement in amounts sufficient to pay and redeem, or provide for the payment and redemption of, the principal of, redemption premium, if any, and interest on the Bonds, when due, as required by the Trust Agreement. We do not, however, express any opinion nor make any comment with respect to the sufficiency of the security for or the marketability of the Bonds.

IT IS FURTHER OUR OPINION that the Lease has been duly and lawfully authorized, executed, and delivered by, and is a legal, valid and binding obligation of, the Issuer, enforceable against the Issuer in accordance with its terms and conditions. We are relying upon the opinion, dated this date, of the City Attorney of the City to the effect that the Lease has been duly and lawfully authorized, executed and delivered by the City pursuant to applicable Texas law and is a legal, valid and binding obligation of the City, enforceable in accordance with its terms and conditions.

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS under the Lease is a current expense, payable solely from funds annually appropriated for such use. The Lease may be terminated annually by the City without penalty, except as provided in the Lease, and there can be no assurance that the City will annually appropriate Lease Payments or renew the Lease. If the Lease is terminated, the City will have no further obligation to make Lease

Payments regardless of whether any Bonds remain outstanding. The Lease and the obligations of the City thereunder do not constitute a pledge, a liability, or a charge upon the funds of the City and do not constitute a debt or general obligation of the Issuer, the State of Texas, the City, or any other political subdivision of the State of Texas. The Issuer has no taxing power.

THE BONDS ARE SECURED by the Trust Agreement whereunder the Trustee is custodian of the funds established by the Trust Agreement and is obligated to enforce the rights of the Issuer and the owners of the Bonds and to perform other duties, in the manner and under the conditions stated in the Trust Agreement; and it is our further opinion that the Trust Agreement has been duly and lawfully authorized, executed, and delivered by the Issuer and that the Trust Agreement is a valid and binding agreement of the Issuer enforceable against the Issuer in accordance with its terms and conditions.

THE BONDS WILL BE ADDITIONALLY SECURED by an *Amended and Restated Deed of Trust and Assignment of Rents and Leases*, dated as of March 1, 2010, from the Issuer to the mortgage trustee named therein for use and benefit of the Trustee (the "Mortgage"), and by an *Amended and Restated Security Agreement*, also dated as of March 1, 2010, by and between the Issuer and the Trustee (the "Security Agreement") upon the filing thereof with the County Clerk of Bexar County, Texas (with respect to the Mortgage) and the Secretary of State of Texas (with respect to the Security Agreement). We express no opinion with respect to the Mortgage and the Security Agreement.

NEITHER THE FAITH AND CREDIT nor the taxing power of the State of Texas, the City, the Issuer, or any other political subdivision of the State of Texas has been pledged to the payment of the principal of or interest on the Bonds. The Bonds do not constitute an indebtedness or obligation of the State of Texas, the City or any other political subdivision of the State of Texas, or a loan of the credit of any of them within the meaning of any constitutional or statutory provisions.

THE OWNERS OF THE BONDS shall never have the right to demand payment thereof out of any funds raised or to be raised by taxation, and the Bonds are payable solely from the sources described in the Trust Agreement.

THE TRUST AGREEMENT AND THE LEASE BOTH PERMIT, with certain exceptions as respectively therein provided, the amendment thereof at any time by the Issuer, and by mutual agreement between the Issuer and the City, respectively, with the consent of the registered owners of not less than a majority in aggregate principal amount of all Bonds then outstanding in certain circumstances.

THE OPINIONS EXPRESSED ABOVE ARE LIMITED with respect to the enforceability of the Bonds, the Bond Resolution, the Trust Agreement and the Lease in the following respects: (a) the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights or remedies generally; (b) the enforceability of any

indemnification or equitable contribution provisions contained therein and provisions purporting to liquidate damages in the event of the condemnation of the Project by the City may be limited by applicable securities law and/or public policy; and (c) the enforceability of certain equitable remedies, including specific performance, may be unavailable.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "**Code**"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the Issuer or the City to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

WE EXPRESS NO OPINION as to insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, if any, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the Issuer or the City, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on Bonds executed by officials of the Issuer and the City as to the sufficiency of revenues to pay Lease Payments. Our role in connection with the City's Official

Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "**Service**"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer and the City as the taxpayer. We observe that the Issuer and the City have covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Respectfully submitted,