OFFICIAL STATEMENT DATED OCTOBER 11, 2012

NEW ISSUE – BOOK ENTRY ONLY

RATINGS: Fitch: "AA"
Moody's: "Aa2"
S&P: "AA+"

In the opinion of Co-Bond Counsel (named below), 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 of delivery thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations.

$550,373,641.50
CITY OF SAN ANTONIO, TEXAS PUBLIC FACILITIES CORPORATION
IMPROVEMENT AND REFUNDING LEASE REVENUE BONDS, SERIES 2012
(CONVENTION CENTER REFINANCING AND EXPANSION PROJECT)

Dated: October 1, 2012 (Interest accrues and accretes, as applicable, from delivery date) **Due: September 15, as shown herein**

The $550,373,641.50 "City of San Antonio, Texas Public Facilities Corporation Improvement and Refunding Lease Revenue Bonds, Series 2012 (Convention Center Refinancing and Expansion Project)" (the "Bonds") are being issued by the City of San Antonio, Texas Public Facilities Corporation (the "Corporation") pursuant to the laws of the State of Texas (the "State"), including particularly Chapter 303, as amended, Texas Local Government Code, and Chapter 1201, as amended, Texas Government Code, a resolution (the "Resolution") adopted by the Board of Directors (the "Board") of the Corporation on September 20, 2012, an ordinance adopted by the City Council (the "City Council") of the City of San Antonio, Texas (the "City") on September 20, 2012, and a Trust Agreement, dated as of October 1, 2012 (the "Trust Agreement"), between the Corporation and U.S. Bank National Association, Dallas, Texas, as trustee thereunder (the "Trustee"). As permitted by Section 303.039, as amended, Texas Local Government Code, the Corporation formed a Pricing Committee to finalize the terms of sale of the Bonds, which final sales terms are evidenced in an "Approval Certificate" relating to the Bonds. See "THE BONDS – Authority for Issuance" herein. The Approval Certificate was executed by the Chair of the Pricing Committee on October 10, 2012.

The Bonds are issued in part as bonds on which interest is paid on a current basis ("Current Interest Bonds" or "CIBs") and in part as bonds on which interest is accreted and paid only at stated maturity ("Capital Appreciation Bonds" or "CABs"). Interest on the CIBs, calculated on the basis of a 360-day year composed of twelve 30-day months, will accrue from their date of initial delivery to the initial purchasers thereof named below (the "Underwriters"), and is payable on March 15 and September 15 of each year, commencing March 15, 2013, until stated maturity or prior redemption. Interest on any CABs, calculated on the basis of a 360-day year composed of twelve 30-day months, will accrete from the date they are initially delivered to the Underwriters, will compound semiannually on March 15 and September 15 of each year, commencing March 15, 2013, and will be payable upon stated maturity or prior redemption. The definitive Bonds will be issued as fully-registered obligations, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for so long as the Bonds are maintained in DTC's Book-Entry-Only System. Book-entry interests in the Bonds will be made available for purchase in the principal amount or Maturity Amount (defined herein) 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 DTC or its nominee is the Registered Owner (defined herein) of the Bonds, the principal of and interest on the Bonds will be payable by the Trustee to the securities depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners. See "REGISTRATION, TRANSFER AND EXCHANGE – Book-Entry-Only System" herein.

The Corporation is issuing the Bonds for the purposes of providing proceeds to (i) refund all outstanding City indebtedness issued to finance or refinance the Existing Convention Center (defined herein), as such refunded indebtedness is further identified in Schedule I attached hereto, (ii) finance the acquisition, construction, and equipping of the Expansion Project (defined herein), (iii) pay capitalized interest on the CIBs, and (iv) pay the costs of issuing the Bonds. See "PLAN OF FINANCE – Purposes of the Bonds" herein.

The City and the Corporation will enter into the Lease Agreement, dated as of October 1, 2012 (the "Lease Agreement"), in connection with the issuance of the Bonds, whereby the Corporation will obtain a Leasehold Estate (defined herein) in the Convention Center Facilities (defined herein) from the City (the "Primary Lease") and immediately sublease the Convention Center Facilities back to the City (the "Sublease"). The principal of, premium, if any, and interest on the Bonds are secured by and payable from the "Trust Estate" created and existing under the Trust Agreement, which consists primarily of lease payments (the "Lease Payments") to be made by the City to the Corporation pursuant to the Sublease. The Lease Payments are due at such times and in such amounts as will be required to permit the Corporation's timely payment of the principal of, Maturity Amount, premium (if any), and interest on the Bonds.

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE SUBLEASE IS A CURRENT EXPENSE OF THE CITY, PAYABLE SOLELY FROM FUNDS ANNUALLY APPROPRIATED BY THE CITY FOR SUCH PURPOSE. THE CITY IS NOT OBLIGATED TO APPROPRIATE ANY FUNDS TO PAY LEASE PAYMENTS REGARDLESS OF THE AMOUNT OR SOURCE OF FUNDS THAT ARE LAWFULLY AVAILABLE TO BE APPROPRIATED IN ANY FISCAL YEAR. REMEDIES AVAILABLE TO THE REGISTERED OWNERS OF BONDS UPON A FAILURE OF THE CITY TO APPROPRIATE OR TO MAKE LEASE PAYMENTS ARE LIMITED TO TERMINATION OF THE CITY'S LEASEHOLD ESTATE IN THE CONVENTION CENTER FACILITIES UNDER THE SUBLEASE, THE RIGHT OF THE CORPORATION (AS LESSEE UNDER THE PRIMARY LEASE) OR THE TRUSTEE (AS ASSIGNEE OF THE CORPORATION) TO TAKE POSSESSION AND CONTROL OF THE CONVENTION CENTER FACILITIES AND TO OPERATE THE CONVENTION CENTER FACILITIES OR RE-LEASE THE CONVENTION CENTER FACILITIES FOR THE REMAINING TERM OF THE PRIMARY LEASE. THE SUBLEASE 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, THE CITY, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, THE CITY, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE 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. IN ADDITION TO THE REMAINDER OF THIS OFFICIAL STATEMENT, PURCHASERS OF THE BONDS SHOULD CAREFULLY REVIEW THE INFORMATION UNDER "INVESTOR CONSIDERATIONS".

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

The Bonds are offered for delivery, when, as, and if issued and received by the Underwriters and are 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. and Escamilla, Poneck & Cruz, LLP, both of San Antonio, Texas, as Co-Bond Counsel. See "LEGAL MATTERS" herein. Certain legal matters will be passed upon for the Corporation and the City by the City Attorney, for the Underwriters by their Co-Counsel, Fulbright & Jaworski L.L.P. and Shelton & Valadez, P.C., both of San Antonio, Texas, and for the Trustee by its Counsel, Bracewell & Giuliani LLP of Dallas, Texas. The Bonds are expected to be available for delivery through the services of DTC on or about October 31, 2012.

J.P. MORGAN **CITIGROUP**
CABRERA CAPITAL MARKETS, LLC **LOOP CAPITAL MARKETS** **M.E. ALLISON & CO., INC.**
PIPER JAFFRAY & CO. **RBC CAPITAL MARKETS** **SAMCO CAPITAL MARKETS, INC.**
SIEBERT BRANDFORD SHANK & CO., L.L.C. **STIFEL, NICOLAUS & COMPANY, INCORPORATED** **WELLS FARGO SECURITIES**

$550,373,641.50
CITY OF SAN ANTONIO, TEXAS PUBLIC FACILITIES CORPORATION
IMPROVEMENT AND REFUNDING LEASE REVENUE BONDS, SERIES 2012
(CONVENTION CENTER REFINANCING AND EXPANSION PROJECT)

(CUSIP No. Prefix[1]: 796334)

$264,075,000.00 Serial Current Interest Bonds

Maturity (September 15)	Principal Amount ($)	Interest Rate (%)	Offering Yield (%)	CUSIP No. Suffix[1]	Maturity (September 15)	Principal Amount ($)	Interest Rate (%)	Offering Yield (%)	CUSIP No. Suffix[1]
2017	2,770,000.00	4.000	1.040	AA8	2027	15,460,000.00	3.000	3.210	AL4
2018	2,880,000.00	4.000	1.260	AB6	2028	17,400,000.00	3.125	3.270	AM2
2019	2,995,000.00	4.000	1.550	AC4	2029	19,460,000.00	5.000	2.930[2]	AN0
2020	3,115,000.00	5.000	1.850	AD2	2030	22,000,000.00	4.000	3.450[2]	AW0
2021	3,270,000.00	5.000	2.140	AE0	2031	24,475,000.00	4.000	3.510[2]	AX8
2022	5,540,000.00	5.000	2.370	AF7	2032	27,075,000.00	4.000	3.580[2]	AY6
2023	7,050,000.00	5.000	2.530[2]	AG5	2033	29,910,000.00	4.000	3.630[2]	AP5
2024	8,720,000.00	5.000	2.610[2]	AH3	2034	32,935,000.00	4.000	3.710[2]	AQ3
2025	10,545,000.00	5.000	2.680[2]	AJ9	2035	16,215,000.00	4.000	3.780[2]	AR1
2026	12,260,000.00	5.000	2.730[2]	AK6					

$256,300,000.00 Current Interest Term Bonds

$256,300,000.00 4.00% Term Bonds due September 15, 2042; Priced to Yield 4.050%; CUSIP Suffix No.[1] AS9

(Interest on CIBs to accrue from date of initial delivery)

$29,998,641.50 Capital Appreciation Bonds

Maturity (September 15)	Principal Amount ($)	Initial Yield to Maturity (%)	Maturity Amount ($)	Initial Offering Price per $5,000 in Maturity Amount ($)	CUSIP No. Suffix[1]
2035	6,498,575.10	4.960	19,930,000.00	1,630.35	AT7
2036	11,839,629.60	5.030	38,760,000.00	1,527.30	AU4
2037	11,660,436.80	5.100	40,805,000.00	1,428.80	AV2

(Interest on CABs to accrete from date of initial delivery)

Redemption

The Bonds are subject to redemption prior to stated maturity at the times, in the amounts, and at the prices described herein. See "THE BONDS – Redemption" herein.

(1) CUSIP numbers are included solely for the convenience of owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Corporation, the Co-Financial Advisors, nor the Underwriters is responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on September 15, 2022, the first optional call date for the Bonds, at a redemption price of par plus accrued interest.

CITY OF SAN ANTONIO, TEXAS
ADMINISTRATION

CITY COUNCIL[1]:

Name	Years on City Council	Term Expires	Occupation
Julián Castro, Mayor	3 Years, 4 Months	May 31, 2013	Attorney
Diego M. Bernal, District 1	1 Year, 4 Months	May 31, 2013	Attorney
Ivy R. Taylor, District 2	3 Years, 4 Months	May 31, 2013	College Lecturer
Leticia D. Ozuna, District 3 [2]	9 Months	May 31, 2013	Cyber-Security Specialist
Rey Saldaña, District 4	1 Year, 4 Months	May 31, 2013	Adjunct Professor
David Medina, Jr., District 5	3 Years, 4 Months	May 31, 2013	Project Manager
Ray Lopez, District 6	3 Years, 4 Months	May 31, 2013	Retired
Cris Medina, District 7	1 Year, 4 Months	May 31, 2013	Business Owner
W. Reed Williams, District 8	3 Years, 4 Months	May 31, 2013	Retired
Elisa Chan, District 9	3 Years, 4 Months	May 31, 2013	Business Owner
Carlton Soules, District 10	1 Year, 4 Months	May 31, 2013	Commercial Real Estate

[1] All members of the City Council serve as members of the Board of Directors of the Corporation. See "THE CITY AND THE CORPORATION – The Corporation" herein.

[2] Councilwoman Jennifer V. Ramos filed to become a candidate for another public office and tendered notice of resignation from her place on the City Council on December 15, 2011. At the January 12, 2012, City Council meeting, City Council appointed Leticia D. Ozuna to fill the vacant City Council seat, a position she will hold for the remainder of Ms. Ramos' unexpired term.

CITY OFFICIALS:

Name	Position	Tenure with City of San Antonio	Tenure in Current Position
Sheryl L. Sculley [1]	City Manager	6 Years, 11 Months	6 Years, 11 Months
Pat DiGiovanni [2]	Deputy City Manager	6 Years, 7 Months	6 Years, 7 Months
Erik J. Walsh [3]	Deputy City Manager	18 Years, 4 Months	1 Year
Peter Zanoni	Assistant City Manager	15 Years, 6 Months	3 Years
Ed Belmares [4]	Assistant City Manager	5 Years, 9 Months	1 Year
David Ellison [5]	Assistant City Manager	1 Year, 3 Months	9 Months
Michael D. Bernard	City Attorney	7 Years	7 Years
Leticia M. Vacek	City Clerk	8 Years, 4 Months	8 Years, 4 Months
Ben Gorzell, Jr.	Chief Financial Officer	21 Years, 11 Months	2 Years, 2 Months
Troy Elliott [6]	Director of Finance	16 Years, 2 Months	1 Year
Maria Villagomez	Director of Management and Budget	15 Years	3 Years

[1] Hired as City Manager in November 2005 with more than 30 years of public management experience including serving as Assistant City Manager of the City of Phoenix, Arizona for 16 years and City Manager of Kalamazoo, Michigan, for which she worked for 15 years.

[2] Resigned, effective January 1, 2013.

[3] Promoted to Deputy City Manager effective October 1, 2011. Prior to his promotion, Mr. Walsh served as the City's Assistant City Manager to which he was appointed on February 6, 2006.

[4] Hired as Assistant City Manager effective October 17, 2011.

[5] Promoted to Assistant City Manager effective March 26, 2012. Prior to his promotion, Mr. Ellison served as the City's Interim Director of Planning and Community Development to which he was hired on July 1, 2011.

[6] Promoted to Director of Finance effective October 1, 2011. Prior to his promotion, Mr. Elliott served as the City's Assistant Director of Finance to which he was appointed on September 16, 2006.

CONSULTANTS AND ADVISORS:

Co-Bond Counsel	McCall, Parkhurst & Horton L.L.P., San Antonio, Texas and Escamilla, Poneck & Cruz, LLP, 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, 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 will this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

No dealer, broker, salesman, or other person has been authorized 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 the Corporation, the Co-Financial Advisors, or the Underwriters. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Co-Financial Advisors or the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE 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 THE BONDS 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 THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT 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 ANYTIME.

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

The 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 City and the Corporation 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.

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

None of the City, the Corporation, 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 ("DTC") or its Book-Entry-Only System appearing under the caption "REGISTRATION, TRANSFER AND EXCHANGE – Book-Entry-Only System" as such information has been provided by the DTC.

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TABLE OF CONTENTS

INTRODUCTION 1
THE CITY AND THE CORPORATION 1
The City 1
The Corporation 2
THE CITY CONVENTION CENTER 2
Existing Convention Center 2
Amendment to the Convention Center Capital Improvement Plan 2
Convention Activity 3
Essentiality to City Economy 3
The Expansion Project 4
PLAN OF FINANCE 5
Affected City Facilities and Structure 5
Purposes of the Bonds 6
Refunded Bonds 6
SOURCES AND USES OF FUNDS 8
THE BONDS 8
Authority for Issuance 8
General Description of the Bonds 8
Record Date for Interest Payment 9
Yield on Capital Appreciation Bonds 9
Additional Bonds 9
Redemption 10
Defeasance 12
Trustee as Paying Agent and Bond Registrar 12
Successor Trustee 12
Ownership 13
Payment Record 13
REGISTRATION, TRANSFER AND EXCHANGE 13
Book-Entry-Only System 13
Future Registration 15
Limitation on Transfer of Bonds 15
Replacement Bonds 15
SECURITY FOR THE BONDS AND REMEDIES IN THE EVENT OF NONAPPROPRIATION 15
General 15
Trust Estate 16
Lease Payments 16
Limited Nature of Obligations of the Corporation; Remedies Upon City's Failure to Appropriate 16
Operating Fund 17
No Additional Unrelated Obligations 17
THE FINANCING DOCUMENTS 17
The Lease Agreement 18
The Trust Agreement 21
INVESTOR CONSIDERATIONS 26
General 26
Nonappropriation 26
No Reserve Fund 26
Damage or Destruction Risk 27
City's Power of Eminent Domain 27
Remedies 27
Inability to Re-lease, or Delay in Re-leasing, the Convention Center Facilities 28
Constitutionality of the Lease Obligation 28
Other Obligations of the City 28
Securities Law and Federal Tax Law Implications of a Termination Event 28
Noncompliance with Arbitrage Provisions; Occurrence of Taxability 29
DEBT SERVICE REQUIREMENTS 30
ANNUAL BUDGET ADOPTION 30
Payment of Lease Payments and Convention Center Facilities Operating Expenses Dependent upon Inclusion in City Budget 30
Financial Policies 31
Fiscal Year 2013 Budget Process 32
Budget Update 33
Future Budgets 33
CITY REVENUES AND EXPENSES 34
General Fund 34
Municipal Sales Taxes 36
Capital Leases 37
DEBT STATEMENT: ASSESSED VALUATION, OUTSTANDING DEBT PAYABLE FROM AD VALOREM TAXES, AND DEBT RATIOS 39
THE CITY'S HOTEL OCCUPANCY TAX 44
Anticipated Source of Payment of the Lease Payments 44
General Description of Hotel Occupancy Tax 44
City HOT Levy, Limitations on Use, and Recent Performance 45
Current City Allocation/Application of HOT Revenue 45
Outstanding City HOT Debt 45
On-Line Travel Company Litigation 46
Historical HOT Receipts 46
Hotel Developments 48
CERTAIN SIGNIFICANT ISSUES AFFECTING THE CITY 48
Water Supply 48
Aquifer Management Plan 49
Bexar Metropolitan Water District 50
Water Reuse Program 52
Electric and Gas Supply 52
Air Quality 53
INVESTMENTS 55
Legal Investments 56
Investment Policies 57
Current Investments 58
Securities Lending 58
LITIGATION 58
General Litigation and Claims 58
CITY PENSION AND OTHER POSTEMPLOYMENT RETIREMENT BENEFIT LIABILITIES 60
City Pension Benefit Plans 60
Fire and Police Pension Plan 61
Texas Municipal Retirement System 61
Other City Postemployment Retirement Benefits 64
Use of Assumptions and Estimates 66
CAFR Discussion 66
TAX MATTERS 66
Opinion 66
Future and Proposed Legislation 67
Federal Income Tax Accounting Treatment of Original Issue Discount Bonds 67
Collateral Federal Income Tax Consequences 67
State, Local, and Foreign Taxes 68
REGISTRATION AND QUALIFICATION OF BONDS FOR SALE 68
LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS 68
LEGAL MATTERS 69
General 69
RATINGS 70
CONTINUING DISCLOSURE OF INFORMATION 70
Annual Reports 70
Notice of Certain Events 71
Availability of Information 71
Limitations and Amendments 72
Compliance with Prior Undertakings 72
FORWARD-LOOKING STATEMENTS DISCLAIMER 73
CO-FINANCIAL ADVISORS 73
UNDERWRITING 73
VERIFICATION OF ARITHMETICAL AND MATHEMATICAL CALCULATIONS 74
AUTHORIZATION OF THE OFFICIAL STATEMENT 74

SCHEDULE OF REFUNDED BONDS ....SCHEDULE I
TABLE OF COMPOUNDED AMOUNTS FOR THE CAPITAL APPRECIATION BONDS ....SCHEDULE II
CONVENTION CENTER FACILITIES ....APPENDIX A
CITY OF SAN ANTONIO, TEXAS – GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION ....APPENDIX B
SELECTED PROVISIONS OF THE FINANCING DOCUMENTS ....APPENDIX C
SELECTED PORTIONS OF THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011 ....APPENDIX D
FORM OF CO-BOND COUNSEL OPINION ....APPENDIX E

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OFFICIAL STATEMENT RELATING TO THE

$550,373,641.50
CITY OF SAN ANTONIO, TEXAS PUBLIC FACILITIES CORPORATION IMPROVEMENT AND REFUNDING LEASE REVENUE BONDS, SERIES 2012 (CONVENTION CENTER REFINANCING AND EXPANSION PROJECT)

INTRODUCTION

This Official Statement, including the cover page, Schedules, and Appendices hereto, of the City of San Antonio, Texas Public Facilities Corporation (the "Corporation") provides certain information in connection with the sale of its $550,373,641.50 "City of San Antonio, Texas Public Facilities Corporation Improvement and Refunding Lease Revenue Bonds, Series 2012 (Convention Center Refinancing and Expansion Project)" (the "Bonds"). This Official Statement describes the Bonds, the Trust Agreement (defined herein) and the Lease Agreement (defined herein), as well as certain other information about the Corporation, the Expansion Project (defined herein), and the City of San Antonio, Texas (the "City"), as the Sublessee (defined herein) of the Convention Center Facilities (defined herein), as improved with certain proceeds of the Bonds, under the Sublease (defined herein). The Trust Agreement and the Lease Agreement are collectively referred to herein as the "Financing Documents". Defined terms used herein without definition shall have the respective meanings ascribed thereto in the Lease Agreement. See "SELECTED PROVISIONS OF THE FINANCING DOCUMENTS" attached hereto as Appendix C.

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, upon request, from the City's Finance Department, 111 Soledad, 5th Floor, San Antonio, Texas 78205 and, during the offering period, from the City's Co-Financial Advisors, Coastal Securities, Inc., 600 Navarro, Suite 350, San Antonio, Texas, 78205, or Estrada Hinojosa & Company, Inc., 1400 Frost Bank Tower, 100 West Houston Street, San Antonio, Texas 78205, by electronic mail or by physical delivery 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 this Official Statement and the Escrow Agreement (defined herein) 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 a description of the City's and the Corporation's respective undertakings to provide certain information on a continuing basis.

Ownership of the Bonds results in the assumption of certain risks by the holder thereof, some of which are described herein under the caption "INVESTOR CONSIDERATIONS".

THE CITY AND THE CORPORATION

The City

The City is a home rule municipality that operates pursuant to the Home Rule Charter of the City (the "City Charter"), which was adopted on October 2, 1951 and became effective on January 1, 1952, whereby subject only to the limitations imposed by the Texas Constitution, Texas Statutes, and the City Charter, all powers of the City are vested in an 11-member council (the "City Council") which enacts legislation, adopts budgets, and determines policies. The City Charter provides for 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 Council appoints a City Manager who 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's geographic area covers approximately 467 square miles (both full purpose and limited purpose annexations) and is located in South Central Texas, approximately 80 miles south of the Texas capital in Austin, 282 miles south of Dallas, 199 miles west of Houston, and 150 miles north of the United States/Mexico border. It serves as the county seat for Bexar County, which has a population of 1,714,773 according to the 2010 United States Census (the "2010 Census").

The 2010 Census cites the City's population to be 1,326,539. According to the 2010 Census, this ranks San Antonio as the seventh largest city in the United States and the second largest in the State of Texas (the "State"). Additional information with respect to the City, including financial information, is provided herein and in APPENDIX B attached hereto. Selected portions of the City's Annual Financial Report for the Fiscal Year ended September 30, 2011 are attached as APPENDIX D hereto.

The Corporation

The Corporation is a nonprofit public corporation and instrumentality of the City formed on behalf of the City pursuant to Chapter 303, as amended, Texas Local Government Code (the "Act"), which authorizes Texas municipalities and counties to create a nonmember, nonstock, nonprofit "public facility corporation" to assist the City in financing, refinancing, or providing "public facilities" (i.e., property devoted to public use), by resolution adopted by the City Council on June 14, 2012. The Corporation held its organizational meeting on September 20, 2012. Although the Act would permit the Corporation to assist the City with financing or refinancing various public facilities, the Corporation's Articles of Incorporation limit the Corporation's corporate purpose to assisting the City in financing, refinancing, or providing for convention center facilities and facilities related thereto, which includes refinancing all currently outstanding City debt attributable to the Existing Convention Center (defined herein) and financing the Expansion Project. See "PLAN OF FINANCE" herein.

Pursuant to its bylaws, the Corporation is governed by an 11-member board of directors (the "Board"), whose members (the "Members") are those members of the City Council. The term of service of each Member is coterminous with his or her term on the City Council. The Members serve in such capacity without compensation, except that they are reimbursed for their actual expenses incurred in the performance of their official duties.

THE CITY CONVENTION CENTER

Existing Convention Center

The Henry B. Gonzalez Convention Center (the "Existing Convention Center") is located in the downtown area of the City on the River Walk, adjacent to the tourism district and Hemisfair, a City park. See "Appendix A – CONVENTION CENTER FACILITIES" attached hereto. There are approximately 10,667 hotel rooms in the downtown area as well as retail shops, restaurants, and historic amenities. The Existing Convention Center was originally built as part of the 1968 HemisFair held in the City. The last expansion and improvement of the Existing Convention Center was completed in June 2001 (other expansions occurred in 1977, 1987, and 1996); the Existing Convention Center currently contains 440,000 square-feet of contiguous exhibit space including a 28,915 square-foot Ballroom A; a 21,948 square-foot Ballroom B; a 40,000 square-foot Ballroom C; four junior ballroom areas suitable for meetings, dinners, or galas; a full service UPS business center; and the Lila Cockrell Theatre – a 2,536-seat performing arts theatre.

Since the mid-1990s the City has sought to strengthen its position among the nation's leading convention destinations in the United States. One of the most important components in attracting conventions and meetings is the availability of proximate hotel rooms and supporting meeting facilities. In February 2008, work was completed on the 1,003-room Grand Hyatt San Antonio, a privately owned, full-service convention headquarters hotel adjacent to the Existing Convention Center (the "Convention Center Hotel"). The Convention Center Hotel was constructed to allow the City to present more competitive convention packages, to enhance the utilization of the Existing Convention Center, and to facilitate future convention growth in the City. To this end, 800 rooms may be blocked to host future conventions. The Convention Center Hotel also consists of over 81,000 square-feet of meeting space, including a 32,000 square-foot grand ballroom and a 21,000 square-foot junior ballroom.

Amendment to the Convention Center Capital Improvement Plan

As an "eligible central municipality" under Chapter 351, as amended, Texas Tax Code (the "HOT Act"), the City has, as required under the HOT Act, adopted and maintains a capital improvement plan relating to the Convention Center Facilities and the ownership, maintenance, and improvement thereof (such plan, the "Convention Center Capital Improvement Plan"). On September 20, 2012, the City adopted Ordinance No. 2012-09-20-0713 amending the Convention Center Capital Improvement Plan and authorizing the Expansion Project (see "THE CITY CONVENTION CENTER – The Expansion Project" herein).

Convention Activity

The City is one of the top convention cities in the United States, and the City expects that the Expansion Project will allow the City to host more, and larger, conventions and meetings in the years to come. The City has historically cooperated with and supported the efforts of the City's Convention and Visitors Bureau (the "CVB") to be proactive in attracting convention business.

The City's convention and group business is competitive with other destinations and is supported by the efforts of the CVB sales staff who, in Fiscal Year 2011, booked nearly 564,000 delegates and more than 852,000 room nights, which translated into an estimated $670 million in direct delegate expenditures.

Also in Fiscal Year 2011, the CVB launched a niche CEO marketing plan which raised awareness of the City with top business executives primarily to influence meeting destination opportunities. The CVB sales staff has recently booked high profile meetings that include: American Society for Therapeutic Radiology & Oncology, with 40,000 room nights for 2018 and 2022; Breast Cancer Symposium, with 21,000 room nights for 2018 through 2020; and American Society for Mass Spectrometry, with 21,000 room nights for 2016. The CVB continues to be proactive in attracting convention business through its management practices and marketing efforts.

The following table shows overall City performance as well as convention activity booked and hosted by the CVB for the years indicated:

Convention Statistics **Table 1**

Calendar Year	Hotel Occupancy (%)[1]	Revenue per Available Room ($ Rev PAR)[1]	Room Nights Sold[1]	Convention Attendance[2]	Convention Room Nights[2]	Convention Delegate Expenditures ($ Millions)[2], [3]
2003	63.8	54.07	6,535,974	429,539	613,747	387.0
2004	64.4	55.80	6,669,644	491,287	621,640	510.5
2005	68.8	63.06	7,283,824	503,601	699,932	523.3
2006	69.1	69.43	7,439,783	467,426	736,659	485.8
2007	66.3	69.90	7,397,123	455,256	647,386	473.1
2008	64.6	70.82	7,669,475	563,164	691,525	607.5
2009	57.1	55.94	7,167,603	399,408	660,736	474.5
2010	59.3	57.02	7,768,002	535,400	736,325	636.1
2011	61.3	58.08	8,236,019	499,171	637,593	593.0
2012[4]	66.8	65.17	5,291,915	385,095	487,515	457.5

(1) Data obtained from Smith Travel Research based on hotels in the City selected zip code report dated January 18, 2012.
(2) Reflects only those conventions booked by the CVB.
(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 through September 2008 are based on an average expenditure of $1,039.20 per convention and trade show delegate, and October 2008 through Present are based on an average expenditure of $1,188.05 per convention and trade show delegate.
(4) Year to date through July 2012.
Source: City of San Antonio, Convention and Visitors Bureau.

Essentiality to City Economy

The convention and visitors industry is a major component of the overall economy in the City, as demonstrated by the fact that, according to the San Antonio Economic Development Foundation, over 12% of the total nonfarm workforce in the City is employed in the leisure and hospitality industry. The City considers the promotion of convention and tourism and participation in economic development programs high priorities, as evidenced, in part, by the City's investment of over $319 million in the Convention Center Facilities and the Alamodome (a 1,600,000 square-foot enclosed venue that is owned and operated by the City as a part of the City's Convention Sports and Entertainment Facilities) since 1996. As a result, the City views the Convention Center Facilities as an essential component of the City and its economy.

Based on the 2008 Economic Impact Study of San Antonio's Tourism Industry sponsored by the Greater San Antonio Chamber of Commerce and the San Antonio Area Tourism Council, there was an economic impact of approximately $11 billion on San Antonio's hospitality industry, more than double the estimated impact realized in 1996.

The most recent visitor statistics obtained by the CVB showed 26 million visitors came to the City in 2010. The research, conducted by D.K. Schifflet & Associates, evidences that 21 million visitors were leisure travelers and five million business visitors came to the area for conventions and other business purposes. Convention and leisure visitors to the San Antonio area are attracted to a wide variety of entertainment alternatives, encompassing the City's downtown area and its world-class amenities, expanding outwards within a broader (100-mile) radius of the City. The uniqueness of the City product, well-marketed in recent years, is positioned among a select set of cities as a national destination, drawing millions of visitors from throughout the country (as evidenced above). The San Antonio community is also characterized by a high level of regional and metropolitan area visitation relative to its population base. The City, in large part due to the quality and unique characteristics of the destination, has risen to the top tier of convention markets nationally.

The Expansion Project

In 2010, the City hired a consultant, Populous Inc., to perform a facilities development study for the Existing Convention Center. Recommendations from the consultant included the replacement of the 44-year old west building by expanding the Existing Convention Center to the east in order to create larger prime contiguous exhibit halls and optimally-distributed meeting space.

The Expansion Project will fulfill the market demand for larger, more modernized exhibit space, improved meeting space, and uniform quality throughout the facility. These improvements are expected to improve the ranking of the Convention Center Facilities' position in the national convention and tourism industry from 22nd to the top 10. Additionally, the Expansion Project will allow for future re-development of the City's Hemisfair, located adjacent to the Existing Convention Center.

There are several key market issues supporting the Expansion Project:

- The size of the Existing Convention Center is significantly smaller compared to primary competitive destinations, while rated ahead of most of these destinations in terms of desirability as a convention destination.
- The San Antonio destination offers a very walkable experience, tying together the Existing Convention Center, hotels, restaurants, historical attractions, and entertainment.
- The Existing Convention Center exists in a very dense visitor industry environment.
- Exhibit space occupancy levels at the Existing Convention Center have begun to exceed practical maximum capacity.
- The age and column spacing of the oldest exhibit space at the Existing Convention Center is inferior to the newer prime contiguous space offered at competitive facilities and may make it difficult to attract larger events.
- The existing configuration of meeting space makes it difficult to fully accommodate multiple overlapping events.
- There are configuration challenges with the lobby/pre-function space.

Populous Inc. developed and recommended a proposed Convention Center capital improvement plan that was presented to the City Council in an informal session (known locally as a "B Session") on December 14, 2011. In March of 2012, the City engaged HVS International Convention, Sports and Entertainment Consulting to perform a study of the City's local hotel occupancy tax revenues, imposed and collected under the HOT Act (as further described and defined herein, the "HOT Revenues") and projections for the next 30 years.

In March of 2012, an on-call facility programming services consultant, Douglas Architects, was tasked to provide programming documents for the Expansion Project. Along with Broaddus Planning and Epstein, Douglas Architects interviewed stakeholders, assessed the needs of the Existing Convention Center and provided a proposed plan for achieving the requirements of the Expansion Project.

On May 30, 2012, the City Council was briefed in a B Session on the Expansion Project and related financing plan.

As required by State law, a two-part solicitation process was implemented to select a "design-build" firm to complete design and construction services for the Expansion Project. In June of 2012, a Request for Qualifications ("RFQ"), the first phase of the two-phase solicitation process, was released. Nine firms responded to the RFQ and submitted their Statement of Qualifications. Respondents were evaluated and ranked by a selection committee. Based on their evaluation, four respondents were given the programming documents in a Request for Proposals and asked to present their responses on August 17, 2012. The selection committee evaluated, interviewed and scored the submitted proposals and recommended Hunt-Zachry, a joint venture between Zachry Construction Corp. and Hunt Construction Group, as the Design-Builder for this project. Negotiation and execution of a Design-Build Services Agreement to complete the Expansion Project for an amount not-to-exceed $304.8 million, with construction to occur over a four-year period, was approved by City Council on September 20, 2012. There is an additional $20.2 million in construction costs allocated to non-design-build expenses, for a total Expansion Project budget of $325 million (all of which will be financed with Bond proceeds).

The expansion and improvement of the Existing Convention Center will generally consist of constructing new exhibit halls, a new exhibit ballroom, a new Grand Ballroom of over 50,000 square-feet (the largest in Texas), new meeting rooms, support spaces, and a formal entrance plaza in addition to the demolition of the oldest portion of the Existing Convention Center (built in 1968) known as the "west-wing" (together, the "Expansion Project"). Upon completion of the Expansion Project, the Convention Center Facilities will consist of over 500,000 square-feet of prime contiguous exhibit space, two ballrooms, an exhibit ballroom, and 70 meeting rooms with over 100,000 square-feet of meeting space.

The Expansion Project design is anticipated to begin in October 2012 and construction is estimated to begin by September 2013. Construction is anticipated to be completed by April 2016, with the related demolition of portions of the Existing Convention Center replaced by the scope of the Expansion Project completed in July 2016.

Bond proceeds will represent the sole source of funding for the Expansion Project. The Design-Build Service Agreement includes standard and customary construction assurance provisions, including completion and performance bonds, to reasonably assure that the Expansion Project is completed on time and on budget.

PLAN OF FINANCE

Affected City Facilities and Structure

The City has created the Corporation for the purpose of refunding and restructuring the outstanding indebtedness related to the Existing Convention Center and to finance the construction of the Expansion Project. The Existing Convention Center and the Expansion Project, together with any future improvements and expansions thereof, are referred to collectively herein and in the Lease Agreement as the "Convention Center Facilities." The Convention Center Facilities specifically exclude (i) the Alamodome, (ii) the Convention Center Hotel, and (iii) any improvements constructed by the City on the Land which is paid for by the City with funds other than proceeds of any Parity Bonds. The Refunded Bonds (defined below) include all City indebtedness related to the Existing Convention Center, but exclude the outstanding indebtedness relating to the Convention Center Hotel that is partially secured by a lien on and pledge of certain of the HOT Revenues (such indebtedness related to the Convention Center Hotel is referred to herein elsewhere as the "Hotel Bonds"). The refunding of the Refunded Bonds by the Corporation on behalf and for the benefit of the City will permit the City (i) to convert variable rate obligations to fixed rate obligations, securing for the City long-term interest rates for the remaining amortization period of this indebtedness and (ii) to obtain more favorable and cost effective financial terms (specifically, the elimination of the need for a debt service reserve fund).

To accomplish the foregoing, the City and the Corporation have entered into the Lease Agreement, dated as of October 1, 2012 (the "Lease Agreement"), under which the City will lease to the Corporation, for nominal rent, the

Convention Center Facilities in exchange for the Corporation's agreement to accomplish the purposes of the Bonds described below (the "Primary Lease"). In return, the Corporation immediately will, pursuant to the Lease Agreement, sublease the Convention Center Facilities back to the City (the "Sublease"), for rent paid by the City in the form of Lease Payments in an amount sufficient to pay the debt service on the Bonds. This rental income will be assigned to the Trustee (defined herein) and held in the Trust Estate (defined herein) created under the Trust Agreement and will serve as the primary security for the Bonds. Such leasehold interests conveyed under each lease are defined in the Lease Agreement as the "Leasehold Estate"; the Lease Agreement and the Trust Agreement are defined herein as the "Financing Documents" and are described in greater detail under "THE FINANCING DOCUMENTS" herein and excerpts of each are attached hereto as Appendix C. Pursuant to the Sublease, the City's Lease Payments thereunder are due at such times and in such amounts as will be required to permit the Corporation's timely payment of the principal of, Maturity Amount, premium (if any), and interest on the Bonds (such Lease Payments being due on the fifth day of the month in which such debt service payments are also due; see "SECURITY FOR THE BONDS AND REMEDIES IN THE EVENT OF NONAPPROPRIATION – Lease Payments" herein); **however, the City has no obligation to Appropriate any funds to pay Lease Payments regardless of the amount or source of funds that are lawfully available to be Appropriated in any Fiscal Year.** See "SECURITY FOR THE BONDS AND REMEDIES IN THE EVENT OF NONAPPROPRIATION" and "INVESTOR CONSIDERATIONS" herein.

Under the Primary Lease, the obligation to pay the costs of operating and maintaining the Convention Center Facilities for their intended purpose is retained by the City, as lessor, with such payment obligation being subject to annual Appropriation (as defined in the Lease Agreement) by the City.

Sources of income and/or funds available to the City to make Lease Payments and pay Operating Expenses (defined herein) include (but are not limited to) receipts derived from the collection of (i) Hotel Occupancy Taxes or HOTs (as further defined and described herein; generally meaning the City's imposition and collection of a tax equal to 9% of the price paid for the use or possession, or right of use or possession, of rooms ordinarily used for sleeping at any hotel in the City) levied by the City, (ii) annual ad valorem taxes levied for maintenance and operation purposes, (iii) the 1% general sales and use tax levied by the City, (iv) transfers from City-owned utility systems, and (v) any and all other lawfully available funds.

HOTs are comprised of two components, the General HOT (defined herein), imposed and collected at the rate of 7%, and the Expansion HOT (defined herein), imposed and collected at the rate of 2% of the price paid for a room in a hotel. The use of revenues from each of such HOTs is restricted by State statute to specific purposes. State law requires that revenue from the General HOT be used only to promote tourism and the convention and hotel industry (both operational and capital expenditures), with not more than 15% of collections for history and preservation programs and restoration projects and not more than 15% for the arts. Under applicable State law, the Lease Payments and the Operating Expenses are permitted expenditures of General HOT revenues. Further limitations are imposed on the use of the Expansion HOT, restricting the use thereof to the expansion of existing convention center facilities and the payment of certain revenue and/or revenue and refunding bonds in relation thereto (a permitted use of which includes the Lease Payments). Prior to utilizing the Expansion HOT for a permitted purpose, the City must have adopted a capital improvement plan that provides for the expansion of an existing convention center facility (or amend an existing capital improvement plan to provide for such expansion). Pursuant to these limitations, the City amended the Convention Center Capital Improvement Plan to provide for the Expansion Project and to permit the use of the Expansion HOT for Lease Payments. See "THE CITY'S HOTEL OCCUPANCY TAX" herein.

Purposes of the Bonds

The Corporation is issuing the Bonds for the purposes of providing proceeds to (i) refund all outstanding City indebtedness issued to finance or refinance the Existing Convention Center, as such refunded indebtedness is further identified in Schedule I attached hereto, (ii) finance the acquisition, construction, and equipping of the Expansion Project, (iii) pay capitalized interest on the CIBs, and (iv) pay the costs of issuing the Bonds.

Refunded Bonds

Refunded Bonds. The outstanding debt of the City that will be refunded with proceeds of the Bonds and funds contributed by the City, as further described below, is described in Schedule I attached hereto and is referred to collectively herein as the "Refunded Bonds."

Refunding of Series 1996 Refunded Bonds, Series 2004A Refunded Bonds, and Series 2006 Refunded Bonds. The principal of and interest due on the Series 1996 Refunded Bonds, Series 2004A Refunded Bonds, and Series 2006 Refunded Bonds described in Schedule I attached hereto are to be paid on the scheduled payment dates and redemption dates of such Refunded Bonds from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") among the City, the Corporation, and U.S. Bank National Association, Dallas, Texas, as escrow agent (the "Escrow Agent"). The Escrow Agreement provides that, from a portion of the proceeds of the sale of the Bonds (together with certain funds contributed by the City) the Corporation will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of such Refunded Bonds on their maturity or redemption dates. 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 "Escrowed Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on such Refunded Bonds.

Simultaneously with the issuance of the Bonds, the City will give irrevocable instructions to provide notice to the owners of the Series 2004A Refunded Bonds and the Series 2006 Refunded Bonds (the Series 1996 Refunded Bonds are not subject to optional redemption prior to stated maturity) that such Refunded Bonds will be redeemed prior to stated maturity on the respective redemption dates shown on Schedule I attached hereto, on which date money will be made available to redeem such Refunded Bonds from funds held under the Escrow Agreement.

Causey Demgen & Moore P.C., a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriters, the mathematical accuracy of the schedules that demonstrate the Escrowed 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 Series 1996 Refunded Bonds, the Series 2004A Refunded Bonds, and the Series 2006 Refunded Bonds. Such maturing principal of and interest on the Escrowed Securities will not be available to pay the Bonds (see "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS" herein).

By the deposit of the Escrowed Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the Corporation, on behalf and for the benefit of the City, will have effected the defeasance of all of the Series 1996 Refunded Bonds, Series 2004A Refunded Bonds, and Series 2006 Refunded Bonds in accordance with State law. It is the opinion of Co-Bond Counsel that as a result of such defeasance and in reliance upon the report of Causey Demgen & Moore P.C., such Refunded Bonds will be outstanding only for the purpose of receiving payments from the Escrowed Securities and any cash held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the City payable from the revenues pledged to the repayment thereof nor for the purpose of applying any limitation on the issuance of debt.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from any lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Bonds, 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.

Refunding of Series 2008 Refunded Bonds. The principal of and interest due on the Series 2008 Refunded Bonds described in Schedule I attached hereto is to be paid on the scheduled redemption date of such Refunded Bonds from funds to be deposited pursuant to a certain Deposit Agreement (the "Deposit Agreement") among the City, the Corporation, and The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as deposit agent (the "Deposit Agent"). The Deposit Agreement provides that from a portion of the proceeds of the sale of the Bonds, together with certain funds contributed by the City, the Corporation will deposit with the Deposit Agent the amount necessary to accomplish the discharge and final payment of such Series 2008 Refunded Bonds on their redemption date. Such funds will not be invested and will be held by the Deposit Agent in a special account (the "Trust Account") and used to pay the redemption price of such Series 2008 Refunded Bonds on the redemption date.

Simultaneously with the issuance of the Bonds, the City will give irrevocable instructions to provide notice to the owners of the Series 2008 Refunded Bonds that such Refunded Bonds will be redeemed prior to stated maturity on the redemption date shown on Schedule I attached hereto, on which date money will be made available to redeem such Refunded Bonds from funds held under the Deposit Agreement.

Under the Deposit Agreement, the Deposit Agent will hold the Trust Account in a fiduciary capacity, with the moneys held therein that exceed the deposit insurance available to the City by the Federal Deposit Insurance Corporation to be fully collateralized by the Deposit Agent with securities or obligations that are eligible under the

laws of the State to secure and be pledged as collateral for trust accounts until the Series 2008 Refunded Bonds have been presented for payment and paid to the owners thereof. By the deposit of the cash with the Deposit Agent pursuant to the Deposit Agreement, the City will have effected the defeasance of the Series 2008 Refunded Bonds in accordance with State law. It is the opinion of Co-Bond Counsel that as a result of such defeasance, and in reliance upon certifications made by the Deposit Agent in the Deposit Agreement relating to the amount of funds required to be deposited into the Trust Account to pay the maximum redemption price of the Series 2008 Refunded Bonds on the redemption date, such Refunded Bonds will be outstanding only for the purpose of receiving payments from the cash held in the Trust Account for such purpose by the Deposit Agent, and such Refunded Bonds will not be deemed as being outstanding obligations of the City.

SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds, including a City contribution to the refunding of the Refunded Bonds, will be applied approximately as follows:

Sources of Funds	
Principal Amount of the Bonds	$ 550,373,641.50
Net Original Issue Premium	17,308,432.50
City Contribution	23,818,216.01
Total Sources of Funds	$ 591,500,290.01
Uses of Funds	
Deposit to Escrow Fund and Trust Account	$ 252,793,602.59
Deposit to Project Account	325,000,000.00
Deposit of Capitalized Interest to Payment Account	9,278,390.63
Costs of Issuance, including Underwriters' Discount	4,428,296.79
Total Uses of Funds	$ 591,500,290.01

THE BONDS

Authority for Issuance

The Bonds are being issued by the Corporation pursuant to the laws of the State, including particularly the Act and Chapter 1201, as amended, Texas Government Code, a resolution (the "Resolution") adopted by the Board of Directors (the "Board") of the Corporation on September 20, 2012, an ordinance adopted by the City Council of the City on September 20, 2012, and a Trust Agreement, dated as of October 1, 2012 (the "Trust Agreement"), between the Corporation and U.S. Bank National Association, Dallas, Texas, as trustee thereunder (the "Trustee"). As permitted by Section 303.039 of the Act, the Corporation formed a Pricing Committee to finalize the terms of sale of the Bonds, which final sales terms are evidenced in an "Approval Certificate" relating to the Bonds. The Approval Certificate was executed by the Chair of the Pricing Committee on October 10, 2012.

General Description of the Bonds

The Bonds are issued in part as bonds on which interest is paid on a current basis ("Current Interest Bonds" or "CIBs") and in part as bonds on which interest is accreted and paid only at maturity ("Capital Appreciation Bonds" or "CABs"). Interest on the CIBs, calculated on the basis of a 360-day year composed of twelve 30-day months, will accrue from their date of initial delivery to the initial purchasers thereof (the "Underwriters"), and is payable on March 15 and September 15 of each year, commencing March 15, 2013, until stated maturity or prior redemption. Interest on the CABs, calculated on the basis of a 360-day year composed of twelve 30-day months, will accrete from the date they are initially delivered to the Underwriters, will compound semiannually on March 15 and September 15 of each year, commencing March 15, 2013, and will be payable upon stated maturity or prior redemption.

The CABs will mature on the dates and in the Maturity Amounts (defined herein) set forth on the inside cover page hereof, and bear interest at a stated interest rate, but the yield to the Underwriters will be the approximate yields shown on the inside cover page resulting from the initial offering prices to the public. The sum of the principal of

and interest accreted on the CABs per $5,000 amount at stated maturity (the "Maturity Amount"), calculated as of each March 15 and September 15 (such value as of each calculation date, the "Compounded Amount"), is computed on the basis of the initial offering price to the public as adjusted by semiannual compounding at the initial offering yields set forth on the inside cover page of this Official Statement. A table of Compounded Amounts based on such initial offering prices is set forth in the Compounded Amount table attached hereto as Schedule II. Such Compounded Amount table is provided for informational purposes only and may not reflect prices for the CABs in the secondary market.

The Bonds will be issued only as fully-registered bonds. The CIBs will be issued in denominations of $5,000 in principal or any integral multiple thereof within a stated maturity. The CABs will be issued in the denominations of $5,000 of Maturity Amount or any integral multiple thereof within a stated maturity. In the event the Bonds are no longer held in the Book-Entry-Only System described herein, interest on the CIBs will be payable by check mailed on or before each Bond Payment Date by the Trustee to the registered owner (the "Registered Owner", the "Owner", or the "Bondholder") at the last known address as it appears on the Bond registration books maintained by the Trustee (the "Bond Register") on the Record Date (defined herein) or by such other customary banking arrangement acceptable to the Trustee and the Registered Owner to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other arrangements. In the event the Bonds are no longer held in the Book-Entry-Only System described herein, principal of CIBs or Maturity Amount (or Compounded Amount upon prior redemption) of CABs will be payable only upon presentation of such Bonds at the corporate trust office of the Trustee at stated maturity or upon prior redemption. So long as the Bonds are registered in the name of Cede & Co. or other nominee for The Depository Trust Company ("DTC"), payments of principal and interest and Maturity Amount (or Compounded Amount upon prior redemption), as applicable, of the Bonds will be made as described in "REGISTRATION, TRANSFER AND EXCHANGE - Book-Entry-Only System" herein.

If the date for any payment due on any Bond is a Saturday, Sunday, legal holiday, or day on which banking institutions in the city in which the designated corporate trust office of the Trustee is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a day. The payment on such date shall have the same force and effect as if made on the original date payment was due.

Record Date for Interest Payment

The date for determining the party to whom interest on a CIB is payable on any Bond Payment Date is the last day of the preceding month, as specified in the Trust Agreement (the "Record Date").

In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Trustee, if and when funds for the payment of such interest have been received from the Corporation. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which is 15 days after the Special Record Date) must be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each Registered Owner appearing on the Bond Register at the close of business on the last business day next preceding the date of mailing of such notice.

Yield on Capital Appreciation Bonds

The yield of each of the CABs, as set forth on the inside cover page of this Official Statement, is the approximate yield based upon the initial offering price therefor set forth on the inside cover page hereof. Such offering price includes the principal amount of such CABs. The yield on the CABs to a particular purchaser may differ depending upon the price paid by that purchaser. For various reasons, securities that do not pay interest periodically, such as the CABs, have traditionally experienced greater price fluctuations in the secondary market than securities that pay interest on a periodic basis.

Additional Bonds

The Corporation has reserved the right to issue, at the request of the City, additional parity lease revenue bonds or other obligations (referred to herein and in the Financing Documents as "Additional Bonds"), in any amounts, for the purpose of (i) completing the Expansion Project, if necessary, (ii) making additional renovations and

improvements to the Convention Center Facilities, and/or (iii) refunding any Bonds or Additional Bonds then outstanding. The Bonds and any Additional Bonds issued in the future are referred to collectively herein and in the Financing Documents as "Parity Bonds". Any Additional Bonds issued and delivered in accordance with the provisions of the Trust Agreement shall be secured by and made payable equally and ratably on a parity with the outstanding Parity Bonds from the Trust Estate (including but not limited to the Lease Payments made by the City pursuant to the Sublease). No bonds or other obligations shall be issued which may have a lien on the Trust Estate prior and superior to that securing the Parity Bonds.

No series or issue of Additional Bonds may be issued unless and until the following conditions have all been met: (i) the laws of the State effective at the time of the authorization of such Additional Bonds permit their issuance, and, if required by law, the Attorney General of Texas shall have approved the issuance of such Additional Bonds; (ii) the Financing Documents have been amended appropriately to provide for the issuance of such Additional Bonds, including but not limited to amending the Lease Agreement, if necessary, to provide for the payment by the City of Lease Payments to include payment of debt service related to such issue of Additional Bonds, subject to annual Appropriation by the City Council; (iii) the principal of such Additional Bonds is scheduled to be paid or mature only on September 15 of the years in which such principal is scheduled to be paid or mature, and all interest thereon is payable only on March 15 and September 15; (iv) the President of the Board of Directors of the Corporation and the Executive Director of the Corporation execute a written certificate to the effect that the Trust Agreement and the Lease Agreement, as amended to provide for the issuance of such Additional Bonds, are in full force and effect, and no Event of Default exists in connection therewith; and (v) the Mayor, City Manager and the Chief Financial Officer of the City execute a written certificate to the effect that the Lease Agreement, as amended to provide for the issuance of such Additional Bonds, is in full force and effect, and no Event of Default exists in connection therewith.

Redemption

Optional Redemption. The CIBs having stated maturities on and after September 15, 2023 are subject to redemption, at the request and option of the City, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on September 15, 2022, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

The CABs having stated maturities on and after September 15, 2023 are subject to redemption, at the request and option of the City, in whole or in part in the Maturity Amount of $5,000 or any integral multiple thereof, on September 15, 2022, or any Bond Payment Date thereafter, at a price equal to the Compounded Amount as of such redemption date, as evidenced in Schedule II attached hereto.

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Mandatory Sinking Fund Redemption. The CIBs maturing on September 15, 2042 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to stated maturity on September 15 in the years and in the amounts shown below, at a redemption price of 100% of the outstanding principal amount of the Term Bonds being redeemed, plus accrued interest to the date of redemption:

Term Bonds Maturing September 15, 2042

Redemption Date (September 15)	Principal Amount ($)
2038	42,930,000.00
2039	46,850,000.00
2040	51,005,000.00
2041	55,420,000.00
2042*	60,095,000.00

* Final maturity.

The Trustee will credit against the outstanding principal amount of the Term Bonds the principal amount of any such Term Bonds redeemed from any source other than the sinking fund payments. To the extent that such Term Bonds have been previously redeemed in part from any source other than sinking fund payments, the remaining sinking fund payments for such Term Bonds will be reduced on a proportionate basis (rounding each to the nearest $5,000 increment) by the amount of such Term Bonds so called for redemption.

Extraordinary Optional Redemption. In the event the City exercises its option to prepay Lease Payments upon a casualty loss or condemnation of the Convention Center Facilities and the payment by the City to the Trustee of the Prepayment Option Price, the Bonds will be subject to extraordinary optional redemption prior to their respective stated maturities, in whole but not in part, on the next succeeding Bond Payment Date for which notice can be given in accordance with the terms of the Trust Agreement, at a redemption price equal to (i) with respect to the CIBs, 100% of the Outstanding principal amount of the CIBs being redeemed plus accrued interest to the date of redemption, and (ii) with respect to the CABs, the Compounded Amount as of the date of redemption with respect to each maturity thereof shown in Schedule II attached hereto.

Notice of Redemption. If any of the Bonds are called for redemption, the Trustee will give written notice by first-class mail (postage prepaid) 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 with respect to an optional redemption 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 Registered Owner, 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 amendment to the Financing Documents or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any Direct Participant (hereinafter defined), or of any Direct Participant or Indirect Participant (hereinafter defined) to notify the Beneficial Owner (hereinafter defined), 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 or Maturity Amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, redemption of such Bonds held for the account of Direct Participants in accordance with its rules or other agreements with Direct Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds from the Beneficial Owners. Any

such selection of Bonds to be redeemed will not be governed by the Trust Agreement and will not be conducted by the Corporation or the Trustee. Neither the Corporation nor the Trustee will have any responsibility to Direct Participants, Indirect Participants or the persons for whom Direct Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or Beneficial Owners of the Bonds being called for redemption. See "REGISTRATION, TRANSFER AND EXCHANGE – Book-Entry-Only System" herein.

Defeasance

The Trust Agreement provides that any Bond will be deemed paid and will no longer be considered to be outstanding within the meaning of the Trust Agreement when payment of principal of and interest on or Maturity Amount or Compounded Amount, as the case may be, of such Bond to its stated maturity or date of prior redemption has been made or provided for by depositing with or making available to the Trustee any combination of (i) money in an amount sufficient to make such payment and/or (ii) Defeasance Securities (defined below) certified, in the case of a net defeasance, by an independent certified public accountant to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment. The Corporation has additionally reserved the right, subject to satisfying the requirements of (i) and (ii) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the Corporation money in excess of the amount required for such defeasance.

Under the Trust Agreement, the term "Defeasance Securities" means bills, interest-bearing notes, bonds, 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.

Upon such deposit as described above, such Bonds will no longer be regarded as outstanding or unpaid for purposes of applying any limitation on indebtedness. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the Corporation to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the Corporation has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which have been defeased to their maturity date, if the Corporation (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption, (ii) gives notice of the reservation of that right to the Owners of the Bonds immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Trustee as Paying Agent and Bond Registrar

Under the Trust Agreement, the Trustee serves as the paying agent and the "bond registrar" for the Bonds at its offices located in Dallas, Texas (the "Designated Trust Office"). The Trust Agreement describes the capacity and duties of the Trustee in such capacity.

Successor Trustee

Under the Trust Agreement, the Trustee may resign by giving written notice thereof to all Registered Owners, the City and the Corporation at least 30 days prior to its proposed resignation date. Additionally, the Corporation, upon written request of the Registered Owners owning a majority in aggregate principal amount and Maturity Amount of the Parity Bonds then Outstanding, reserves the right to replace the Trustee. Any successor Trustee selected by the Corporation must be a bank or trust company authorized to provide corporate trust services and must be subject to examination or supervision by a federal or state banking authority. If the Trustee resigns or is replaced by the Corporation, the Trustee is required to deliver to the successor Trustee all documents and funds held in connection with the Trust Agreement. No resignation or removal of the Trustee will become effective until acceptance of appointment by the successor Trustee.

Ownership

The Corporation, the Trustee, and any other person may treat the person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of making and receiving payment of the principal thereof and for the further purpose of making and receiving payment of the interest thereon, and for all other purposes, whether or not such Bond is overdue. Neither the Corporation nor the Trustee will be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the Owner of any Bond in accordance with the Trust Agreement will be valid and effective and will discharge the liability of the Corporation and the Trustee for such Bond to the extent of the sums paid.

Payment Record

The Bonds represent the Corporation's first issuance of indebtedness. The City has never defaulted in payments on its bonded indebtedness or its capital lease obligations.

REGISTRATION, TRANSFER AND EXCHANGE

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on, as well as Maturity Amount (and Compounded Amount in the event of prior redemption of CABs) of, the Bonds are to be paid to and credited by 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 cannot and does not give any assurance that: (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to Direct Participants, (2) Direct 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 (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission ("SEC"), and the current procedures of DTC to be followed in dealing with Direct 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 each maturity of the Bonds, in the aggregate principal amount of each maturity of such issue, and will be deposited with DTC.

General. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 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 a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at www.dtcc.com.

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.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of the 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 be provided directly to them.

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

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

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 detail information from the Corporation or the Trustee, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Direct or Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such 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. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC; and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Corporation or 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-only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's Book-Entry-Only-System has been obtained from DTC, but the Corporation takes no responsibility for the accuracy thereof.

So long as Cede & Co. is the Registered Owner of the Bonds, the City will have no obligation or responsibility to the Direct 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. In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to Registered Owners should be read to include the person for which the Direct Participant or Indirect Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to Registered Owners under the Trust Agreement will be given only to DTC.

Future Registration

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred, exchanged and assigned on the Bond Register, only upon presentation and surrender thereof to the Trustee and such transfer, exchange, or assignment of the Bonds will be without expense or service charge to the Registered Owner, except for any tax or other governmental charges required to be paid with respect to such transfer, exchange, and assignment. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Trustee. A new Bond or Bonds will be delivered by the Trustee in lieu of the Bond or Bonds being transferred or exchanged at the Designated Trust Office of the Trustee, or sent by United States mail, first-class postage prepaid, to the new Registered Owner or his assignee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the contracting party or assignee of the Owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the Owner or his duly authorized agent, in form satisfactory to the Trustee. New Bonds registered and delivered in an exchange or transfer will be in denominations of $5,000 for any one maturity or any integral multiple thereof and for a like aggregate principal amount or Maturity Amount of the Bond or Bonds surrendered for exchange or transfer.

Limitation on Transfer of Bonds

Neither the Corporation nor the Trustee are required (1) to make any transfer or exchange during the period beginning at the opening of business 30 days before the day of the first mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing, or (2) to transfer or exchange any Bonds so selected for redemption when such redemption is scheduled to occur within 30 calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the Registered Owner of the uncalled balance of a Bond.

Replacement Bonds

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

SECURITY FOR THE BONDS AND REMEDIES IN THE EVENT OF NONAPPROPRIATION

General

Except for proceeds of the Bonds used to pay capitalized interest on the Current Interest Bonds, the principal of, Maturity Amount (or Compounded Amount upon prior redemption of CABs), premium, if any, and interest on the Bonds are payable solely from Lease Payments to be made by the City to the Corporation under the Sublease. The Corporation's interest under the Sublease, including its rights to receive and dispose of Lease Payments to be paid by the City thereunder, will be assigned to the Trustee under the Trust Agreement and be made a part of the Trust Estate for the benefit of the Owners of the Bonds.

Trust Estate

All payments to be made by the Trustee under the Trust Agreement to the Registered Owners may be made only from the income and proceeds from the Trust Estate and only to the extent that the Trustee has received income or proceeds from the Trust Estate. The "Trust Estate" consists of all right, title, and interest of the Corporation (i) in and under the Lease Agreement including, but not limited to, all Lease Payments and other payments (other than payments for Operating Expenses) paid or payable by the City pursuant to the Lease Agreement and other income, charges, and funds realized from the lease of the Convention Center Facilities, and (ii) in and under the Trust Agreement including, but not limited to, all funds and investments in the Trust Fund and all funds deposited with the Trustee pursuant to the Financing Documents (excluding funds transferred to the Trustee for deposit in the Operating Fund or the Rebate Account), all subject to and in accordance with the Trust Agreement.

Lease Payments

The City is required to pay to the Trustee, for the account of the Corporation, for deposit into the Payment Account of the Corporation, the Lease Payments from Appropriated Funds on March 5, 2013, and each September 5 and March 5 thereafter for so long as the Sublease is in effect. The amount of each Lease Payment required under the Sublease is equal to an amount of money which, when added to the amount then on deposit in the Payment Account, will equal the amount of principal and/or interest on the CIBs, and Maturity Amount of the CABs to become due on the applicable Bond Payment Date.

The term "Appropriated Funds" is defined in the Lease Agreement as funds Appropriated by the City from any money that has not been encumbered to secure the payment of any indebtedness of the City and that may lawfully be used with respect to any payment obligated or permitted under the Lease Agreement, including but not limited to unencumbered and lawfully available revenues derived by the City from (i) Hotel Occupancy Taxes levied by the City, (ii) annual ad valorem taxes levied for maintenance and operation purposes, (iii) the 1% general sales and use tax levied by the City, and (iv) transfers from City-owned utility systems. "Any money" includes most City revenues deposited to its General Fund (see Table 3 appearing under "CITY REVENUES AND EXPENSES – General Fund"), including ad valorem tax collections other than ad valorem taxes levied for payment of debt service on general obligation debt and its collection of HOT Revenues (see Tables 18 and 19 under "THE CITY'S HOTEL OCCUPANCY TAX – Historical HOT Receipts"). As previously discussed, State law limits the permitted uses by the City of HOT Revenues, to, with respect to the General HOT, purposes that promote tourism and the convention and hotel industry and, with respect to the Expansion HOT, the expansion of an existing convention center facility. The ownership and operation of the Convention Center Facilities represents a significant majority of these activities upon which the City expends its HOT Revenues. See "THE CITY'S HOTEL OCCUPANCY TAX – City HOT Levy, Limitation on Use, and Recent Performance" herein.

Notwithstanding the foregoing, the City has no obligation to Appropriate any funds to pay Lease Payments, regardless of the amount or source of funds that are lawfully available to be Appropriated, in any Fiscal Year.

Limited Nature of Obligations of the Corporation; Remedies Upon City's Failure to Appropriate

The Corporation currently has no assets other than its Leasehold Estate in the Convention Center Facilities pursuant to the Primary Lease and its rights under the Sublease, which will be assigned to the Trustee for the benefit of the Registered Owners of the Bonds upon the initial delivery of the Bonds.

The Corporation's obligation with respect to the payment of the principal of, premium, if any, and interest on the Bonds is a special, limited, and non-recourse obligation payable solely from the Trust Estate, consisting primarily of the Lease Payments payable by the City pursuant to the Sublease (which may be paid from any and all lawful and unencumbered revenues of the City, as described above, including, but not limited to, HOT Revenues). In the event the City fails to Appropriate for Lease Payments, the only funds available to the Corporation will be payments received from the City under the Primary Lease for payment of Operating Expenses (which payment is also subject to annual Appropriation by the City) and from proceeds derived from the operation or other lease of the Convention Center Facilities for the duration of the Primary Lease. 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, 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 Council for such use (the Lease Agreement defines "Appropriate", "Appropriated", and "Appropriation" to mean the adoption by the City Council of a budget or amendments to the budget of a Fiscal Year which includes the Lease Payments, Operating Expenses, and other payments required, if any, to be made by the City under the Lease Agreement during the respective Fiscal Year). See "ANNUAL BUDGET ADOPTION". **The City has no obligation to Appropriate any funds to pay Lease Payments, regardless of the amount or source of funds that are lawfully available to be Appropriated, in any Fiscal Year.** Remedies available upon a failure of the City to Appropriate or pay Lease Payments are limited to termination of the City's Leasehold Estate under the Sublease, the right to take possession and control of the Convention Center Facilities pursuant to and for the duration of the Primary Lease, and the right to operate or lease the Convention Center Facilities for the remaining term of the Primary Lease. In the Lease Agreement, the City has covenanted and agreed that, subsequent to the occurrence of an Event of Nonappropriation, it shall not, for the remaining term of the Primary Lease, acquire any outstanding Bonds for the purpose of delivering those Bonds to the Trustee for cancellation or extinguishment of the indebtedness evidenced thereby. See "INVESTOR CONSIDERATIONS" herein and "SELECTED PROVISIONS OF THE FINANCING DOCUMENTS" attached hereto as Appendix C.

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.

The Sublease 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, the City, or any other political subdivision of the State. Neither the full faith and credit nor the taxing power of the State, the City, or any other political subdivision of the State has been pledged to the payment of the principal of, premium, if any, or interest on the Bonds.

Operating Fund

The Primary Lease specifies that the City is obligated to provide for the maintenance and operation of the Convention Center Facilities (as further described below, the "Operating Expenses") for its duration, the payment of costs of which are subject to annual Appropriation by the City from any lawfully available funds. The Trust Agreement provides for the creation and establishment of an "Operating Fund" into which City funds received by the Corporation for payment of Operating Expenses are to be deposited until expended at the direction of the Corporation. **The Operating Fund is not included in the Trust Estate, nor is it provided as additional security for the Bonds. No payment for Operating Expenses is owed to the Corporation by the City during the time that the Sublease remains valid and in effect.**

The Lease Agreement defines "Operating Expenses" to mean expenses required to operate and maintain the Convention Center Facilities, including without limitation, salaries and benefits of personnel employed to operate and maintain the Convention Center Facilities and the costs and expenses of maintenance, use for intended purpose, certain insurance premiums, utilities, and taxes.

No Additional Unrelated Obligations

The Corporation has covenanted and agreed that, other than Additional Bonds issued to refund the Bonds, to complete the Expansion Project, if necessary, or to make additional renovations and improvements to the Convention Center Facilities (see "THE BONDS – Additional Bonds"), no other bonds or other obligations will be issued which are secured by a lien on the Trust Estate.

THE FINANCING DOCUMENTS

The Trust Agreement and the Lease Agreement are referred to collectively herein as the "Financing Documents." As noted above, the security for the Bonds is derived solely (other than proceeds of the Bonds used to pay capitalized interest on the CIBs) from Lease Payments to be paid by the City pursuant to the Lease Agreement and utilized by the Corporation and the Trustee pursuant to the Trust Agreement. Below are brief descriptions of certain provisions contained in the Financing Documents, but such descriptions are qualified in their entirety by reference to

the detailed provisions contained in the Financing Documents. For additional information, see Appendix C of this Official Statement which contains excerpts from the Financing Documents.

The Lease Agreement

General. As further described below under "The Primary Lease" and "The Sublease", the City and the Corporation will enter into the Lease Agreement pursuant to which the City will convey a Leasehold Estate in the City's Convention Center Facilities to the Corporation and the Corporation will immediately lease back to the City an identical Leasehold Estate in the Convention Center Facilities. Section 303.041(a)(1) of the Act authorizes the Corporation to acquire title to public facilities (such as the Convention Center Facilities) in order to lease or convey such public facilities to the City. Section 303.072 of the Act further provides that bonds issued by the Corporation to finance or refinance public facilities are payable only from revenues derived from such public facilities or "sponsor obligations" (which includes leases with the City). Accordingly, the Corporation and the City have entered into the Lease Agreement (and the Primary Lease - Sublease structure described herein) in order to provide for the payment of Lease Payments by the City to the Corporation as the source of revenues permitted under the Act to pay debt service on the Bonds.

As long as the Sublease is in existence and has not terminated, the City will have full control over the operations of the Convention Center Facilities, without any need for obtaining further approvals from the Corporation, and will be fully responsible for paying all Operating Expenses of the Convention Center Facilities. The City also will be fully responsible for overseeing the construction of the Expansion Project, and the Corporation shall have no obligations related thereto except for cooperating with the City in disbursing proceeds of the Bonds on deposit in the Project Account to pay Project Costs.

The Primary Lease. The City is the owner of the Convention Center Facilities and the Land on which the Convention Center Facilities are and will be located. Pursuant to the Lease Agreement, the City (as the Lessor) will grant a Leasehold Estate in the Convention Center Facilities to the Corporation (as the Lessee) for the Term of the Primary Lease (described below). Such grant of a Leasehold Estate in the Convention Center Facilities from the City to the Corporation is referred to in the Lease Agreement as the "Primary Lease." Consideration for the Primary Lease includes the Corporation's commitment to issue Parity Bonds (including the Bonds) to finance and refinance the Convention Center Facilities at the request and for the benefit of the City, and the payment of a nominal amount by the Corporation to the City.

The "Term of the Primary Lease" commences on the date of delivery of the Bonds and continues until the tenth anniversary following the date of final maturity of all Parity Bonds issued to finance or refinance Convention Center Facilities or until earlier terminated upon the occurrence of the first of (i) the payment in full of all principal and interest on all Parity Bonds at stated maturity or upon earlier redemption, or (ii) the payment to the Trustee by the City of available funds in an amount, together with amounts, if any, on deposit in the Payment Account, Insurance and Condemnation Account, Redemption Account, and Project Account, that is at least equal to the Defeasance Amount required to defease all Outstanding Parity Bonds on the date fixed for their redemption.

During the Term of the Primary Lease, the City shall be responsible for the payment of all Operating Expenses, subject to annual Appropriation by the City Council, related to the Convention Center Facilities.

The Sublease. Pursuant to the Lease Agreement, the Corporation (as the Sublessor) will immediately lease-back to, and grant a Leasehold Estate in, the Convention Center Facilities (identical to the Leasehold Estate received from the City under the Primary Lease) to the City (as the Sublessee) for the Term of the Sublease (described below). Such grant of a Leasehold Estate in the Convention Center Facilities from the Corporation back to the City is referred to as the "Sublease." Consideration for the Sublease includes the City's commitment to make Lease Payments to the Corporation, subject to annual Appropriation by the City Council, in an amount sufficient to pay annual debt service on all outstanding Parity Bonds.

The "Term of the Sublease" commences on the date of delivery of the Bonds and continues until the day immediately following the date of final maturity of all Parity Bonds issued to finance or refinance the Convention Center Facilities or until earlier terminated upon the occurrence of the first of the following events: (i) the termination of the Primary Lease; (ii) the end of the Fiscal Year in which an Event of Nonappropriation occurs

which results in the termination of the Sublease in accordance with Section 10.03 of the Lease Agreement; or (iii) the occurrence of an Event of Default and the Sublessor elects to terminate the Sublease pursuant to Section 10.01 of the Lease Agreement.

Annual Appropriations and Consequences Upon Event of Nonappropriation. On or before the last day of each Fiscal Year, the City is required to deliver to the Corporation and the Trustee written certification (a "Certificate of Appropriation") that the City has Appropriated available funds in an amount sufficient to pay Lease Payments and other payments required, if any, to be made by the City (as Sublessee) under the Sublease during the succeeding Fiscal Year. The City is required to provide the Corporation (as Sublessor), the Trustee and the Rating Agencies 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 City (as the Sublessee) in accordance with the Lease Agreement due during the succeeding Fiscal Year, or (ii) a legal inability of the City to adopt a budget (each an "Event of Nonappropriation"). In the event that the Trustee does not timely receive the Certificate of Appropriation from the City, the Trustee is required to give written notice thereof to the City and the Corporation. If the City fails to deliver the Certificate of Appropriation within ten days of its receipt of the foregoing notice from the Trustee, the Trustee is required to give written notice to the Registered Owners and the Rating Agencies of the City's failure to provide the Certificate of Appropriation. See "CONTINUING DISCLOSURE OF INFORMATION – Notice of Certain Events" herein for a description of the Corporation's disclosure obligations upon the occurrence of an Event of Nonappropriation.

Upon the occurrence of an Event of Nonappropriation, the Sublease will terminate at the end of the Fiscal Year for which sufficient Appropriations have been made (but the Primary Lease will remain in existence and will not terminate), and upon the expiration of such Fiscal Year the City will be required to immediately vacate the Convention Center Facilities and surrender possession and control of the Convention Center Facilities to the Trustee and will be prohibited from conducting any operations or activities at the Convention Center Facilities.

Notwithstanding the provisions described in the preceding paragraph, if an Event of Nonappropriation occurs because the City is legally unable to adopt a budget, the Trustee will have the right, but not the obligation (unless directed by a majority in principal amount and Maturity Amount of the Registered Owners), to (i) terminate the Sublease and the City will be required to immediately surrender possession and control of the Convention Center Facilities to the Trustee, and thereafter the Trustee will have the right, but not the obligation (unless directed by a majority in principal amount and Maturity Amount of the Registered Owners), to lease, sublease, or otherwise provide for the operation of the Convention Center Facilities for the remainder of the Term of the Primary Lease, or (ii) without terminating the Sublease, permit the Sublease to continue in effect, to the extent permitted by law, and continue to permit the City (as Sublessee) to exercise and enjoy its rights of quiet enjoyment, use, occupancy and control of the Convention Center Facilities.

The City has covenanted that, upon an Event of Nonappropriation, it will not, for the remaining term of the Primary Lease, acquire any outstanding Parity Bonds for the purpose of delivering those Parity Bonds to the Trustee for cancellation or extinguishment of the indebtedness evidenced thereby.

Certain Covenants in the Lease Agreement. The following are certain covenants and representations made by the City in the Lease Agreement:

The City represents that it presently expects, while any Parity Bonds remain Outstanding, that it will continue to levy a HOT at the rate of at least 9% of the cost of a hotel room as long as it is permitted to do so pursuant to the HOT Act or other applicable law, and that it will enforce the provisions of any ordinance or resolution levying a HOT concerning the collection, remittance and payment of such HOT.

The City represents that it presently expects to have sufficient funds to satisfy its obligations under the Lease Agreement, including but not limited to revenues derived from the levy and collection of the 9% HOT, and that it presently expects, while any Parity Bonds remain Outstanding, that it annually will prepare a Fiscal Year budget, for consideration by the City Council, which contains provisions to fully pay from available revenues of the City all Lease Payments and Operating Expenses coming due during the applicable Fiscal Year; **however, the City has no obligation to Appropriate any funds to enable the City (as Sublessee) to pay Lease Payments, or (as Lessor) to**

pay Operating Expenses, regardless of the amount or source of funds that are lawfully available to be Appropriated, in any Fiscal Year.

The City has fee simple title, subject to certain permitted encumbrances described in the Lease Agreement, to the Land upon which the Convention Center Facilities are situated, and, will, until the termination of the Primary Lease, warrant and forever defend all and singular title to such property against every person whomsoever lawfully claiming the same, or any part thereof subject to such permitted encumbrances.

Amendments to the Lease Agreement. The Lease Agreement may be amended, upon the mutual consent of the City and the Corporation and without the consent any Registered Owners or the Trustee, to cure any ambiguity, inconsistency, or formal defect or omission therein and in a manner appropriate to provide for the issuance of Additional Bonds in accordance with the applicable provisions of the Trust Agreement (which provisions generally are described herein under "THE BONDS - Additional Bonds"). Additionally, the Lease Agreement may be amended, upon the mutual consent of the City and the Corporation, for any other purpose if before the amendment takes effect: (i) the City and the Corporation each receive an opinion of their legal counsel to the effect that such amendment is permitted under the laws governing the City and the Corporation; (ii) the Corporation obtains an opinion of Bond Counsel to the effect that such amendment will not adversely affect the status of the Bonds (and any other Tax-Exempt Parity Bonds then Outstanding) as obligations described by section 103 of the Internal Revenue Code, the interest on which is excludable from "gross income" for federal income tax purposes; and (iii) either of the following requirements is satisfied: (i) the Corporation obtains an opinion of Bond Counsel that such amendment will not adversely affect the rights of the Registered Owners; or (ii) the owners of at least 51% in aggregate principal amount of the Outstanding Parity Bonds affected by such amendment consent thereto, except that the consent of the owner of each Outstanding Parity Bond affected by such amendment is required if such amendment would decrease the minimum percentage of Registered Owners required for effective consent to such amendment, or if such amendment affects the amount of the Lease Payments or the Lease Payment Dates.

Events of Default and Remedies Under the Lease Agreement.

Events of Default Under the Lease Agreement. The following constitute an Event of Default under the Lease Agreement: (i) failure by the Sublessee to make a Lease Payment from Appropriated Funds within ten calendar days after the due date thereof; (ii) failure by the City to construct the Expansion Project in accordance with the terms and conditions thereof; (iii) failure by the City or the Corporation to observe and perform any covenant, condition, or agreement, on its part to be observed or performed by it under the Lease Agreement, other than as referred to in (i) or (ii) above, which is not cured within 30 calendar days after written notice thereof to the defaulting party; (iv) any material statement, representation, or warranty made by the City in the Lease Agreement or in any writing ever delivered by the City pursuant to or in connection with the Lease Agreement is false, misleading, or erroneous in any material respect; (v) the occurrence of certain events related to bankruptcy or insolvency of the City; (vi) any event which shall occur or any condition which shall exist the effect of which is to cause (a) more than $100,000 of aggregate indebtedness of the City 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 (b) a lien to be placed on the Convention Center Facilities or the City's interest in the Convention Center Facilities, and not released within sixty (60) days; or (vii) a final judgment against the City 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 Convention Center Facilities or the City's interest in the Convention Center Facilities.

Remedies Upon an Event of Default Under the Lease Agreement. Upon an Event of Default under the Lease Agreement by the City (as Sublessee), the Corporation (as the Sublessor) or the Trustee as the assignee of the Sublessor may take one or any combination of the following remedial steps (to the extent permitted by law): (i) with or without terminating the Sublease, declare all Lease Payments due or to become due during the then current Fiscal Year to be immediately due and payable by the Sublessee to the extent of Appropriated Funds, whereupon such Lease Payments shall be, to the extent permitted by State law, immediately due and payable; (ii) with or without terminating the Primary Lease, declare all payments for Operating Expenses due or to become due during the then current Fiscal Year to be immediately due and payable by the Lessor to the extent of Appropriated Funds, whereupon such payments for Operating Expenses shall be, to the extent permitted by State law, immediately due and payable; (iii) with or without terminating the Sublease, re-enter and take possession of the Convention Center

Facilities and exclude the Sublessee from using the Convention Center Facilities; however, if the Sublease has not been terminated, the Sublessor shall return possession of the Convention Center Facilities to the Sublessee when the Event of Default is cured (including the Sublessee having provided for the payment of all costs and expenses incurred by the Sublessor, the Trustee, or the Registered Owners resulting therefrom), and, further, the Sublessee shall, during such period of repossession by the Sublessor without termination of the Sublease, to the extent of Appropriated Funds, continue to be responsible for the Lease Payments due or to become due during the Term of the Sublease; (iv) terminate the Sublease upon giving 30 days written notice to the Sublessee, at the expiration of which period of time the Sublessee shall immediately surrender possession and control of the Convention Center Facilities to the Trustee and the Trustee shall have the right, thereafter, to lease, sublease, or otherwise provide for the operation of the Convention Center Facilities; or (v) take whatever action at law or in equity may appear necessary or desirable to collect the Lease Payments and payments for Operating Expenses then due and thereafter to become due during the Term of the Primary Lease or to enforce performance and observance of any other obligation, agreement, or covenant of the Lessor under the Primary Lease and the surviving obligations of the Sublessee under the Sublease. Upon the termination of the Sublease by the Sublessor, the Sublessee is required to immediately surrender possession of the Convention Center Facilities to the Sublessor, and the Sublessee shall be prohibited from conducting any operations or activities at the Convention Center Facilities.

The Trust Agreement

General. The Corporation has entered into the Trust Agreement with the Trustee primarily for the purposes of establishing and pledging the Trust Estate for the benefit of the Owners of the Parity Bonds, providing for the issuance of the Bonds and any Additional Bonds which may be issued in the future on a parity therewith (previously herein defined collectively as the "Parity Bonds"), establishing the Trust Fund, the Operating Fund, and the accounts and subaccounts related thereto, and providing for remedies upon the occurrence of an Event of Nonappropriation or upon an Event of Default under the Trust Agreement.

Pledge of Trust Estate. The Corporation has pledged the Trust Estate (described below) to secure the payment of Bond Payments for the equal and proportionate benefit, security, and protection of the owners of all Parity Bonds. The Trust Estate includes all right, title, and interest of the Corporation (i) in and under the Lease Agreement including, but not limited to, all Lease Payments and other payments (other than payments for Operating Expenses) paid or payable by the City to the Corporation or the Trustee pursuant to the Lease Agreement and other income, charges, and funds realized from the lease of the Convention Center Facilities, and (ii) in and under the Trust Agreement including, but not limited to, all funds and investments in the Trust Fund (excluding the Rebate Account) and all funds deposited with the Trustee pursuant to the Financing Documents (excluding funds transferred to the Trustee for deposit in the Operating Fund or the Rebate Account), all subject to and in accordance with the Trust Agreement.

Funds and Accounts Created Under the Trust Agreement. The following funds have been created pursuant to the Trust Agreement:

Trust Fund. The Trust Agreement requires the Trustee to establish a separate and special trust fund known therein as the Trust Fund. Within the Trust Fund, the Trustee will establish, for the benefit of the Registered Owners, (i) the Project Account, (ii) the Payment Account, (iii) the Insurance and Condemnation Account; and (iv) the Redemption Account (each of which are further described below). There also will be established within the Trust Fund a debt service reserve fund (known as the "Reserve Account") for the benefit only of the holders of any particular Series of Parity Bonds for which a subaccount in the Reserve Account is specifically created. (As further noted below under the subsection "Reserve Account," the Bonds are not secured with a debt service reserve fund; consequently, no subaccount has been established in the Reserve Account for the benefit of the holders of the Bonds.)

Project Account. Within the Project Account there will be established upon the issuance of a Series of Parity Bonds a subaccount related to each Series of Parity Bonds in order to separately deposit and account for proceeds and other funds related to such Series of Parity Bonds. In the event the City will be making a cash contribution to fund a portion of the projects being financed with a series of Parity Bonds, there also will be created within the Project Account a "City Contribution Subaccount" related to such Series of Parity Bonds into which the City's contribution will be deposited. (No additional funds of the City are being contributed to pay Project Costs related to the

Expansion Project; therefore, a City Contribution Subaccount will not be established in the Project Account related to the Bonds or the Expansion Project.)

On the respective Closing Date with respect to each series of Parity Bonds, the Trustee will deposit to the related Series Subaccount of the Project Account (and the related Series Subaccount of the City Contribution Subaccount, if applicable) such amounts as are set forth in the Trust Agreement in connection with such series of Parity Bonds. Disbursements to pay or reimburse for the payment of Project Costs and Issuance Costs will be made by the Trustee from the related Series Subaccount of the Project Account only upon receipt of a requisition substantially in the form set forth in the Trust Agreement that has been approved and executed by an authorized representative of the City and the Corporation. The Trustee is authorized to rely conclusively upon such requisitions and will 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 the Trust Agreement with respect to such requisitions.

Upon the earlier of October 31, 2017, or receipt by the Trustee of the Certificate of Completion related to the Expansion Project described in the Lease Agreement, the Trustee will transfer the amount remaining in the Series 2012 Subaccount of the Project Account to the Payment Account, which funds thereafter shall be used as described below under the subsection entitled "Payment Account."

Upon a redemption of all Outstanding Parity Bonds, all funds then on deposit in the Project Account (excluding the City Contribution Subaccount, which funds, if any, shall be returned to the City) will be transferred to the Redemption Account.

Payment Account. On the Closing Date with respect to each series of Parity Bonds, the Trustee will deposit to the Payment Account proceeds of such series of Parity Bonds representing accrued and/or capitalized interest, if any. The Trustee also will deposit to the Payment Account all (i) Lease Payments made by the City, (ii) all other funds of the Corporation derived pursuant to the Sublease of the Convention Center Facilities, (iii) the payment of the Prepayment Option Price, and (iv) 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 Agreement for Operating Expenses or for deposit to the Rebate Account or the City Contribution Subaccount, if any). The Trustee also will transfer into the Payment Account proceeds of a Series of Parity Bonds on deposit in the Project Account that remain therein upon completion of construction of the project or projects for which such Parity Bonds were issued (which funds generally may be used only to pay principal on the related Series of Parity Bonds as such principal becomes due).

Pursuant to the Lease Agreement, the City is required to pay its Lease Payments (solely from Appropriated Funds) semiannually to the Trustee on or before each March 5 and September 5 (each a "Lease Payment Date") in the amount equal to the amount of debt service coming due on the Parity Bonds on the immediately following March 15 and September 15 (each a "Bond Payment Date"), respectively. On each Bond Payment Date, the Trustee will withdraw from the Payment Account an amount equal to the amount of debt service due with respect to the Parity Bonds on such Bond Payment Date and will cause the same to be applied to the payment of debt service due on such Bond Payment Date.

Upon a redemption of all Parity Bonds, all funds in the Payment Account will be transferred to the Redemption Account. In the event of a partial redemption of the Parity Bonds, one Business Day prior to the date fixed for redemption of such Parity Bonds, the Trustee will transfer from the Payment Account to the Redemption Account the amount of money required to pay the redemption price of such Parity Bonds to be redeemed, to the extent of the money contained therein.

Insurance and Condemnation Account. Money received by the Trustee as the result of the damage and/or destruction of the Convention Center Facilities (from Net Proceeds of insurance policies or otherwise) or as the result of a condemnation award will be deposited into the Insurance and Condemnation Account. 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 Convention Center Facilities, but is not equal to or greater than the Prepayment Option Price to prepay and redeem all Outstanding Parity Bonds, the City will be able to make all necessary repairs and/or replacements and the Trustee will disburse amounts from the Insurance and Condemnation Account for such purpose upon receipt of a requisition required by the Trust Agreement. 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 Convention Center Facilities and is also equal to or greater than the Prepayment Option Price, the City will have the option of (i) making all necessary repairs and/or replacements, or (ii) exercising its option to prepay Lease Payments as described herein under "THE BONDS - Mandatory Redemption of Parity Bonds in Whole Upon Exercise of Prepayment Option Due to Casualty Loss or Condemnation" with amounts from the Insurance and Condemnation Account. The City may deposit into the Insurance and Condemnation Account, from available funds, the amount needed, together with amounts available in the Insurance and Condemnation Account, to complete all necessary repairs and/or replacement of the Convention Center Facilities, in which case the City may make such necessary repairs and/or replacements and the Trustee will disburse amounts from the Insurance and Condemnation Account for such purpose upon receipt of a requisition required by the Trust Agreement. Similarly, the City may 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 Prepayment Option Price. Upon the City's exercise of its prepayment option, all amounts in the Insurance and Condemnation Account will be transferred to the Redemption Account. 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 Convention Center Facilities or for the exercise of its prepayment option, and the City does not deposit into the Insurance and Condemnation Account the amount needed to complete the repair and/or replacement of the Convention Center Facilities or exercise its option to prepay Lease Payments, 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 to redeem Parity Bonds on the earliest available redemption date.

Redemption Account. Money to be used for redemption of Parity Bonds will be transferred to the Redemption Account at the times and in the amounts required by Sections 6.02(e), 6.02(f), 6.03(c), 6.05(d) and 6.05(f) of the Trust Agreement. Said money, together with other legally available funds contributed by the City or the Corporation for deposit in the Redemption Account, if any, will be set aside in the Redemption Account solely for the purpose of redeeming Parity Bonds in advance of their maturity and will be applied on or after (if such Parity 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 (or Maturity Amount or Compounded Amount in the case of Capital Appreciation Bonds) on the Parity Bonds to be redeemed upon delivery of such Parity Bonds being redeemed to the Trustee. If there is not sufficient money available to pay in full all Trustee's fees and expenses and principal and interest (or Maturity Amount or Compounded Amount) then due on the Parity Bonds to be redeemed, the Trustee will 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 Parity 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 (or Maturity Amount or Compounded Amount) of such Parity Bonds, pro rata in proportion to the respective amount of the total amount of principal due, (or Maturity Amount or Compounded Amount) if necessary. Any money remaining in the Redemption Account following redemption of, and payment of all principal and interest (or Maturity Amount or Compounded Amount) due with respect to all Parity Bonds, will be transferred to the City after the payment of the fees and expenses of the Trustee provided in the Trust Agreement.

Reserve Account. The Trust Agreement authorizes the creation of a Reserve Account but only for the benefit of the Registered Owners of any particular Series of Parity Bonds for which a Subaccount in the Reserve Account is specifically created pursuant to an amendment to the Trust Agreement entered into in connection with the issuance of such Series of Parity Bonds. If a Series of Parity Bonds is to be secured with funds on deposit in the Reserve Account, the Trustee will create and establish a Subaccount in the Reserve Account pursuant to the provisions of such amendment to the Trust Agreement in connection with the issuance of such Series of Parity Bonds for the purpose of securing that particular issue or Series of Parity Bonds (or any specific group of issues or Series of Parity Bonds, as appropriate) and the amounts once deposited or credited to said Subaccount will be held solely for the benefit of the Registered Owners of the particular Parity Bonds for which such Subaccount in the Reserve Account is established.

No Subaccount is being established in the Reserve Account for the benefit of the holders of the Bonds; consequently, no proceeds of the Bonds will be deposited into the Reserve Account, no funds are expected to be deposited into the Reserve Account in the future for the benefit of the holders of the Bonds, and the holders of the Bonds will not be entitled to any funds which may be on deposit in a Subaccount of the Reserve Account established in the future with respect to the issuance of any other Series of Parity Bonds, if any.

Rebate Account. The Trust Agreement requires the Trustee to establish in the Trust Fund a special trust account known as the Rebate Account in the event it is determined by a Rebate Analyst that the Corporation has "excess investment earnings" which are required to be deposited to the Rebate Account. Money deposited and held in the Rebate Account is not subject to the pledge of the Trust Agreement but will be held for the benefit of the United States of America and the Corporation. Every five years following the issuance of the Bonds, an amount that is at least equal to 90 percent of the "Excess Earnings" (within the meaning of section 148(f) of the Internal Revenue Code) will be withdrawn from the Rebate Account by the Trustee and paid to the United States of America in accordance with section 148(f)(3) of the Internal Revenue Code.

Operating Fund. In the event the Sublease is ever terminated in accordance with the Lease Agreement, the Trust Agreement requires the Trustee to establish a special trust fund known as the Operating Fund. The Trustee will keep the Operating Fund separate and apart from the Trust Fund and all other funds held by it pursuant to the Trust Agreement. The Operating Fund will not be part of the Trust Estate and will not be pledged to secure the payment of the Parity Bonds. Money received by the Corporation, as Lessee under the Primary Lease, from the City, as Lessor under the Primary Lease, for the payment of Operating Expenses, if any, will be deposited into the Operating Fund. Funds on deposit in the Operating Fund will be disbursed by the Trustee to the Lessee to pay Operating Expenses (or to any third party directed by the Lessee in payment of any Operating Expenses) in accordance with written directions provided by an authorized representative of the Corporation.

Investments. Money held in the Trust Fund and the Operating Fund will be invested by the Trustee in Permitted Investments pursuant to written instruction of a Corporation Representative, or, if a Corporation Representative does not provide written instruction for such investment, the Trustee will invest money on deposit in the Trust Fund and the Operating Fund in money market funds whose assets are invested exclusively in direct obligations of the United States, including United States Treasury State and Local Government Series, or obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest, and obligations issued, or fully guaranteed as to principal and interest by, the United States or any agency or instrumentality thereof; provided that such money market fund is currently rated not lower than "AA" (or its equivalent) by the Rating Agencies. No money in the Trust Fund may 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 the Trust Agreement. All interest or income received by the Trustee on the investment of money held in the Project Account, the Payment Account, the Reserve Account, the Insurance and Condemnation Account, the Redemption Account, the Rebate Account, and the Operating Fund will be retained in such Accounts and the Operating Fund, respectively. All interest or income received by the Trustee on the investment of money held in the Redemption Account will be transferred to the Payment Account on each Bond Payment Date while any Parity Bonds are Outstanding. The Trustee is acting only as agent in making or disposing of any investment and is not liable for any loss resulting from the making or disposition of any investment made pursuant to the provisions of the Trust Agreement, and any such losses or penalties will be charged to the account with respect to which such investment was made.

Amendments to the Trust Agreement

Amendments Without Consent of Registered Owners. The Corporation and the Trustee, without the consent of the Registered Owners, may amend the Trust Agreement 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 Parity Bonds any additional rights, remedies, powers, or authority that may lawfully be granted to or conferred upon the Registered Owners or the Trustee or either of them; (iii) to subject additional revenues to the lien and pledge of the Trust Agreement; (iv) to add to the covenants and agreements contained in the Trust Agreement other covenants and agreements thereafter to be observed for the protection of the Registered Owners or to surrender or limit any right, power, or authority therein 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 Parity Bonds; or (vi) to provide for the issuance of Additional Bonds as permitted pursuant to the Trust Agreement and described herein under "THE BONDS - Additional Bonds."

Amendments Requiring Consent of Registered Owners. The Corporation and the Trustee, with the consent of the Registered Owners owning not less than a majority in aggregate principal amount and Maturity Amount of the Parity Bonds then Outstanding, have the right to amend any terms and provisions in the Trust Agreement that cannot be amended without Registered Owner consent as described in the preceding paragraph; provided, however, such authority shall not permit or be construed as permitting: (i) without the consent of each Registered Owner so affected, an extension of maturity of the principal of or the interest on any Parity Bond, a reduction in the principal amount or Maturity Amount of any Parity Bond, or a reduction in the rate of interest thereon; and (ii) without the consent of all of the Registered Owners, a privilege or priority of any Parity Bond over any other Parity Bond or a reduction in the aggregate principal amount and Maturity Amount of the Parity Bonds required for consent to such amendment, or the creation of any prior or parity liens on the Trust Estate (except for a parity lien on the Trust Estate in connection with the issuance of Additional Bonds).

Notice to Registered Owners. If at any time an amendment to the Trust Agreement is proposed which requires the approval of the Registered Owners, the Trustee will, upon being satisfactorily indemnified with respect to expenses, notify all Registered Owners of the proposed amendment in the manner required under the Trust Agreement, which notice will briefly describe the nature of the proposed amendment and will state that copies thereof are on file at the Designated Office of the Trustee for inspection by all Registered Owners. If, within 60 calendar days after mailing of the notice or such longer period not to exceed 120 calendar days as the Corporation may prescribe, the requisite number of Registered Owners at the time notice of such amendment is given consent to such amendment, no Registered Owner will have any right to object to any of the terms and provisions contained therein or the operation thereof, and upon the execution of any such amendment, the Trust Agreement will be deemed to be modified and amended in accordance with such amendment.

Defaults and Remedies Under the Trust Agreement

Events of Default Under the Trust Agreement. Each of the following constitutes an Event of Default under the Trust Agreement: (i) failure by the Corporation to make the due and punctual payment of the principal of, premium, if any, or interest on any Parity Bond when and as the same shall become due and payable, whether by acceleration or otherwise; (ii) an Event of Default as defined and described in the Lease Agreement shall have happened and is continuing; (iii) any material statement, representation, or warranty made by the Corporation in the Trust Agreement or in any writing ever delivered by the Corporation pursuant to or in connection with the Lease Agreement is determined to be false, misleading, or erroneous in any material respect; (iv) the occurrence of certain events relating to bankruptcy and insolvency by the Corporation; (v) any event which shall occur or any condition which shall exist, the effect of which is to cause (a) more than $100,000 of aggregate indebtedness of the Corporation to become due prior to its stated due date, and (b) a lien to be placed on the Convention Center Facilities or the Corporation's Leasehold Estate in the Convention Center Facilities, 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 Convention Center Facilities or the Corporation's Leasehold Estate in the Convention Center Facilities.

Remedies upon Event of Default Under the Trust Agreement. Upon the occurrence of an Event of Default under the Trust Agreement, the Trustee shall have the right, to the extent permitted by law, at its option (or, at the written direction of Registered Owners owning an aggregate principal amount and Maturity Amount of the Parity Bonds then Outstanding) shall, and without any further demand or notice, take one or any combination of the following remedial steps to the extent permitted by law (provided that the right to terminate the Sublease may only occur upon the occurrence of an Event of Default under the Lease Agreement which is caused by the City): (i) with or without terminating the Sublease, declare the principal of all Outstanding Parity 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 Registered Owners owning not less than 25% in principal amount or Maturity Amount of the Parity Bonds Outstanding, the Trustee shall declare the principal of all Outstanding Parity Bonds and all unpaid accrued interest to be due and payable immediately; (ii) terminate the Sublease 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 Convention Center Facilities to the Trustee and the Trustee shall have the right, thereafter, to sublease the Convention Center Facilities to any third party for a

period up to but not exceeding the remaining Term of the Primary Lease; 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.

Notwithstanding any other provision of the Trust Agreement, the Trustee will not exercise its option to take possession and control of the Convention Center Facilities upon an Event of Default under the Trust Agreement until indemnified in a manner satisfactory to it for any liability and expense it might incur in carrying out such remedy.

INVESTOR CONSIDERATIONS

General

Each prospective investor in the Bonds should read this Official Statement in its entirety, including its Schedules 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 the Trust Estate, which consists primarily of the Lease Payments paid by the City to the Corporation, and other income, charges, and funds realized from the operation or lease of the Convention Center Facilities for the duration of the Primary Lease in the event the Sublease is terminated, together with all funds and investments in all accounts (except the Rebate Account and the Operating Fund) established under the Trust Agreement, and all funds (other than payments for Operating Expenses) 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 Sublease 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 Convention Center Facilities to the Trustee for the duration of the Primary Lease. No assurances may be given, and it is in fact unlikely, that the Trustee will be able to manage, operate, or lease the Convention Center Facilities if the City does not Appropriate for Lease Payments and the Sublease terminates, 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 Convention Center Facilities, (b) the economic conditions within the service area of the City, (c) the rental value, if any, of the Convention Center Facilities in the event the Trustee re-leases the Convention Center Facilities to a third party for the duration of the Primary Lease in a transaction instituted by the Trustee pursuant to the Trust Agreement, and (d) the Trustee's ability to generate revenue from the operation of the Convention Center Facilities for the duration of the Primary Lease.

No Reserve Fund

No debt service reserve fund has been established under the Financing Documents relating to the Bonds to pay principal and interest on the Bonds in the event the City fails to Appropriate for Lease Payments for any Fiscal Year.

Damage or Destruction Risk

In the event of damage, destruction, or condemnation of all or a portion of the Convention Center Facilities, the City is required to promptly repair, restore, or replace the Convention Center Facilities, but solely from Appropriated Funds, 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 Convention Center Facilities are damaged to an extent which results in the City's inability to use 50% or more of the Convention Center Facilities for municipal purposes, the City may exercise its option to prepay the Lease Payments and require the Corporation to redeem the Bonds (see "THE BONDS - Redemption - Mandatory Redemption of Parity Bonds in Whole Upon Exercise of Prepayment Option Due to Casualty Loss or Condemnation"). In such event, any Net Proceeds on deposit in the Insurance and Condemnation Account will be applied as a credit toward the Prepayment Option Price. If the amount on deposit in the Insurance and Condemnation Account is insufficient for the complete repair and/or replacement of the Convention Center Facilities, and the City 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 Convention Center Facilities or exercise its option to prepay the Lease Payments and cause the Corporation to redeem the Bonds, the amount on deposit in the Insurance and Condemnation Account will be transferred into the Redemption Account by the Trustee. Regardless of the sufficiency or insufficiency of the Net Proceeds for either the repair and/or replacement of the Convention Center Facilities or for the prepayment of the Lease Payments, the City will remain obligated to continue to pay the Lease Payments from Appropriated Funds.

There can be no assurance that the Net Proceeds of an insurance or condemnation award will be sufficient to repair, replace, or restore the Convention Center Facilities 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 Convention Center Facilities, or for the payment of the principal of, premium, if any, and Maturity Amount (or Compounded Amount upon prior redemption) and interest on the Bonds necessary in order to exercise its option to prepay Lease Payments under the Lease Agreement.

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 acquire unencumbered title to the Convention Center Facilities and to terminate its obligations under the Sublease. 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 Agreement, 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 Convention Center Facilities 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, as well as Maturity Amount or Compounded Amount of, 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 Convention Center Facilities 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 Agreement 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 unencumbered title to the Convention Center Facilities. 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, as well as Maturity Amount or Compounded Amount of, 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 Convention Center Facilities before the termination remedy may be enforced.

Inability to Re-lease, or Delay in Re-leasing, the Convention Center Facilities

Termination of the Sublease upon an Event of Nonappropriation or an Event of Default gives the Trustee the right to manage or re-lease the Convention Center Facilities. The Convention Center Facilities are designed and constructed for a limited purpose use (i.e., convention center activities); therefore, potential purchasers of the Bonds should not anticipate that the re-lease of the Convention Center Facilities could be accomplished rapidly, or at all. Any delays in the ability of the Trustee to re-lease the Convention Center Facilities will result in a delay in payment of principal, interest, and Maturity Amount of the Bonds.

Historically, rental income and other operating revenues derived by the City from conventions and other functions held at the Existing Convention Center have been insufficient to fully pay operating costs or cover any debt service related to the Existing Convention Center. The City has relied on the receipt of HOT Revenues to supplement operating revenues related to the Existing Convention Center to pay operating costs as well as to pay all debt service related to the Existing Convention Center. Even though the City has retained, under the Primary Lease, the obligation to pay costs of operating and maintaining the Convention Center Facilities, such payment obligation is subject to annual Appropriation. In addition, there is no assurance, and it is in fact unlikely, that the Trustee will be able to re-lease or operate the Convention Center Facilities after a termination of the Sublease or upon an Event of Default in such a manner that the resultant proceeds will equal the aggregate principal amount or Maturity Amount or Compounded Amount of the Bonds then outstanding plus (with respect to the CIBs) accrued interest thereon. If the Convention Center Facilities are re-leased or operated by the Trustee such that the resultant revenues are less than the aggregate principal amount of and accrued interest on the CIBs and Maturity Amount or Compounded Amount of the CABs, 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 Agreement 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 Agreement requiring the City to seek an Appropriation. Accordingly, Co-Bond Counsel believes the facts of such case are distinguishable from the language contained in the Lease Agreement. 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 Agreement.

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 lawfully available to Appropriate for Lease Payments may be decreased.

Securities Law and Federal Tax Law Implications of a Termination Event

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

In addition, Co-Bond Counsel has rendered no opinion as to the treatment for federal income tax purposes of any money received by a Registered Owner of the Bonds subsequent to a termination of the Sublease by reason of an Event of Default under the Trust Agreement or an Event of Nonappropriation under the Lease 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 AGREEMENT 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.

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DEBT SERVICE REQUIREMENTS

The following schedule reflects the total principal and interest requirements on the Bonds.

Debt Service Requirements **Table 2**

Fiscal Year Ended 09/30	CIB Principal ($)	CIB Interest ($)	CAB Maturity Amount ($)	Annual Debt Service ($)	Total Debt Service Requirement ($) [1]
2013	-	18,556,781.25	-	18,556,781.25	9,278,390.62
2014	-	21,207,750.00	-	21,207,750.00	21,207,750.00
2015	-	21,207,750.00	-	21,207,750.00	21,207,750.00
2016	-	21,207,750.00	-	21,207,750.00	21,207,750.00
2017	2,770,000.00	21,207,750.00	-	23,977,750.00	23,977,750.00
2018	2,880,000.00	21,096,950.00	-	23,976,950.00	23,976,950.00
2019	2,995,000.00	20,981,750.00	-	23,976,750.00	23,976,750.00
2020	3,115,000.00	20,861,950.00	-	23,976,950.00	23,976,950.00
2021	3,270,000.00	20,706,200.00	-	23,976,200.00	23,976,200.00
2022	5,540,000.00	20,542,700.00	-	26,082,700.00	26,082,700.00
2023	7,050,000.00	20,265,700.00	-	27,315,700.00	27,315,700.00
2024	8,720,000.00	19,913,200.00	-	28,633,200.00	28,633,200.00
2025	10,545,000.00	19,477,200.00	-	30,022,200.00	30,022,200.00
2026	12,260,000.00	18,949,950.00	-	31,209,950.00	31,209,950.00
2027	15,460,000.00	18,336,950.00	-	33,796,950.00	33,796,950.00
2028	17,400,000.00	17,873,150.00	-	35,273,150.00	35,273,150.00
2029	19,460,000.00	17,329,400.00	-	36,789,400.00	36,789,400.00
2030	22,000,000.00	16,356,400.00	-	38,356,400.00	38,356,400.00
2031	24,475,000.00	15,476,400.00	-	39,951,400.00	39,951,400.00
2032	27,075,000.00	14,497,400.00	-	41,572,400.00	41,572,400.00
2033	29,910,000.00	13,414,400.00	-	43,324,400.00	43,324,400.00
2034	32,935,000.00	12,218,000.00	-	45,153,000.00	45,153,000.00
2035	16,215,000.00	10,900,600.00	19,930,000.00	47,045,600.00	47,045,600.00
2036	-	10,252,000.00	38,760,000.00	49,012,000.00	49,012,000.00
2037	-	10,252,000.00	40,805,000.00	51,057,000.00	51,057,000.00
2038	42,930,000.00	10,252,000.00	-	53,182,000.00	53,182,000.00
2039	46,850,000.00	8,534,800.00	-	55,384,800.00	55,384,800.00
2040	51,005,000.00	6,660,800.00	-	57,665,800.00	57,665,800.00
2041	55,420,000.00	4,620,600.00	-	60,040,600.00	60,040,600.00
2042	60,095,000.00	2,403,800.00	-	62,498,800.00	62,498,800.00
Total	520,375,000.00	475,562,081.25	99,495,000.00	1,095,432,081.25	1,086,153,690.62

[1] Excludes portion of interest on the CIBs satisfied by capitalized interest derived from Bond proceeds in the amount of $9,278,390.63.

ANNUAL BUDGET ADOPTION

Payment of Lease Payments and Convention Center Facilities Operating Expenses Dependent upon Inclusion in City Budget

The continued payment of Lease Payments by the City under the Sublease and its continued payment of Operating Expenses related to the Convention Center Facilities is dependent upon the inclusion of such payment obligations in the City's annual budget. Chapter 102, as amended, Texas Local Government Code, requires that the City adopt a budget each year to cover proposed expenditures for the succeeding year. The City Charter further obligates the City to prepare a budget which presents a complete financial plan for the ensuing Fiscal Year setting forth all proposed expenditures for the administration, operation and maintenance of all departments and agencies of the City government for which Appropriations are required to be made or taxes levied by the City government; all expenditures for capital projects to be undertaken or executed during the Fiscal Year; a capital program of proposed capital projects for the five Fiscal Years next succeeding the budget year, all interest and debt redemption charges during the Fiscal Year; and the actual or estimated operating deficits from prior Fiscal Years. Additionally, the City Charter requires that the budget set forth the anticipated income and other means of financing the total proposed expenditures of the City government for the ensuing Fiscal Year.

A significant component of each City budget is comprised of the revenues derived by the City from its levy and collection of ad valorem taxes. State law requires that a governmental entity levying and collecting an ad valorem tax must adopt its rate of taxation by the later of September 30 or 60 days after the certified appraisal roll is delivered to such political subdivision. Failure to adopt a rate of taxation precludes an entity from levying and collecting an ad valorem tax for the subject year.

The City's adoption of an annual budget and associated ad valorem tax levy represents the conclusion of an involved and formalized process that progresses throughout the year preceding such adopted budget's impact. Though this process is subject to change, an explanation of the City's most recent budget adoption process (the "FY 2013 Budget Process") is described below.

Financial Policies

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

The assumptions in the Fiscal Year 2012-2013 Debt Management Plan include: (i) assessed valuation growth at -0.43% in Fiscal Year 2012, 1.61% growth projected in Fiscal Year 2013, a projected growth rate of 2.00% in Fiscal Year 2014, increasing by 0.50% in each Fiscal Year from 2015 through 2017, and decreasing to 2.00% in Fiscal Year 2018 and held constant thereafter; (ii) tax collections at 97.5%; (iii) tax freeze for elderly and disabled (Proposition 3); (iv) the adopted debt service tax rate which remains constant at 21.15 cents through Fiscal Year 2028; and (v) $596,000,000 General Improvement Bonds authorized by the voters in the May 12, 2012 election of which $72,198,213 has been previously issued, with additional issuances anticipated to be sold as follows: $125,563,456 in Fiscal Year 2013, $173,704,951 in Fiscal Year 2014, $179,658,691 in Fiscal Year 2015, and $44,874,689 in Fiscal Year 2016. Based on these assumptions and the projected maximum debt service tax rate of 21.15 cents, additional bond authorizations in May of 2017 and May of 2022 are included in the Debt Plan in the currently estimated amount of $582,000,000 for each authorization. In addition, the Fiscal Year 2012-2013 Debt Management Plan includes the issuance of certificates of obligation, which are scheduled to be sold as follows: approximately $101,055,000 for each of Fiscal Years 2013 through 2016 and approximately $20,140,000 for Fiscal Years 2017 through 2021. Additionally, the Fiscal Year 2012-2013 Debt Management Plan includes the issuance of short-term tax notes, which are scheduled to be sold as follows: approximately $38,637,862 for Fiscal Years 2013 through 2014.

HOT Revenues Financial Policy. As the City's anticipated source of payment of the Lease Payments and Operating Expenses, the integration of HOT collections and expenditures comprises an important part of each annual budget. To provide structure to the budgeting process for these revenues and expenditures, the City adopted a HOT expenditure policy on September 20, 2012. Such a policy was not previously necessary, as the expenditure of these revenues was dictated by the terms relating to the Refunded Bonds.

As part of the City's annual budget process, the City will update the operating proforma for the "HOT Fund", the City fund into which HOT Revenues are deposited as received, to include major assumptions and projections. Actual financial information will be included in the proforma and compared to prior year estimates and projections for the remaining years in the proforma and will be revised as necessary. The City will take into consideration relevant factors such as national and local economic conditions, key HOT Revenue indicators, the interest rate environment, growth/decline in HOT Revenue, the Contingency Funds (defined herein), and change in Operating Expenses. The Contingency Funds are a key component of the financial management of the HOT Fund and Lease Payment obligations to the Corporation. As part of its internal expenditure policy concerning HOT Revenues, the City has created a contingency fund to address unanticipated operational related expenses (the "Operating Contingency Fund") and a contingency fund to be used to manage changing economic conditions in conjunction with other financial strategies which can be used to make Lease Payments (the "Lease Payment Contingency Fund" and, together with the Operating Contingency Fund, the "Contingency Funds"). These Contingency Funds provide the City with flexibility to adapt to changing economic conditions and significantly extend the time horizon for the City to make adjustments as it manages the overall financial plan. The Contingency Funds will only be used as necessary to preserve the financial policies relating to the HOT Fund and should take into consideration the impact of other financial strategies. Based upon the annual update to the proforma, the City will make determinations on

whether adjustments to these internal HOT Revenues expenditure policies are necessary such as whether to utilize or add to the Contingency Funds and whether to revise the level of growth or reduction in Operating Expenses. The City will actively manage Operating Expenses to be funded through the HOT Fund. In the event actual HOT Revenues are exceeding projections, the City may limit the amount of growth in Operating Expenses to ensure that these expenses do not grow rapidly in high growth years and put greater pressure on the HOT Fund in slow or declining periods that would result in dramatic operating reductions in those years. In these instances, the City may increase the Lease Payment contribution from the gross General HOT resulting in a reduction in the amount of General HOT available for operations and instead place these additional funds into the Contingency Funds.

In the event actual HOT Revenues are below projections, the City may maintain expense levels or implement expense reductions as necessary. Additionally, the City will make a determination on whether to draw from any of the Contingency Funds in order to manage the overall HOT Fund plan. These financial strategies may be implemented individually or in conjunction with one another or other strategies to effectively and prudently manage the HOT Fund.

The City will also evaluate the level of funding within the Contingency Funds and if excess funds are available, the City may utilize the Contingency Funds to exercise its voluntary call options and defease a portion of the outstanding Bonds.

Fiscal Year 2013 Budget Process

The FY 2013 Budget Process represents a comprehensive effort that involves input from residents, the Mayor and City Council, outside governmental agencies and private organizations, all City departments and offices, and City employees. There are several major components to the process and each phase of the FY 2013 Budget Process is explained below.

Five-Year Financial Forecast. The general 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 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 May 17, 2012, the Forecast was presented to the City Council.

Public and Employee Input. The Budget Input Box provides the community and employees the opportunity to offer their suggestions on how the City may increase efficiencies, generate revenues, and make effective changes to service delivery. City staff maintains Budget Input Boxes in public libraries, the City's office lobbies, Chamber of Commerce, and other venues. Information and access for this budget initiative is provided to the community and City employees in both English and Spanish. Budget Input Box resources are also available on the City's internet website. The City also utilizes both Facebook and Twitter for public and employee input.

In addition, the City hosted five Community Budget Input Hearings during the week of May 21 through May 24, 2012. The purpose of the hearings was to gather input and feedback from the residents on their service area priorities prior to the preparation of the FY 2013 Proposed Budget. During each meeting, a brief video highlighting the major services provided by the City was shown to help educate residents. After the video, residents were arranged into discussion groups and asked to identify up to five service priority areas the City should focus on in the upcoming budget and three service areas they could do without in the upcoming budget year. Each group reported back to the group and their input was compiled by City staff. This information was provided to the City Council in late May.

City Council Goal Setting Work Session. The Goal Setting Work Session for the annual budget is a formal mechanism for City Council as a body to provide City staff with budget policy direction. This year's work session was held on June 6, 2012, and it focused on establishing strategic goals and service delivery priorities to lead the City's efforts and resources for the next three to five years. The outcome of the session guided City staff in aligning service delivery and spending plans for the FY 2013 Budget with the City Council priorities.

Proposed Budget Preparation. Prior to the Proposed Budget Presentation, each City department's base budget is reviewed by the Office of Management and Budget, along with the City department's respective Executive Leadership Team member. Costs such as fuel, electricity, and other similar maintenance and operational expenses are adjusted to meet current market demands. Concurrently with these reviews, the Executive Leadership Team and Budget Staff review preliminary fund schedules in order to determine the financial position for each City department and fund. Other items discussed in these meetings include performance measures, capital and grant programs, policy issues, revenue changes, and potential reductions. As part of the Budget Development Process, City departments are asked to look for efficiency and operational proposals that would reflect the City Council's strategic goals and the community service delivery priorities.

FY 2013 Proposed Budget. After obtaining the priorities of the community and City Council, as well as conducting reviews of each City department, the City Manager presented the FY 2013 Proposed Operating and Capital Budget to City Council on August 9, 2012. The FY 2013 Proposed Budget represented City staff's professional recommendation reflecting City Council's priorities.

The FY 2013 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 FY 2013 Proposed Budget also included recommendations to address the FY 2014 Budget Plan.

Public Input on Proposed Budget. After the budget was proposed on August 9, 2012, the City held five area-wide community hearings across the City to obtain the public's input on the proposed budget. In each budget hearing, an explanatory video regarding the FY 2013 Proposed Budget was shown and the community was given the opportunity to provide its input on the budget to City Council members and City Officials. At these meetings, over 300 residents attended and provided more than 380 comments.

Fiscal Year 2013 Adopted Budget. After receipt of the FY 2013 Proposed Budget, the City Council held several work sessions to review the proposed service program details, and discuss potential City Council budget amendments. The budget work sessions provided a forum for 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, potential budget amendments were reviewed with the City Council on September 12, 2012.

Budget Update

The Fiscal Year 2013 Budget was presented to and approved by the City Council on September 13, 2012. The Fiscal Year 2013 Budget includes funding that will be sufficient to pay the estimated debt service on the Bonds coming due during Fiscal Year 2013. Because the Fiscal Year 2013 Budget was approved prior to the delivery or pricing of the Bonds, it will have to be amended in a manner which will permit such funding to be made as Lease Payments to the Corporation. The Ordinance relating to the issuance of the Bonds authorized the Chief Financial Officer and the Director of Finance of the City to amend the Fiscal Year 2013 Budget in such manner.

Future Budgets

The City will repeat this process for the Fiscal Year 2014 Proposed Budget, beginning in early 2013. Assuming the City elects to include such payments therein, the inclusion of Lease Payments in a City budget through the formalized process would be included in the Fiscal Year 2014 Budget. Lease Payments are expected to be included in the Five-Year Financial Forecast, beginning in Fiscal Year 2014.

CITY REVENUES AND EXPENSES

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 ("CAFR") 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 3**

	Fiscal Year Ended September 30				
	2011[1]	2010	2009	2008[2]	2007
Fund Balance - Beginning of Year	$ 230,822,170	$ 206,505,933	$ 205,547,529	$ 160,297,414	$ 161,476,026
Revenues					
Taxes	$ 483,197,137	$ 479,774,856	$ 477,114,895	$ 468,494,837	$ 430,451,032
Licenses and Permits	8,679,145	7,769,156	7,089,526	7,756,357	6,926,703
Intergovernmental	5,402,948	7,767,630	6,029,919	6,467,906	4,035,641
Revenues from Utilities	308,451,148	292,726,075	275,605,421	304,157,929	257,687,224
Charges for Services	50,134,656	45,850,142	42,799,773	43,010,464	25,220,809
Fines and Forfeits	13,697,473	11,506,403	13,110,500	12,248,623	15,114,609
Miscellaneous	20,698,991	12,099,140	13,657,600	15,921,433	14,306,653
Total Revenues	$ 890,261,498	$ 857,493,402	$ 835,407,634	$ 858,057,549	$ 753,742,671
Expenditures [3]					
General Government	$ 81,728,707	$ 82,942,315	$ 80,141,831	$ 84,269,944	$ 79,705,071
Public Safety	530,955,086	505,044,615	488,427,529	456,687,403	437,206,950
Streets and Roadways	45,357,138	44,237,331	12,088,398	11,476,555	10,759,958
Health Services	76,619,419	73,897,959	66,405,446	65,892,132	13,109,799
Sanitation	3,354,097	3,212,390	3,300,913	3,446,274	3,007,740
Welfare	44,342,218	41,141,560	43,938,387	46,712,271	42,124,122
Culture and Recreation	83,290,670	76,982,520	75,995,242	74,574,211	69,728,940
Economic Dev. and Opportunity	13,427,585	2,906,867	3,113,889	3,142,690	3,505,293
Total Expenditures	$ 879,074,920	$ 830,365,557	$ 773,411,635	$ 746,201,480	$ 659,147,873
Excess of Revenues Over Expenditures	$ 11,186,578	$ 27,127,845	$ 61,995,999	$ 111,856,069	$ 94,594,798
Other Financing Sources (Uses)					
Operating Transfers In	$ 14,603,171	$ 36,580,928	$ 13,749,869	$ 18,719,550	$ 15,972,026
Operating Transfers Out	(55,499,262)	(66,495,011)	(86,411,669)	(95,755,000)	(126,065,404)
Total Other Financing Sources (Uses)	$ (40,896,091)	$ (29,914,083)	$ (72,661,800)	$ (77,035,450)	$ (110,093,378)
Add Encumbrances [3]	31,579,973	25,916,475	11,624,205	10,429,496	13,713,122
Fund Balance - End of Year [4]	$ 232,692,630	$ 229,636,170	$ 206,505,933	$ 205,547,529	$ 159,690,568

[1] The variance between the ending fund balance for FY 2010 and the beginning fund balance for FY 2011 is due to the implementation of GASB 54 which consolidated several funds which were reported as Special Revenue funds in FY 2010.

[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.

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

[4] The FY 2012 estimated ending fund balance is $205,886,826, which excludes those funds required by GASB 54 to be reported in the General Fund.

Comparison of Selected Sources of Revenues — Table 4

FY Ended 9/30	Taxes [1]	Charges for Services	Miscellaneous	Fines and Forfeits	Licenses and Permits	Inter-Governmental	CPS Energy	SAWS	Total
2003	$320,518,083	$27,283,429	$9,810,913	$11,282,396	$13,912,258	$2,878,131	$204,016,870	$6,449,286	$596,151,366
2004	343,707,952	30,029,118	10,758,387	11,713,073	17,026,379	2,695,842	189,505,855	6,899,244	612,335,850
2005	367,030,243	33,622,089	14,286,093	12,025,344	20,715,743	3,055,128	213,384,307	8,390,366	672,509,313
2006	399,359,902	35,276,831	13,830,931	10,947,472	19,764,737	3,445,582	246,084,171 [2]	10,283,651	738,993,277
2007	430,451,032	25,220,809	14,306,653	15,114,609	6,926,703 [3]	4,035,641	248,539,890 [4]	9,147,334	753,742,671
2008	468,494,837	43,010,464	15,921,433	12,248,623	7,756,357	6,467,906	293,795,634 [5]	10,362,295	858,057,549
2009	477,114,895	42,799,773	13,657,600	13,110,500	7,089,526	6,029,919	265,459,226 [6]	10,146,195	835,407,634
2010	479,774,856	45,850,142	12,099,140	11,506,403	7,769,156	7,767,630	283,502,448 [7]	9,223,627	857,493,402
2011	483,197,137	50,134,656	20,698,991	13,697,473	8,679,145	5,402,948	297,629,648 [8]	10,821,500	890,261,498
2012*	495,293,467	48,848,102	12,191,380	13,980,068	7,366,703	7,693,520	291,715,903 [9]	12,137,653	889,226,796

* Unaudited, Budget re-estimate.
[1] Comprised of property, sales, alcoholic beverage, business taxes, penalties, and interest and judgments; excludes the HOT collections and property taxes levied to pay debt service on general obligation debt.
[2] Includes an additional transfer of $8,438,363 for deposit to the Community Infrastructure and Economic Development Fund ("CIED Fund"), a collaborative effort between CPS Energy and the cities and counties within its service area to enhance the aesthetic appeal of public areas by minimizing the visual impact of overhead electric facilities and to promote certain economic development and environmental stewardship/energy efficiency projects.
[3] Beginning in FY 2007, Planning and Development Services revenues are no longer included in the General Fund and are now a special revenue fund.
[4] Includes an additional transfer of $8,294,548 for the CIED Fund.
[5] Includes an additional transfer of $9,459,706 for the CIED Fund.
[6] Includes an additional transfer of $9,203,091 for the CIED Fund.
[7] Includes an additional transfer of $9,630,153 for the CIED Fund.
[8] Includes an additional transfer of $10,053,786 for the CIED Fund.
[9] Includes an additional transfer of $10,839,151 for the CIED Fund.

Expenditures for Selected Functions[1] — Table 5

FY Ended 9/30	General Government	Public Safety	Streets and Roadways	Health Services	Sanitation	Welfare	Culture and Recreation	Economic Development & Opportunity	Total
2002	$56,154,675	$350,755,902	$10,179,816	$13,933,748	$2,653,746	$16,991,511	$59,454,085	$7,330,135	$517,453,618
2003	52,283,057	361,305,240	11,855,629	13,689,587	2,513,841	15,763,551	58,917,420	5,368,634	521,696,959
2004	53,456,752	375,315,914	10,656,685	13,383,921	2,380,287	15,920,832	57,072,648	7,687,550	535,874,589
2005	64,019,958	402,544,348	10,477,732	13,994,642	2,576,616	19,757,168	63,010,213	4,391,706	580,772,383
2006	66,956,066	427,598,173	10,769,231	12,032,617	2,857,185	21,738,552	71,495,663	3,973,352	617,420,839
2007	74,049,275	436,295,038	10,759,928	12,927,741	2,823,782	38,673,480	68,900,503	3,449,979	647,879,726
2008	81,879,822	454,465,713	11,476,199	65,049,068	3,301,294	44,546,595	74,030,686	3,045,737	737,795,114
2009	77,659,285	486,694,550	12,088,398	65,494,020	3,131,583	40,543,992	75,582,098	3,011,010	764,204,936
2010	81,117,340	501,629,528	42,517,625	73,343,125	3,138,080	38,452,697	73,884,389	2,607,476	816,690,260
2011	78,057,000	528,318,939	43,981,014	76,307,031	3,351,682	42,704,089	80,657,876	10,504,577	863,882,208

[1] Expenditures for selected functions do not include non-debt related designations and encumbrances; such designations and encumbrances are included in subsequent year's budget.

Municipal Sales Taxes

Net sales tax collections and the equivalent ad valorem tax rates on a Fiscal Year basis are as follows.

Municipal Sales Tax **Table 6**

FY Ended 9/30	Sales Tax Collected ($)[1]	Ad Valorem Tax Levy ($)[1, 2]	% of Ad Valorem Tax Levy	Net Taxable Assessed Valuation ($)[3]	Equivalent Tax Rate ($)
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	232,348,127	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
2010	223,475,321	405,896,458	55.06	72,743,219,689	0.3072
2011	236,818,058 [4]	396,621,452[5]	59.71	71,007,546,958	0.3335
2012[6]	254,761,377	395,565,825	--	70,698,850,168	--

(1) Includes the City's General Fund component of sales tax at the rate of 1%. Also includes 1/8 of 1% sales and use tax authorized by voters in a May 6, 2000, May 7, 2005, and November 2, 2010 elections, to fund various venue projects, including park land acquisition and improvements over the Edwards Aquifer and linear parks along the Salado and Leon Creeks. Beginning in Fiscal Year 2005, also includes the Advanced Transportation District revenues received by the City from the 1/4 of 1% Advanced Transportation District sales tax levied within the City (of which the City receives 25% of such total taxes collected). Only the revenues derived from the City's 1% sales and use tax are eligible to be used for Lease Payments. In addition to the foregoing, the City has called an election to be held on November 6, 2012 seeking voter approval to impose and collect a 1/8 of 1% sales and use tax to fund two early childhood education centers of excellence and an early childhood education program within the City. The tax revenue would be combined with State funds, allowing for full-day pre-kindergarten programs. If approved, this sales and use tax increase will bring the cumulative sales and use tax rate imposed and collected within the City by all governmental entities for all purposes at 8.25%, which is the maximum rate currently permitted under applicable State law. Revenues derived from the other sales taxes (other than the 1%) described in this footnote are restricted to be used for certain purposes that are not related to the City's Convention Center Facilities.

(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.

(4) Of total taxes of $483,197,137 deposited to the General Fund, as evidenced in Table 4, $200,243,680 was derived from these Sales Tax collections imposed for general municipal purposes.

(5) Of total taxes of $483,197,137 deposited to the General Fund, as evidenced in Table 4, $239,760,979 was derived from these ad valorem tax collections levied for maintenance and operating purposes.

(6) Unaudited; Budget re-estimate.

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Capital Leases

Equipment Leases. The City has entered into various lease purchase agreements for the acquisition of various fire trucks, printers and related components, an inventory theft detection system, hybrid vehicles, refuse collection containers, refuse collection trucks (diesel and compressed natural gas), brush grappler trucks, brush tractor/trailer combinations, personal protective equipment, energy/water savings conservation improvements, in-car police video equipment, and various emergency medical services equipment. Shown below is the gross value of the assets at September 30, 2011. Payments on each of the lease purchases will be made from budgeted annual appropriations 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, 2011.

Debt Obligations – Capital Leases Payable **Table 7**

Description	Termination Date	Minimum Lease Payment	Interest Amount	Total Minimum Lease Payments
19 Pumper Trucks	11/1/2011	$ 387,698	$ 3,459	$ 391,157
Library Theft Detection System Phase I	8/1/2012	214,561	4,860	219,421
Library Theft Detection System Phase II	2/1/2013	268,906	8,844	277,750
Automated Refuse Collection Containers	2/1/2013	3,231,372	83,634	3,315,006
Hybrid Vehicles	5/1/2013	232,090	7,604	239,694
Automated Sideload and Manual Rearload Refuse Collection Trucks	11/1/2013	412,835	19,168	432,003
Library Theft Detection System Phase III	2/1/2014	375,787	20,339	396,126
770 Set of Personal Protective Equipment	2/1/2014	550,593	29,799	580,392
3 Printers & Related Components	5/1/2014	298,855	13,019	311,874
17 Refuse Collection Trucks, 5 Brush Grappler Trucks, and 10 Brush Tractor/Trailers	11/1/2015	3,476,617	308,029	3,784,646
15 Automated Refuse Collection Trucks (CNG)	2/1/2016	2,560,222	266,801	2,827,023
42 Automated Refuse Collection Trucks	5/1/2016	7,303,275	611,620	7,914,895
In-Car Video Equipment	8/1/2016	5,188,948	310,505	5,499,453
Emergency Medical Services Equipment	8/1/2016	746,400	44,664	791,064
8 Automated Refuse Collection Trucks & 1 Brush Collection Tractor	2/1/2017	943,105	97,217	1,040,322
Energy/water savings conservation improvements (Aviation)	11/1/2026	3,211,418	1,056,109	4,267,527
Energy/water savings conservation improvements (Convention, Sports, and Entertainment Facilities)	11/1/2026	8,780,664	2,839,391	11,620,055
Total		$38,183,346	$5,725,062	$43,908,408

The adopted budget for Fiscal Year 2012 included appropriations for lease purchase arrangements to acquire brush collection trucks, brush tractor/trailer combinations, and refuse collection trucks. The funding for these lease purchase arrangements occurred on June 5, 2012. See "ANNUAL BUDGET ADOPTION – Fiscal Year 2013 Budget Process" for a description of the City's Fiscal Year 2013 Budget.

Real Property Leases. On May 15, 2001, the City became obligated to pay $14,465,000 in lease revenue bonds (the "2001 Lease Revenue Bonds") issued through the City of San Antonio, Texas Municipal Facilities Corporation (the "MFC") to provide funds for the construction of the "Development & Business Services Center Project," a municipal office facility. The City and the MFC entered into a lease whereby the MFC agreed to cause such facility to be built and leased by the City. The lease commenced May 15, 2001 and the City agreed to pay annual lease payments, subject to annual appropriation, sufficient to pay principal and interest on the bonds when due. On March 31, 2010, the MFC delivered its Lease Revenue Refunding Bonds, Series 2010 (the "2010 Lease Revenue Bonds") to refund the callable portion of the 2001 Lease Revenue Bonds to achieve debt service savings. The unrefunded portion of the Series 2001 Lease Revenue Bonds was fully paid at scheduled maturity in 2011 and is no longer outstanding.

On August 10, 2011, the MFC issued its Lease Revenue Bonds, Series 2011 (the "2011 Lease Revenue Bonds"). The proceeds from the 2011 Lease Revenue Bonds were utilized to fund the construction of a new Fire and Police Emergency Dispatch Center, also known as the Public Safety Answering Point ("PSAP") facility located at Brooks City-Base, adjacent to the Emergency Operations Center. See "CITY OF SAN ANTONIO, TEXAS – GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION" attached hereto as APPENDIX B for a description of Brooks

City-Base. Proceeds of the 2011 Lease Revenue Bonds were also used to construct a parking lot for joint use by the new PSAP facility and the City's Emergency Operations Center. The new PSAP facility will provide space to replace and enlarge the existing PSAP facility presently located in the City's Police Headquarters facility located at 214 West Nueva, San Antonio, Texas 78207, which is scheduled for demolition in the Fall of 2012 to make way for a new federal courthouse facility. Similar to the City's Development & Business Service Center project's structure, the City and the MFC entered into a lease agreement whereby the MFC will cause the PSAP facility to be built and leased by the City. The City will make annual lease payments, subject to annual appropriation, sufficient to pay principal and interest on the 2011 Lease Revenue Bonds when due.

The MFC's indebtedness related to the two projects identified above represent separate, distinct, and unrelated financing regimes of the MFC, each secured by and payable from separate sources of security that are unrelated to the other. Additionally, the MFC projects are separate and apart from the Corporation and the Expansion Project. A security source for one debt regime is not available for payment of the other and a default with respect to debt of one financing regime will not directly result in a default of debt incurred under the other. The MFC is permitted under State law to incur additional debt under an existing regime or to create new regimes under which additional, unrelated debt may be incurred.

The table below shows the combined debt service schedule for the 2010 Lease Revenue Bonds and the 2011 Lease Revenue Bonds. In addition to the debt service on those bonds, the lease payments paid by the City include other expenses related to the operation and maintenance of the respective facilities.

MFC Lease Revenue Bonds[1]

FY Ended 9/30	Principal ($)	Interest ($)	Annual Debt Service ($)
2013	1,485,000.00	1,410,456.26	2,895,456.26
2014	1,505,000.00	1,385,356.26	2,890,356.26
2015	1,540,000.00	1,355,256.26	2,895,256.26
2016	1,570,000.00	1,324,456.26	2,894,456.26
2017	1,605,000.00	1,288,206.26	2,893,206.26
2018	1,655,000.00	1,243,131.26	2,898,131.26
2019	1,695,000.00	1,193,481.26	2,888,481.26
2020	1,750,000.00	1,141,825.00	2,891,825.00
2021	690,000.00	1,083,287.50	1,773,287.50
2022	715,000.00	1,059,137.50	1,774,137.50
2023	745,000.00	1,030,537.50	1,775,537.50
2024	775,000.00	1,000,737.50	1,775,737.50
2025	805,000.00	969,737.50	1,774,737.50
2026	840,000.00	935,525.00	1,775,525.00
2027	875,000.00	899,825.00	1,774,825.00
2028	910,000.00	862,637.50	1,772,637.50
2029	950,000.00	821,687.50	1,771,687.50
2030	995,000.00	778,937.50	1,773,937.50
2031	1,040,000.00	731,675.00	1,771,675.00
2032	1,090,000.00	682,275.00	1,772,275.00
2033	1,145,000.00	630,500.00	1,775,500.00
2034	1,200,000.00	573,250.00	1,773,250.00
2035	1,260,000.00	513,250.00	1,773,250.00
2036	1,325,000.00	450,250.00	1,775,250.00
2037	1,390,000.00	384,000.00	1,774,000.00
2038	1,460,000.00	314,500.00	1,774,500.00
2039	1,530,000.00	241,500.00	1,771,500.00
2040	1,610,000.00	165,000.00	1,775,000.00
2041	1,690,000.00	84,500.00	1,774,500.00
	35,845,000.00	24,554,918.82	60,399,918.82

[1]As of September 30, 2012.

Though the MFC is also a special purpose entity created and existing to act on the City's behalf, and its debt obligations are dependent upon the City's annual appropriation of adequate funds to pay the lease obligations under existing leases, it is unrelated to the Corporation and its issuance of the Bonds. The Bonds are not additionally secured by a mortgage on real property, as are the obligations of the MFC. **NO FUNDS OR PROPERTY OF THE**

CORPORATION ARE AVAILABLE TO SUPPORT THE OBLIGATIONS OF THE MFC; NOR ARE FUNDS OR PROPERTY OF THE MFC AVAILABLE TO SUPPORT THE OBLIGATIONS OF THE CORPORATION, INCLUDING THE BONDS. Notwithstanding the foregoing, future debt issues of the City will disclose the Bonds and the City's obligations under the Lease Agreement in a similar manner as the obligations of the MFC are described above.

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

Assessed Valuation [1] **Table 8**

Tax Year 2012 Actual Market Value of Taxable Property		$83,636,807,340
Less:		
Residence Homestead Exemptions - Optional 65 or Older	4,534,045,156	
Residence Homestead Exemptions - Disabled	112,219,200	
Disabled Veterans' Exemptions	188,356,708	
Disabled Veterans' 100% Exemptions	459,067,993	
Historical Property Exemptions	81,155,282	
Freeport Goods Exemptions	467,404,774	
Tax Abatement/Phase-In Exemptions	855,475,502	
Residence Homestead Appraised Value 10% Limitations	46,803,049	
Agricultural Productivity Loss	514,409,042	
Pollution Control Exemptions	61,260,756	
Low Income Housing Exemptions	38,622,802	
Energy Exemptions	6,243,648	
Absolute Value Exemptions	4,405,258,814	
Pro-Rated Exemptions	29,557,369	
Total Exemptions	$11,799,880,095	
Tax Year 2012 Net Taxable Assessed Valuation (100% of Actual Market) [2]		$71,836,927,245

[1] Based on Tax Year 2012 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 20, 2012.
[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 $673,763,722, resulting in a Fiscal Year 2013 loss in ad valorem tax revenue of approximately $3,811,414.

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Debt Payable from Ad Valorem Taxes [1] **Table 9**

Outstanding Ad Valorem Tax Debt (at 9/30/2012)		
General Obligation Bonds	$	1,017,995,000
Combination Tax and Revenue Certificates of Obligation		334,620,000
Tax Notes		32,015,000
Total Gross Outstanding Ad Valorem Tax Debt (at 9/30/2012)	$	1,384,630,000
Less: Self-Supporting Debt [2]		81,347,500
Total Net Debt Payable from Ad Valorem Taxes	$	1,303,282,500
Interest and Sinking Fund Balance at 9/30/11	$	64,146,209
Ratio of Gross Debt to Actual Market Value [3]		1.66%
Ratio of Gross Debt to Net Taxable Assessed Value [3]		1.93%
Ratio of Net Debt to Actual Market Value [3]		1.56%
Ratio of Net Debt to Net Taxable Assessed Value [3]		1.81%
Tax Year 2012 Actual Market Value of Taxable Property [3]	$	83,636,807,340
Tax Year 2012 Net Taxable Assessed Valuation (100% of Actual Market) [3]	$	71,836,927,245
Per Capita 2012 Net Taxable Assessed Valuation [3], [4]	$	51,810
Per Capita Gross Debt [4]	$	999
Per Capita Net Debt [4]	$	940

[1] The State Constitution and the City Charter provide that the ad valorem taxes levied by the City for general purposes and for the purpose of paying the principal of and interest on the City's indebtedness must not exceed $2.50 for each $100 of assessed valuation of taxable property. There is no constitutional or statutory limitation within the $2.50 rate for interest and sinking fund purposes; however, the Texas Attorney General, who must approve the issuance of public securities issued by the City, has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from $1.50 of the foregoing $2.50 maximum tax rate calculated at 90% collections. In addition, Section 1331.051, Texas Government Code, and the City Charter prohibit the total debt of the City from exceeding 10% of the total assessed valuation of property shown by the last assessment roll, and the City Charter excludes (1) any indebtedness secured in whole or in part by special assessments, (2) the debt of any improvement district, and (3) any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof.

The following obligations, among others, may be issued by the City:

- Ad valorem tax-supported debt may be issued to finance capital improvements and to refund obligations previously issued for such purpose. A majority vote of the qualified voters is ordinarily required to authorize the issuance of ad valorem tax-supported debt, other than refunding bonds, certificates of obligation, tax anticipation notes, and public property finance contractual obligations.
- Certificates of obligation may be issued for the purpose of paying contractual obligations incurred in the construction of public works or the purchase of land, materials, and other supplies or services for the City's needs and for professional services without an election except under certain circumstances. The certificates of obligation may be refunded by ad valorem tax-supported bonds without an election. In addition, the City may issue certificates of obligation with a pledge of both tax and revenues derived from the operation of the facility to be acquired, or from any other lawful source, provided that the City otherwise has the right to pledge the revenues involved. Authority for the issuance of certificates of obligation is subject to notice by publication and right of referendum by the voters.
- Contractual obligations are generally issued to finance personal property, and tax anticipation notes may be issued for capital improvements. Both the contractual obligations and tax anticipation notes may be issued and secured by ad valorem taxes, and refunded by ad valorem tax-supported bonds, without an election. The issuance of contractual obligations and tax anticipation notes does not require publication of notice or voter approval. Contractual obligations are limited to 25 years amortization or less; tax anticipation notes are limited to seven years amortization or less.

See "ANNUAL BUDGET ADOPTION – Financial Policies – Long Term Debt Planning" herein.

[2] To maintain this debt as self-supporting, payments will be made from the General Fund, Solid Waste Management Fees, Advanced Transportation District Sales Tax Revenue, Police Confiscated Property Funds, Brooks City-Base Tax Increment Financing Revenue, Golf Course Revenue, Midtown Tax Increment Reinvestment Zone Revenue, Information Technology Assessment Fees, Parking System Revenue, Stormwater Revenue, and Edwards Venue Project Sales Tax Revenue.

[3] Based on Tax Year 2012 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 20, 2012.

[4] Based on the City's Department of Planning and Development Services estimated population of 1,386,547 in 2013.

Tax Data — Table 10

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation [1]	Tax Rate	Tax Levy	Percent Collections Current (%)	Percent Collected Total (%)[2]
2003	2004	$ 44,583,138,927	$ 0.57854	$ 257,931,292	97.96	99.39
2004	2005	46,481,974,620	0.57854	268,916,816	98.32	99.65
2005	2006	49,868,955,425	0.57854	288,511,855	98.43	99.75
2006	2007	56,767,701,702	0.57854	326,326,395	98.43	99.49
2007	2008	65,954,866,793	0.57230	372,822,531	98.41	99.25
2008	2009	72,541,141,480	0.56714	405,009,920	98.30	98.91
2009	2010	72,743,219,689	0.56569	405,896,458	97.90	98.31
2010	2011	71,007,546,958	0.56569	396,621,452	96.95	96.95
2011	2012	70,698,850,168	0.56569	395,565,825	In Process of Collection	
2012	2013	71,836,927,245	0.56569	402,562,900		

[1] Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.
[2] Includes collection of prior years' tax levies in subsequent years.

Tax Rate Distribution — Table 11

Tax Rate	Fiscal Year Ended September 30 2013	2012	2011	2010 [1]	2009 [1]
General Fund	$ 0.35419	$ 0.35419	$ 0.35419	$ 0.35419	$ 0.35564
Interest and Sinking Fund	0.21150	0.21150	0.21150	0.21150	0.21150
Total Tax Rate	$ 0.56569	$ 0.56569	$ 0.56569	$ 0.56569	$ 0.56714

[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.

Principal Taxpayers — Table 12

Name	Type of Property	FY 2013 TAV ($)	% of FY 2013 TAV
H.E. Butt Grocery Company	Retail/Grocery	960,947,836	1.34
VHS San Antonio Partners LP	Hospital/Healthcare	359,635,638	0.50
Toyota Motor Manufacturing Texas, Inc.	Automobile Manufacturer	386,816,780	0.54
Methodist Healthcare System	Hospital/Healthcare	429,042,873	0.60
Wal-Mart Stores, Inc.	Retail/Grocery	380,018,190	0.53
United Services Automobile Association	Insurance/Banking	319,248,740	0.44
Hyatt Regency Hotels	Hotel Chain	306,573,200	0.43
AT&T	Telecommunications	305,186,411	0.42
La Cantera Retail LTD Partnership	Shopping Center	221,968,710	0.31
Marriott Corporation	Hotel Chain	244,869,182	0.34
Total		3,914,307,560	5.45%

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Net Taxable Assessed Valuation for Tax Years 2003-2012 **Table 13**

Tax Year	Fiscal Year Ended 9/30	Net TAV ($)[1]	Change From Preceding Year Amount (%)	Change From Preceding Year Percent (%)
2003	2004	44,583,138,927	--	--
2004	2005	46,481,974,620	1,898,835,693	4.26
2005	2006	49,868,955,425	3,386,980,805	7.29
2006	2007	56,767,701,702	6,898,746,277	13.83
2007	2008	65,954,866,793	9,187,165,091	16.18
2008	2009	72,541,141,480	6,586,274,687	9.99
2009	2010	72,743,219,689	202,078,209	0.28
2010	2011	71,007,546,958	(1,735,672,731)	(2.39)
2011	2012	70,698,850,168	(308,696,790)	(0.43)
2012	2013	71,836,927,245	1,138,077,077	1.61

[1] Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.

Net Taxable Assessed Valuation and Ad Valorem Tax Debt **Table 14**

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation [1]	Ad Valorem Gross Debt	Debt Ratios Percent (%)
2003	2004	$ 44,583,138,927	$ 821,843,108	1.84
2004	2005	46,481,974,620	872,090,124	1.88
2005	2006	49,868,955,425	850,300,000	1.71
2006	2007	56,767,701,702	945,755,000	1.67
2007	2008	65,954,866,793	1,039,105,000	1.58
2008	2009	72,541,141,480	1,148,950,000	1.58
2009	2010	72,743,219,689	1,300,330,000	1.79
2010	2011	71,007,546,958	1,303,345,000	1.84
2011	2012	70,698,850,168	1,384,630,000	1.96
2012	2013	71,836,927,245	1,276,605,000	1.78

[1] Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.

Authorized but Unissued Ad Valorem Tax Debt **Table 15**

Date of Authorization	Improvements	Amount Authorized	Debt Issued To Date [1]	Debt Authorized But Unissued
5/12/2012	Streets, Bridges, and Sidewalks	$337,441,000	$34,547,717	$302,893,283
5/12/2012	Drainage and Flood Control	128,031,000	13,533,258	114,497,742
5/12/2012	Parks, Recreation, and Open Space	87,150,000	16,688,672	70,461,328
5/12/2012	Library, Museum, and Cultural Arts Facilities	29,032,000	3,851,870	25,180,130
5/12/2012	Public Safety Facilities	14,346,000	3,576,696	10,769,304
		$596,000,000	$72,198,213	$523,801,787

[1] Includes a portion of the net reoffering premium in the amount of $9,400,926.98 allocated against voter authorization.

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Classification of Assessed Valuation **Table 16**

	Fiscal Year 2013	% of Total	Fiscal Year 2012	% of Total	Fiscal Year 2011	% of Total	Fiscal Year 2010	% of Total	Fiscal Year 2009	% of Total
Real, Residential, Single-Family	$ 40,755,032,198	48.73	$ 41,126,500,619	49.75	$ 41,545,063,167	50.21	$ 41,874,226,527	49.57	$ 42,379,587,143	50.54
Real, Residential, Multi-Family	6,196,781,784	7.41	5,821,338,741	7.04	5,787,311,586	6.99	5,936,081,386	7.03	5,686,137,117	6.78
Real, Vacant Lots/Tracts	1,406,787,407	1.68	1,458,764,506	1.76	1,465,446,716	1.77	1,507,407,160	1.78	1,551,163,930	1.85
Real, Acreage (Land Only)	1,068,624,445	1.28	1,089,792,617	1.32	1,124,853,425	1.36	1,187,081,271	1.41	1,295,846,206	1.54
Real, Farm and Ranch Improvements	22,598,798	0.03	22,785,007	0.03	24,533,694	0.03	23,083,342	0.03	27,398,518	0.03
Real, Commercial	18,922,368,334	22.62	18,426,277,078	22.29	18,458,843,251	22.31	19,156,215,159	22.67	18,242,464,859	21.76
Real, Industrial	761,012,474	0.91	639,145,703	0.77	641,607,475	0.78	651,574,994	0.77	701,273,377	0.84
Real, Minerals Oil and Gas	-0-	0.00	-0-	0.00	-0-	0.00	-0-	0.00	-0-	0.00
Real and Tangible Personal Utilities	410,219,291	0.49	440,069,158	0.53	468,038,016	0.57	477,303,626	0.56	496,330,676	0.59
Tangible Personal, Commercial	7,300,967,412	8.73	6,810,235,389	8.24	6,607,287,674	7.99	6,968,027,360	8.25	6,835,083,996	8.15
Tangible Personal, Industrial	1,700,256,330	2.03	1,725,024,595	2.09	1,721,566,410	2.08	1,864,069,550	2.21	2,034,128,586	2.43
Tangible Personal, Mobile Homes	88,423,763	0.11	92,189,230	0.11	92,913,065	0.11	90,223,318	0.11	89,492,559	0.11
Real Property, Inventory	250,913,786	0.30	195,932,328	0.24	161,865,139	0.20	197,818,599	0.23	230,207,670	0.27
Special Inventory Tax	347,378,324	0.41	312,008,952	0.38	280,992,548	0.34	306,978,180	0.36	344,646,120	0.41
Exempt Property	4,405,442,994	5.27	4,504,645,727	5.45	4,355,859,409	5.26	4,241,520,992	5.02	3,938,556,910	4.70
Total Assessed Value	$ 83,636,807,340	100.00	$ 82,664,709,650	100.00	$ 82,736,181,575	100.00	$ 84,481,611,464	100.00	$ 83,852,317,667	100.00
Less:										
Residence Homestead Exemptions – Optional 65 or Older	$ 4,534,045,156		$ 4,580,412,027		$ 4,538,144,177		$ 4,504,707,310		$ 4,451,675,460	
Residence Homestead Exemptions – Disabled	112,219,200		120,843,804		123,702,621		124,482,957		137,024,202	
Disabled Veterans' Exemptions	188,356,708		181,092,034		180,551,683		179,241,541		206,549,501	
Disabled Veterans' 100% Exemptions	459,067,993		454,033,961		415,390,159		369,382,470		-0-	
Historical Property Exemptions	81,155,282		75,099,635		56,881,324		63,860,434		56,749,425	
Freeport Goods Exemptions	467,404,774		457,446,014		473,800,266		582,723,688		521,601,167	
Tax Abatement/Phase-In Exemptions	855,475,502		876,490,549		769,829,993		757,817,893		633,584,120	
Residence Homestead Appraised Value 10% Limitations	46,803,049		61,650,127		126,736,441		236,319,657		574,509,580	
Agricultural Productivity Loss	514,409,042		516,838,960		523,579,819		551,206,047		583,159,038	
Pollution Control Exemptions	61,260,756		64,178,415		65,649,478		68,742,411		74,761,059	
Low Income Housing Exemptions	38,622,802		37,931,985		40,234,832		24,762,410		56,171,391	
Energy Exemptions	6,243,648		6,055,667		6,055,667		5,548,644		30,225,777	
Absolute Value Exemptions	4,405,258,814		4,504,452,752		4,355,677,994		4,241,335,152		3,938,383,660	
Pro-Rated Exemptions	29,557,369		29,333,552		52,400,163		28,261,161		46,781,807	
Total Exemptions	$ 11,799,880,095		$ 11,965,859,482		$ 11,728,634,617		$ 11,738,391,775		$ 11,311,176,187	
Net Taxable Assessed Valuation [1]	$ 71,836,927,245		$ 70,698,850,168		$ 71,007,546,958		$ 72,743,219,689		$ 72,541,141,480	

[1] Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.

Assessed Valuation and Tax Rate of Overlapping Issuers **Table 17**

Governmental Subdivision	FY 2012 Gross Assessed Valuation [1]	FY 2012 Net Taxable Valuation [1]	FY 2012 Tax Rate
Alamo Colleges	$110,354,017,388	$100,544,879,731	$ 0.141623
Alamo Heights Independent School District	5,485,934,815	5,235,126,945	1.198000
Bexar County	110,368,071,826	97,231,353,155	0.296187
Bexar County Road & Flood Control	110,368,040,647	101,954,261,930	0.030679
Bexar County Hospital District d.b.a. University Health System	110,354,017,388	102,930,056,506	0.276235
East Central Independent School District	2,285,779,889	1,975,051,930	1.296000
Edgewood Independent School District	1,325,481,135	939,587,469	1.407400
Harlandale Independent School District	1,517,766,985	1,215,918,955	1.544400
Judson Independent School District	6,973,082,812	6,106,589,341	1.430000
North East Independent School District	31,222,317,046	28,118,780,351	1.402900
Northside Independent School District	37,118,331,486	33,132,273,489	1.375500
San Antonio Independent School District	15,352,791,718	12,287,350,598	1.307600
San Antonio River Authority	110,354,017,388	100,801,592,032	0.020000
Somerset Independent School District	281,445,793	233,210,244	1.278000
South San Antonio Independent School District	1,537,000,326	1,236,831,750	1.454900
Southside Independent School District	701,113,491	552,006,629	1.368900
Southwest Independent School District	2,395,496,373	1,506,777,450	1.222600

[1] Assessed taxable valuation and tax rate data provided by Bexar Appraisal District as of September 15, 2011.

THE CITY'S HOTEL OCCUPANCY TAX

Anticipated Source of Payment of the Lease Payments

Though it is not obligated to do so, and the other general revenues of the City are available for such purpose, the City has planned that the Lease Payments under the Sublease and the Operating Expenses related to the Convention Center Facilities for their intended purpose, obligated to remain to be paid by the City under the Primary Lease, will be paid by the City from revenues derived principally, but not solely, from its imposition and collection of a 9% hotel occupancy tax (the "Hotel Occupancy Tax" or "HOT") which is consistent with the current Convention Center Capital Improvement Plan (see "THE CITY CONVENTION CENTER – Amendment to the Convention Center Capital Improvement Plan").

General Description of Hotel Occupancy Tax

Pursuant to the provisions of the HOT Act, the City is authorized to impose the Hotel Occupancy Tax on persons, based upon the price paid, for the use or possession, or right of use or possession, of rooms ordinarily used for sleeping at any hotel in the City. Currently, the Hotel Occupancy Tax may be imposed only for rooms for which the cost of occupancy is at the rate of $2 or more per day. The municipal Hotel Occupancy Tax of the City currently equals 9% of the consideration paid to the hotel for the right to use or possess the room. Other provisions of the Texas Tax Code authorize the State, and counties meeting certain specified qualifications, to impose similar hotel occupancy taxes; therefore the total hotel occupancy tax in San Antonio for all entities including the City is 15%. Under the HOT Act, "hotel" means any building or buildings in which the public may, for consideration, obtain sleeping accommodations. The term includes hotels, motels, tourist homes, tourist houses, tourist courts, lodging houses, inns, rooming houses, bed and breakfasts, or other buildings where rooms are furnished for a consideration, but does not include hospitals, sanitariums, or nursing homes. The consideration paid for the room, for purposes of the HOT Act, includes the cost of the room only if the room is one ordinarily used for sleeping, and does not include the cost of any food served or personal services rendered to the occupant of such room not related to the cleaning and readying of such room for occupancy. To be subject to the Hotel Occupancy Tax, the occupant's use, possession, or right to the use or possession of the sleeping room must be for a period of less than 30 consecutive days. Certain housing facilities owned or leased and operated by an institution of higher education are excluded. These amendments are not expected to have any

significant impact on the amount of Hotel Occupancy Taxes received by the City. Hotels and other eligible vendors of sleeping accommodations are required to collect the Hotel Occupancy Tax at the time the room charges are received from patrons. The Hotel Occupancy Tax collections for the City are to be turned over to the City with reporting forms in the next succeeding month. Penalties and interest are imposed by the City for delinquent payments and the HOT Act provides for enforcement of collection of the Hotel Occupancy Tax.

City HOT Levy, Limitations on Use, and Recent Performance

City Levy. The City currently levies a HOT at the aggregate rate of 9% of the price paid for a room in a hotel, imposed thereby pursuant to the HOT Act and Ordinance No. 78834, adopted by the City Council on September 30, 1993, and effective as of January 1, 1994, and is comprised of the "General HOT" and the "Expansion HOT". The General HOT is the HOT imposed by the City at the rate of 7% of the price paid for a room in a hotel. The Expansion HOT is the 2% HOT imposed by the City (in addition to the General HOT) on the price paid for a room in a hotel, the revenue from which is restricted by law to be used only to pay costs and debt service related to an expansion of the City's convention center facilities.

Limited Expenditures of HOT Revenues. State law requires that revenue from the General HOT be used only to promote tourism and the convention and hotel industry (both operational and capital expenditures), with not more than 15% of collections for history and preservation programs and restoration projects and not more than 15% for the arts. Under applicable State law, Lease Payments and the City's payment of Operating Expenses are permitted expenditures of the revenues of the General HOT. Further limitations are imposed on the use of the Expansion HOT, restricting the use thereof to the expansion of an existing convention center facility and the payment of certain revenue and/or revenue and refunding bonds in relation thereto (a permitted use of which includes the Lease Payments). Prior to utilizing the Expansion HOT for a permitted purpose, the City must have adopted a capital improvement plan that provides for the expansion of an existing convention center facility (or amend an existing capital improvement plan to provide for such expansion). Pursuant to these limitations, the City amended the Convention Center Capital Improvement Plan to provide for the Expansion Project (which amendment permits the use of the Expansion HOT for Lease Payments).

Recent HOT Collections. For the 2011 Fiscal Year San Antonio's General HOT collections totaled $48,974,388 and the Expansion HOT collections totaled $13,992,683. HOT Revenues in Fiscal Year 2012 are projected to increase from Fiscal Year 2011 by 5.9% to $51,879,999 and for the period ending June 30, 2012 are up 8.8% in comparison to the same period from the prior year, based on unaudited data. See Tables 18 and 19 under "THE CITY'S HOTEL OCCUPANCY TAX – Historical HOT Receipts" herein.

Current City Allocation/Application of HOT Revenue

Under the Fiscal Year 2012 Budget, the City's revenues derived from its imposition and collection of the General HOT were approximately spent on the following: 35% to fund the CVB; 24% to pay for operations and maintenance of the Convention Center Facilities; 11% for expenses related to the Alamodome; 0% on expenses related to the Convention Center Hotel; 30% for the arts and historic preservation; and 0% for payment of a portion of the debt service on the Refunded Bonds. 100% of debt service on the Refunded Bonds was paid by the City from its imposition and collection of the Expansion HOT. See "THE CITY'S HOTEL OCCUPANCY TAX – Anticipated Source of Payment of the Lease Payments" for a description of the City policy, adopted by the City Council on September 20, 2012, regarding the City's anticipated expenditure of its HOT collections after issuance of the Bonds and the refunding of the Refunded Bonds.

Outstanding City HOT Debt

Except for the Hotel Bonds, after defeasance of the Refunded Bonds, the City will have no outstanding indebtedness payable from and secured by a lien on and pledge of the HOT Revenues. The "Hotel Bonds", defined to mean, together, the $129,930,000 "City of San Antonio, Texas Convention Center Hotel Finance Corporation Contract Revenue Empowerment Zone Bonds, Series 2005A" and the $78,215,000 "City of San Antonio, Texas Convention Center Hotel Finance Corporation Contract Revenue Bonds, Taxable Series 2005B", issued for the purpose of providing proceeds for construction of the Convention Center Hotel, are secured by multiple sources of revenues, including Convention Center Hotel operating revenues, sales and use taxes generated at the Convention Center Hotel and Hotel Occupancy Taxes generated at the Convention Center Hotel that are collected by the State but rebated to the City through March of 2018, City HOTs generated at the Convention Center Hotel, and (if needed) the Expansion HOT

Revenues. Remaining annual debt service on the Hotel Bonds ranges from $12,812,014 to $15,697,500. To date, Convention Center Hotel operating revenues have been sufficient to pay all debt service on the Hotel Bonds.

On-Line Travel Company Litigation

The City's class-action lawsuit against on-line travel companies ("OTCs"), including Hotels.com, Expedia and Travelocity, is based on the failure of these companies to remit hotel occupancy taxes based on the wholesale price the OTCs pay hotels for the room, prior to the room being marked up by the OTCs for sale to consumers at higher prices. In 2009, the federal court and a unanimous jury found the OTCs were responsible for collecting the hotel occupancy taxes on the higher price and remitting the same amount, based on evidence showing the OTCs charged customers higher, retail prices for hotel rooms, but remitted the hotel occupancy taxes on the lower wholesale prices. The jury found the OTCs owed $20 million in past taxes and the judge ordered an additional $20 million be added for penalty and interest. The City has asked the judge to reconsider how penalty and interest is calculated because the City maintains that the penalty and interest owed by the OTCs should be $40 million and not $20 million. Separately, the OTCs have asked the judge to reconsider his entire opinion, arguing a similar case by Houston that was lost on summary judgment should be binding on the San Antonio verdict. The court is likely to rule on various motions in the coming months, after which an appeal by the defendants is expected. Historical and projected HOT collections do not reflect this favorable ruling.

Historical HOT Receipts

Expansion Hotel Occupancy Tax Revenues – 2% Collection Rate [(1), (2)] **Table 18**

	Fiscal Year Ended September 30				
Months	2008 ($)	2009 ($)	2010 ($)	2011 ($)	2012 ($)*
October	1,153,781.77	1,105,104.00	1,034,395.43	1,142,998.23	1,035,015.14
November	1,112,537.74	1,404,164.29	914,985.38	942,319.20	1,069,700.57
December	1,083,578.11	1,158,531.14	762,383.14	909,689.71	1,017,220.29
January	783,742.56	682,254.57	887,841.43	963,399.43	1,084,443.71
February	1,333,594.39	770,250.29	1,178,089.71	1,090,359.43	1,110,223.71
March	1,564,302.24	1,299,564.86	1,411,690.86	1,477,886.00	1,674,850.00
April	1,422,052.89	1,689,864.00	1,259,756.29	1,286,880.83	1,324,381.57
May	1,601,479.77	1,216,005.14	1,103,036.51	1,174,451.11	1,214,534.70
June	1,436,207.68	654,148.86	1,210,160.68	1,256,431.47	1,372,233.74
July	1,338,640.50	1,212,577.48	1,525,328.15	1,471,310.17	1,535,316.64
August	1,143,946.52	1,397,157.39	1,097,669.22	1,132,596.12	1,289,000.57
September	1,229,267.88	477,021.23	889,004.15	1,144,360.86	1,095,936.21
	15,203,132.05	13,066,643.25	13,274,340.95	13,992,682.56	14,822,856.85

* Unaudited; Budget re-estimate.

(1) Collections represent reported revenue as displayed in the CAFR and include accruals which are an estimate of future collections. Fiscal Year 2008 – Fiscal Year 2010 have been restated to show reported amounts.

(2) The proceeds from the Expansion HOT are pledged to the payment of the debt service requirements on the Hotel Bonds to the extent the other sources are determined to be insufficient.

Source: City of San Antonio, Department of Finance.

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General Hotel Occupancy Tax Revenues – 7% Collection Rate [(1), (2)] — Table 19

Month	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012 *
October	$ 2,008,478.20	$ 1,885,344.21	$ 1,821,956.26	$ 3,058,231.18	$ 3,129,247.90	$ 4,038,236.21	$ 3,867,864.00	$ 3,620,384.00	$ 4,000,493.81	$ 3,622,553.00
November	2,860,273.53	2,711,127.76	3,741,194.28	3,008,473.58	4,157,839.11	3,893,882.08	4,914,575.00	3,202,448.84	3,298,117.19	3,743,952.00
December	2,143,765.32	2,372,587.93	2,425,948.12	3,637,021.70	4,305,321.60	3,792,523.40	4,054,859.00	2,668,341.00	3,183,914.00	3,560,271.00
January	2,070,585.36	1,943,197.79	1,916,179.92	2,689,800.16	3,272,723.64	2,743,098.95	2,387,891.00	3,107,445.00	3,371,898.01	3,795,553.00
February	1,890,112.41	2,377,800.48	1,964,355.05	2,728,401.20	2,903,187.20	4,667,580.35	2,695,876.00	4,123,314.00	3,816,257.99	3,885,783.00
March	2,712,203.84	2,766,311.72	3,311,555.63	3,690,470.56	3,230,295.52	5,475,057.84	4,548,477.00	4,940,918.00	5,172,601.00	5,861,975.00
April	4,175,553.58	4,412,339.92	4,796,075.25	5,165,078.46	6,030,214.17	4,977,185.13	5,914,524.00	4,409,147.00	4,504,082.89	4,635,335.48
May	3,677,793.70	4,449,886.45	4,638,737.56	5,270,886.33	5,656,128.15	5,605,179.21	4,256,018.00	3,860,627.80	4,110,578.87	4,250,871.44
June	3,113,104.21	3,117,312.40	4,112,971.41	4,622,917.29	4,353,297.99	5,026,726.87	2,289,521.00	4,235,562.37	4,397,510.15	4,802,818.10
July	3,331,068.00	2,988,183.23	4,156,221.69	4,499,528.11	4,399,462.27	4,685,241.74	4,244,021.17	5,338,648.51	5,149,585.59	5,373,608.23
August	3,685,549.51	3,724,446.47	4,350,928.21	4,553,589.76	5,222,071.57	4,003,812.82	4,890,050.87	3,841,842.27	3,964,086.41	4,511,502.00
September	3,046,118.84	3,298,020.05	3,030,334.62	2,709,843.21	3,034,404.00	4,302,437.57	1,669,574.32	3,111,514.51	4,005,263.00	3,835,776.74
	$34,714,606.50	$36,046,558.41	$40,266,458.00	$45,634,241.54	$49,694,193.12	$53,210,962.17	$45,733,251.36	$46,460,193.30	$48,974,388.91	$51,879,998.99

* Unaudited; Budget re-estimate.
(1) The Hotel Bonds are secured by a lien on and pledge of that portion of the 7.00% General HOT collected at the Convention Center Hotel. Otherwise, such revenues are unencumbered after defeasance of the Refunded Bonds.
(2) Collections represent reported revenue as displayed in the CAFR and include accruals which are an estimate of future collections. FY 2003 – FY 2007 have been restated to match CAFR amounts.
Source: City of San Antonio, Department of Finance.

Hotel Occupancy Tax – Top Ten Hotels [(1)] — Table 20

	Fiscal Year Ended September 30									
	2008		2009		2010		2011		2012[(2)]	
	Rooms	Total Tax Paid	Rooms	Total Tax Paid	Rooms	Total Tax Paid	Rooms	Total Tax Paid	Rooms	Total Tax Paid
Grand Hyatt*	1,003	$1,261,849	1,003	$3,160,453	1,003	$4,190,708	1,003	$4,373,928	1,003	$3,446,303[(3)]
Marriott Rivercenter*	1,000	4,001,864	1,000	3,714,766	1,000	4,018,766	1,000	4,217,994	1,000	3,324,189
Hyatt Regency *	633	2,557,136	633	2,383,771	633	2,368,941	633	2,330,719	633	1,939,342
Westin La Cantera Resort***	508	2,213,674	508	1,593,314	508	1,799,198	508	1,877,113	508	1,842,636
Marriott Riverwalk*	502	2,109,716	502	1,930,534	502	2,206,423	502	2,443,024	502	1,805,462
Westin Riverwalk*	474	2,087,370	474	1,947,388	474	2,010,035	474	2,350,083	474	1,776,452
Hyatt Hill Country Resort**	500	2,691,633	500	1,979,915	500	2,010,045	500	2,179,964	500	1,706,940
Hilton Palacio Del Rio*	481	2,141,006	481	1,772,702	481	2,076,226	481	1,989,974	481	1,640,980
Omni La Mansion Del Rio*	337	1,639,414	337	1,290,898	337	1,510,371	337	1,544,362	337	1,261,876
Hotel Contessa*	265	1,334,156	265	1,012,189	265	1,288,078	265	1,323,439	265	924,709
Totals	5,703	$22,037,818	5,703	$20,785,930	5,703	$23,478,791	5,703	$24,630,600	5,703	$19,668,889

* These hotels are within walking distance of the Henry B. Gonzalez Convention Center.
** This hotel is near SeaWorld San Antonio Adventure Park.
*** This hotel is near the Six Flags Fiesta Texas Amusement Park.
(1) Represents approximately 12.97% of total rooms available in the City and approximately 39.12% of the City's Hotel Occupancy Tax Receipts for FY 2011.
(2) Unaudited collections through July 31, 2012; includes Budget Projections for August and September 2012.
(3) See Footnote 1 to "Table 19 – General Hotel Occupancy Tax Revenues – 7% Collection Rate" regarding the HOTs pledged as security for the Hotel Bonds.
Source: City of San Antonio, Department of Finance.

Hotel Developments

The pace of hotel room expansion for the last five years displays considerable confidence on the part of investors in the potential of the San Antonio regional lodging industry. From 2007 to 2012, room supply in the San Antonio market area increased by more than 25%, one of the strongest room supply increases among United States city destinations.

San Antonio Hotel Occupancies and Average Daily Rates/History [1] **Table 21**

Calendar Year	Room Count [2]	Increase/ Decrease (%)	Average Daily Room Rate ($)	Increase/ Decrease (%)	Hotel Occupancy (%)	Increase/ Decrease (%)
2003	32,298	--	82.00	--	63.0	--
2004	32,432	0.4	83.85	2.3	63.6	1.0
2005	32,946	1.6	88.72	5.8	67.9	6.8
2006	33,543	1.8	97.14	9.5	68.2	0.4
2007	34,862	3.9	101.68	4.7	65.9	(3.4)
2008	37,919	8.8	106.27	4.5	64.1	(2.7)
2009	40,406	6.6	95.48	(10.2)	56.2	(12.3)
2010	43,307	7.2	95.85	0.4	58.2	3.6
2011	43,979	1.6	95.65	(0.2)	61.0	4.8
2012[3]	44,247	--	98.53	--	66.7	--

[1] According to Smith Travel Research ("STR") historical report dated January 18, 2012. STR is the lodging industry's leading information and data provider and maintains the most comprehensive database of hotel performance information nationwide. Information is based on hotels in the San Antonio market. Information is subject to adjustment as hotels submit adjusted data and/or additional hotels begin participating in the STR survey with actual data replacing estimated data.
[2] Based on end of year historical reports from STR.
[3] Year to date through July 2012.

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 the City 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 United States 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 the 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 the San Antonio Water System ("SAWS") ability to supply water to its customers for primary needs.

In 2007, the Texas Legislature passed Senate Bill 3 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 approximately 45% 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 an Edwards Aquifer Recovery Implementation Program ("EARIP") for the Edwards Aquifer region. The EARIP is being undertaken in coordination with United States 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. On November 7, 2011, the EARIP steering committee and stakeholders endorsed the final draft of a Habitat Conservation Plan ("HCP"), an Implementing Agreement, and a Funding and Management Agreement. The stakeholders and the members of the steering committee have reached broad consensus on the fundamental elements and associated details of a multi-year adaptive management plan which will form the foundation of the HCP in support of a desired Incidental Take Permit with a term of 15 years. To fund the HCP, it was determined by the EARIP to impose fees on pumpers of Edwards Aquifer groundwater. These fees appear as a pass through on SAWS' bills. The HCP, its Implementing Agreement, and related documents were approved by the SAWS Board on November 1, 2011 and by the governing bodies of all other participants in December 2011. The documents have been submitted to the United States Fish and Wildlife Service for review and consideration. For more information on the EARIP process, see "EDWARDS AQUIFER RECOVERY IMPLEMENTATION PROGRAM" in the Official Statement of the City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2012 available on EMMA.

Aquifer Management Plan

The City established a proactive Aquifer Management Plan to manage the region's water resources during periods of drought. Established by City ordinance, the Aquifer Management Plan restricts water used based on specific levels of the Edwards Aquifer. The City approved the following aquifer level triggers in 2009.

Year Round — Year round restrictions are in effect when the Edwards Aquifer level is above 660 feet mean sea level at the monitored well. During year round watering restrictions, SAWS customers are permitted to water landscape with an irrigation system or sprinkler any day of the week between the hours of 8 p.m. and 10 a.m.

Stage One — Stage One restrictions begin when the Edwards Aquifer level drops to 660 feet mean sea level at the monitored well. During Stage One restrictions, SAWS pumping allocation from the Edwards Aquifer is reduced by 20%. SAWS customers are limited to one-day-per week landscape watering with an irrigation system or sprinkler based on the last number of the customer's street address and are only allowed to water before 10 a.m. and after 8 p.m.

Stage Two — Stage Two restrictions begin when the Edwards Aquifer level drops to 650 feet mean sea level at the monitored well. During Stage Two restrictions, SAWS pumping allocation from the Edwards Aquifer is reduced by

30%. SAWS customers are limited to one-day-per week landscape watering with an irrigation system or sprinkler based on the last number of the customer's street address and are only allowed to water from 3 a.m. to 8 a.m. and from 8 p.m. to 10 p.m. on their assigned day.

Stage Three — Stage Three restrictions begin when the Edwards Aquifer level drops to 640 feet mean sea level at the monitored well and the total supply of water to SAWS from the Edwards Aquifer and other available sources is insufficient to meet customer demand while complying with applicable regulations governing water supply withdrawals. During Stage Three restrictions, SAWS pumping allocation from the Edwards Aquifer is reduced by 35%. SAWS customers are limited to landscape watering with an irrigation system or sprinkler once every other week based on the last number of the customer's street address and are only allowed to water from 3 a.m. to 8 a.m. and from 8 p.m. to 10 p.m. on their assigned day.

Stage Four — Stage Four restrictions begin when the Edwards Aquifer level drops to 630 feet mean sea level at the monitored well; after a 30-day monitoring period once Stage Three is declared; and the total supply of water from the Edwards Aquifer and other available water sources to SAWS is insufficient to meet customer demand while complying with applicable regulations governing water supply withdrawals. During Stage Four restrictions, SAWS pumping allocation from the Edwards Aquifer is reduced by 40%. SAWS customers are limited to landscape watering with an irrigation system or sprinkler once every other week based on the last number of the customer's street address and are only allowed to water from 3 a.m. to 8 a.m. and from 8 p.m. to 10 p.m. on their assigned day. Also during Stage Four, a drought surcharge is assessed on all accounts for water used or assumed to be used for landscape irrigation. The surcharge 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.

Due to varying weather patterns, over the past two years, the City has been in and out of drought restrictions based on the level of the Edwards Aquifer. The City is currently in Stage Two restrictions. For additional information on the various levels of drought restrictions and current level of the Edwards Aquifer, see www.saws.org.

Bexar Metropolitan Water District

Except for information specifically pertaining to SAWS or the City, the information in this section was made publically available by the Bexar Metropolitan Water District ("BexarMet") prior to its dissolution. Neither SAWS nor the City has verified the accuracy or completeness of information relating to BexarMet operations or the financial results hereinafter described.

BexarMet was created by the 49th Texas Legislature in 1945, to serve anticipated growth in Bexar County. From an initial account base of 4,765 primarily residential accounts, it grew to more than 92,000 residential and commercial accounts served in 2011. Over the past few years, repeated customer complaints about-inadequate service, alleged mismanagement, and excessive rates resulted in legislative intervention in 2007, through the enactment of House Bill 1565, by the 80th Texas Legislature which mandated various operational and financial audits of BexarMet along with the creation of the Joint Committee on Oversight of the Bexar Metropolitan Water District (the "Oversight Committee") to monitor operations, management, and governance of BexarMet. Attempts to implement legislative remedies concerning BexarMet operations during the 81st Texas Legislative Session were unsuccessful and monitoring by the Oversight Committee continued through the start of the 82nd Texas Legislative Session in January 2011. During that time, BexarMet dismissed its General Manager for failing to disclose an indictment for conduct alleged to have occurred at his prior place of employment and unrelated to BexarMet operations. Additionally, allegations were made that BexarMet was misstating certain revenues recognized in its 2010 interim preliminary unaudited financial statements. To remove any appearance of impropriety, the governing body of BexarMet (the "BexarMet Board") hired an external forensic auditor to review the claims. The revenue entries at issue were reversed during the completion of the final audit, and BexarMet received an unqualified opinion in its final annual audit. As disclosed in its preliminary financial statements and in the final 2010 audit, due to abnormally high rainfall during the 2010 Fiscal Year, BexarMet revenues were down approximately 10%, which resulted in BexarMet failing to maintain its debt service coverage ratio as required by its authorizing orders for its debt obligations. In anticipation of the potential debt service coverage ratio shortfall, the BexarMet Board, with the assistance of an outside rate consultant, expedited its review of its existing rates and rate structure, and diligently worked to formulate a new rate structure to provide sufficient revenues to meet its covenanted rate coverage requirements and maintain its capital improvement plan, while balancing the impact on its ratepayers. The new rate structure was

adopted with implementation of a 7% increase on September 1, 2010. BexarMet anticipated that additional budget cutting measures coupled with the new rates and additional revenues generated thereby, would restore its fiscal health. In addition to the foregoing, and during this time, BexarMet continued to report to the Oversight Committee and worked diligently to improve its operations and financial position.

For Fiscal Year ended April 30, 2011, according to the records released by BexarMet, BexarMet realized a record amount of gross revenues, ended the Fiscal Year with a debt service coverage ratio of 1.57, and received an unqualified opinion on its 2011 audited financial statements.

At the beginning of the 82nd Texas Legislative Session, the Oversight Committee recommended that two bills be passed. In May 2011, the 82nd Texas Legislature enacted Senate Bill 341 ("SB 341"). SB 341 establishes several key measures including the immediate monitoring and review of BexarMet operations by the Texas Commission on Environmental Quality ("TCEQ"). The primary component of SB 341, however, required the conduct of an election (the "Election") by BexarMet ratepayers to vote on the dissolution of BexarMet and consolidation with SAWS. The Election was held on November 8, 2011 and BexarMet ratepayers voted in favor of dissolution (9,047 votes for versus 3,172 votes against).

These results were canvassed by the BexarMet Board and certified to the Texas Secretary of State on November 18, 2011. The last prerequisite to the assumption of operational control and management of BexarMet by SAWS was preclearance of the Election results by the United States Department of Justice, which was received on January 27, 2012. The City commenced assumption procedures on January 28, 2012. SAWS, acting by and through the City, has taken action to accommodate the assumption of BexarMet in accordance with the requirements and specifications of SB 341. On October 20, 2011, the City Council adopted an ordinance creating a "special project," as authorized by SB 341 and pursuant to SAWS' senior lien bond ordinances, where the assumed BexarMet will reside as a segregated component unit of SAWS until full integration into the SAWS system occurs within the timeframe specified by SB 341. The City, pursuant to a bond validation suit filed under Chapter 1205, Texas Government Code, as amended (Cause No. D-1-GV-12-000115, 410th District Court, Travis County, Texas), received judicial validation of this position at a trial held on March 5, 2012 when the trial court entered a final judgment granting the City all relief requested thereby.

Pursuant to SB 341: (a) the term of each Director of BexarMet expires on the date the Election results are certified to the Secretary of State of the State of Texas; (b) SAWS assumes control of the operation and management of BexarMet on the date the Election results are certified to the Secretary of State of the State of Texas; (c) not later than the 90th day after the date the Election results are certified to the Secretary of State of the State of Texas, the TCEQ, in consultation with the Oversight Committee, must transfer or assign to the SAWS all: (1) rights and duties of BexarMet, including existing contracts, duties, assets, and obligations of BexarMet, (2) files, records, and accounts of BexarMet, including those that pertain to the control, finances, management, and operation of BexarMet, and (3) permits, approvals, and certificates necessary to provide water services; (d) to the extent that a transfer of an item requires the approval of a state agency, the state agency must grant approval without additional notice or hearing; and (e) after the TCEQ has transferred the property, assets, and liabilities as prescribed by this section, the TCEQ will enter an order dissolving BexarMet. On May 30, 2012, the TCEQ entered an order finally dissolving BexarMet in accordance with the provisions of SB 341. Information filings for the former BexarMet remain available on the MAC (defined herein) website under the City's listings as its "Water System Special Project."

SB 341 states that its intent is not to enhance or harm the position of a party that has contracted with BexarMet and no law or charter provision may be construed to limit the SAWS performance of an obligation under a contract transferred or assigned to SAWS as a result of the dissolution of BexarMet, if revenue from the contract was pledged wholly or partly to pay debt service on revenue bonds approved by the Texas Attorney General.

Within the past five years, BexarMet has made, in addition to its requisite annual filings, periodic material event notice filings with EMMA concerning the following matters: enactment of SB 341; covenant default under a direct-pay letter of credit with Wells Fargo Bank, National Association supporting its commercial paper program; covenant defaults under bond documentation, including failure to meet debt service coverage requirements; material litigation; and termination of an existing interest rate hedging agreement. In addition, BexarMet has timely made its annual disclosure filings during this period, with the exception of its requisite filing for the Fiscal Year ending April

30, 2011 (filed late in two parts on November 14, 2011 and November 17, 2011, respectively). BexarMet filed notice with EMMA of this late filing on November 29, 2011.

BexarMet's most recent financial statements for the Fiscal Year ended April 30, 2011 and its most recent official statement are available on EMMA and through the MAC as described above.

Please refer to Table 4 herein for historical transfers from SAWS to the City's General Fund; see, also, "San Antonio Water System" in APPENDIX B hereto.

Water Reuse Program

SAWS supplies reuse water to CPS Energy ("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 $2.9 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 regulations, the transmission grid is available on an open access basis to any power provider to supply these loads. CPS currently sells full supply electricity at wholesale prices to the Floresville Electric Light & Power System, the City of Hondo, and the City of Castroville and partial supply to the Bluebonnet Electric Cooperative and the City of Lampasas. In addition, CPS has long-term, future wholesale electric supply arrangements with Central Texas Electric Cooperative, the City of Boerne, the City of Seguin, and the Kerrville Public Utility Board. 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. See also "SAN ANTONIO ELECTRIC AND GAS SYSTEMS - Service Area and Retail Service Rates" in APPENDIX B attached hereto.

The CPS electric system, like other municipal electric systems in the State, operates pursuant 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 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. See also "SAN ANTONIO ELECTRIC AND GAS SYSTEMS — Transmission Access and Rate Regulation" in APPENDIX B attached hereto.

Please refer to Table 4 herein for historical transfers from CPS to the City's General Fund; see, also, "SAN ANTONIO ELECTRIC AND GAS SYSTEMS" in APPENDIX B hereto.

Air Quality

On March 12, 2008, the United States Environmental Protection Agency (the "EPA") revised its national ambient air quality standards ("NAAQS") for ground-level ozone (the primary component for smog), which had last been revised in 1997. This revision was the result of a required periodic review process mandated by the Clean Air Act, as amended in 1990. Prior to the revision, an area met the 1997 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 1997 ozone standard effectively became 0.084 as a result of rounding. For years 2005 through 2007, San Antonio maintained average ozone readings of 0.082 ppm and was, therefore, compliant with the 1997 EPA ground-level ozone standards in effect in March 2008.

The EPA's March 2008 revision changed the NAAQS such that an area's eight-hour ozone average must not exceed 0.075 ppm rather than the previous 1997 standard of 0.084. Had this new standard been in effect in 2008, the City and surrounding Metropolitan Statistical Region would not have complied with the federal requirements regarding ground-level ozone.

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 in 2008, states were required to make recommendations to the EPA no later than March 12, 2009 for areas to be classified attainment, nonattainment, or unclassifiable. In a letter dated March 10, 2009, Texas Governor Rick Perry submitted a list of 27 counties in Texas, including Bexar, that the Governor recommended for designation as nonattainment under this requirement, based on 2005 through 2007 air quality data.

A series of events, however, temporarily stayed implementation of the 2008 ozone standard.

- In May 2008, some 14 states and several environmental groups sued EPA to challenge the 2008 standard as too lax, while several industry members challenged the standard as too stringent. These cases were consolidated in the United States Court of Appeals for the District of Columbia Circuit under Mississippi v. EPA.
- In March 2009, the court granted EPA's request to stay the litigation so the new administration could review the standards and determine whether they should be reconsidered.
- On September 16, 2009, the EPA announced their decision to reconsider the 2008 ozone NAAQS. Commensurate with the proposal to reconsider, the EPA proposed to stay the 2008 standards for the purpose of formalizing nonattainment area designations under it. In a facts sheet published the same day, the EPA wrote, "The stay will allow states and the EPA to prepare for an accelerated ozone designation process for the reconsidered standards to be completed by August 2011."
- On January 6, 2010, the EPA issued a proposed rule intending to strengthen the primary eight-hour ozone standard to a level within the range of 0.060 and 0.070 ppm.
- However, the proposed revisions of the 2008 ozone standard ultimately developed under the reconsideration process begun on September 16, 2009 were withdrawn on September 2, 2011.
- Almost immediately, on September 12, 2011, the EPA filed a "Revised Motion to Govern Further Proceedings" in Mississippi vs, EPA. Continuing the proceedings was required since the court's March 2009 stay was predicated on the EPA's reconsideration of the standard.
- On September 22, 2011, EPA Assistant Administrator Gina McCarthy announced the EPA's decision to pursue nonattainment promulgations based on the 2008 ozone standard, despite the continuance of litigation proceedings in Mississippi vs. EPA.

Under the Clean Air Act, the EPA has two years from the time it revises the NAAQS to complete the designation process. Under this timeline following the revisions to the NAAQS in 2008, Governor Perry's letter was due to EPA

in March 2009 as it was delivered, and final designations for all areas were to be issued no later than March 12, 2010.

According to that original schedule, the March 2010 designations would have been based on data from local monitors for the years 2007 through 2009, inclusive. The San Antonio region (the "Region") shows compliance for the 2008 standard beginning with this three-year record set. In fact, the Region has maintained compliance under the 2008 ozone standard for 2009 (for the years 2007 through 2009), 2010 (for the years 2008 through 2010) and for 2011 (for the years 2009 through 2011).

As a result, when Governor Perry sent a letter dated October 31, 2011 to EPA as an update to the 2009 nonattainment designation recommendations for Texas, his recommendations were based on 2008-2010 data and, hence, no longer included Bexar County.

In a December 9, 2011 response to Governor Perry from EPA, Bexar County is not listed among the Texas counties proposed for nonattainment in spring 2012.

In a Federal Register publication dated December 20, 2011, the EPA continues the dialogue with States and Tribes in preparation for nonattainment designations, stating, "The EPA plans to make final designation decisions for the 2008 Ozone NAAQS in spring 2012."

On April 30, 2012, the EPA issued a final rule that directs key aspects of the implementation of the 2008 Ozone NAAQS. The EPA set those final standards at 0.075 ppm on March 12, 2012.

On August 21, 2012, the City recorded ozone levels high enough to violate the 2008 ground level ozone standard. However, the City will not necessarily become classified as "nonattainment."

It should be noted that the ozone concentrations recorded for 2010 and 2011 listed above, while they do show compliance, are in fact the maximum levels permissible under the 2008 federal ozone standard. Any increase in the average would be grounds for a designation of non-compliance, and signal increased associated health risks to the citizens.

Given the continued and projected strong growth in regional population; given that the Region is poised for strong economic growth which is often associated with additional pollution; and given that the City is downwind of the Eagle Ford Shale Formation, a "new" and growing source of air pollution, vigilance and a proactive stance may be more warranted than in years past.

While the City of San Antonio remains the largest city in the nation currently in compliance with all federal air quality standards, maintaining this "clean air status" is very much at risk because of these new or proposed regulations.

Projected Growth in Population

San Antonio – New Braunfels Metropolitan Statistical Area

COUNTY	CENSUS 2010	TEXAS WATER DEVELOPMENT BOARD 2040 ESTIMATE	% CHANGE 2010-2040
ATASCOSA	44,911	64,844	44%
BANDERA	20,485	54,829	168%
BEXAR	1,714,773	2,222,887	30%
COMAL	108,472	233,964	116%
GUADALUPE	131,533	214,912	63%
KENDALL	33,410	78,690	136%
MEDINA	46,006	68,987	50%
WILSON	42,918	90,187	110%
TOTAL MSA	**2,142,508**	**3,029,300**	**41%**

Although the revisions to the 2008 ozone standard as proposed by the EPA were not adopted, the Clean Air Act requires review of the standard on a five-year cycle. The EPA is currently developing the mandated review, to be finalized by 2013. The EPA has shown a willingness to propose an ozone standard which is more stringent than the 2008 ozone standard.

- The draft revisions to the 2008 ozone standard were not approved by the White House, but were finalized and have been released publicly by the EPA "in the interests of transparency." According to the "Draft National Ambient Air Quality Standards Preamble for Ozone," the EPA intended to revise the 2008 primary ozone standard down to 70 ppb.
- The Region would not now be in compliance had the ozone standard been set at 70 ppb.

A designation of nonattainment for ozone may have a negative effect on new industrial, commercial, and residential development in 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. Note, however, that strategies implemented in a new nonattainment area are tailored to local conditions such as the severity of the local ozone violations. Reduction requirements can often be met through the implementation of a wide variety of strategies.

A recently published federal air quality rule specifically targets reductions in ozone precursor emissions which cross state lines. Much can be written about the influence on San Antonio's airshed from emission sources outside of the Region and even outside of Texas. And much can be written about the difficulties experienced by air quality planners working in a nonattainment setting since, with a nonattainment designation, traditional Clean Air Act requirements including rules for emissions reductions treat only a limited, immediate region such as the Metropolitan Statistical Area, when it is easily demonstrated that emissions from beyond that region play a role in local noncompliance.

Failure by an area to comply with the EPA's rules and regulations regarding ground level ozone by the requisite time could result, in the most serious of scenarios, in the EPA delivering a mandatory Federal Implementation Plan to the region in a move beyond the State's authority, and imposing a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects. 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.

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 including the court's decision in Mississippi vs. EPA, and what impact such steps and any further EPA action may have upon the economy and the business and residential communities in the San Antonio area. External factors such as other litigation, positions of governmental administrations and others that are at this time unknown, will likely affect the outcome of this issue in ways that are not currently discernible.

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 has established a written investment policy, which was most recently amended and adopted on September 20, 2012. 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 State 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, 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 and that participates in the Certificate of Deposit Account Registry Service® network (CDARS®) and as further provided by State 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 United States 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 SEC 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) through (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; 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 State 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.

State 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 record 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

As of June 30, 2012, investable City funds in the approximate amount of $1,201,415,239 were 91.14% invested in obligations of the United States, or its agencies and instrumentalities, 8.79% invested in a money market mutual fund, and 0.07% 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 100.02% 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.

Securities Lending

On April 1, 2010, the City entered into a securities lending agreement with Frost Bank in compliance with State statutes and the City's Investment Policy. This securities lending agreement will end on March 31, 2013, however, the City has an option to renew for two additional one-year periods. The securities lending agreement requires collateral in the form of cash and/or United States government securities equal to 102.0% of the loaned security's market value plus accrued interest for domestic government or agency securities loaned.

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, 2011, the amount of $21,544,573 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.

Information regarding various lawsuits against the City is included at Note 11, entitled "Commitments and Contingencies," of the City's CAFR for the Fiscal Year ended September 30, 2011, attached hereto as APPENDIX D. The City provides the following updated information related to the lawsuits:

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 with a favorable ruling to Plaintiff; but the City's motion for new trial was granted. After a retrial, the jury awarded approximately $600,000 to Plaintiff for the inverse condemnation and statutory condemnation. The City and Plaintiff have appealed. The Fourth Court of Appeals issued its opinion affirming the trial court's ruling awarding Plaintiff $4,600 as compensation for the land taken, but reversed the other portion of the judgment for the remainder of the damages. Plaintiff's motion for rehearing was denied on December 29, 2010. Plaintiff filed a Petition for Review to the Texas Supreme Court,

which was granted. Plaintiff filed its brief on the merits in October of 2011 and the City filed its reply in December of 2011. On March 9, 2012, the Supreme Court accepted the Petition for Review. Oral arguments were heard on September 13, 2012, and the decision is still pending.

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. After decedent refused commands to stop and drop his weapon, and in fear for their safety, the officers shot and killed the decedent. Plaintiffs filed suit against the City and the officers in their individual capacities. If liability is determined, damages could be in excess of $250,000. In December 2011, the Court granted the City's motion for summary judgment. The Defendant officer filed an interlocatory appeal with the Fifth Circuit Court of Appeals on January 27, 2012. If the Fifth Circuit affirms the denial of the officer's motions for summary judgment, the matter will proceed to trial 30 days after that opinion is issued.

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. The driver of the vehicle involved was criminally prosecuted. In February 2012, a jury found her guilty of intoxication manslaughter and she was sentenced to two years in jail. The civil matter has not been set for trial,

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. Damages could exceed $250,000. The City filed a plea to the jurisdiction, which was denied by the trial court. The Fourth Court of Appeals issued its opinion on February 16, 2011, affirming the trial court's denial of the City's plea to the jurisdiction. The case was remanded back to State Court. This case is set for trial on January 22, 2013.

Headwaters Coalition, et. al. v. City of San Antonio. The Headwaters Coalition, owners of the property alleged to contain the headwaters of the San Antonio River, and a local homeowners association filed suit to prevent the use of 2007 bond funds for constructing a drainage system to run down Hildebrand Avenue from Broadway to the San Antonio River, intending to alleviate floodwaters on Broadway. Plaintiffs contend that the wording of the 2007 bond election documents strictly limits the construction of the drainage system to Broadway and that no work may be done off of that street. The City contends that the intent of the 2007 bond proposition election documents was to alleviate the flooding on Broadway and that placement of the drainage system on Hildebrand is the most efficient and cost-effective means of achieving that goal. Alternatively, the City contends that the Hildebrand drainage system plan substantially complies with the 2007 bond proposition documents. A State District Court Judge entered a temporary injunction preventing the City not only from using the 2007 bond proceeds on the Hildebrand system, but prohibiting any further construction work or the expenditures of any other City funds on the Hildebrand drainage system project during the pendency of the suit. The City filed an interlocutory appeal to the Fourth Court of Appeals. On April 25, 2012, the Fourth Court of Appeals issued an opinion reversing the trial court decision, dissolving the temporary injunction, and remanding the case to the trial court for further proceedings. Plaintiffs filed a Motion for Rehearing *En Banc*. On June 20, 2012, the Appellate Court requested a response from the City on this issue. On August 24, 2012, the Court issued an order denying the motion for rehearing. Plaintiffs have 30 days to appeal to the Texas Supreme Court or the case will be remanded to the District Court for trial. Plaintiffs have informed the Fourth Court of Appeals that they will be filing a petition for review with the Texas Supreme Court.

Abilmelch Garcia v. City of San Antonio. Plaintiff claims he was operating his wheelchair at the intersection of East Commerce and Soledad when he was struck by a City of San Antonio Waste Management truck. As a result, he alleges serious and permanent bodily injuries, including loss of both legs. Plaintiff sued under the Texas Tort Claims Act and for Violation of Section 552.003 of the Texas Transportation Code (failure to yield right-of-way to a pedestrian). Plaintiff sued for an unknown amount of money for damages to include past and future medical expenses, physical pain, mental anguish and physical impairment which allegations exceed $250,000. Damages are capped by the Texas Tort Claims Act at $250,000. This case is set for trial on February 11, 2013.

Maria Elena Rodriguez v. City of San Antonio. Plaintiffs sued under the Texas Tort Claims Act for negligence, gross negligence, and wrongful death alleging that a San Antonio Police Officer negligently struck and killed the driver, Plaintiff Davila, in a motor vehicle accident on Loop 1604 on March 7, 2010. Plaintiff Rodriguez was riding as a passenger with Plaintiff Davila. Plaintiff Rodriguez allegedly sustained injuries to both knees and her back, and

alleges damages in excess of $250,000. Damages are capped by the Texas Tort Claims Act at $250,000. This matter was set for trial in February of 2012. After unsuccessfully seeking another continuance of the trial, Plaintiff non-suited the case and refiled as a new matter a week later. Additionally, Plaintiff Rodriguez has filed a separate lawsuit against the manufacturer of the automobile in which she was a passenger. This lawsuit is now set for trial on December 3, 2012.

Barbara Webb, et. al. v. City of San Antonio. Plaintiffs sued under the Texas Tort Claims Act for injuries sustained in a motor vehicle accident. A San Antonio Police Officer was en route to an emergency call when a vehicle turned into the street in front of her. The officer swerved to avoid that vehicle and lost control of her car, moving into the oncoming traffic. The patrol vehicle struck Plaintiffs' car head on. Plaintiff suffered life threatening injuries. This case is in the discovery stages. Damages could reach $250,000. This case is set for trial on December 3, 2012.

Melissa Hopkins, et. al. v. William Karman, et. al. Plaintiff's decedent was the victim of armed-robbery. A San Antonio Police Officer arrived on the scene. Shots were exchanged with suspects and Plaintiffs' decedent was killed. Plaintiffs filed suit against the officer and the City alleging violations of civil rights under 42 U.S.C. §1983. On January 26, 2012, the Court administratively stayed this case. Damages could exceed $250,000.

Natasha Brown v. City of San Antonio. Plaintiff sued under the Texas Tort Claims Act for injuries sustained in a motor vehicle accident. A San Antonio Police Officer was tracking another officer when the vehicle in front of him stopped at a red light. The officer hit the vehicle from behind as he was unable to stop on time. Plaintiff had lower back surgery after the accident to fuse a herniated disc the Plaintiff claims resulted from the automobile accident. Plaintiff also complains of a damaged nerve that is causing numbness to her leg. Medical expenses are estimated to be over $100,000. Total damages, including lost wages, pain and suffering may reach $250,000. The case is in the discovery stage and scheduled for trial on December 10, 2012.

San Juana Salas v. City of San Antonio. A City pick-up truck rear-ended another vehicle in which Plaintiff was a passenger. Liability is disputed. Plaintiff has accrued approximately $65,000 in past medical expenses, with expected future medical expenses of over $190,000. Plaintiff also seeks damages for pain and suffering. This matter is currently set for trial on October 15, 2012.

Russell Martin v. City of San Antonio. Plaintiff was employed as a police officer at the San Antonio Airport. Plaintiff informed a Lieutenant that if he was required to work with another individual it would end in "fisticuffs or bullets." Plaintiff was terminated under the City's Zero Tolerance/Violence in the Workplace policy; however, termination did not occur for several months after the comment was made. Plaintiff filed suit pursuant to Texas Whistleblower Act, alleging that termination was retaliation for his report of another employee's violation of law. Plaintiff also seeks to recover for due process violations under the United States Constitution, alleging that he was not given due process in the termination process. Plaintiff seeks recovery of past and future wages and benefits, which could exceed $250,000. This case is not yet set for trial.

CITY PENSION AND OTHER POSTEMPLOYMENT RETIREMENT BENEFIT LIABILITIES

City Pension Benefit Plans

An actuarial valuation is conducted annually on each of the City's pension benefit plans (collectively, the "City Pension Benefits Plans"), which include the Texas Municipal Retirement System ("TMRS") and the Fire and Police Pension Fund (the "Fund"). Such actuarial valuations, conducted in accordance with generally accepted actuarial principles and practices, summarize the funding status of each of such plans as of the respective ending dates of the prior two Fiscal Years, as well as projects funding contribution requirements for the immediately succeeding Fiscal Year. The respective actuarial values of each plan's assets represents an adjusted value, as determined by the actuary in accordance with industry standards, and will not, therefore, equal the amounts shown in the City's statement of net assets.

As a part of its valuation of the City Pension Benefits Plans, the actuary calculates and reports an "unfunded actuarial accrued liability" ("UAAL") relating to any of such plans. The UAAL is calculated on a present value basis and includes assumptions such as (among others) rates of mortality, retirement, and disability, respectively; the estimated number of participants expected to withdraw from the subject plan; expected base salary increases;

overtime rates; and investment returns. The UAAL includes liabilities for current retirees, active employees that are fully eligible, and for active employees that are not fully eligible.

Based on actuarial valuations, the City's current fire and police pension plan is funded in accordance with State law, and the UAAL as of October 1, 2011 was $242.7 million with an amortization period for the UAAL of 9.1 years and a funded ratio of 90.6%. The TMRS' UAAL as of December 31, 2011 was $95.1 million with a funded ratio of 91.6%. See the following for additional information on these two plans.

Fire and Police Pension Plan

The Fund is a single-employer defined benefit plan which provides retirement benefits to eligible employees of the San Antonio fire and police departments. The Fund was established in accordance with the laws of the State of Texas. The Fund is administered by a nine-member board of trustees which includes two City Council members, the mayor or his appointee, two police officers, two fire fighters, and two retirees.

The Board of the Fund (the "Board") 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 Fund over time. This legislative process 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 Fund's annual required contribution for Fiscal Year 2011 is determined by pension law. The Fund's October 1, 2011 actuarial valuation used the entry-age normal cost method. Significant assumptions included (a) 7.75% investment rate of return and (b) projected annual salary increase of 4.0%. The unfunded actuarial liability is amortized as a level percentage of projected payroll on an open basis.

The actuarial valuation also utilizes a technique that smoothes the effects of short-term volatility in the market value of investments over a five-year period. As is the case with most public pension plans, the Fire and Police Pension Fund incurred investment losses in prior years. Under this approach, the Fund's investment returns have been smoothed which results in the deferral of $360.5 million in investment losses as of October 1, 2011. These investment losses will be recognized in future years' actuarial valuations to the extent they are not offset by recognition of investment gains above the Fund's assumed investment return of 7.75% or other actuarial gains.

Texas Municipal Retirement System

The City provides benefits for all eligible employees (excluding firefighters and police officers) through a nontraditional, joint contributory, hybrid defined benefit plan in TMRS. 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, 2011, is the agent for 847 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.

Since its inception, TMRS had 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 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. These changes had a significant impact on TMRS' Unfunded Actuarial Accrued Liability ("UAAL") and funded position as well as the City's contribution requirements. As of December 31, 2006, the City's Plan had a UAAL of $178.5 million with a funded ratio of 72.2%. After adoption of these changes, the City's Plan had a UAAL of $317.7 million with a funded ratio of 60.1% as of December 31, 2007.

The TMRS Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board rules 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 resulted initially in higher required contributions and lower funded ratios. To assist in this transition to higher rates, the TMRS 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). As a result of these changes, the City's contribution rate was projected to increase from 12.5% to 16.7%. Due to the significant increase in contribution requirements, the City selected to phase in the contribution rate in Fiscal Year 2009 from 12.5% to 13.1% with an ultimate projected rate to be in excess of 18.0% after phase-in (or triple the employee contribution rate).

The City additionally created a work plan to review and address the changes being made by TMRS. Six focus groups with employees and retirees were held to obtain input via a survey on their TMRS benefits and priorities to assist the City in evaluating its options and decisions made on the TMRS Board. Furthermore, the City engaged a legal firm to provide legal advice 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 assist in exploring viable pension alternatives. A task force of current employees and retirees was formed to provide input regarding the work to be completed by this actuarial firm.

The City further adopted a plan change in 2010 removing the annually repeating Cost of Living Adjustment ("COLA") feature as a way to mitigate future contribution increases. This change does not prevent adoption of either ad hoc or annually repeating COLAs in the future, but it did reduce the City's contribution rate in 2010 from 13.9% to 12.3%. The City also proposed legislation to the State's 82nd Legislative Session held in January of 2011 which would: 1) allow cities to provide COLAs which would not be subject to current provisions requiring retroactive application of changes and 2) provide cities the ability to grant additional payments (e.g., 13th check) where funding is available. This proposed legislation was developed to provide additional flexibility and options for addressing the significant challenges associated with the current TMRS plan. While neither of these proposals passed, the City will continue to work on ways to manage its contribution rate.

TMRS also proposed legislation during the State's 82nd Legislative Session to combine the Municipal Accumulation Fund ("MAF"), Current Service Annuity Reserve Fund ("CSARF"), and the Employees Savings Fund ("ESF"), into a single city trust fund. Under TMRS, assets were held in trust in three distinct accounts, which were called "funds." The MAF holds city contributions and interest. The ESF holds member contributions and interest. When a member retires, the accumulated contributions and interest in the member's account transfer from the ESF, along with matching funds from the city's MAF into the CSARF. The basic retirement benefit is therefore fully funded at the time of a member's retirement and is then paid monthly to the retiree from the CSARF. At the time a member retires, the basic retirement benefit becomes a liability of TMRS. Since the passage of House Bill 360 in 2009, each year the ESF and CSARF are credited, by law, with 5.0% interest. This guaranteed interest credit may result in a highly leveraged (positive or negative) interest credit to the MAF. In years when TMRS as a whole earns less than the amount needed to provide the 5.0% guaranteed interest credit to the ESF and CSARF, additional funding will be needed from the MAF. Additionally, as each city's plan matures and retirements increase, more funds transfer into the CSARF from the ESF and the MAF, and the MAF balance, combined with the highly leveraged interest allocations, can result in city contribution rates that may be more volatile than a typical pension plan.

Restructuring, or combining, funds eliminated the leverage inherent in the asset structure and helped to make city contribution rates less volatile. Under a restructured pension fund, at the time of retirement, money would not be transferred to the CSARF (it would stay in the combined/single trust fund of the city). By reallocating the CSARF assets and liabilities and the ESF assets into each city's single trust fund, all future investment earnings based on that city's contributions for active and retired members would be directly applied to that specific city's trust assets and included in the funding equation, resulting in decreased liabilities and contribution rates. Additionally, a city's funded ratio would improve because the city would receive "credit" for the excess of the assets over liabilities for those retirements that are currently being paid from the CSARF; and the city's annual requirement contribution would be reduced since the city would receive interest on a larger base of assets over a longer period of time. The vast majority of defined benefit plans are funded under a similar structure. This proposal passed as Senate Bill 350 and was enacted in June of 2011. This legislation permitted the actuarial valuation to be completed, as if restructuring occurred on December 31, 2010.

In addition to the restructuring, the actuarial assumptions were updated based on an actuarial experience study that was adopted by the TMRS Board at its May of 2011 meeting (the review compared actual to expected experience

for the four-year period of January 1, 2006 through December 31, 2009). The City's UAAL as of December 31, 2010 prior to restructuring was calculated at $201.4 million with a funded ratio of 73.0%. The City's UAAL using the new rate structure calculates to $100.4 million with a funded ratio of 90.6%. Further, the amortization periods differed; prior to restructuring the period is 25.6 years; after restructuring the period is 24,1 years, resulting in a reduction to the contribution rate from 13.3% to 10.0% for the first quarter of Fiscal Year 2012.

In the Fiscal Year 2012 Budget, City Council adopted a one-time annuity increase that will be provided to retired employees and to beneficiaries of deceased employees. The amount of the increase is computed as the sum of the prior service and current service annuities on the effective date of retirement of the person on whose service the annuities are based. This number was multiplied by 70.0% of the percentage change in the Consumer Price Index for All Urban Consumers, from December of the year immediately preceding the effective date of the person's retirement to the December that is 13 months before the effective date of the increase. This one-time annuity increase will cause the contribution rate to increase from 10.0% to 10.25%, effective January 1, 2012.

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 five 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.

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. The contribution rate for the City's employees is 6.0% and the matching percent was 10.25% for calendar year 2011, both as adopted by the governing body of the City. Under the state law governing TMRS, the employer's contribution rates are annually determined by the actuary, using the Projected Unit Credit actuarial cost method. 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 portion of an active member's projected benefit allocated annually; the prior service contribution rate amortized the unfunded (overfunded) actuarial liability (asset) over the applicable period for the City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The normal cost contribution 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 UAAL over the remainder of the plan's 24.1 year amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased UAAL is being amortized over a new 24.1 year period. Currently, the UAAL is amortized over a constant 24.1 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.

Investments are reported at fair value. The fair values of fixed income securities are valued by the custodian using the last trade date price information supplied by various pricing data vendors. Fair values of the equity index funds (comingled funds) are determined based on the funds' net asset values at the date of valuation. Short-term investment funds are reported at cost, which approximates market value. Security transactions are reported on a trade date basis.

Membership as of the Valuation Date	12/31/2011
Number of:	
Active Members	5,961
Retirees and beneficiaries	3,530
Inactive members	2,079
Total	11,570

TMRS' administration costs are funded from a portion of TMRS' annual investment earnings.

TMRS issues a publicly available financial report that includes financial information and required supplementary information for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used 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 (800) 924-8677. In addition, the report is available on TMRS' website at www.TMRS.com. 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.

Other City Postemployment Retirement Benefits

In addition to the Pension Benefits, the City provides all retired employees with certain health benefits under three postemployment retirement benefit programs. Pursuant to GASB Statement No. 45, the City is required to account for and disclose its other postemployment liability for these programs. GASB Statement No. 45 was implemented by the City in Fiscal Year 2008. The City continues to actively review each of these plans and have actuarial valuations performed at least bi-annually. In addition to the disclosure provided in Note 9 of the City's CAFR, the following information is provided for each of the City's other postemployment retirement benefit programs.

The first of the programs is a health insurance plan, which provides benefits for nonuniformed City retirees and for pre-October I, 1989 uniformed (fire and police) retirees who are not eligible for Medicare. The program is comprised of three self-funded PPO health plans currently administered by United Healthcare. These plans may be amended at any time with approval from the City Council. This program is funded on a pay-as-you-go basis with an aggregate sharing of premium costs based on the following targets: 67.0% by the City and 33.0% by the retiree for those retirees hired prior to October of 2007. With the adoption of the Fiscal Year 2008 Budget, additional changes were made to this retirement health plan. For all non-uniformed employees beginning employment on or after October 1, 2007, a revised schedule for sharing of the costs on a pay-as-you-go basis is effective. The revised schedule is as follows: (1) Employees who separate from the City with less than five years of service are not eligible to participate in the program; (2) Employees who separate with at least five years of service but less than 10 years of service are eligible to participate in the program but without City subsidy; and (3) Employees who separate from employment with 10 years of service or more will pay for 50.0% of the pay-as-you-go contributions to the program and the City will contribute the remaining 50.0%. The ability to participate in the program remains based on eligibility for the TMRS Pension Plan.

Currently, there are 6,068 active civilian employees who may become eligible in the future. Employees may become eligible to participate in this program based on eligibility for a retirement benefit under the rules for TMRS Pension Plan and their number of years of service to City of San Antonio. Under the TMRS Pension Plan, employees may retire at age 60 and above with five or more years of service or with 20 years of service regardless of age. 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. As of September 30, 2011, there were 435 retirees and surviving spouses participating in this program.

The second program with 893 participating retirees is available to eligible retirees who have Medicare coverage. All retirees and dependents are required to apply for and maintain Medicare Part A & B coverage once they reach age 65 or otherwise become eligible for Medicare. Of the current 893 participating Medicare retirees, 145 participate in a fully insured Medicare Advantage HMO and the remaining 748 participate in a fully insured Medicare Supplement. This program may be amended at any time by the City Council,

The City intends to conduct actuarial studies of this plan bi-annually with annual reviews of assumptions and changes in benefits to compute OPEB liability. Most recently, an actuarial valuation of the plan was performed as of January 1, 2011, for a September 30, 2011 valuation date, with the UAAL reported at $324.5 million. The plan continues to be funded on a pay-as-you-go basis and no prefunding has occurred to date.

The other post-employment benefit program of the City, the Fire and Police Retiree Health Care Fund, San Antonio ("Health 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 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 Health 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 Fund board has the ability to modify benefits within certain parameters. The City is the only participating employer in the Plan.

Historically, actuarial valuations of this program have been performed to determine the actuarial position of the program. The Health Fund engaged an actuarial consultant to conduct a study of the program as of October 1, 2006. This actuarial study indicated that the UAAL was $540.1 million based on GASB No. 43 and that current contribution rates were not sufficient to fund the current level of retirement benefits and retire the UAAL. However, it was determined that the program did not have a short-term financing problem. As of September 30, 2007, the Plan had net assets available for postemployment health benefits of $198 million while benefits payments for FY 2007 were $15 million.

During the 2007 State legislative session, the City, the Health Fund Board, Fire Association, and Police Association actively pursued amendments to the Health Fund's governing legislation, which amendments were enacted. These amendments were done in order to address the long-term actuarial position of the Health Fund. The changes primarily include: (a) making certain changes to the benefits plans; (b) providing the Health Fund Board the authority to make additional changes to the health benefits plans in the future; (c) maintaining the City's contribution to the health plan at 9.4% of payroll over the next 10 years; (d) phase-in over five years of employee contributions from 2.0% of covered payroll to 4.7%; and (e) other administrative changes. Additionally, if after 10 years, the UAAL of the Health Fund cannot be amortized over a period of 30 years or less, the Health Fund board shall increase the City and employee contributions, and deductibles and out of pocket maximums for retirees by a percentage not to exceed 10% each year until the UAAL can be amortized over a period of 30 years or less.

The Health Care Fund's actuarial study with a valuation date of October 1, 2011, for Fiscal Year ending September 30, 2012, indicates that the UAAL, calculated in compliance with GASB regulations, was $403.6 million with a funded ratio of 36.9%. The study further indicates that after the 10-year period as defined in the governing legislation, a projected total increase of 1.52% in the total contribution requirement would provide for the amortization of the Health Fund's UAAL over 30 years. In effect, in Fiscal Year 2018, the City's contribution rate is projected to increase from 9.4% to 10.34% of covered payroll and active fire and police employees from 4.7% to 5.17% of covered payroll. Contribution rates are projected to increase in Fiscal Year 2019 as well, with the City's contribution rate increasing from 10.34% to 10.41% of covered payroll and active fire and police employees from 5.17% to 5.21% of covered payroll in order to achieve a 30-year amortization of the UAAL.

Additionally, the actuarial valuation includes a five-year smoothing of market value with an 80%/120% corridor. As such, investment losses are being smoothed which results in the deferred recognition of $37.6 million in investment losses. These losses will be recognized in future actuarial valuations to the extent they are not offset by investment gains above the assumed investment return of 8%.

Use of Assumptions and Estimates

As set forth herein, as well as in Notes 8 and 9, respectively, of the City's CAFR for its Fiscal Year ended September 30, 2011, selected provisions of which are attached hereto as APPENDIX D, the disclosure relating to the City Pension and Retiree Health Benefits Plans are based upon certain actuarial assumptions and estimates, reasonably made based upon information available at such time, that are subject to variance. To the extent these assumptions and estimates do not materialize or are inaccurate, the financial information disclosed herein and in Notes 8 and 9, respectively, of the CAFR, including the estimated-as-compared-to-actual values of the assets and liabilities for each of the City Pension and Retiree Health Benefits Plans, could change substantially and in a materially adverse manner.

CAFR Discussion

In the CAFR, the City's existing pension and other OPEB plans are described (see, for example, "FINANCIAL INFORMATION - Fiscal Management and Administrative Topics" included in the CAFR, as well as Notes 8 and 9 thereof discussed above). In addition, the pension schedules included in the CAFR under the heading "REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES OF FUNDING PROGRESS LAST THREE FISCAL YEARS" disclose certain pension plan funding liabilities, including the UAAL. Investors should carefully review this information and the information contained herein prior to investing in the Bonds.

TAX MATTERS

Opinion

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

In rendering its opinion, Co-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 Causey Demgen & Moore P.C., certified public accountants described in "PLAN OF FINANCE – Refunded Bonds." 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 Co-Bond Counsel is conditioned on compliance by the Corporation and the City with such requirements, and Co-Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Co-Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law reliance on the aforementioned information representations and covenants. Co-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 Co-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.

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

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 accrual period and ratably within each such accrual 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.

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 and the City assume 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

General

On the Closing Date, the Corporation and the City will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding special obligations of the Corporation, and based upon examination of such transcript of proceedings, the legal opinion of Co-Bond Counsel to the effect that the Bonds are valid and legally binding special obligations of the Corporation and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security or in any manner questioning the validity of the Bonds, will also be furnished. In their capacity as Co-Bond Counsel, McCall, Parkhurst & Horton L.L.P. and Escamilla, Poneck & Cruz, LLP, both of San Antonio, Texas, have reviewed the information appearing in this Official Statement under the captions "PLAN OF FINANCE", "THE BONDS" (other than under the subsection "Payment Record" as to which no view will be expressed), "THE FINANCING DOCUMENTS," "REGISTRATION, TRANSFER AND EXCHANGE" (other than the subsection "Book-Entry-Only System" as to which no view will be expressed), "SECURITY FOR THE BONDS AND REMEDIES IN THE EVENT OF NONAPPROPRIATION", "TAX MATTERS", "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE", "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", "LEGAL MATTERS", AND "SELECTED PROVISIONS OF THE FINANCING DOCUMENTS" attached hereto as Appendix C to determine whether such information fairly summarizes the material and documents referred to therein and is correct as to matters of law. Co-Bond Counsel 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 or the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Co-Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinions of any kind with regard to the accuracy or completeness, of any of the information contained herein. The legal fees to be paid Co-Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the issuance and delivery of the Bonds. The form of legal opinion of Co-Bond Counsel expected to be delivered on the date of issuance of the Bonds is attached hereto as Appendix E. 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 Co-Counsel, Fulbright & Jaworski L.L.P. and Shelton & Valadez, P.C., both of San Antonio, Texas, and for the Trustee by its counsel, Bracewell & Giuliani LLP, of Dallas, Texas.

None of Co-Bond Counsel, the City Attorney, Underwriters' Co-Counsel, nor the Trustee's counsel has been engaged to investigate or verify, and accordingly none will express any opinion concerning, the financial condition or capabilities of the Corporation or the City or the sufficiency of the security for, or the value or marketability of, the Bonds.

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

Co-Bond Counsel represents the Underwriters from time to time on various legal matters; however, Co-Bond Counsel does not represent the Underwriters in connection with the issuance of the Bonds. Underwriters' Co-Counsel represents the City and the Co-Financial Advisors from time to time on certain legal matters; however, they are not representing the City or the Co-Financial Advisors in connection with the issuance of the Bonds.

RATINGS

Fitch Ratings ("Fitch"), Moody's Investors Service, Inc. ("Moody's"), and Standard & Poor's Ratings Services, a Standard and Poor's Financial Services LLC business ("S&P") have assigned the Bonds ratings of "AA" (stable outlook), "Aa2" (negative outlook), and "AA+" (stable outlook), respectively. An explanation of the significance of such ratings may be obtained from Fitch, Moody's, and S&P. The rating of the Bonds by Fitch, Moody's, and S&P, reflects only the views of said companies at the time the ratings are given, and the Corporation makes no representations as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by Fitch, Moody's, and S&P, if, in the judgment of said companies, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

Due to the ongoing uncertainty regarding the economy and debt of the United States of America, including, without limitation, the general economic conditions in the country and developments arising from the Budget Control Act of 2011, including the deliberations and results thereof of the Joint Select Committee on Deficit Reduction, and other political and economic developments that may affect the financial condition of the United States government, the United States debt limit, and the bond ratings of the United States and its instrumentalities, obligations issued by state and local governments, such as the Bonds, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, including the Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Lease Agreement, the Corporation and 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 Corporation and the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the MSRB through its EMMA system, where it is available free of charge at www.emma.msrb.org.

Annual Reports

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

The City will file annually with the MSRB certain updated financial information and operating data. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement indicated as Tables 1 through 21 and in the CAFR,

substantially in the manner set forth in Appendix D to this Official Statement. The City will update and provide this information within six months after the end of its Fiscal Year.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited information within the required time and audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the CAFR, substantially in the manner set forth in Appendix D to this Official Statement, 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 file notice of such change with the MSRB.

Notice of Certain Events

Notice of Occurrence of Certain Events, Whether or Not Material. The Corporation will notify the MSRB through EMMA in an electronic format as prescribed by the MSRB, in a timely manner (but not in excess of ten business days after the occurrence of the event) of any of the following events with respect to the Bonds, **regardless of whether such event is material within the meaning of the federal securities laws**: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other events affecting the tax status of the Bonds; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of an obligated person. Neither the Bonds nor the Financing Documents make any provision for credit enhancement liquidity enhancement, or a debt service reserve with respect to the Bonds.

Notice of Occurrence of Certain Events, If Material. The Corporation also will notify the MSRB through EMMA in an electronic format as prescribed by the MSRB within ten business days following the occurrence of any of the following events with respect to the Bonds, **if such event is material within the meaning of the federal securities laws**: (1) non-payment related defaults; (2) modifications to rights of Registered Owners; (3) Bond calls; (4) release, substitution, or sale of property securing repayment of the Bonds; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and (6) appointment of a successor or additional trustee or the change of name of a trustee.

Notice of Nonappropriation; Failure to Timely File. The Corporation also will notify the MSRB through EMMA, in a timely manner, of the occurrence of an Event of Nonappropriation or any failure to provide financial information or operating data in accordance with the provisions described above.

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.

With respect to debt of the City issued prior to the EMMA Effective Date, the City remains obligated to make annual required filings, as well as notices of material events, under its continuing disclosure obligations relating to

those debt obligations (which includes a continuing obligation to make such filings with the Texas state information depository (the "SID")). Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas (the "MAC") had been 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 City receives 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 City has determined, in reliance on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its 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 City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The 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 provisions of the continuing disclosure agreement may be amended by the City and the Corporation from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City or the Corporation, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances, and (2) either (a) the Registered Owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Bond Resolution or the Financing Documents that authorizes such an amendment) of the Outstanding Bonds consent to such amendment, or (b) a person that is unaffiliated with the City and the Corporation (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the Registered Owners and beneficial owners of the Bonds. The City and the Corporation may also amend or repeal 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

This undertaking represents the first such agreement of the Corporation. Except as hereinafter described, the City, during the past five years, has complied in all material respects with continuing disclosure agreements made thereby in accordance with the Rule.

Due to an administrative oversight, the City neglected to file its annual financial disclosure information (the CAFR for Fiscal Year 2009 and the required Continuing Disclosure of Financial and Operating Data Information for the same reporting period) for its outstanding obligations having a base CUSIP number of 796236. This information was timely filed with respect to all other City obligations (where it was available to the general public from the MSRB through EMMA) and, on March 28, 2011, was filed with respect to the outstanding obligations having the base CUSIP of 796236. The City is now current with respect to all continuing disclosure obligations required to be made by the City in accordance with the Rule.

Additionally, due to an administrative oversight by CPS staff, on September 18, 2012, the City was informed by the MAC that CPS did not file its annual financial information and operating data for the City of San Antonio, Texas Starbright Industrial Development Corporation Contract Revenue Bonds, Series 2003 (Taxable) (Starbright Project) (the "Starbright Bonds") having a base CUSIP number of 796300 and being secured by CPS revenues transferred to

the City. CPS filed on October 11, 2012 all required annual financial disclosure information to the EMMA website for the City's Starbright Bonds (CUSIP 796300), in addition to a non-compliance notice, and will ensure that future disclosures are made in a timely manner.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, including, but not limited to the information under the headings "INVESTOR CONSIDERATIONS", 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 inherently 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 Corporation and 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 & Company, Inc. (the "Co-Financial Advisors") are engaged by 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 Corporation's and the City's records and from other sources which are believed to be reliable, including financial records of the City and other entities which may be subject to interpretation. No guarantee is made by the Co-Financial Advisors as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Co-Financial Advisors as an implicit or explicit expression of opinions as to the completeness and accuracy of the information contained in this Official Statement.

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 City and the Corporation 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.

UNDERWRITING

J.P. Morgan Securities LLC ("JPMS"), as representative of the Underwriters, has agreed, subject to certain conditions, to purchase the Bonds from the Corporation at a purchase price of $564,665,813.86, which represents the par amount of the Bonds, plus a net reoffering premium of $17,308,432.50, less an Underwriters' discount of $3,016,260.14, and no accrued interest. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed from time to time by the Underwriters.

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

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL CALCULATIONS

The issuance of the Bonds will be subject to delivery by Causey Demgen & Moore P.C., certified public accountants (the "Accountants"), of a report of the mathematical accuracy of certain computations. The Accountants will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of (i) the computations contained in the provided schedules to determine that the anticipated receipts from the Federal Securities and cash deposits listed in the schedules provided by Coastal Securities, Inc. to be held in the Escrow Fund, will be sufficient to pay, when due, the principal and interest requirements of the Series 1996 Refunded Bonds, the Series 2004A Refunded Bonds, and the Series 2006 Refunded Bonds, and (ii) the computations of yield on both the Federal Securities and the Bonds contained in the provided schedules used by Co-Bond Counsel in their determination that the interest on the Bonds is excludable from the gross income of the holders thereof. The Accountants will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Bonds. Such verification of accuracy of such mathematical computation will be based upon information and assumptions supplied by the City and Coastal Securities, and such verification, information and assumptions will be relied on by Co-Bond Counsel in rendering their opinion described herein.

AUTHORIZATION OF THE OFFICIAL STATEMENT

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

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

/s/ Julián Castro	/s/ Julián Castro
President, Board of Directors City of San Antonio, Texas Public Facilities Corporation	Mayor, City of San Antonio

* * * *

SCHEDULE I
SCHEDULE OF REFUNDED BONDS

Series	Maturity Date	Interest Rate (%)	Par or Maturity Amount ($)	Call Date	Call Price (%)
City of San Antonio, Texas Hotel Occupancy Tax Revenue Bonds, Series 1996 (the "Series 1996 Refunded Bonds")	08/15/2013	6.050[1]	7,915,000.00	[2]	--
	08/15/2014	6.100[1]	7,900,000.00	[2]	--
	08/15/2015	6.150[1]	8,210,000.00	[2]	--
	08/15/2016	6.200[1]	8,055,000.00	[2]	--
	08/15/2017	6.200[1]	7,730,000.00	[2]	--
			39,810,000.00		
City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2004A (the "Series 2004A Refunded Bonds")	08/15/2028	5.000	5,070,000.00[3]	12/03/2012	100
	08/15/2029	5.000	5,320,000.00[3]	12/03/2012	100
			10,390,000.00		
City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2006 (the "Series 2006 Refunded Bonds")	08/15/2013	4.000	300,000.00	--	--
	08/15/2014	4.000	310,000.00	08/15/2013	100
	08/15/2015	4.000	325,000.00	08/15/2013	100
	08/15/2016	4.000	335,000.00	08/15/2013	100
	08/15/2017	4.000	350,000.00	08/15/2013	100
	08/15/2018	4.000	6,420,000.00	08/15/2013	100
	08/15/2019	4.350	6,680,000.00	08/15/2013	100
	08/15/2020	4.375	6,965,000.00	08/15/2013	100
	08/15/2021	4.375	7,275,000.00	08/15/2013	100
	08/15/2022	4.500	7,590,000.00	08/15/2013	100
	08/15/2023	4.500	7,930,000.00	08/15/2013	100
	08/15/2024	4.500	8,290,000.00	08/15/2013	100
	08/15/2025	4.500	8,660,000.00	08/15/2013	100
	08/15/2026	4.500	9,055,000.00	08/15/2013	100
			70,485,000.00		
City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Variable Rate Demand Revenue and Refunding Bonds, Series 2008 (the "Series 2008 Refunded Bonds")	08/15/2013	[5]	555,000.00[4]	11/21/2012	100
	08/15/2014	[5]	635,000.00[4]	11/21/2012	100
	08/15/2015	[5]	290,000.00[4]	11/21/2012	100
	08/15/2016	[5]	430,000.00[4]	11/21/2012	100
	08/15/2017	[5]	815,000.00[4]	11/21/2012	100
	08/15/2018	[5]	2,815,000.00[4]	11/21/2012	100
	08/15/2019	[5]	2,870,000.00[4]	11/21/2012	100
	08/15/2020	[5]	2,955,000.00[4]	11/21/2012	100
	08/15/2021	[5]	4,195,000.00[4]	11/21/2012	100
	08/15/2022	[5]	4,335,000.00[4]	11/21/2012	100
	08/15/2023	[5]	4,455,000.00[4]	11/21/2012	100
	08/15/2024	[5]	4,600,000.00[4]	11/21/2012	100
	08/15/2025	[5]	4,770,000.00[4]	11/21/2012	100
	08/15/2026	[5]	4,890,000.00[4]	11/21/2012	100
	08/15/2027	[5]	10,960,000.00[4]	11/21/2012	100
	08/15/2028	[5]	5,720,000.00[4]	11/21/2012	100
	08/15/2029	[5]	5,940,000.00[4]	11/21/2012	100
	08/15/2030	[5]	12,485,000.00[4]	11/21/2012	100
	08/15/2031	[5]	12,960,000.00[4]	11/21/2012	100
	08/15/2032	[5]	13,460,000.00[4]	11/21/2012	100
	08/15/2033	[5]	13,960,000.00[4]	11/21/2012	100
	08/15/2034	[5]	14,505,000.00[4]	11/21/2012	100
			128,600,000.00		

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[1] Represents yield based on original reoffering price.
[2] Capital Appreciation Bonds defeased to Stated Maturity.
[3] Represents a mandatory sinking fund redemption payment of a Term Bond maturing on August 15, 2029.
[4] Represents a mandatory sinking fund redemption payment of a Term Bond maturing on August 15, 2034.
[5] Variable Rate.

SCHEDULE II
TABLE OF COMPOUNDED AMOUNTS FOR THE CAPITAL APPRECIATION BONDS

Date	CABs 09/15/2035 4.96%	CABs 09/15/2036 5.03%	CABs 09/15/2037 5.10%
10/31/2012	1,630.35	1,527.30	1,428.80
03/15/2013	1,660.35	1,555.80	1,455.85
09/15/2013	1,701.55	1,594.95	1,492.95
03/15/2014	1,743.75	1,635.05	1,531.05
09/15/2014	1,787.00	1,676.15	1,570.10
03/15/2015	1,831.30	1,718.30	1,610.10
09/15/2015	1,876.70	1,761.55	1,651.20
03/15/2016	1,923.25	1,805.85	1,693.30
09/15/2016	1,970.95	1,851.25	1,736.45
03/15/2017	2,019.85	1,897.80	1,780.75
09/15/2017	2,069.95	1,945.55	1,826.15
03/15/2018	2,121.25	1,994.50	1,872.70
09/15/2018	2,173.90	2,044.65	1,920.50
03/15/2019	2,227.80	2,096.05	1,969.45
09/15/2019	2,283.05	2,148.80	2,019.65
03/15/2020	2,339.65	2,202.85	2,071.15
09/15/2020	2,397.70	2,258.25	2,124.00
03/15/2021	2,457.15	2,315.00	2,178.15
09/15/2021	2,518.10	2,373.25	2,233.70
03/15/2022	2,580.55	2,432.95	2,290.65
09/15/2022	2,644.55	2,494.10	2,349.05
03/15/2023	2,710.10	2,556.85	2,408.95
09/15/2023	2,777.35	2,621.15	2,470.40
03/15/2024	2,846.20	2,687.10	2,533.40
09/15/2024	2,916.80	2,754.65	2,598.00
03/15/2025	2,989.15	2,823.95	2,664.25
09/15/2025	3,063.25	2,894.95	2,732.20
03/15/2026	3,139.25	2,967.75	2,801.85
09/15/2026	3,217.10	3,042.40	2,873.30
03/15/2027	3,296.85	3,118.95	2,946.55
09/15/2027	3,378.65	3,197.35	3,021.70
03/15/2028	3,462.40	3,277.80	3,098.75
09/15/2028	3,548.30	3,360.20	3,177.80
03/15/2029	3,636.30	3,444.75	3,258.80
09/15/2029	3,726.45	3,531.35	3,341.90
03/15/2030	3,818.90	3,620.20	3,427.15
09/15/2030	3,913.60	3,711.25	3,514.55
03/15/2031	4,010.65	3,804.55	3,604.15
09/15/2031	4,110.10	3,900.25	3,696.05
03/15/2032	4,212.05	3,998.35	3,790.30
09/15/2032	4,316.50	4,098.90	3,886.95
03/15/2033	4,423.55	4,202.00	3,986.10
09/15/2033	4,533.25	4,307.70	4,087.75
03/15/2034	4,645.70	4,416.00	4,191.95
09/15/2034	4,760.90	4,527.10	4,298.85
03/15/2035	4,879.00	4,640.95	4,408.50
09/15/2035	5,000.00	4,757.65	4,520.90
03/15/2036	--	4,877.30	4,636.20
09/15/2036	--	5,000.00	4,754.40
03/15/2037	--	--	4,875.65
09/15/2037	--	--	5,000.00

APPENDIX A

CONVENTION CENTER FACILITIES

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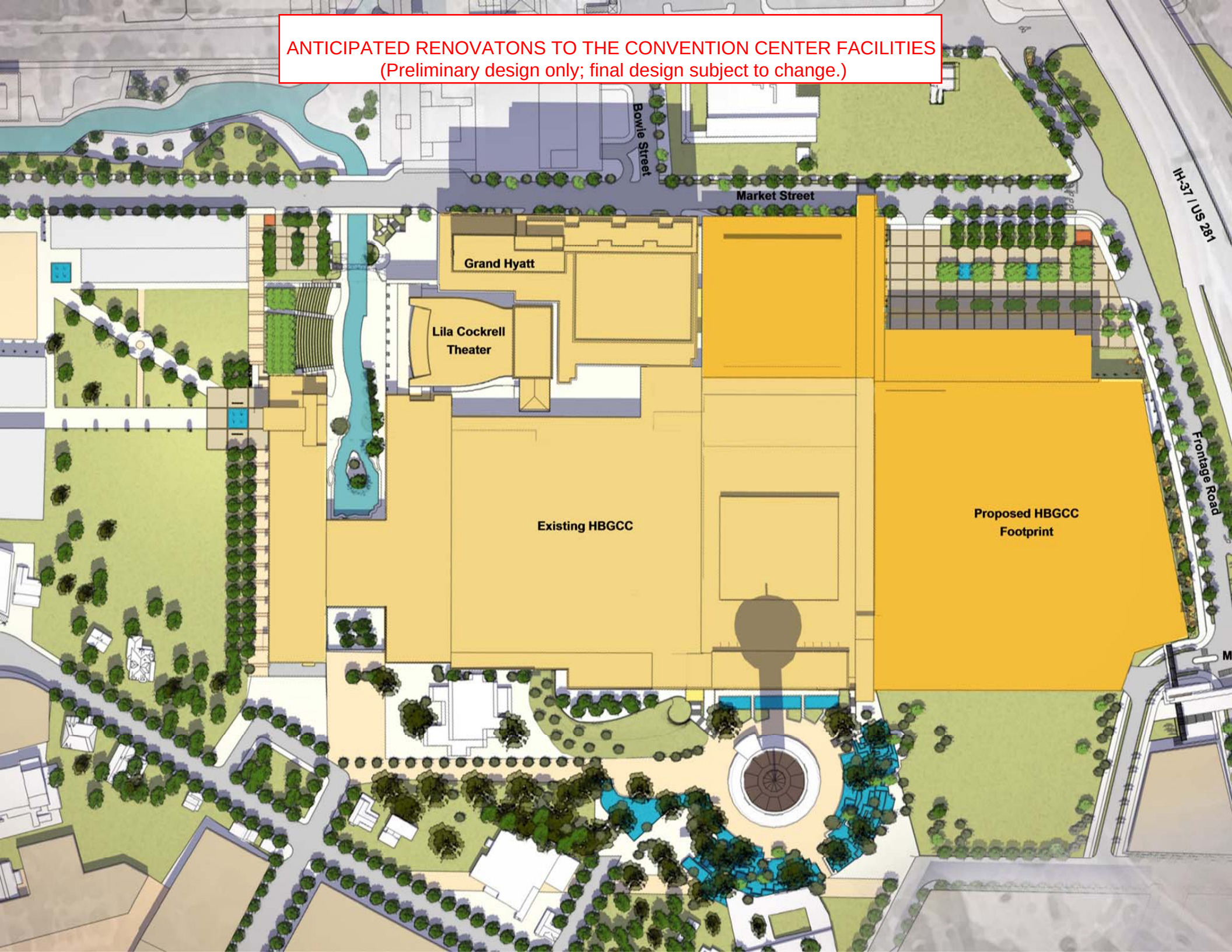
HEMISFAIR AREA REDEVELOPMENT

EXISTING CONVENTION CENTER

ANTICIPATED RENOVATONS TO THE CONVENTION CENTER FACILITIES
(Preliminary design only; final design subject to change.)



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APPENDIX B

CITY OF SAN ANTONIO, TEXAS
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

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APPENDIX B

CITY OF SAN ANTONIO, TEXAS
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 2010 Census, prepared by the United States Census Bureau ("U.S. Census Bureau"), found a City population of 1,327,407. For the 2010 San Antonio population, it was determined that the U.S. Census Bureau had erroneously assigned 35 census blocks to the City that are actually outside of the City limits. The revised 2010 San Antonio population is 1,326,539.

The City's Department of Planning and Development Services estimates the City's population to be 1,386,547 in 2013. The U.S. Census Bureau ranks the City as the second largest in the State of Texas (the "State") and the seventh largest in the United States.

The City is the county seat of Bexar County. Bexar County had a population of 1,714,773 according to the 2010 Census. The City's Department of Planning and Development Services estimates Bexar County's population to be 1,787,566 and the San Antonio-New Braunfels Metropolitan Statistical Area ("MSA") population to be 2,240,894 in 2012. The City is located in south central Texas approximately 80 miles south of the State capital in Austin, 165 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-New Braunfels MSA[1] for the years shown:

Year	City of San Antonio	Bexar County	San Antonio-New Braunfels MSA
1920	161,379	202,096	289,089
1930	231,542	292,533	389,445
1940	253,854	338,176	437,854
1950	408,442	500,460	603,775
1960	587,718	687,151	796,792
1970	654,153	830,460	951,876
1980	785,880	988,800	1,154,648
1990	935,933	1,185,394	1,407,745
2000	1,144,646	1,392,931	1,711,703 [1]
2010	1,326,539	1,714,773	2,142,508 [2]

[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.) As of December 2009, New Braunfels, Texas qualified as a new principal city of the San Antonio MSA, and the MSA was retitled San Antonio-New Braunfels MSA.

[2] Provided by the American Community Survey.

Sources: U.S. Census Bureau; Texas Association of Counties – County Information Project; and City of San Antonio, Department of Planning and Community Development.

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 795.5 feet above mean sea level.

Three-Year Annexation Plan Process

Through both full and limited purpose annexations, the City has grown from its original size of 36 square miles to its current area, encompassing 467 square miles, and having a tax year 2011 net taxable assessed value of $71.2 billion.

By City Charter and State law, City Council has the power to annex territory by passage of an ordinance. As of January 1999, State law mandates that municipalities planning to annex prepare an Annexation Plan that specifically identifies the areas that may be annexed and that no annexation may occur until the third anniversary of the date such plan was adopted.

At the present time, the City does not have an Annexation Plan. There are minor exceptions in State law that allow for exemptions from the formal Three-Year Annexation Plan process, such as for property owner-initiated annexation. At the present time, the City does not have any voluntary annexation requests.

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, whereby subject only to the limitations imposed by the Texas Constitution, Texas Statutes, and the City Charter, all powers of the City are vested in an 11-member council (the "City Council") which enacts legislation, adopts budgets, and determines policies. The City Charter provides for a Council-Manager form of government with ten council members elected from single-member districts, and the Mayor elected at-large, each serving two-year terms, limited to four full two-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 Council appoints a City Manager who 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 eight separate occasions: November 1974, January 1977, May 1991, May 1997, November 2001, May 2004, November 2008, and May 2012.

At the election held November 4, 2008, the City Charter was amended to revise term limits to allow a mayor or member of the City Council to serve four full two-year terms of office, instead of two full two-year terms, but prohibited the then-current and former mayors and members of the City Council, whether appointed or elected, as of the date of the election, from being elected to more than two full two-year terms.

The City Charter currently provides that the City fill vacancies on its City Council by a majority vote of the remaining members of the Council. By ordinance, the City Council established an application and review process to provide guidelines for the selection and appointment process in that regard.

On February 16, 2012, City Council called a Special Election on the question of whether or not the City Charter should be amended to allow filling City Council vacancies by special election rather than appointment, when more than 270 days remain in the unexpired council term, and to allow the City Council to appoint a temporary Council member until the special election is held. Additionally, it allows City Council to fill vacancies on council with 270 or less days remaining by majority vote. The measure passed by a majority vote at an election held on May 12, 2012 and the City Charter was amended to reflect the change.

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 and capital programs 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 a 21 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 ended September 30, 2011 were $297,629,648. (See "San Antonio Electric and Gas Systems" herein.)

Water services to most of the City 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 20th 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 ended September 30, 2011 were $10,821,500. (See "San Antonio Water System" herein.)

On January 28, 2012, by operation of legislation passed by the 82nd Texas legislature and popular vote held on November 8, 2011, the City, acting by and through SAWS, assumed the Bexar Metropolitan Water District. (See "San Antonio Water System – Bexar Metropolitan Water District" herein.)

Economic Factors

The City facilitates a favorable business environment that supports economic diversification and growth. San Antonio's economic base is composed of a variety of industries, including convention and tourism, healthcare and bioscience, government employment, automotive manufacturing, information security, financial services, oil and gas, all with growing international trade. Support for these economic activities is demonstrated in the City's commitment to ongoing infrastructure improvements and development, and investment in a growing and dedicated work force. This commitment and San Antonio's continued status as one of the top leisure and convention destinations in the country support a strong and growing economy.

San Antonio's rate of unemployment fares well when compared to the State and nation. The San Antonio-New Braunfels MSA unemployment rate decreased to 6.7% in August 2012 from 7.3% in July 2012. The Texas unadjusted (actual) unemployment rate decreased to 7.0% in August 2012, down from 7.5% reported in July 2012. The nation's unadjusted (actual) unemployment rate decreased to 8.2% in August 2012, down from 8.6% in July 2012.

Total nonfarm employment in the San Antonio-New Braunfels MSA for August 2012 was 871,700. Government, trade, transportation, and utilities, and education and health services represent the largest employment sectors in the San Antonio-New Braunfels MSA.

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Healthcare and Bioscience Industry

The healthcare and bioscience industry is the largest industry in the San Antonio economy. The industry is composed of related industries such as research, pharmaceuticals, and medical device 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 $24.5 billion in 2009. The industry provided 141,251 jobs, or approximately 17.2% of the City's total employment. The healthcare and bioscience industry's annual payroll in 2009 approached $6.5 billion. The 2009 average annual wage of San Antonio workers was $39,575, compared to $45,793 for healthcare and bioscience employees. The healthcare and bioscience industry has added nearly 33,000 net new jobs over the past decade.

Health Care. The 900-acre South Texas Medical Center (the "Medical Center") has over 40 medically related treatment, education, and research facilities. There are several nursing facilities and more than 20 medical professional office buildings. Other support activities include banks, post office, power plant, pharmacies, and housing facilities. Approximately 300 acres are held for future expansion. Approximately 27,386 Medical Center employees provided care for over 5.38 million outpatients and over 104,276 inpatients. Physical plant values, not adjusted for inflation, representing the original investments in physical facilities and equipment (less depreciation) represent approximately $2.679 billion. Capital projects planned for the Medical Center total approximately $1.031 billion.

Central to the Medical Center is the University of Texas Health Science Center at San Antonio (the "UT Health Science Center"), located on more than 100 acres in the heart of the Medical Center. Approximately 2,700 students are enrolled in the UT Health Science Center's five schools – the School of Allied Health Sciences, the Dental School, the Graduate School of Biomedical Sciences, the Medical School, and the School of Nursing. The UT Health Science Center has nearly 2 million square feet of education, research, treatment and administrative facilities. The UT Health Science Center employs some 5,783 persons with a total annual budget of approximately $740 million. The UT Health Science Center oversees the federally funded Regional Academic Health Center in the Rio Grande Valley with facilities in Harlingen, McAllen, Brownsville, and Edinburg.

The UT Health Science Center is one of the country's leading health sciences universities, and ranks in the top 2% of all U.S. institutions receiving federal funding. The university's schools of medicine, nursing, dentistry, health professions, and graduate biomedical sciences produced 1,211 graduates in 2010 and have produced 25,856 graduates since inception. The $740 million operating budget supports six campuses in San Antonio, Laredo, Harlingen, and Edinburg.

The UT Health Science Center held a dedication ceremony on February 26, 2010 to commemorate the opening of the new Medical Arts and Research Center ("MARC"). The eight-story building is the new "clinical home" of UT Medicine San Antonio, an academic group practice that provides ambulatory clinical care services and clinical research activities for its patients. Located on the North Campus in San Antonio's South Texas Medical Center, the MARC represents the largest multi-specialty practice in the region, housing more than 30 clinics representing nearly every branch of medicine. The building is the first phase of a 14-acre North Campus master plan that will allow the institution to more than double its services over time.

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. The U.S. Department of Defense ("DoD") has historically operated two major regional hospitals in San Antonio, Wilford Hall Medical Center ("Wilford Hall"), today known as the Wilford Hall Ambulatory Surgical Center ("WHASC"), and Brooke Army Medical Center ("BAMC"), today known as the San Antonio Military Medical Center ("SAMMC"). As a result of the 2005 Base Realignment and Closure actions ("BRAC 2005"), DoD is investing over $1.3 billion to expand BAMC into one of two national DoD Regional Medical Centers, and a new outpatient clinic to replace Wilford Hall. BAMC also participates with UT Health Science Center and University Hospital in operating two Level I trauma centers in the community.

On February 2, 2012, City Council authorized an economic development incentive package for the Metropolitan Methodist Hospital Expansion, including a $120,000 grant for the creation of 40 jobs located in the

City's Downtown area. Methodist Healthcare System is proposing a $43.6 million expansion of their intensive care unit located at 1310 McCullough Avenue. The project will be constructed in two phases and includes the following: Phase 1, an investment of $36.9 million in real and personal property; construction of a 65,000 square foot facility that includes 24 Intensive Care Unit ("ICU") beds and their respective support facilities that would enable the relocation of existing laboratory facilities and allow for the expansion of the endoscopy facilities; the creation of 30 new full-time jobs; and Phase 2, construction of 12 additional ICU beds and their respective support facilities, and the creation of five full-time jobs.

Two major hospital systems are combining efforts to build a freestanding children's hospital in downtown San Antonio. The Children's Hospital of Philadelphia ("CHOP"), along with Vanguard Health Systems ("Vanguard"), the parent company of Baptist Health System, want to form a for-profit company where Vanguard would invest $300 million to build up to a 250-bed hospital, while CHOP would provide its well renowned expertise in pediatric care. The success of this new partnership is contingent upon getting doctors and scientists from the UT Health Science Center and Bexar County's University Health System to provide a network of pediatric services.

Biomedical Research and Development. Research and development are important areas that strengthen San Antonio's position as an innovator in the biomedical field.

The Texas Research Park (the "Park") is a 1,236-acre campus owned and operated by the Texas Research & Technology Foundation ("TRTF"), a 501(c)(3) non-profit organization. TRTF is San Antonio's champion for driving economic development in the biosciences and technology. The Park is home to the UT Health Science Center's Research Park Campus, which includes the Institute for Biotechnology, the South Texas Centers for Biology in Medicine, and the Barshop Institute for Longevity and Aging. Several biopharmaceutical and medical device commercial ventures call the Park home, as well. TRTF also develops and funds new innovative technology ventures focused on building San Antonio's emerging technology economy.

The Texas Biomedical Research Institute ("Texas Biomed"), formerly the Southwest Foundation for Biomedical Research, which conducts fundamental and applied research in the medical sciences, is one of the largest independent, non-profit, biomedical research institutions in the U.S. and is internationally renowned. As one of the world's leading independent biomedical research institutions, Texas Biomed is dedicated to advancing the health of San Antonio's global community through innovative biomedical research. Today, Texas Biomed's multidisciplinary team of 72 doctoral-level scientists work on more than 200 major research projects.

Located on a 200-acre campus in the City, Texas Biomed partners with hundreds of researchers and institutions around the world, pursuing advances in the prevention and treatment of heart disease, diabetes, obesity, cancer, osteoporosis, psychiatric disorders, tuberculosis, AIDS, hepatitis, malaria, parasitic infections and a host of other diseases. Texas Biomed is the site of the Southwest National Primate Research Center and home to the world's largest baboon research colony, including a unique pedigreed baboon colony that is invaluable for genetic studies on complex diseases.

Texas Biomed enjoys a distinguished history in the innovative, humane and appropriate use of nonhuman primates in biomedical research. Texas Biomed also is home to other extraordinary resources that give its scientists and their collaborators an advantage in the search for discoveries to fight disease. With the nation's only privately owned biosafety level 4 (BSL-4) laboratory, designed for maximum containment, Texas Biomed investigators can safely study deadly pathogens for which there currently are no treatments or vaccines, including potential bio-terror agents and emerging diseases. Another resource that puts the TRTF on the cutting edge of biomedical research is the AT&T Genomics Computing Center, which houses the world's largest computer cluster for human genetic and genomic research. This high-performance computing facility allows scientists to search for disease-influencing genes at record speed.

The UT Health Science Center has been a major bioscience research engine since its inception, with strong research groups in cancer, cancer prevention, diabetes, drug development, geriatrics, growth factor and molecular genetics, heart disease, stroke prevention, and many other fields. Established by the largest single oncology endowment in the nation's history, $200 million from the State of Texas tobacco settlement, the Greehey Children's Cancer Research Institute is part of the UT Health Science Center. The UT Health Science Center, along with the

Cancer Therapy and Research Center, form the San Antonio Cancer Institute, a National Cancer Institute-designated Comprehensive Cancer Center.

The University of Texas at San Antonio ("UTSA") houses a number of research institutes. The Neuroscience Research Center, which is funded by $6.3 million in ongoing grants, 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 joint partnership between the UTSA, the UT Health Science Center, and the participation of Texas Biomed, and the Southwest National Primate Research Center, have resulted in the formation of the San Antonio Institute of Cellular and Molecular Primatology ("SAICMP"). The focus of the SAICMP is the study of primate stem cells and early embryos to develop nonhuman model systems for studies of primate stem cells and their applications to regenerative medicine, as well as to develop methods of primate transgenesis and to facilitate other investigations of primate embryology and biogenesis. The South Texas Center for Emerging Infectious Diseases ("STCEID") was established to focus State and national attention on UTSA in the fields of molecular microbiology, immunology, medical mycology, virology, microbial genomics, vaccine development and biodefense. One of the major areas of emphasis at STCEID is on the pathogenic mechanisms of emerging infectious diseases.

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 eight of the last 11 cancer drugs approved for general use by the U.S. Food and Drug Administration ("FDA").

The Speaker of the Texas House of Representatives Joe Straus and the South Texas Regional Center of Innovation and Commercialization announced on May 13, 2010, an investment of $3 million in Palmaz Scientific, Inc. through the Texas Emerging Technology Fund. The investment is for the commercialization of Palmaz Scientific's patented nanotechnology processes for the introduction of innovative vascular stents and other implantable medical devices including the SESAME stent, Micro-Neuro stent, Micro-Grooved Coronary stent and a Micro-Mesh Covered Carotid stent to improve the effectiveness and safety of today's vascular stents.

As an equity investment, InCube Labs was the impetus for the City to establish the San Antonio Economic Development Corporation ("SAEDC"). The mission of the SAEDC is to foster the commercialization of intellectual property in San Antonio through direct equity investment in projects. This model represents a new economic development strategy that seeks to realize a direct return on investment back to the City through its economic development efforts. By making equity investments in later stage companies or key entrepreneurs with proven track records, the City seeks to support commercialization of intellectual property in San Antonio, creating more jobs, investment, and entrepreneurs.

On June 17, 2010, InCube Labs Chairman and CEO Mir Imran announced that InCube Labs planned to establish a branch of its operations in San Antonio and launch five life science companies in San Antonio over the next five years. InCube Labs, formerly located in San Jose, California is a life sciences research laboratory focused on developing medical breakthroughs that dramatically improve patient outcomes. The organization is led by Mr. Imran who has founded more than 20 companies and holds more than 200 patents. Mr. Imran has created many innovations that have resulted in new standards of care, including the first FDA-approved Automatic Implantable Cardioverter Defibrillator. Mr. Imran and his partners also manage a venture fund, InCube Ventures, which invests in life science companies and has raised approximately $30 million from local investors. InCube will create at least 50 jobs within the business incubator with salaries ranging from $50,000 to over $200,000. In September 2010, the State of Texas awarded $9.2 million through the Emerging Technology Fund for three existing InCube start-up life science companies to relocate to San Antonio from San Jose, California. As of April 27, 2011, InCube has relocated three companies and has begun its operations in San Antonio.

In June 2011, the City approved an Economic Development Grant through the SAEDC to assist in funding the construction of the UT Health Science Center South Texas Research Facility (the "STRF"). This action also authorized the SAEDC to enter into an Economic Development Agreement with UT Health Science Center. The City, through the SAEDC, is committing funding in the amount of $3.3 million over three years with the potential to

receive repayment of the principal amount plus a return on its investment through acquiring a percentage equity interest in UT Health Science Center start-up companies over a 10-year period.

The STRF is a state-of-the-art $200 million research building. The project is expected to be a significant economic generator for the community creating over 150 new, high-paying research and scientific jobs. The facility will primarily house the Institute of Integration of Medicine and Science, which will be the home for the $26 million National Institutes of Health Clinical and Translational Science Awards program. The facility will also house other core research programs on cancer, diseases affecting the elderly, disorders such as stroke, diabetes in children and adults, and the engineering of new body tissues to cure diseases in partnership with the military.

The UT Health Science Center was established in 1959 and is the largest health sciences university in South Texas. The university is the core and catalyst for the City's largest targeted industry, Healthcare and Biosciences, which generates an annual economic impact of over $24 billion. The UT Health Science Center directly employs over 5,000, is ranked in the top 5% of National Institute of Health funded research universities, and is the number one public medical school in the nation for graduating Hispanics. UT Health Science Center's annual economic impact was estimated at $914 million in 2009. In addition, for the last 34 years, the university has served as the San Antonio Fire Department's contracted "medical director" conducting all medical training for San Antonio's paramedics and firefighters.

The City's $3.3 million investment in the STRF at UT Health Science Center will greatly enhance the university's research capabilities by increasing opportunities for growing local entrepreneurs and companies, helping attract top tier researchers and scientists, demonstrating an investment in the City's local institutions and talent, and providing opportunities to leverage other research, such as military medicine.

The $3.3 million investment also provides the City the opportunity to leverage its investment through the SAEDC, which was created by the City as a nonprofit corporation in May 2010. Through the SAEDC, the City can invest in economic development projects and take out an equity position in a project to potentially achieve a return on the public's investment. The UT Health Science Center has agreed to enter into an Economic Development Agreement with the SAEDC and provide the SAEDC, over 10 years, a 15% interest in any equity position (e.g., founders shares of stock) taken by the university in start-up companies formed through the discovery of intellectual property owned by the university. The SAEDC could then potentially receive a return on its investment up to a cap of $4,000,000 (the $3,300,000 principal amount plus an additional $700,000 return) during the term of the agreement from the university's distribution to the SAEDC based on its equity interest in start-up companies as those companies are acquired or go public.

On August 18, 2010, Becton, Dickinson and Company ("BD") announced that it was establishing four global professional services centers worldwide, and had selected San Antonio for the establishment of its North American center, providing 296 jobs. BD is a global medical technology company focused on improving drug delivery, enhancing the diagnosis of infectious diseases and cancers, and advancing drug discovery. BD develops, manufactures, and sells medical supplies, devices, laboratory instruments, antibodies, reagents and diagnostic products. BD serves healthcare institutions, life science researchers, clinical laboratories, the pharmaceutical industry, and the general public. In 2010, BD had $7.2 billion in revenues, ranking 312th on the list of Fortune 500 companies. BD's grand opening was held at its headquarters on June 3, 2011.

Military Health Care. San Antonio's military healthcare facilities have positively impacted the City for decades. Many military medical transformations came to a close in 2011 as a result of the BRAC 2005 legislation.

Historically BAMC at Fort Sam Houston was known as a hospital and an Army Unit, but the BAMC name is now specifically the unit that commands Army medical activity in San Antonio. BAMC's medical facilities include SAMMC, Center for the Intrepid, Fort Sam Houston Primary Care Clinic, McWethy Troop Medical Clinic, Taylor Burk Clinic at Camp Bullis, and the Schertz Medical Home. These BAMC facilities have a total workforce of over 7,500 personnel.

The renowned hospital known as BAMC became SAMMC in September 2011 and has expanded to 2.1 million square feet due to BRAC 2005 legislation. SAMMC is the largest inpatient medical facility in the DoD, the only DoD Burn Center, and the only DoD Level 1 Trauma Center in the U.S. SAMMC hosts Centers of Excellence

for amputee care, burn care, and breast imaging and contains dedicated inpatient units for bone marrow transplant, maternal-child and neonatal intensive care; as well as pediatric, burn, cardiac and psychiatric care. On any given day at SAMMC, the emergency department averages 174 visits and admits approximately five civilian emergencies, four babies are born and 238 inpatient beds are occupied.

WHASC at Lackland Air Force Base ("Lackland") is the largest in the DoD with more than 40 outpatient clinics. The facility is manned by more than 2,600 personnel and provides primary and specialty care; outpatient surgery; a sleep center; a contingency aeromedical staging facility; and eye, hearing and diabetes centers of excellence. A new WHASC is currently under construction at Lackland and is scheduled to open in 2015.

The San Antonio Military Health System ("SAMHS") oversees the healthcare delivery of 230,000 DoD beneficiaries in the San Antonio metropolitan region. Healthcare services are provided by the SAMMC and the WHASC. The SAMHS treatment facility manages a total combined budget of over $839 million and contributes over $138 million annually in inpatient/outpatient private sector care expenses.

Previously, all U.S. Army combat medic training was conducted at Fort Sam Houston. As a result of BRAC 2005, all military enlisted combat medic training is now undertaken at the new Medical Education and Training Campus at Fort Sam Houston – Joint Base San Antonio.

San Antonio received a new medical research mission due to BRAC 2005. BRAC 2005 transformed the U.S. Army Institute of Surgical Research ("USAISR") into a tri-service Battlefield Health and Trauma ("BHT") Research Institute that has been operating at Fort Sam Houston since August 2010. The BHT is composed of the USAISR, Naval Medical Research Unit San Antonio and the Air Force Dental Evaluation and Consultation Service. This new research facility is adjacent to the SAMMC and was created to remove redundancy and create a synergy in combat casualty care research.

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, dedicated to medical investigations, and the Frank Tejeda Veterans Administration Outpatient Clinic, serving veterans located throughout South Texas. The two military medical care facilities and the Veterans Hospital collaborate in a variety of ways, including clinical research and the provision of medical care to military veterans.

Finance Industry

The largest sector in this industry is insurance. While this sector is led by United Services Automobile Association ("USAA"), San Antonio is home to other insurance company 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 Allstate Insurance Company ("Allstate"), Nationwide Mutual Insurance Company ("Nationwide"), Caremark, United Health, and PacifiCare.

After competing with Little Rock, Tulsa, and Raleigh, Nationwide announced in October 2009 that San Antonio would be home to a new regional corporate headquarters location. Ranked 127th on the 2011 Fortune 500 List, Nationwide, headquartered in Columbus, Ohio, is a national insurance provider with 34,000 employees, and had $20 billion in revenues in 2011. With its announcement to expand in San Antonio, Nationwide committed to retaining 932 current employees and creating an additional 838 new jobs. Phase I of the project involved a consolidation of existing operations into an existing facility, and $3 million in new personal property improvements. Nationwide has broken ground on Phase II of its investment in San Antonio with an $89 million corporate campus.

Nationwide began construction on the company's new 300,000 square foot sales and service operations center that, once completed, will house 800 new employees plus 1,000 employees that are being consolidated from its four existing locations. On March 29, 2011, San Antonio Mayor Julián Castro and Bexar County Judge Nelson Wolff joined company officials in commemorating the start of construction. Company officials also awarded $80,000 to local charities in San Antonio at the event. The new facility, which is expected to be completed by December 31, 2012, will be located in the master-planned Westover Hills community, near the intersection of Hyatt Resort Drive and State Highway 151 on the City's far west side.

On February 9, 2010, Allstate announced its decision to locate a customer operations center, invest $12 million, and create 600 new full-time jobs in San Antonio. The core function of this operations center will support direct sales calls and selling 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. In 2011, the company ranked 89th on the list of Fortune 500 companies, with annual revenues exceeding $31 billion. Allstate's main lines of insurance include automobile, property, life, and retirement and investment products. Allstate has two other sales support centers located in Northbrook, Illinois (its headquarters) and Charlotte, North Carolina. As of December 2010, Allstate reported that it had hired 414 employees and eventually expects the center will employ 600 employees, who will sell Allstate products and provide service to the company's customers.

San Antonio is also the home of many banking headquarters and regional operation centers such as Frost National Bank, Broadway National Bank, and USAA Federal Savings Bank. Companies with large regional operations centers in San Antonio include Bank of America, Wells Fargo, J.P. Morgan Chase, and Citigroup.

Hospitality Industry

The City's diversified economy includes a significant sector relating to the hospitality industry. A 2009 study (respresenting 2008 data) prepared by Richard V. Butler, Ph.D. and Mary E. Stefl, Ph.D., both professors at Trinity University, found that the hospitality industry has an economic impact of nearly $11.0 billion. The estimated annual payroll for the industry is $1.99 billion, and the industry employs more than 106,000 people.

In 2011, the City's overall level of hotel occupancy increased by 3.4%. However, this is considering room supply increased by 2.3%. Total room nights sold increased by 5.8%. The average daily room rate decreased 1.5%, revenue per available room increased 1.9%, and overall revenue increased 4.3%.

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 26 million visitors in 2010. Of these, 12.2 million were overnight leisure visitors, placing San Antonio as one of the top U.S. destinations in Texas. Recent FY 2011 accomplishments contributing to the City's success include: generating over $12 million in positive media value for San Antonio as a tourism and convention destination; Top Chef Texas, which featured San Antonio in eight episodes which showcased the City as a growing culinary destination; implementing a marketing and communication campaign leveraging the 175th anniversary of the Battle of the Alamo; and renovating and branding the City's Visitor Information Center across from the Alamo, which services more than 300,000 visitors.

Conventions. San Antonio is also one of the top convention cities in the country. In FY 2011, the City's Convention & Visitors Bureau ("CVB") launched a niche CEO marketing plan, which raised awareness of San Antonio with top business executives primarily to influence meeting destination opportunities. Thus, the CVB sales staff booked more than 852,000 room nights for current and future years. High profile meetings booked include: American Society for Therapeutic Radiology & Oncology, with 40,000 room nights for 2018 and 2022; Breast Cancer Symposium, with 21,000 room nights for 2018-2020; and American Society for Mass Spectrometry, with 21,000 room nights for 2016. The CVB continues to be proactive in attracting convention business through its management practices and marketing efforts.

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The following table shows both overall City performance as well as convention activity booked by the CVB for the calendar years indicated:

Calendar Year	Hotel Occupancy [1]	Revenue per Available Room (RevPAR) [1]	Room Nights Sold [1]	Convention Attendance [2]	Convention Room Nights [2]	Convention Delegate Expenditures (Millions) [2, 3]
2003	63.8	54.07	6,535,974	429,539	613,747	387.0
2004	64.4	55.80	6,669,644	491,287	621,640	510.5
2005	68.8	63.06	7,283,824	503,601	699,932	523.3
2006	69.1	69.43	7,439,783	467,426	736,659	485.8
2007	66.3	69.90	7,397,123	455,256	647,386	473.1
2008	64.6	70.82	7,669,475	563,164	691,525	607.5
2009	57.1	55.94	7,167,603	399,408	660,736	474.5
2010	59.3	57.02	7,768,002	535,400	736,325	636.1
2011	61.3	58.08	8,236,019	499,171	637,593	593.0
2012 *	66.8	65.17	5,291,915	385,095	487,515	457.5

* Year to date through July.

[1] Data obtained from Smith Travel Research based on hotels in the San Antonio selected zip code historical report dated January 18, 2012.

[2] Reflects only those conventions hosted by the CVB.

[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 – Present are based on an average expenditure of $1,188.05 per convention and trade show delegate.

Source: San Antonio Convention and Visitors Bureau.

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Military Industry

The military represents a significant component of the City's economy providing an annual economic impact of over $13 billion for the City. Three major military installations are currently located in Bexar County, including Joint Base San Antonio-Lackland Air Force Base ("JBSA-Lackland"), Joint Base San Antonio-Fort Sam Houston ("JBSA-Fort Sam Houston"), and Joint Base San Antonio-Randolph Air Force Base ("JBSA-Randolph"). 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 (the "Port"), 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 BRAC 2005. BRAC 2005's realignment of medical facilities resulted in a major positive impact on military medicine in San Antonio, with $3.2 billion in construction and the addition of 12,500 jobs at Fort Sam Houston, which was accomplished in September 2011. This is up from the $1.6 billion in construction and 11,500 personnel projected in 2007.

BRAC 2005 strengthened San Antonio's role as a leading military research, training, and education center. It established Joint Base San Antonio, which consolidated installation management at the three military bases in San Antonio, thereby creating the largest installation in the DoD, while supporting 78,000 personnel and $10.3 billion in property.

JBSA-Fort Sam Houston and JBSA-Lackland. Fort Sam Houston 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 Houston. 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 Houston, 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 Houston is critical to assisting the Army in reducing infrastructure support costs, preserving historical assets, promoting economic development opportunities, and generating net cash flow for both the Army and FSHRP.

The potential economic impact from JBSA-Fort Sam Houston due to the BRAC 2005 expansion is projected at nearly $8.3 billion. The economic impact due to the amount of construction on post to accommodate the new mission accounts for approximately 80% of the impact ($6.7 billion). While the construction impact will be relatively short-lived now that BRAC 2005 is complete, the economic impact from JBSA-Fort Sam Houston will increase by nearly $1.6 billion annually with additional annual sales tax revenue of $4.9 million. BRAC 2005 was completed by September 15, 2011, and the increase in personnel and missions at Fort Sam Houston could support the employment of over 15,000 in the community.

JBSA-Lackland is home to the 37th Training Wing, situated on 9,700 acres, all within the city limits of San Antonio. According to the 2010 Economic Impact Analysis, over 53,000 military, civilian, student, contractors and military dependents work, receive training, or utilize JBSA-Lackland services. On an annual basis, JBSA-Lackland will graduate 86,000 trainees per year. Construction is moving ahead on two new Airman Training Complexes as part of a $900 million East Campus Project. Each Training Complex will house up to 1,200 trainees and includes dining halls and classroom facilities. A third Training Complex started construction in summer 2011.

In addition, the Air Force still maintains a significant presence at the Port, which is adjacent and contiguous with JBSA-Lackland. The Air Force and the Port jointly utilize the Kelly Field runway for military and commercial

airfield operations. The Air Force continues to lease over 54 facilities, which consist of 800,000 square feet of space and over 270 acres. The largest Air Force leaseback is at Building 171, a facility previously closed from the 1995 Base Realignment and Closure of Kelly AFB. Over 6,200 Air Force and other DoD employees will work at this and other facilities on the Port in the post-BRAC era.

Much of the new BRAC 2005 growth occurring on the Port property will be at Building 171. The Air Force is spending $26.5 million to renovate the building, which will house 11 missions. Seven missions and approximately 800 personnel are relocating to the building from Brooks City-Base. These include the Air Force Center for Environment Excellence, four medical missions including Air Force Medical Operations Agency, and other support missions. Building 171 will also house the new "Cyber" 24th Air Force consisting of approximately 450 personnel and the Air Force Real Property Agency.

The BRAC 2005 growth supported the City's economic development strategy to promote development in targeted areas of the City, to leverage military installation economic assets to create jobs, and to assist the City's military installations in reducing base support operating costs.

San Antonio received funding in FY 2008 for two large projects that serve all of the military branches. On September 11, 2007, the Veterans Administration announced plans to build a new $67 million Level I Polytrauma Center at the Audie L. Murphy Veterans Administration hospital campus. The expansion began in early 2009 and was completed in September 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, University Hospital, the UT Health Science Center, and the USAISR. 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 2010.

In 2005, the San Antonio community 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 which provides a single integrated voice from the community to the military. The MTTF is formed of several committees each dedicated to working with the community and military on the BRAC 2005 actions and post–BRAC 2005 actions.

In January 2007, the City established the Office of Military Affairs ("OMA") as the single point of contact for the City on military related issues. The mission of OMA is to work with the military to sustain and enhance mission readiness, develop and institutionalize relations to strengthen a community-military partnership, and to provide an official formalized point of contact for the military on issues of common concern. OMA provides staff support to the MTTF and works closely with each MTTF committee in order to facilitate their work. OMA is also working with the local military bases to address compatible land-use issues around the installations in order to enhance mission readiness. 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 2008, OMA introduced the Growth Management Plan as one of the responses to the growth brought about by the BRAC 2005 actions, and it clearly laid out the partnership between the San Antonio community and the military. One example of the partnership is the City's effort to gather over $30 million in resources and funding from bond proceeds, City funding, federal earmarks, and grants to provide significant infrastructure improvements around Fort Sam Houston. The premier project is the reconstruction and widening of Walters Street, a primary entrance to Fort Sam Houston. This project is currently underway and is expected to be completed in the fall of 2012. This project is complex, since it is the center segment of a cooperative effort joining the already completed Texas Department of Transportation ("TxDOT") improvements on IH-35 to a new, high security gate entrance that is presently being built by Fort Sam Houston. An even more unique project is the City's construction of a much improved bridge over Salado Creek on Binz Engleman Road, which was actually built on federal property and was gifted to the military upon completion in June of 2012. Other key projects include intersection improvements on Harry Wurzbach Road between the Fort Sam Houston Gate and Rittiman Road, and the construction of a new bridge on Rittiman Road, west of IH-35. The City is also expending significant funding to support development along Walters Street by improving utilities, installing a new water line and improving numerous side streets in that area.

All these improvements should be complete by December 2012. The City was recently notified of its selection by the DoD's Office of Economic Adjustment to continue the next phase of its application process to receive $25 million in federal funds to construct new ramp connectors between IH-35 and Loop 410 near SAMMC. This initiative with TxDOT will greatly improve traffic flow and safety for personnel seeking access to the medical facility area.

Currently, the DoD is the community's largest employer, employing over 195,075 people; with an economic impact of $13.3 billion annually; and $9 billion in yearly wages. Over 48,000 military veterans reside in San Antonio and receive over $1.2 billion in annual benefit payments. The BRAC 2005 program in San Antonio concluded in 2011, but the construction momentum continues. Multiple projects are planned from FY 2012 through 2015. The value of the proposed projects during this time period is anticipated to be about $200 million to $300 million per year, with almost $1 billion in post-BRAC 2005 projects lined up.

Other Major Industries

Aerospace. According to the Economic Impact Study commissioned by the Greater San Antonio Chamber of Commerce in 2010, the aerospace industry's annual economic impact to the City was about $5.4 billion. This industry provides approximately 13,616 jobs, with employees earning total annual wages of over $678 million. The aerospace industry continues to expand as the City leverages its key aerospace assets, which include San Antonio International Airport, Stinson Municipal Airport, the Port, JBSA-Randolph, JBSA-Lackland, and training institutions. Many of the major aerospace industry participants 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, United Airlines, US Airways, FedEx, UPS, and others, have significant operations in San Antonio. The aerospace industry in San Antonio is diversified with continued growth in air passenger service, air cargo, maintenance, repair, overhaul, and general aviation.

In February 2011, Southwest Airlines ("SWA") finalized its acquisition of AirTran Holdings, Inc. for $1.4 billion in cash and stock. The acquisition provided SWA with a presence in 37 new cities, including Hartsfield-Jackson Atlanta International Airport (AirTran's main hub) and two AirTran customer service centers in Orlando, Florida and Atlanta, Georgia. As of March 1, 2012, SWA and AirTran are operating under a single operating certificate. Following this acquisition, SWA began discussions with City staff about its intent to consolidate customer service operations in San Antonio or at one or more of their other customer service centers.

In 1981, SWA opened its customer services and support center in San Antonio. This facility currently accommodates the existing workforce of 478 employees, but cannot expand to include the additional 322 employees SWA plans to hire by the end of 2012. Therefore, SWA began exploring other sites in San Antonio to accommodate a potential consolidation and growth. Other expansion sites SWA considered included Orlando, Florida, Atlanta, Georgia, Oklahoma City, Oklahoma, and Phoenix, Arizona. In order to retain and expand the SWA customer support operations and jobs in San Antonio, City staff offered the following financial incentives to SWA: (1) a cash grant of $440,000 payable over two years with an initial payment of $220,000 upon receipt of a certificate of occupancy and execution of a long-term lease in a new facility and a second payment of $220,000 upon SWA demonstrating it has retained/created a minimum of 800 total jobs at its new facility; and (2) a grant of approximately $141,649 payable over ten years based on SWA's annual payment of personal property taxes. In exchange for these incentives, SWA has agreed to do the following: (1) retain and expand its customer support and services center in San Antonio; (2) retain 478 jobs and add 322 new jobs, for a total of 800 jobs, by December 31, 2012; and (3) meet the City's minimum "living wage" requirement of $10.75 per hour for all employees at the project site. On March 8, 2012, City Council approved an ordinance authorizing the City to enter into this economic development program grant agreement with SWA.

In early 2012, Boeing announced that its San Antonio facility would gain 300 to 400 workers and maintenance responsibilities for the nation's executive fleet due to a decision to close a Wichita, Kansas plant. The aircraft maintenance and support work moving to San Antonio will include improvements to the nation's fleet of executive jets, including Air Force One, the Boeing 747s that transport the President of the United States, and the jets that transport the Vice President, Cabinet members, and other government officials.

In early 2011, Boeing began bringing a number of the 787 Dreamliner and 747-8 aircraft to its facilities at the Port for follow-on analysis and refurbishment. Boeing will be bringing in this additional workload over a three to five year period. This additional commercial aircraft maintenance, repair and overhaul workload will create an additional 800 aerospace jobs above the current 1,500 employed by Boeing in San Antonio. This commercial aircraft work will require the workforce to obtain significant training on the latest high-tech airplane leading to building a stronger, Federal Aviation Administration ("FAA") certified aerospace workforce in San Antonio. In 2011, Boeing invested an additional $14 million in its San Antonio operations to accommodate this workload. The first 787 arrived in March 2011 for refurbishment and the 747-8 arrived in May 2011.

Applied Research and Development. The Southwest Research Institute ("SwRI") 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. SwRI has contracts with the FAA, 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. SwRI occupies 1,200 acres and provides nearly two million square feet of laboratories, test facilities, workshops, and offices for more than 3,046 scientists, engineers, and support personnel. SwRI's total revenue for FY 2011 was $581 million and total payroll was $232 million.

Information Technology. The information technology ("IT") industry plays a major role in San Antonio. The economic impact of IT and cyber business already measures in the billions ($10 billion in 2010, with conservative estimates of growth to $15 billion by 2015). The industry itself is both large and diverse, including IT and Internet-related firms that produce and sell IT products. San Antonio is particularly strong in information security. In fact, San Antonio is recognized as a national leader in this vital field, with the U.S. Air Force's Air Intelligence Agency, a large and growing National Security Agency presence, and the Center for Infrastructure Assurance and Security at UTSA.

San Antonio boasts some of the most sophisticated uses of IT in the world, even though much of that advanced usage remains undisclosed for security reasons. After all, the community is home to a large concentration of military and intelligence agencies charged with the missions of intelligence, surveillance and reconnaissance, information operations and network defense, attack and exploitation. Prominent activities in cyber warfare, high tech development, acquisition and maintenance are found among the Air Intelligence Agency, Joint Information Operations Warfare Command, NSA / CSS Texas, 67th Network Warfare Wing, Air Force Information Operations Center, and Cryptology Systems Group.

The Center for Infrastructure Assurance and Security (the "CIAS") at UTSA is one of the leading research and education institutions in the area of information security in the country. The CIAS has established partnerships with major influential governmental and non-governmental organizations such as the DoD, DHS, and the United States Secret Service. The CIAS has also been actively involved with sector-based Information Sharing and Analysis Centers' security preparedness exercises for organizations in critical infrastructures.

Chevron U.S.A. Inc. ("Chevron") has selected San Antonio as the site for the construction of a 130,000 square foot data center to consolidate all of its North American data center operations. On June 23, 2011, City Council approved the execution of a Tax Abatement Agreement with Chevron. The proposed data center involves a capital investment of over $335 million over ten years and will create 17 new jobs that pay approximately $60,000 annually in the targeted industry of IT. Chevron plans to construct this data center on a 33.82 acre site in Westover Hills, located at 5200 Rogers Road, adjacent to the Microsoft data center, and commence operations in the first quarter of 2013.

Sigma Solutions ("Sigma") is a local IT company specializing in advanced IT infrastructure solutions, advising, implementing, and maintaining enterprise data centers. Established in 1992 and headquartered in San Antonio, Sigma has grown from its four original employees to over 100 employees at seven locations throughout the U.S., including Austin, Dallas, Houston, Tulsa, Oklahoma City, and New Orleans. Sigma informed the Economic Development Department ("EDD") staff of a potential relocation to Austin due to a pending acquisition of the company by Pivot Acquisitions Corporation ("Pivot"). Pivot's U.S.-based headquarters is located in Austin and therefore was considering relocating Sigma headquarters to Austin. To retain Sigma, City Council authorized financial incentives on August 30, 2012 in an amount not to exceed $500,000 payable over three years. Sigma in

return will retain 40 existing jobs and create 20 new jobs in the targeted IT industry at a leased space at 425 Soledad located in the inner city.

Manufacturing Industry. Toyota Motor Corporation ("Toyota"), one of the largest manufacturing employers in San Antonio with an estimated workforce of 2,850, expanded its local production in 2010, adding the production of the Tacoma truck at its manufacturing facility in San Antonio. Toyota shifted its Tacoma manufacturing from Fremont, California to San Antonio, creating an additional 1,000 new jobs and investing $100 million in new personal property, inventory, and supplies. Toyota and its 21 on-site suppliers are located on San Antonio's south side. Toyota suppliers will also add about 1,000 jobs through 2012, bringing the total number of jobs supporting Toyota's operations to approximately 5,300, with an annual impact of $1.7 billion. Production commenced for the Toyota Tacoma on August 6, 2010. On April 15, 2011, Toyota announced that plants across the country – including the one in San Antonio – would be halting production for five days. According to Toyota, there existed a delay in supplies arriving from Japan following the devastating earthquake on March 11, 2011. Toyota continued to employ its 25,000 North American workers and workers had the opportunity to choose to use vacation days, take unpaid time off or work on training and plant improvement activities. In September 2011, Toyota's San Antonio facility returned to full capacity, four months earlier than Toyota originally predicted.

NBTY is the largest vertically integrated manufacturer of nutritional supplements in the United States. The company manufactures, wholesales, and retails more than 25,000 products including vitamins, minerals, herbs, and sports drinks. The company sells its goods through pharmacies, wholesalers, supermarkets, and health food stores around the world. NBTY is owned by investment firm, The Carlyle Group, which purchased 100% of the firm's publicly traded shares on October 1, 2010. NBTY was considering an expansion of its vitamin manufacturing operations at 4266 Dividend – the site of the former Judson-Atkinson Candies, Inc., which closed its operations in November 2011. NBTY was also considering other potential sites in Long Island, New York and Hazelton, Pennsylvania. To attract NBTY to San Antonio, City staff offered the company a cash grant of $200,000 over four years and the annual reimbursement of ad valorem taxes paid on new real and personal property improvements over 10 years not to exceed $201,546 for a total cumulative grant of up to $401,546. Based on the City's offer of incentives, NBTY has indicated its intent to expand in San Antonio, create 65 new jobs, occupy the former Judson-Atkinson facility, and invest $6 million in improvements. NBTY also intends to offer employment to former Judson Candy Factory employees by hiring the former plant director to connect with former employees with production experience with the existing manufacturing equipment. City Council approved the agreement on April 12, 2012.

Xenex, formerly headquartered in Austin, Texas manufactures a patented mobile disinfection machine to decontaminate patient care environments. Xenex is an early stage company selling its disinfection machines to hospitals around the country. On May 31, 2012, City Council authorized an economic development grant of $150,000 from the Economic Development Incentive Fund to Xenex contingent upon Xenex relocating its headquarters and operations from Austin to San Antonio and creating 27 jobs over two years. Xenex relocated the company to San Antonio in 2012.

Support Operations. On November 22, 2010, PETCO Animal Supplies, Inc. ("PETCO") announced it had selected San Antonio over 47 other communities as the site of a new satellite support center, which is being created as an extension of the company's San Diego headquarters and will be called the National Support Center. The National Support Center in San Antonio will house 400 PETCO associates in functions including accounting, human resources, internal audit, loss prevention, risk management, and ethics and compliance. These 400 new jobs will have an annual average wage of approximately $58,000 with at least 10% of the jobs paying $80,000 or more. Many of these jobs are corporate-level positions with decision-making authority over major company functions. PETCO is the second-largest U.S. retailer of specialty pet supplies. PETCO operates more than 1,000 stores in all 50 states and the District of Columbia, making it the only pet store to cover the entire U.S. market.

Glazer's, headquartered in Dallas, is one of the largest beverage distributors in the U.S. The company represents a wide variety of wine, spirits, malt beverage, and non-alcoholic suppliers in 11 states and employs over 6,000 people. Glazer's has operated in San Antonio since 1940 and is currently located at 3030 Aniol Street, where it employs 125 people. Glazer's has requested an amendment to a Tax Abatement Agreement with the City, dated August 19, 2010, to reflect a new investment of over $32 million in real and personal property at a new facility purchased by Glazer's, and creation of 100 new jobs and retainment of 350 jobs, for a total of 450 jobs to be located at the new facility. Glazer's has also purchased an additional 9.37 acres of City-owned land adjacent to the previous

35-acre purchase to accommodate the larger facility. City staff has negotiated to sell the additional land for $399,999 plus a $75,000 charitable donation by Glazer's to the City for the benefit of targeted area redevelopment, such as the West side, with payments of $25,000 over each of the three years from 2014 to 2016. City Council approved the amendment on February 2, 2012.

Green Technology. In response to an April 2009 Request for Proposal, CPS negotiated and entered into a 30-year power purchase agreement with TX Solar I, LLC to construct a clean, dependable, and renewable energy solar farm in San Antonio and Bexar County, known as the "Blue Wing Solar Energy Generation Project". TX Solar I, LLC, a wholly owned subsidiary of Duke Energy, is one of the largest electric power companies in the U.S. The project will consist of 214,500 ground-mounted thin film panels manufactured by First Solar with an annual generation of about 14 megawatts ("MW"). This project created approximately 100 green jobs during the construction and operation phases with a capital investment of approximately $41,590,000 in real and personal property. The site is located southwest of the City near the intersection of IH-37 and U.S. Highway 181. Approximately 80% of the property site lies within Bexar County and approximately 20% is within the City limits.

In June 2010, CPS and UTSA announced a ten-year, $50 million agreement to position San Antonio as a national leader in green technology research. The agreement will establish the Texas Sustainable Energy Research Institute at UTSA. Dr. Les Shephard, UTSA's USAA Robert F. McDermott Distinguished Chair in Engineering, will head the institute formerly known as the Institute for Conventional, Alternative and Renewable Energy. This research institute will work with other academic and research entities with robust green programs including the SwRI as well as the Mission Verde Center, a city partnership that includes the Alamo Colleges and the Texas A&M University Texas Engineering Experiment Station. It also has an active military establishment looking to address specific energy needs. CPS will invest $50 million over ten years in the UTSA Institute. In 2011, CPS invested $1 million that will be followed by $2.5 million in 2012. The annual investment is expected to increase thereafter and these investments are being supported by the City's International and Economic Development Department's efforts to strike agreements with solar panel array investments coming to San Antonio seeking tax abatements.

The City continues to maximize the municipally-owned CPS utility to develop investment and employment in San Antonio. Through a combination of power purchase agreements and local economic development incentives, the City and CPS are steadily securing jobs, investment, and enhancing university research and development in the area of renewable energy.

As of August 2012, CPS' renewable energy capacity totals more than 913.4 MW in service with another 603 MW under contract or in the contract development phase. CPS has contracted to purchase 200 MW of wind power annually over the next 25 years from the Los Vientos I Wind Project scheduled for commercial operation in December 2012. Also under contract and in varying levels of development in the San Antonio area are 30 MW of solar-generated energy which is scheduled for commercial operation between May and July of 2012 and 3 MW of landfill gas-generated energy expected to be in operation by December 2012. Most recently, CPS has concluded contractual negotiations with OCI Solar Power for 400 MW of solar power to be built and operational by 2017. CPS has one of the most aggressive renewable energy programs in Texas with a renewable capacity under contract equivalent to approximately 22.7% (exclusive of the 400 MW currently under negotiation) of its historic peak power requirement. As part of its proposal to CPS to provide 400 MW of solar energy, OCI Solar Power also proposes to bring a solar cell manufacturing facility and related value-chain components to San Antonio resulting in the creation of at least 800 permanent jobs. CPS and OCI Solar Power are beginning negotiations on agreements reflecting these proposals with a goal of having solar farms in place by 2017.

On June 20, 2011, CPS and the City announced the expansion of five companies into the area directly related to renewable energy and energy efficiency technologies. These firms were: Consert, GreenStar, ColdCar USA, Summit Power, and SunEdison. Since that time, these companies have begun implementing their commitments to San Antonio. Recent developments include the following:

- A signed memorandum of understanding has now been converted into a finalized contract with Summit Texas Clean Energy ("STCE"). STCE will provide CPS with 200 MW of clean-coal electricity. STCE is expected to create 1,500 to 2,000 West Texas construction jobs in addition to opening a customer relations office in San Antonio by the end of 2012. The STCE team is continuing to work towards securing project financing for the STCE.

- Three separate purchase power contracts have been signed with SunEdison that will bring approximately 30 MW of renewable solar energy to CPS. CPS will provide about 60% of the long-term capital for development of the project by prepaying for a portion of the anticipated electrical output. SunEdison will utilize these funds to reduce the interest cost of the project. These uniquely structured contracts, a first in the solar industry, will ultimately provide CPS ratepayers with more than $32 million in energy savings over the next 25 years. The two 20 MW solar farm projects on approximately 200 acres at the SAWS Dos Rios Water Recycling Center are operational. All three solar facilities are online and operational since early summer of 2012.
- GreenStar, a manufacturer of LED streetlights, has moved into a new manufacturing space in the Alamo Downs area. Initially, the company is employing 53 people in its San Antonio location. At the end of September 2011, the first shipment containing 100 LED lights was delivered to CPS. A total of 25,000 LED streetlights will be installed throughout the City over the next several years.
- Consert relocated its corporate headquarters from North Carolina to San Antonio and has hired 52 employees. Consert has installed its innovative energy management technology in over 5,100 homes in the San Antonio area with more being installed each week.
- ColdCar USA continues to actively seek a manufacturing facility site in San Antonio. In November 2011, ColdCar USA delivered its first all electric refrigeration truck to Ft. Collins, Colorado.

Inner City Development

On February 4, 2010, the City Council approved the Inner City Reinvestment/Infill Policy as a strategy to stimulate growth in the inner city. Current market trends support a renewed interest in the heart of San Antonio, as illustrated by studies conducted for San Antonio such as the Downtown Housing Study, the Real Estate Market Value Analysis, and the Housing + Transportation Affordability Index. In particular, the Real Estate Market Value Analysis shows that a substantial portion of San Antonio's core has very high rates of vacant properties, properties that could be put to use to support increasing demand for near-downtown housing, jobs, and services. This policy establishes the Inner City Reinvestment/Infill Policy Target Area as the highest priority for incentives. Specifically, the following actions are endorsed: (1) waiver of certain City fees and SAWS fees within the target area, and (2) provide greater incentives for economic development projects within the target area. The policy is designed to combat sprawl by strengthening San Antonio's vibrant urban core and driving investment into the heart of the City.

Argo moved its insurance operations from Menlo, California to San Antonio in 2001 and maintains its U.S. corporate headquarters in San Antonio. In 2007, Argo merged with PXRE Group Ltd., a Bermuda-based property reinsurer, and established its international headquarters in Bermuda. Argo has about 1,300 employees worldwide in eight countries, including 17 offices in 12 U.S. states, with annual revenues of approximately $1.3 billion. Argo is currently located at 10101 Reunion Place and was considering relocation of its San Antonio operations to other sites within San Antonio, as well as to sites in other U.S. cities. In order to retain these good-paying corporate headquarters jobs in San Antonio, the City offered Argo free parking at the St. Mary's garage for ten years valued at approximately $2,850,120 for up to 300 parking spaces. In exchange for this financial incentive, Argo agreed to locate a minimum of 200 jobs at the IBC Centre building at 175 E. Houston Street by December 31, 2012 and retain these jobs at this location for the ten-year term of the agreement. Argo also agreed to meet the City's minimum wage requirements and pay an average annual salary of at least $50,000. These incentives were approved by City Council on September 15, 2011.

HVHC Inc. ("HVHC") established its headquarters in San Antonio in 1988 and currently employs 440 at its headquarters facility downtown with plans to add another 100 jobs over the next two years. HVHC operates the third largest optical retail sector in the U.S. under several brand names, such as Visionworks. The company currently operates over 540 retail stores in 36 states and plans to grow to 1,000 stores in the next five years. City staff met with representatives of the company in December 2010 as part of the community's Business Retention and Expansion program administered through the City's contract with the Economic Development Foundation. During this meeting, City staff learned the company planned to relocate from its current facility at 11103 West Avenue and was considering a consolidation and expansion of its operations at either another site in San Antonio or in other Texas cities, including Dallas and Austin. In order to retain the company's operations and headquarters in San Antonio, the City offered the following financial incentives to HVHC: (1) a cash grant of $1,050,000 payable over two years at $3,000 per job created/retained, and (2) approximately $2,923,200 in parking subsidies in the St. Mary's garage over ten years, to include free parking for up to 350 employees for five years and parking at a 60%

discount for up to 350 employees for another five years. In exchange for these financial incentives, HVHC agreed to: (1) retain its operations and corporate headquarters in San Antonio; (2) relocate 265 corporate jobs to the IBC Centre building on Houston Street no later than March 31, 2012, which the company complied with by providing payroll documentation on March 29, 2012; (3) relocate its vision care benefits subsidiary, Davis Vision, from Latham, New York to San Antonio; (4) add 85 new jobs for a total of 350 jobs at the IBC Centre no later than December 31, 2012; (5) meet the City's minimum wage requirements in the Tax Abatement Guidelines; and (6) pay an annual average salary of at least $50,000. These incentives were approved by City Council on September 1, 2011.

On June 21, 2012, City Council adopted the Center City Housing Incentive Policy which will provide greater incentives to housing projects within the targeted growth areas identified in the City's Downtown Strategic Framework Plan. The policy encourages historic rehabilitation, adaptive reuse, brownfield redevelopment, and transit oriented development; rewards good urban design; and encourages mixed use and mixed income redevelopment. The policy is an as-of-right housing incentive system which applies to multi-family rental and for sale housing projects within the Inner City Reinvestment Policy Target Area. Eligible projects will receive City fee waivers, SAWS fee waivers, and real property tax reimbursement grants for new residential development and residential conversions in the Center City, in order to normalize land values and provide greater certainty and speed of approvals to developers. Additionally, Inner City Incentive Fund loans and mixed use development forgivable loans will be awarded based on the terms outlined in the policy which will vary based on the geographic location of the housing project with projects located within the Central Business District receiving a higher grant amount per housing unit than projects in other target growth areas.

Port San Antonio

The Port is a logistics-based industrial platform on the 1,900-acre site of the former Kelly Air Force Base. It was created by the Texas Legislature in 2001 following the closure of the base and tasked with redeveloping and managing the property to ensure that it continues serving as an economic engine for the region. Though created by the local government, the Port is self-sustaining and operates like a business – receiving its income from the properties it leases, services it provides, and reinvesting profits into further development of the property.

The Port is the region's single largest real estate management and leasing firm, overseeing 12.9 million square feet of facilities and logistics assets that include an industrial airport, Kelly Field, SKF, and a 350-acre railport, East Kelly Railport. The entire site is contained within a foreign-trade zone, FTZ #80-10, and has quick road connections to Interstate Highways 35, 10 and 37.

The Port redevelopment efforts to date have attracted almost 80 customers to its site, including aerospace, logistics and military/governmental organizations. These customers employ more than 14,000 workers and generate over $4 billion in regional economic activity each year. The Port has received numerous recognitions for its innovative work, including being named Redevelopment Community of the Year in 2010 by the Association of Defense Communities. A regional sustainability leader since 2009, two of the Port's newly developed properties have been LEED-certified by the U.S. Green Building Council.

Fourteen of the Port's customers are aerospace-related firms, including industry leaders Boeing, Lockheed Martin, StandardAero, Chromalloy, Gore Design Completions ("Gore"), and Pratt & Whitney. Of the 14,000 workers at the Port, about 5,000 are employed in the aerospace sector.

The Port reached important milestones in 2011, positioning it and its customers for further growth as an important economic engine for the region.

In the aerospace sector, Boeing's Port facility ushered in a new era of commercial projects in the past year. The company, which has been operating at Kelly Field since 1998 with a focus on maintenance, repair, and overhaul of military aircraft, welcomed its first 787 Dreamliner in the spring of 2011. The airplane is one of four scheduled to undergo change incorporation (electronics and software upgrades) at the Port before final completion and delivery to customers worldwide. In addition, the first of six new 747-8 tankers arrived at Boeing's Port facility in 2011 where they, too, will undergo change incorporation through 2013.

Similarly, Gore, which is North America's largest outfitter of custom interiors for wide body jets and the third largest company of its type in the world, has been steadily growing since its arrival at the Port in 2005. In 2010, Gore added over 100,000 square feet to its hangar and workshop facilities at Kelly Field, giving it the necessary room to deliver luxury interiors for a Boeing 767 and its first Boeing 777 completion to foreign heads of state in 2011. Without breaking momentum, the company took in two new aircraft to keep it busy through 2012 – further cementing its position as a global industry leader.

Elsewhere at the Port, efforts to upgrade a 450,000-square-foot office facility known as Building 171 continued in 2011. The facility accommodates 11 Air Force agency headquarters and 3,000 personnel. Since 2009, the Port has managed over $60 million in upgrades to the property to meet new Anti-Terrorism Force Protection standards that ensure the safety of its occupants and the sensitive work that takes place within. In 2012, the completion of final bays will allow the 24th Air Force-Cyber Command to become the final occupant of the building. There, the unit will lead operations to defend the Air Force's information systems worldwide against the new frontier in warfare-cyber attacks.

Four properties adjacent to Building 171 are also undergoing upgrades managed by the Port to support Air Force expansion within a single 70-acre containment area. Buildings 178, 179 and 200, measuring a combined 218,000 square feet, provide additional offices and specialized space for important servers and other computer equipment, including those utilized by the 24th Air Force-Cyber Command.

In 2010, the Port also completed a $10 million upgrade to a former World War II era warehouse, which now comprises 85,000 square feet of modern office space. The building allowed ACS, A Xerox Company and Port customer since 2000, to relocate from a 45,000 square-foot space it previously occupied into its new facility as it grew its workforce from 400 to over 800 employees throughout 2010 and 2011. The company provides business support services to private and governmental customers, including serving as the State Disbursement Unit for Texas child support payments.

Looking ahead in 2012, the Port will reach an important milestone as two road construction phases begun in 2011 are completed. The project extends 36th Street from the Port's northwest entrance for almost two miles into the heart of the property, improving access to the Port and, starting in 2012, opening 150 acres at Kelly Field for the development of new air-served facilities.

The new sites opened by the 36th Street extension will enable the construction of new hangars and workshops that can support an additional 8,000 new jobs in that part of the Port alone – further positioning the region as an important and thriving aerospace center. The project is headed by the City's Capital Improvement Management Services Department. Additional project partners include the Metropolitan Planning Organization, CPS, SAWS, and TxDOT.

Brooks City-Base

Brooks City-Base 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, Brooks City-Base is a 1,200 acre campus with approximately 400 acres available for immediate development. The U.S. Air Force ceased all operations at Brooks City-Base on September 15, 2011.

Since the project's inception, more than 1,600 jobs have been created with an average salary of $48,000. More than $350 million in real estate development has occurred on campus with another $200 million planned.

Brooks Development Authority ("BDA") encouraged economic growth noting the following projects:

- VMC Consulting expands its center at Brooks City-Base creating 600 additional jobs to support San Antonio client base.
- South New Braunfels road expansion project and the intersection at Inner Circle were completed as of August, 2012.
- Brooks City-Base is working to restore Hangar 9 and maintaining its historical presence on campus.

- Spine and Pain Center of San Antonio, PLLC – BDA signed a ten-year lease agreement with Spine and Pain Center of San Antonio, PLLC. The center opened its doors with approximately 9,622 rentable square feet.
- The Landings at Brooks City-Base completed the first phase of construction on a 300 unit multi-family apartment complex. The development will is owned by the BDA and the NRP Group is the co-developer.
- The City completed construction of its new Fire and Police Emergency Dispatch Center, a state-of-the-art communications facility located across from the City's Emergency Operations Center and replaced the 9-1-1 center located at the police headquarters downtown.
- BDA finalized a land sale to Head and Neck, a medical facility, to establish a 20,000 square-foot medical office building on the Brooks City-Base Campus.

To continue fostering economic activities on the south side of San Antonio, BDA has leveraged resources in the following ways:

- BDA applied for designation as an EB-5 Regional Center in July 2011. Receiving Regional Center designation may benefit BDA from an influx of foreign capital, which may improve its financial operations and capital projects. BDA is awaiting approval.
- BDA was awarded $2.4 million from the State Energy Conservation Office ("SECO") for energy saving upgrades to eight buildings and 163 residential housing units. The project is still in the preliminary design phase.

Sources: The Greater San Antonio Chamber of Commerce; San Antonio Medical Foundation; City of San Antonio, Department of International and Economic Development Department; Convention and Visitors Bureau; and the Strategic Alliance for Business and Economic Research Institute.

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Growth Indices

San Antonio Electric and Gas Customers

For the Month of December	Electric Customers	Gas Customers
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
2010	717,109	324,634
2011	728,344	328,314

Source: CPS.

SAWS Average Customers per Fiscal Year

Fiscal Year Ended December 31	Water Customers [1]
2002	298,215
2003	303,917
2004	311,556
2005	320,661
2006	331,476
2007	341,220
2008	346,865
2009	350,859
2010	355,085
2011	358,656

[1] Average number billed, 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	Residential Single Family		Residential Multi-Family [1]		Other [2]	
Year	Permits	Valuation	Permits	Valuation	Permits	Valuation
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	2,084	311,309,870	50	5,692,447	6,933	1,684,823,866
2010	1,976	307,406,128	10	1,612,057	5,702	1,320,800,279
2011	1,663	260,602,240	2	445,000	5,128	1,723,212,400
2012 *	1,433	235,044,787	28	4,011,194	3,690	1,312,030,071

* Year to date through August.

[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 calendar years indicated:

	2011	2010	2009	2008	2007
Amarillo	N/A	$ 56,863,740	$ 56,514,269	N/A	N/A
Arlington	$ 86,127,967	83,143,848	80,170,009	$ 81,851,457	$ 80,701,278
Austin	144,161,036	137,309,212	131,403,989	147,051,782	147,310,525
Corpus Christi	62,721,436	N/A	57,311,248	62,076,566	58,502,801
Dallas	215,394,908	204,732,898	205,447,327	227,067,964	223,708,825
El Paso	72,347,296	68,348,227	64,480,623	67,821,673	64,508,591
Fort Worth	105,424,832	100,569,555	97,877,323	106,259,648	98,863,541
Houston	507,928,840	473,149,941	489,009,133	504,416,610	471,684,021
Plano	66,325,563	58,888,948	N/A	64,180,104	63,267,699
Round Rock	63,030,582	61,644,122	58,694,318	67,029,667	69,435,651
SAN ANTONIO	220,171,017	208,322,621	202,966,327	215,808,945	209,599,573

Source: State of Texas, Comptroller's Office.

Education

There are 15 independent school districts within Bexar County with a combined enrollment of 318,573 encompassing 55 high schools, 76 middle/junior high schools, 268 early education/elementary schools, 21 magnet schools, and 31 alternative schools as of October 2011. There are an additional 24 charter school districts with 72 open enrollment charter schools at all grade levels. In addition, Bexar County has 82 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 seven 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 117,344 for fall 2011.

Sources: Texas Education Agency; and Texas Higher Education Coordinating Board.

Employment Statistics

The following table shows current nonagricultural employment estimates by industry in the San Antonio-New Braunfels MSA for the period of August 2012, as compared to the prior periods of July 2012 and August 2011, respectively.

Employment by Industry

San Antonio-New Braunfels MSA [1]	August 2012	July 2012	August 2011
Mining and Logging	3,400	3,400	3,100
Construction	45,100	44,300	42,600
Manufacturing	46,700	47,000	46,200
Trade, Transportation, and Utilities	147,300	147,600	144,300
Information	17,900	17,900	18,300
Financial Activities	69,700	69,400	69,500
Professional and Business Services	100,800	98,700	98,900
Education and Health Services	135,600	135,300	131,700
Leisure and Hospitality	119,800	119,400	111,000
Other Services	32,400	32,400	31,800
Government	153,000	151,500	153,600
Total Nonfarm	871,700	866,900	851,000

[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-New Braunfels MSA, Texas, and the United States for the period of August 2012, as compared to the prior periods of July 2012 and August 2011, respectively.

Unemployment Information *(all estimates in thousands)*

San Antonio-New Braunfels MSA [1]	August 2012	July 2012	August 2011
Civilian Labor Force	1,027.1	1,033.2	1,012.2
Number of Employed	958.4	958.3	933.3
Number of Unemployed	68.7	74.9	78.9
Unemployment Rate (%)	6.7	7.3	7.8

Texas (Actual) [1]	August 2012	July 2012	August 2011
Civilian Labor Force	12,625.9	12,728.0	12,479.7
Number of Employed	11,738.2	11,768.7	11,452.8
Number of Unemployed	887.7	959.3	1,026.9
Unemployment Rate (%)	7.0	7.5	8.2

United States (Actual) [1]	August 2012	July 2012	August 2011
Civilian Labor Force	155,254.0	156,526.0	154,343.0
Number of Employed	142,558.0	143,126.0	140,335.0
Number of Unemployed	12,696.0	13,400.0	14,008.0
Unemployment Rate (%)	8.2	8.6	9.1

[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 U.S. citizens permanently residing in Bexar County, Texas (the "CPS Board"). The Mayor of the City is a voting member of the CPS Board, represents the City Council, and is charged with the duty and responsibility of keeping the City Council fully advised and informed at all times of any actions, deliberations, and decisions of the CPS Board and its conduct of the management of the EG Systems.

Vacancies in membership on the CPS Board are filled by majority vote of the remaining members, based on geographical quadrant. 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 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. 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 (also known as commercial crime 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 provides 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 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 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 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 U.S. military installations located within the service area that own their distribution facilities. Until and unless the City Council and the CPS Board exercise the option to opt-in to retail electric competition (called "Texas Electric Choice" by the PUCT), CPS has the sole right to provide retail electric services in its service area.

In addition to the area served at retail rates, CPS currently sells wholesale electricity to the Floresville Electric Light & Power System, the City of Hondo, and the City of Castroville. Beginning in 2016, CPS will also begin selling wholesale electricity to the City of Boerne, the City of Seguin, the Central Texas Electric Cooperative,

and the Kerrville Public Utility Board. From time to time, CPS also enters into partial supply arrangements with various municipally-owned utilities and cooperatives. CPS continues to seek additional opportunities to enter into wholesale electric power agreements. The requirements under the existing wholesale agreements are firm energy obligations of CPS.

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

CPS also has franchise agreements with 24 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. CPS is also a party to separate agreements with the cities of Castroville and Lytle to operate and maintain their gas systems through September 2012 and December 2012, respectively.

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 ("IOU"). Since the deregulation aspects of Senate Bill 7, which were adopted by the Texas Legislature in 2001 ("SB 7") and became effective on January 1, 2002, the PUCT's jurisdiction over IOU companies primarily encompasses only the transmission and distribution functions. PURA generally excludes municipally-owned utilities (referred to individually as a "Municipal Utility" and collectively as the "Municipal Utilities"), such as CPS, from PUCT jurisdiction, although the PUCT has jurisdiction over electric wholesale transmission rates. Under the PURA, a Municipal Utility has exclusive jurisdiction to set rates applicable to all services provided 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.

The Texas Railroad Commission ("TRC") has significant original jurisdiction over the rates, services, and operations of all natural gas utilities in Texas. Municipal Utilities such as CPS are generally excluded from regulation by the TRC, except in matters related to natural gas safety. CPS' retail gas services outside the City are subject to appellate, but not original, rate regulatory jurisdiction, by the TRC. To date, no such appeal to the TRC of CPS' retail gas rates has ever been filed.

The City is obligated under the bond ordinances, as provided under the rate covenant, to establish and maintain rates, and collect charges which are sufficient to pay all maintenance and operating expenses as well as debt service requirements on all revenue debt of the EG Systems, and to make all other payments prescribed in the bond ordinances.

On March 1, 2010, a 7.5% electric base rate increase and an 8.5% gas base rate increase became effective. The 4.2% bill impact included a reduction in fuel costs resulting from the JKS 2 plant. 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. CPS anticipates seeking a rate increase in early 2013.

CPS offers a monthly contract for renewable energy service under Rider E15. A rider to the Super Large Power ("SLP") rate, the Economic Incentive Rider E16, became effective March 10, 2003 and offers discounts off the SLP demand charge for up to four years for new or added load of at least ten MW.

In May 2009, the City Council 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 or gas cost adjustment clause, which provides for current recovery of fuel costs. Fuel cost recovery adjustments are set at the beginning of each CPS billing cycle month.

Transmission Access and Rate Regulation

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

The 1999 Texas Legislature amended the PURA95 to authorize rate authority over Municipal Utilities for wholesale transmission and to require that the postage stamp method be used for wholesale transmission pricing. 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 the Electric Reliability Council of Texas ("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.

Additional Impacts of Senate Bill 7 (Deregulation). SB 7 provides for an independent transmission system operator ("ISO") 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.

The greatest potential impact on CPS' electric system from SB 7 could result from a decision by the City Council and the CPS Board to participate in a fully competitive market, particularly since CPS is among the lowest cost electric energy producers 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 believes that it is taking all steps necessary to prepare for possible competition, should the City Council and the CPS Board make a decision to opt-in, or future legislation forces Municipal Utilities into retail competition.

Response to Competition

As of August 2012, CPS' renewable energy capacity totals more than 913.4 MW in service with another 603 MW under contract and in varying levels of project construction. CPS has contracted to purchase 200 MW of wind power annually over the next 25 years from the Los Vientos I Wind Project scheduled for commercial operation in December 2012. Also under contract is 3 MW of landfill gas-generated energy expected to be in operation by December 2012. Most recently, CPS executed agreements with OCI Solar Power for 400 MW of solar power from facilities to be built and operational by 2017. CPS has one of the most aggressive renewable energy programs in Texas with a renewable capacity under contract totaling 1,516.4 MW.

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.

In 2008, CPS implemented Vision 2020, outlining CPS' long-term view and focusing on four key objectives: increasing its energy efficiency and conservation efforts; expanding renewable-energy resources; providing cost-competitive electricity; and maintaining its strong commitment to the environment. To ensure achievement of the vision, the following key strategic business drivers were established, along with targets for each: customer relationships, employee relationships, external relationships, operational excellence, carbon constraints and the environment, technology and innovation, and financial integrity. CPS periodically updates Vision 2020 to ensure it properly reflects CPS' perspective and direction and 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 (the "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 Plants. CPS operates 21 non-nuclear electric generating units, four of which are coal-fired and 17 of which are gas-fired. (Four gas units at the Tuttle Power Station were retired in early 2011). Some of the gas-fired generating units may also burn fuel oil, providing greater fuel flexibility and reliability. CPS also owns a 40% interest in South Texas Project's ("STP") two nuclear generating Units 1 and 2. The nuclear units supplied 33.4% of the electric system's native load for the fiscal year ending January 31, 2012.

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; environmental impacts; and other factors.

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 very important to CPS' strategic energy plans and, specifically, to its new generation needs. CPS is currently implementing energy efficiency and conservation measures designed to save approximately 771 MW of electrical demand by the year 2020. 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.

CPS annually conducts an assessment of generation resource options to meet its expected future electric and gas requirements. This assessment includes updates to fuel prices, wholesale electric market forecasts, and updates to its electric peak demand forecast, which incorporate the most recent economic, demographic and historical demand data for the CPS service territory. Additionally, this assessment includes updated demand reductions due to the STEP energy efficiency and conservation program.

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

Ownership
Effective February 2, 2006

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

STP is maintained and operated by a non-profit Texas corporation ("STP Nuclear Operating Company" or "STPNOC") financed and controlled by the owners pursuant to an operating agreement among the owners and STPNOC. Currently, a four-member board of directors governs STPNOC, with each owner appointing one member to serve with STPNOC'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 Nuclear Regulatory Commission ("NRC") license that expires in 2027 and 2028, respectively. In October 2010, STPNOC filed an application with the NRC to extend the operating licenses of STP Units 1 and 2 to 2047 and 2048, respectively. Based on the published NRC review schedule, STPNOC expects NRC issuance of the Safety Evaluation in early 2013. However, due to a recent United States Court of Appeals for the District of Columbia decision vacating the NRC's waste confidence rule update, the NRC issued a revision to STPNOC's license renewal application schedule to provide additional time to the NRC to determine the impact of the court decision on the application. This schedule change lists issuance of the Draft Supplemental Environmental Impact Statement and subsequent environmental review milestones as "to be determined".

Used Nuclear Fuel Management. Under the Nuclear Waste Policy Act, 42 U.S.C. 10101, et seq. ("NWPA"), the Department of Energy ("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 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. To date, no high-level waste repository has been licensed to accept used fuel.

Until DOE is able to fulfill its responsibilities under the NWPA, the NWPA 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. Pursuant to STPNOC's analysis of recent NRC guidance, management expects to start the process of planning, licensing, and building an on-site independent spent fuel storage installation ("ISFSI" also known as "Dry Cask Storage") within the next two years with an expectation that the ISFSI will be operational towards the middle of the decade. CPS will be responsible for 40% of this cost and expects to pay these costs using funds currently held in the STP Decommissioning Trust.

Additional Nuclear Generation Opportunities. In 2006 and 2007, CPS management undertook an examination of its future generation options. The option that was ultimately pursued was participation with NRG and its affiliate Nuclear Innovation North America ("NINA") in the development of two new generating units, STP Units 3 and 4, at the STP. After agreeing in September 2007 to participate in preliminary development of the project, with a possible ownership of up to 50% of the two new units, CPS undertook a lengthy process of cost analysis and project development, which concluded in late 2009 and early 2010 with a dispute and a litigated settlement between CPS, NRG, and NINA. As a result of the settlement, CPS relinquished all but 7.625% interest in the project and its percentage ownership interest in common facilities at STP Units 1 and 2 that would also be used by STP Units 3 and 4 once operational and, in exchange, was shielded from any further costs of development through and up to the time the units were ready for commercial operation. In addition, CPS may also receive two $40 million installment payments conditioned upon award of a federal loan guarantee award to NRG and the NRG/Toshiba Corporation partnership, NINA. NRG also agreed to make a contribution of $10 million over a four year period to Residential Energy Assistance Partnership, Inc., a Section 501(c)(3) non-profit corporation that provides emergency bill payment assistance to low income customers. Following that settlement, NINA has pursued development of the project and has sought a federal loan guarantee to finance the project, with support from CPS as required (but without any additional investment in funds by CPS). If STP Units 3 and 4 become operational, CPS anticipates that its 7.625% ownership interest therein will entitle it to annually receive approximately 200 MW of power at which time CPS would also be responsible for its pro rata share of the cost of operating and maintaining these new units.

The March 2011 tsunami in Japan that damaged the Fukushima nuclear plant owned by Tokyo Electric Power Company had an immediate and significant effect on the status of and prospects for future nuclear development in the United States. On April 19, 2011, NRG announced that it planned to write down its entire investment in STP Units 3 and 4 by recording a first-quarter charge of approximately $481 million associated with the impairment of all of the net assets of NINA. NRG stated the events in Japan had introduced uncertainties that reduced the probability of being able to successfully develop STP Units 3 and 4 in a timely fashion. NRG also announced that it will not invest any additional capital into STP Units 3 and 4 but will continue to own a legal interest. Toshiba America Nuclear Energy ("TANE") will be responsible for funding ongoing costs to continue the

licensing process; however, TANE has yet to publicly disclose any specific plans beyond its possible short-term licensing effort. In light of the reduction in scope of STP Units 3 and 4, and uncertainty regarding timelines and long-term milestone commitments, CPS' management conducted an extensive evaluation of whether it should fully or partially write-down its investment in STP Units 3 and 4. CPS has made an assessment that its investment in STP Units 3 and 4 remains valuable and that the most appropriate treatment would be to continue to report this investment on its Balance Sheets at full historical cost. However, if it is determined at some point in the future that a write down is appropriate, due to the unusual and infrequent nature of the circumstances that have to be considered, the impact of writing down STP Units 3 and 4 would be treated as an extraordinary item on its Statements of Revenues, Expenses and Changes in Fund Net Assets. The write down would be a noncash transaction that would have no impact on CPS' debt service coverage ratio; however, it would change the debt-to-equity ratio. CPS continues to maintain regular communication with all stakeholders, including the rating agencies, regarding ongoing assessment of the viability of STP Units 3 and 4 and the impact to its financial position.

NRC staff issued a letter dated December 13, 2011, stating that NINA's Combined License Application ("COLA") does not meet the requirements of 10 CFR 50.38 (Ineligibility of Certain Applicants). This federal regulation contains restrictions associated with foreign ownership, control and domination ("FOCD"). The letter also stated that NRC staff is suspending its review of the foreign ownership section of the STP Units 3 and 4 COLA until this matter is resolved by NINA. The NRC stated that it would continue the review of the remaining portions of the COLA. The NRC letter referenced a NINA letter dated June 23, 2011, in which NINA submitted to the NRC revised General and Financial Information that included a revised foreign ownership Negation Action Plan. This information was later included as Part 1 of Revision 6 to the STP Units 3 and 4 COLA that NINA submitted to the NRC on August 30, 2011. In the revised Negation Action Plan, Toshiba could acquire up to a 90% ownership interest in NINA, with a corresponding 85% ownership interest in STP Units 3 and 4. On December 31, 2011, in response to the NRC letter dated December 13, 2011, interveners filed a motion for summary disposition of the STP Units 3 and 4 COLA due to the foreign ownership, control, and domination issue. Subsequently, on February 7, 2012, the Atomic Safety and Licensing Board denied this motion for summary disposition, noting an evidentiary hearing would be the more appropriate method of analyzing the facts related to this issue. NINA submitted a revision to the STP Units 3 and 4 COLA. Subsequent to the COLA revision, NINA submitted to the NRC a revised Negation Action Plan as well as updated information related to FOCD and financial qualification.

Qualified Scheduling Entity ("QSE"). 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. 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.

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, 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 that provide the necessary flexibility in the movement of bulk power.

Distribution System. The distribution system is currently supplied by 81 substations, which are 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 7,682 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 362 miles of three-phase equivalent distribution lines, 83 miles of three-phase downtown network distribution lines, and 4,231 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground residential distribution systems.

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Gas System

Transmission System. The gas transmission system consists of a network of approximately 86 miles of steel mains that range in size from 4 to 30 inches. Over 62 miles of the gas transmission system were placed into service since 2000 and over 90% are less than 25 years old. The entire system is coated and catholically protected to mitigate corrosion. The gas transmission system operates at pressures between 135 pounds per square inch ("psig") and 1,118 psig, and supplies gas to the gas distribution system. A Supervisory Control and Data Acquisition ("SCADA") computer system monitors the gas pressure and flow rates at many strategic locations within the transmission. Additionally, most of the critical pressure regulating stations and isolation valves are remotely controlled by SCADA.

Distribution System. The gas distribution system consists of 288 pressure regulating stations and approximately 5,140 miles of mains. The system consists of 2 to 30-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 274 psig. All steel mains are coated and catholically protected to mitigate corrosion. Critical areas of the distribution system are designated critical pressure regulating stations and isolation valves are remotely controlled by SCADA.

Implementation of New Accounting Policies

For the fiscal year ended January 31, 2012, CPS implemented:

GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53. This statement is to clarify whether an effective hedge relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. It sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. There was no impact to CPS' financial statements as a result of this implementation.

Other than the aforementioned changes, no additional significant accounting principles or reporting changes were implemented in the fiscal year ending January 31, 2012. Other accounting and reporting changes that occurred during the prior reporting year continued into the fiscal year ending January 31, 2012.

Recent Financial Transactions

On March 23, 2010, CPS issued $380 million of Taxable New Series 2010A Direct Subsidy – Build America Bonds, to fund general system improvements.

On May 11, 2010, CPS issued $25.2 million of Taxable Notes from its Flexible Rate Revolving Note Private Placement Program. The funds were used to remediate $25.745 million of outstanding tax-exempt bonds associated with the common facilities that will also be used by STP Units 3 and 4.

On November 4, 2010, CPS issued $500 million of Junior Lien Taxable Series 2010A and 2010B Direct Subsidy – Build America Bonds to refund $200 million of commercial paper notes and to fund general system improvements.

On November 10, 2011, CPS issued $50.9 million of Revenue Refunding Bonds, New Series 2011 to refund $57.4 million of Revenue Refunding Bonds, New Series 2002.

On March 29, 2012, CPS issued $521.0 million of Taxable New Series 2012 Revenue Bonds to purchase the Rio Nogales natural gas power generation plant.

On June 28, 2012, CPS issued $655,370,000 of Revenue Refunding Bonds, New Series 2012.

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CPS Historical Net Revenues and Coverage

	Fiscal Years Ended January 31, (Dollars in Thousands)				
	2008	2009	2010	2011	2012
Gross Revenues [1]	$1,943,313	$2,191,323	$1,981,103	$2,099,240	$2,296,138
Maintenance & Operating Expenses	1,177,337	1,408,353 [2]	1,205,189	1,233,286	1,411,334
Available For Debt Service	$ 765,976	$ 782,970	$ 775,914	$ 865,954	$ 884,804
Actual Principal and Interest Requirements:					
Senior Lien Obligations [3]	$ 290,954	$ 309,855	$ 332,540 [4]	$ 357,054 [4]	$ 363,339 [4]
Junior Lien Obligations	$ 15,179	$ 11,190	$ 6,987	$ 10,774 [5]	$ 22,372 [5]
Actual Coverage-Senior Lien	2.63x	2.53x	2.33x	2.43x	2.44x
Actual Coverage-Senior and Junior Liens	2.50x	2.44x	2.29x	2.35x	2.29x
Pro Forma MADS Coverage					
Senior Lien Obligations [6]	2.05x	2.09x	2.07x	2.31x	2.36x
Senior and Junior Lien Obligations[7]	1.77x	1.81x	1.79x	2.00x	2.04x

[1] Calculated in accordance with the CPS bond ordinances.
[2] Certain amounts in prior years have been reclassified to conform to the current year presentation.
[3] Net of accrued interest where applicable.
[4] Includes a reduction of $5.0 million, $14.5 million, and $15.6 million for the years ending January 31, 2010, January 31, 2011, and January 31, 2012, respectively, related to the direct subsidy for the Taxable New Series 2009C direct subsidy Build America Bonds and the Taxable New Series 2010A direct subsidy Build America Bonds.
[5] Includes a reduction of $2.5 million and $10.5 million for the years ending January 31, 2011 and January 31, 2012, respectively, related to the direct subsidy for the Taxable Junior Lien Series 2010A direct subsidy Build America Bonds and Taxable Junior Lien Series 2010B direct subsidy Build America Bonds.
[6] Maximum annual debt service on Senior Lien Obligations. Excludes the Refunded Bonds; includes the Bonds.
[7] Maximum annual debt service on Senior Lien Obligations and the Junior Lien Obligations; maximum annual debt service on the Junior Lien Obligations that are variable rate obligations calculated at the highest permissible rate during the reporting period (see footnote 6 to the table appearing under heading "Outstanding Senior Obligations and Junior Lien Obligations," on the following page for an example of this impact.) Excludes the Refunded Bonds; includes the Bonds.

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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 single, 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 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 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 1.7 million residents. SAWS employs over 1,600 personnel and maintains over 10,000 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 Base Rate [c]	Water Usage Rate [d]	Sewer Base Rate [e]	Sewer Usage Rate [f]
2011	70,701	59,133	11,568	16.36%	49,918	$7.10	$18.10	$8.73	$10.78
2010[a]	60,428	52,578	7,850	12.99%	48,152	7.10	18.10	8.73	10.78
2009	60,646	55,295	5,351	8.82%	51,987	6.77	20.04	7.76	9.63
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%	49,217	6.56	19.59	7.37	9.14
2006	63,388	57,724	5,664	8.94%	53,270	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	49,367	1,864	3.64%	49,592	5.61	15.47	6.60	8.19
2003	55,039	50,575	4,464	8.11%	49,669	5.61	13.20	5.70	7.14
2002	52,691	51,850	841	1.60%	52,181	5.61	11.97	5.70	7.14

[1] Unaudited.
[a] Reflects rate increase and rate restructuring for water usage beginning in November 2010. Prior to November, Water Base Rate (including TCEQ fees) was $6.96, Water Usage Rate was $20.52, Sewer Base Rate (including TCEQ fees) was $7.81 and Sewer Usage Rate was $9.63.
[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 Edwards Aquifer Authority ("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									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Water Sales [a]:										
Residential Class	34,153	28,932	30,667	33,025	26,651	33,162	30,917	27,054	27,624	28,227
General Class	20,986	19,465	20,309	20,297	19,166	20,232	19,769	18,851	19,464	20,155
Wholesale Class	128	101	119	108	90	114	121	98	137	173
Irrigation Class	3,866	4,080	4,200	5,398	3,604	4,216	4,198	3,364	3,350	3,295
Total Water	59,133	52,578	55,295	58,828	49,511	57,724	55,005	49,367	50,575	51,850
Wastewater Sales:										
Residential Class	27,371	26,746	29,825	28,148	27,383	28,859	25,293	25,421	24,860	25,565
General Class	20,134	20,002	20,338	20,352	19,634	21,967	22,262	21,800	22,249	23,195
Wholesale Class	2,413	1,404	1,824	1,847	2,200	2,444	1,732	2,371	2,560	3,421
Total Wastewater	49,918	48,152	51,987	50,347	49,217	53,270	49,287	49,592	49,669	52,181
Conservation - Residential Class [b]	4,106	2,935	3,469	3,948	2,432	4,276	3,613	2,634	2,636	2,742
Recycled Water Sales	18,990	14,968	16,321	16,559	14,148	14,836	14,048	13,626	13,643	13,762

[1] Unaudited.
[a] Water Supply and EAA fees are billed based on the gallons billed for water sales.
[b] 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.

SAWS' operating revenues are provided by its four core businesses: Water Delivery, Water Supply, Wastewater, and Chilled Water and Steam. The SAWS rate structure is designed to provide a balance between residential and business rates and strengthen conservation pricing for all water users. For detailed information on the current rates charged by SAWS, see www.saws.org/service/rates.

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 637 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, 2011, SAWS provided potable water service to approximately 360,300 customer connections, which includes residential, commercial, multifamily, industrial, and wholesale accounts. To service its customers, the waterworks system utilizes 42 elevated storage tanks and 38 ground storage reservoirs, of which 12 act as both, with combined storage capacities of 192 million gallons. As of December 31, 2011, the waterworks system had in place 4,988 miles of distribution mains, ranging in size from four to 60 inches in diameter (the majority being between six and 12 inches), and 27,566 fire hydrants distributed evenly throughout the SAWS service area.

Wastewater System. The 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, 12 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 504 square miles. SAWS also coordinates with the City for wastewater planning for the City's total planning area, extraterritorial jurisdiction ("ETJ"), of approximately 1,107 square miles. The population for this planning area is approximately 1.7 million people. As of December 31, 2011, SAWS provided wastewater services to approximately 405,120 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 5,160 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 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 the exclusive authority to provide retail service. By expanding the CCN 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' current CCN application for water consists of 12 separate applications that cover approximately 29,000 acres. Six of the water applications have been finalized consisting of approximately 9,000 acres. The remaining applications should be finalized within the next year totaling 20,000 acres. The applications for sewer consisted of eight separate applications that cover approximately 276,000 acres. One sewer application has been finalized adding 51,000 acres to the SAWS CCN. Four applications should be finalized within the next year totaling 171,000 acres, with the remaining three applications totaling approximately 55,000 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 that insure 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 authorized to provide 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 up to 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 the north end of the lines, providing additional flexibility with respect to this valuable water resource. Currently, approximately 125 miles of pipeline deliver highly treated effluent to over 52 customers consisting of golf courses, universities, 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, operates, and maintains 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 Henry B. Gonzalez Convention Center and Alamodome, constitute a large percentage of the downtown system's chilled water and steam annual production requirements. In addition to these City facilities, the two central plants also provide chilled water and/or steam service to a number of major hotels in the downtown area including the Grand Hyatt, Marriott, and the Hilton Palacio Del Rio. The other four central thermal energy facilities, owned and operated by SAWS, are located at the Port and provide chilled water and steam services to large industrial customers that include Lockheed Martin and Boeing Aerospace. SAWS' chilled water-producing capacity places it as one of the largest producers of chilled water in the immediate south Texas area. SAWS also currently operates and maintains the central thermal energy plants at Brooks City-Base under an agreement with the BDA.

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 under the 40 CFR 122.26 Storm Water Discharge. The City, along with SAWS, has the responsibility, pursuant to the Permit from the TCEQ, 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 SAWS FY 2012 is $5,303,852, for which SAWS is reimbursed $4,558,241 from the stormwater utility fee imposed by the City.

Water Supply. 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 2010, the Edwards Aquifer supplied approximately 94% 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.

In May 2009, SAWS 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. Information on the 2009 Water Management Plan can be found at www.saws.org. SAWS is currently in the process of updating the 2009 Water Management Plan, which is anticipated to be finalized in 2012.

Bexar Metropolitan Water District

Except for information specifically pertaining to SAWS or the City, the information in this section was made publically available by the Bexar Metropolitan Water District ("BexarMet") prior to its dissolution. Neither SAWS nor the City has verified the accuracy or completeness of information relating to BexarMet operations or the financial results hereinafter described.

BexarMet was created by the 49th Texas Legislature in 1945, to serve anticipated growth in Bexar County. From an initial account base of 4,765 primarily residential accounts, it grew to more than 92,000 residential and commercial accounts served in 2011. Over the past few years, repeated customer complaints about inadequate service, alleged mismanagement, and excessive rates resulted in legislative intervention in 2007, through the enactment of House Bill 1565, by the 80th Texas Legislature which mandated various operational and financial audits of BexarMet along with the creation of the Joint Committee on Oversight of the Bexar Metropolitan Water District (the "Oversight Committee") to monitor operations, management, and governance of BexarMet. Attempts to implement legislative remedies concerning BexarMet operations during the 81st Texas Legislative Session were unsuccessful and monitoring by the Oversight Committee continued through the start of the 82nd Texas Legislative Session in January 2011. During that time, BexarMet dismissed its General Manager for failing to disclose an indictment for conduct alleged to have occurred at his prior place of employment and unrelated to BexarMet operations. Additionally, allegations were made that BexarMet was misstating certain revenues recognized in its 2010 interim preliminary unaudited financial statements. To remove any appearance of impropriety, the governing body of BexarMet (the "BexarMet Board") hired an external forensic auditor to review the claims. The revenue entries at issue were reversed during the completion of the final audit, and BexarMet received an unqualified opinion in its final annual audit. As disclosed in its preliminary financial statements and in the final 2010 audit, due to abnormally high rainfall during the 2010 fiscal year, BexarMet revenues were down approximately 10%, which resulted in BexarMet failing to maintain its debt service coverage ratio as required by its authorizing orders for its debt obligations. In anticipation of the potential debt service coverage ratio shortfall, the BexarMet Board, with the assistance of an outside rate consultant, expedited its review of its existing rates and rate structure, and diligently worked to formulate a new rate structure to provide sufficient revenues to meet its covenanted rate coverage requirements, maintain its capital improvement plan, while balancing the impact on its ratepayers. The new rate structure was adopted with implementation of a 7% increase on September 1, 2010. BexarMet anticipated that additional budget cutting measures coupled with the new rates and additional revenues generated thereby, would restore its fiscal health. In addition to the foregoing, and during this time, BexarMet continued to report to the Oversight Committee and worked diligently to improve its operations and financial position.

For fiscal year ended April 30, 2011, according to the records released by BexarMet, BexarMet realized a record amount of gross revenues, ended the fiscal year with a debt service coverage ratio of 1.57, and received an unqualified opinion on its 2011 audited financial statements.

At the beginning of the 82nd Texas Legislative Session, the Oversight Committee recommended that two bills be passed. In May 2011, the 82nd Texas Legislature enacted Senate Bill 341 ("SB 341"). SB 341 establishes several key measures including the immediate monitoring and review of BexarMet operations by the TCEQ. The primary component of SB 341, however, required the conduct of an election (the "Election") by BexarMet ratepayers to vote on the dissolution of BexarMet and consolidation with SAWS. The Election was held on November 8, 2011 and BexarMet ratepayers voted in favor of dissolution (9,047 votes for versus 3,172 votes against).

These results were canvassed by the BexarMet Board and certified to the Texas Secretary of State on November 18, 2011. The last prerequisite to the assumption of operational control and management of BexarMet by SAWS was preclearance of the Election results by the U.S. Department of Justice, which was received on January 27, 2012. The City commenced assumption procedures on January 28, 2012. SAWS, acting by and through the City, has taken action to accommodate the assumption of BexarMet in accordance with the requirements and specifications of SB 341. On October 20, 2011, the City Council adopted an ordinance creating a "special project," as authorized by SB 341 and pursuant to SAWS' senior lien bond ordinances, where the assumed BexarMet will reside as a segregated component unit of SAWS until full integration into the SAWS system occurs within the timeframe specified by SB 341. The City, pursuant to a bond validation suit filed under Chapter 1205, as amended, Texas Government Code (Cause No. D-1-GV-12-000115, 410th District Court, Travis County, Texas), received judicial validation of this position at a trial held on March 5, 2012 when the trial court entered a final judgment granting the City all relief requested thereby.

Pursuant to SB 341: (a) the term of each Director of BexarMet expires on the date the Election results are certified to the Secretary of State of the State of Texas; (b) SAWS assumes control of the operation and management of BexarMet on the date the Election results are certified to the Secretary of State of the State of Texas; (c) not later than the 90th day after the date the Election results are certified to the Secretary of State of the State of Texas, the TCEQ, in consultation with the Oversight Committee, must transfer or assign to the SAWS all: (1) rights and duties of BexarMet, including existing contracts, duties, assets, and obligations of BexarMet, (2) files, records, and accounts of BexarMet, including those that pertain to the control, finances, management, and operation of BexarMet, and (3) permits, approvals, and certificates necessary to provide water services; (d) to the extent that a transfer of an item requires the approval of a state agency, the state agency must grant approval without additional notice or hearing; and (e) after the TCEQ has transferred the property, assets, and liabilities as prescribed by this section, the TCEQ will enter an order dissolving BexarMet. On May 30, 2012, the TCEQ entered an order finally dissolving BexarMet in accordance with the provisions of SB 341. Information filings for the former BexarMet remain available on the Municipal Advisory Council of Texas (the "MAC") website under the City's listings as its "Water System Special Project."

SB 341 states that its intent is not to enhance or harm the position of a party that has contracted with BexarMet and no law or charter provision may be construed to limit the SAWS performance of an obligation under a contract transferred or assigned to SAWS as a result of the dissolution of BexarMet, if revenue from the contract was pledged wholly or partly to pay debt service on revenue bonds approved by the Texas Attorney General.

Within the past five years, BexarMet has made, in addition to its requisite annual filings, periodic material event notice filings with EMMA concerning the following matters: enactment of SB 341; covenant default under a direct-pay letter of credit with Wells Fargo Bank, National Association supporting its commercial paper program; covenant defaults under bond documentation, including failure to meet debt service coverage requirements; material litigation; and termination of an existing interest rate hedging agreement. In addition, BexarMet has timely made its annual disclosure filings during this period, with the exception of its requisite filing for the fiscal year ending April 30, 2011 (filed late in two parts on November 14, 2011 and November 17, 2011, respectively). BexarMet filed notice with EMMA of this late filing on November 29, 2011.

BexarMet's most recent financial statements for the fiscal year ended April 30, 2011 and its most recent official statement are available on EMMA and through the MAC as described above.

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SAWS Summary of Pledged Revenues for Debt Coverage [1]
($000)

				Revenue Bond Debt Service[a]				Maximum Annual Debt Service Requirements			
Year	Gross Revenues[b]	Operating Expenses[c]	Net Revenue Available	Principal	Interest[d]	Total	Coverage	Total Debt[e]	Coverage	Senior Lien Debt[e]	Coverage[f]
2011	$417,077	$209,058	$208,019	$39,730	$79,534	$119,264	1.74	$132,226	1.57	$112,715	1.85
2010	367,847	226,489	141,358	38,590	77,098	115,688	1.22	127,264	1.11	108,947	1.30
2009	366,753	215,812	150,941	34,900	71,824	106,724	1.41	121,367	1.24	101,917	1.48
2008	384,228	205,486	178,742	27,630	67,810	95,440	1.87	98,840	1.81	86,140	2.08
2007	344,772	185,561	159,211	24,880	69,693	94,573	1.68	102,880	1.55	86,138	1.85
2006	372,193	177,265	194,928	22,415	63,432	85,847	2.27	91,175	2.14	78,373	2.49
2005	331,032	171,853	159,179	16,505	55,542	72,047	2.21	94,992	1.68	78,373	2.03
2004	263,367	152,445	110,922	7,735	52,732	60,467	1.83	84,941	1.31	67,203	1.65
2003	241,228	151,483	89,745	5,515	48,512	54,027	1.66	76,075	1.18	61,511	1.46
2002	239,382	133,984	105,398	15,045	39,589	54,634	1.93	66,268	1.59	61,511	1.71

[1] Unaudited.

[a] Represents current year debt service payments. 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.

[b] Gross Revenues are defined as operating revenues plus nonoperating revenues less revenues from the City Public Service contract, interest on Project Funds, and federal subsidy on Build America Bonds. 2009 and prior years have been restated to reclass the provision for uncollectible accounts from operating expenses to operating revenues.

[c] Operating Expenses reflect operating expenses before depreciation as shown on the Statement of Revenues, Expenses, and Changes in Equity.

[d] Interest reported net of the U.S. federal interest subsidy on the Series 2009A & 2010B revenue bonds.

[e] Debt service requirements consist of principal and interest payments net of the U.S federal interest subsidy on the Series 2009B & 2010B revenue bonds.

[f] SAWS bond ordinance requires the maintenance of a debt coverage ratio of at least 1.25x the maximum annual debt service on outstanding senior lien debt in order to issue additional bonds.

Source: SAWS.

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The Airport System

General

The San Antonio International Airport (the "Airport" or "SAT"), 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 Airport consists of three runways with the main runway measuring 8,502 feet and able to accommodate up to and including Group V passenger aircraft. Its two terminal buildings contain 24 second-level gates. Presently, the following domestic air carriers provide scheduled service to San Antonio: AirTran (a wholly-owned subsidiary of Southwest Airlines), American, Delta, Southwest, United, and US Airways, as well as associated affiliates of certain of the aforementioned air carriers. Interjet, VivaAerobus, AeroMexico and associated affiliates, are Mexican air carriers that provide passenger service to Mexico. Mexicana filed for bankruptcy protection and ceased service to the Airport in August 2010 and is in the process of seeking a recapitalization and restructuring from an investor group. Interjet was awarded temporary route authority for the Mexico City-San Antonio route until the bankruptcy is resolved. Interjet, which entered the San Antonio market on December 1, 2011, also flies to Toluca, Mexico. Aeromexico flies to and from San Antonio and Mexico City and Monterrey, Mexico. VivaAerobus began San Antonio-Monterrey service on November 8, 2011. AirTran began service to Mexico City and Cancun on May 24, 2012.

The Airport is classified as a medium hub facility by the FAA. A "medium hub facility" is defined as a facility that enplanes between 0.25% and 0.50% of all passengers enplaned on certificated route air carriers in all services in the 50 states, the District of Columbia, and other designated territorial possessions of the United States. According to Airports Council International – North America ("ACI-NA"), an airport industry group, the Airport ranked 46th based on total U.S. passenger traffic for calendar year 2011. For the calendar year ended December 31, 2011, the Airport enplaned approximately 4.1 million passengers. Airport management has determined that approximately 91% of the Airport's domestic passenger traffic is origination and destination in nature, which is important because it demonstrates strong travel to and from the City independent from any one airline's hubbing strategies. A variety of services is available to the traveling public from approximately 245 commercial businesses, which lease facilities at the Airport and Stinson Municipal Airport ("Stinson" and, together with the Airport, the "Airport System").

The City updated the Master Plan ("Vision 2050") for the Airport, which was approved by City Council on March 31, 2011 and provides direction for the development of the Airport for five, ten, and 20 years into the future. For the five-year plan, the Vision 2050 update recommends modest improvements to complement the Capital Improvement Plan (defined below). Among the recommended improvements to be financed and constructed by the City are renovating and renewing Terminal A, land acquisition, and constructing a taxiway connector, Airport maintenance facility, and an administrative center. Additionally, recommended improvements included in Vision 2050 to be financed and constructed by non-City sources such as customer facility charges and third party and/or tenant financing include an expansion of the Airport fuel farm, a consolidated rental car center, and the expansion of tenant ground service equipment maintenance and storage facilities.

Stinson, located on 300 acres approximately 5.2 miles southeast of the City's downtown business district, was established in 1915, and is one of the country's first municipally owned airports. It is the second oldest continuously operating airport in the U.S. and is the FAA's designated general aviation reliever airport to the Airport. The Airport Master Plan for Stinson, which was initiated in March 2001 to facilitate the development of Stinson and to expand its role as a general aviation reliever to the Airport, is essentially complete. A $4.8 million terminal expansion project was completed in FY 2009. Stinson now has approximately 31,000 square feet of concession, administrative, education, and corporate aviation space in the terminal building. Stinson also completed the extension of Runway 9-27; the useable runway length is now 5,000 feet. The additional runway length will allow Stinson to serve additional corporate aircraft under all conditions. The terminal 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 businesses to locate at Stinson.

A contract to update the Master Plan for Stinson was awarded on February 17, 2011 and a Notice to Proceed was issued on March 30, 2011. The updated Master Plan for Stinson is expected to be submitted to City Council for approval in December 2012.

Capital Improvement Plan

The proposed six-year (FY 2013 – FY 2018) Capital Improvement Plan (the "CIP") totals approximately $345 million, which is comprised of certain projects including the design and construction of a consolidated rental car facility, airfield improvements, land acquisition, residential acoustical treatment, road improvements, aircraft apron expansion, and cargo improvements.

The CIP consists of the following:

Terminal Facilities

- Terminal A Renovation and Renewal. This project is to renovate and renew Terminal A through the redevelopment of building infrastructure, interior updates, and wayfinding devices.
- Terminal A Campus IT Modernization. This project will implement IT improvements for both Terminal A and initial Outside Plant Infrastructure work.
- Passenger Loading Bridges. Includes the purchase and installation of passenger loading bridges, preconditioned air, and 400Hz electrical power and potable water for the aircraft gates in Terminal A.
- Supporting projects. Landscaping and roadway signage improvements and other wayfinding.
- Central Utility Plant. Decommissioning and demolition of the former central utility plant.

Airfield Improvements

- Runway 22 and Taxiway "N". This project extends Runway 22 and Taxiway "N" a distance of 1,000 feet in support of increased air traffic and to enhance the Airport's capacity.
- Runway 12R Reconstruction. This project reconstructs primary Runway 12R, including new shoulders and updated lighting. This project will also provide an extension to allow the decoupling of the runway from Runway 4/22 to improve aircraft operational safety.
- Taxiway G Reconstruction – Phase I. Phased to minimize construction impacts on airport operations, Phase I provides the reconstruction of the southeastern section of Taxiway G, from Runway 4/22 to Taxiway A. This project is dependent upon completion of a Pavement Management Study that may result in a reprioritization of projects.
- Perimeter Road Reconstruction. This project provides for the design and phased reconstruction of critical areas of the perimeter road.

Acoustical Treatment Program

- Acoustical Program. Continuation of the Residential Acoustical Treatment Program.

Aircraft Apron

- Apron Improvements. A project that includes aircraft parking apron to support Terminal B, and the demolition and relocation of utilities located underneath the existing Terminal B apron and to build a portion of the west aircraft parking area.

Other Projects

- Consolidated Rental Car Facility. This project provides a consolidated rental car facility, which centralizes Airport rental car operators into a single facility.
- Support Service Building. Provides for the construction of an administrative office facility to house the Airport System staff.
- Outside Plant Campus IT Ring. This project will complete the Outside Plant Communication Ring around the campus.
- Other Capital Projects. Miscellaneous projects at the Airport and at Stinson.

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The anticipated sources of funding for the CIP are as follows:

Funding Sources	Projected Funding ($)
Federal Grants	
Entitlements/General Discretionary	18,538,144
Discretionary	42,024,645
General Discretionary	
Noise Discretionary	38,400,000
TxDOT Grant	5,137,499
Passenger Facility Charges ("PFCs")	
Pay-As-You-Go	700,083
PFC-Secured Bonds	17,391,850
Other Funding	
Airport Funds	59,710,096
Airport Revenue Bonds	35,526,025
Customer Facility Charge Bonds	111,120,000
Customer Facility Charge	16,625,000
Total	**345,173,342**

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

Improvement	Amount ($)
Airport	
Terminal Facilities	20,009,200
Airfield Improvements	81,083,009
Acoustical Treatment Program	48,000,000
Aircraft Apron	3,333,334
Consolidated Rental Car Facility	127,745,000
Other Projects	54,291,000
Stinson	10,711,799
Total	**345,173,342**

PFC Projects. Public agencies wishing to impose PFCs are required to apply to the FAA for such authority and must meet certain requirements specified in the PFC Act 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 11 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. Additionally, the FAA approved the increased collection rate from $3.00 to $4.50, effective October 1, 2007. In May 2010, the FAA approved amendments to the City's PFC collection authorization to increase the scope of the PFC funding for certain PFC projects and permitted the addition of several elements. The May 28, 2010 FAA approvals increased the PFC funding amount from $380,958,549 to $574,569,629.

On October 1, 2007, the City began collecting a $4.50 PFC (less a $0.11 air carrier collection charge) per qualifying enplaned passenger. 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 proceeds of the Parity PFC Bonds. As of August 31, 2012, the City has collected $131,960,128 in PFC Revenues since authority to impose and collect the PFC was received. The estimated PFC collection expiration date is June 1, 2028.

To date, the following projects have been approved as "impose and use" projects:

- Replace Remain Overnight (RON) Apron
- Implement Terminal Modifications
- Reconstruct Perimeter Road
- Construct New Terminal B
- Acoustical Treatment Program
- Construct Elevated Terminal Roadway
- Upgrade Central Utility Plant
- Construct Apron – Terminal Expansion
- Install Utilities – Terminal Expansion
- Replace Two Aircraft Rescue and Fire Fighting 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

CFC Projects. On March 8, 2012, the City Council authorized the Airport to impose the collection of a $4.50 per transaction day Customer Facility Charge ("CFC") for rental car customers to pay for all costs and expenses associated with the planning, financing, and construction and certain other costs for a Consolidated Rental Car Facility (the "ConRAC") to open in three to five years. The CFC is being collected on all car rentals at the Airport as of April 1, 2012. The ConRAC project cost is estimated at $128 million. CFC will initially be applied on a Pay-As-You-Go basis for interim wayfinding to rental car locations, conceptual design and validation, negotiation of business terms, and design up to the construction of the ConRAC. Bonds supported by the CFC are expected to be issued once the construction bids have been received and will be used to finance the construction and other costs associated with the ConRAC. As of September 30, 2012, the City has received $3,824,901 in CFC Revenues since authority to impose and collect the CFC was received.

Airport Operations

Direct supervision of airport operations is managed by the Department of Aviation (the "Department"). The Department is responsible for: (1) managing, operating, and developing the Airport System and any other airfields that the City may control in the future; (2) negotiating leases, agreements, and contracts; (3) computing and supervising the collection of revenues generated by the Airport System under its management; and (4) coordinating aviation activities under the FAA.

The Department is an enterprise fund of the City. The operations and improvements at the Airport and Stinson are paid for by airport user charges, bond funds, and funds received from the FAA. No general tax fund revenues are used to operate or maintain the Airport System. The City Council appoints a 19-member Airport Advisory Commission. The Commission's primary purpose is to advise the Department regarding policies, including any noise-related issues affecting the Airport System and air transportation initiatives.

Frank R. Miller, Director of Aviation, has overall responsibility for the management, administration and planning of the Airport System. Mr. Miller has an experienced staff to aid him in carrying out the responsibilities of his position. The principal members of the Department's staff include the Director, the Assistant Aviation Director – Operations, the Assistant Aviation Director – Finance and Administration, and the Assistant Aviation Director – Planning and Development, Construction, and Facilities Maintenance.

The Airport System has police and fire departments on premises. The police and fire fighters are assigned to duty at the Airport System from the City's police and fire departments, but their salaries are paid by the Department as an operation and maintenance expense of the Airport System.

The FAA has regulatory authority over navigational aid equipment, air traffic control, and operating standards for the Airport System.

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 Airport System to meet the federal security requirements.

With the completion of the FY 2002 – FY 2012 CIP in November 2010, the Airport has a fully automated baggage screening and handling system that will service both Terminal A and the new Terminal B. This system includes baggage handling equipment, explosive detection screening equipment, and baggage makeup systems. The City entered into an agreement with the TSA for reimbursements up to $283,409 for FY 2012 for the costs associated with the use of Airport police officers at the Airport security screening checkpoints in each terminal. The Department also utilizes six explosive detection canine teams. The Airport police officers, assigned with their dogs, provide additional coverage for detection of explosive materials at the Airport in the baggage pickup areas, terminals, parking, cargo, and aircraft. This program is supported by the TSA with reimbursement to the Airport System at $363,000 for FY 2012. These reimbursements are expected to continue through FY 2013 and thereafter be renegotiated with the TSA.

As of October 1, 2012, the Airport System will have employed approximately 480 employees as follows:

Planning & Development & Maintenance	193	Airport Operations	131
Police	60	Fire Rescue	32
Aviation Director	27	Stinson Airport	8
Finance and Administration	29		

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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				
	2008	2009	2010	2011	2012 [2]
Gross Revenues [1]:	$65,187,888	$62,180,333	$64,045,889	$83,288,806	$88,523,996
Airline Rental Credit	5,040,274	4,165,260	4,178,122	0	0
Adjusted Gross Revenues	$70,228,162	$66,345,593	$68,224,011	$83,288,806	$88,523,996
Expenses	(41,585,794)	(39,743,093)	(39,873,764)	(44,281,462)	(48,710,933)
Net Income	$28,642,368	$26,602,500	$28,350,247	$39,007,344	$39,813,063

[1] As reported in the City's audited financial statements.
[2] Unaudited; Budget re-estimate.
Source: City of San Antonio, Department of Finance.

Total Domestic and International Enplaned Passengers - San Antonio 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
2003	3,250,741	---	---
2004	3,498,972	248,231	7.64
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)
2010	4,022,070	116,631	2.99
2011	4,071,781	49,711	1.24
2012 *	2,759,527	N/A	N/A

* Year to date through August.
Source: City of San Antonio, Department of Aviation.

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Total Enplaned and Deplaned International Passengers - San Antonio 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 Year	Total	Increase/ (Decrease)	Percent (%) Change
2003	159,576	---	---
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)
2010	136,970	(2,316)	(1.66)
2011	181,950	44,980	32.84
2012 *	266,336	N/A	N/A

* Year to date through August.
Source: City of San Antonio, Department of Aviation.

Air Carrier Landed Weight - San Antonio 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 Year	Total	Increase/ (Decrease)	Percent (%) Change
2003	5,391,301	---	---
2004	5,416,555	25,254	0.47
2005	5,650,228	233,673	4.31
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)
2010	5,632,203	144,666	2.64
2011	5,708,046	75,843	1.35
2012 *	3,905,175	N/A	N/A

* Year to date through August.
Source: City of San Antonio, Department of Aviation.

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APPENDIX C

SELECTED PROVISIONS OF THE FINANCING DOCUMENTS

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APPENDIX C

SELECTED PROVISIONS OF THE FINANCING DOCUMENTS

THE FOLLOWING ARE SELECTED PROVISIONS OF THE TRUST AGREEMENT AND THE LEASE 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

Additional Bonds - The additional parity lease revenue bonds or other obligations which the Corporation reserves the right to issue in the future pursuant to Section 3.09 of the Trust Agreement.

Act - Chapter 303, Texas Local Government Code, as amended.

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

Appropriated Funds - Funds Appropriated by the City from any money that has not been encumbered to secure the payment of any indebtedness of the City and that may lawfully be used with respect to any payment obligated or permitted under the Lease Agreement, including but not limited to unencumbered and lawfully available revenues derived by the City from (i) annual ad valorem taxes levied for maintenance and operations purposes, (ii) hotel occupancy taxes levied by the City, (iii) the 1% general sales and use tax levied by the City, and (iv) transfers from City-owned utility systems.

Authorized Denomination - With respect to the Series 2012 Capital Appreciation Bonds, $5,000 in Maturity Amount or any integral multiple thereof, and with respect to the Series 2012 Current Interest Bonds, $5,000 in principal amount or any integral multiple thereof.

Board of Directors - The Board of Directors of the Corporation.

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 - March 15 and September 15 of each year, commencing March 15, 2013, and continuing for so long as any Parity Bonds are Outstanding.

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

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

Business Day - Any day other than a Saturday, Sunday, legal holiday, or a day on which banking institutions in San Antonio, Texas, Dallas, Texas, and/or New York, New York are authorized or required by law or executive order to close.

Capital Appreciation Bond - Any Parity Bond issued pursuant to the Trust Agreement in which no interest is paid prior to stated maturity or early redemption and in which interest begins to accrete from the date of delivery of such Parity Bond.

Certificate of Completion - A certificate, in the form attached as *Exhibit C* to the Lease Agreement, executed by the City.

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 City.

City Representative - The Mayor, the City Manager, any Deputy City Manager, any Assistant City Manager, the City Clerk, the Chief Financial Officer, the Director of Finance, and any Assistant Director of Finance 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 or by a certificate executed by the City Manager or the Chief Financial Officer of the City as a City Representative for the purposes of the Trust Agreement.

Closing Date - With respect to each series of Parity Bonds, the date of initial delivery of and payment for such series of Parity Bonds.

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

Compounded Amount - with respect to a Capital Appreciation Bond, as of any particular date of calculation, the original principal amount thereof, plus original issue premium, if any, plus all interest accrued and compounded to the particular date of calculation, as determined in accordance with the Trust Agreement.

Construction Contract - A contract or agreement entered into by the City in connection with the design, construction and equipping of the Expansion Project.

Convention Center Facilities - The improvements currently located on the Land described in *Exhibit B* of the Lease Agreement (and generally referred to in the Lease Agreement as the "Existing Convention Center"), together with all improvements constructed thereon (including but not limited to the improvements to be financed with proceeds of the Series 2012 Bonds referred to in the Lease Agreement as the "Expansion Project" but specifically excluding (i) the Alamodome, which is a venue that is owned and operated by the City as a part of the City's convention, sports and entertainment facilities, (ii) the Grand Hyatt Hotel, which is a full-service hotel located adjacent to the Henry B. Gonzalez Convention Center but is owned and operated by private parties unrelated to the City, and (iii) any improvements constructed by the City on the Land which is paid for by the City with funds other than proceeds of any Parity Bonds) and also including any and all items of personal property situated respectively thereon by the City whether now owned or hereafter acquired or refinanced with proceeds of any series of Parity Bonds for and on behalf and use of the City, including but not limited to any and all furniture, fixtures, machinery and equipment and any and all other items of personal property.

Corporation - The *City of San Antonio, Texas Public Facilities Corporation*, a nonprofit public facility corporation created by the City pursuant to the Act, and its successors and permitted assigns.

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

Defeasance Amount - An amount which will be sufficient, together with amounts, if any, on deposit in the Payment Account, Insurance and Condemnation Account, Redemption Account, and Project Account, to pay the principal of all Parity 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 Parity Bonds; provided that all amounts due and payable under the Trust Agreement have been paid.

Designated Office - when used with respect to the Trustee - Initially, the office of the Trustee situated at 14241 Dallas Parkway, Suite 490, Dallas, Texas 75254, at which the Trustee conducts its corporate trustee business.; provided that, with respect to payments on the Parity Bonds and any exchange, transfer or surrender of the Parity Bonds, means the office of the Trustee situated at 60 Livingston Avenue, St. Paul, Minnesota, or such other location designated in writing by the Trustee.

Escrow Agreement - the Escrow Agreement, dated as of October 1, 2012, by and among the Corporation, the City, and U.S. Bank National Association, pursuant to which the Corporation shall deposit a portion of the proceeds of the Series 2012 Bonds, and the City shall deposit certain available funds, to defease certain of the Refunded Bonds described therein.

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 7.01 of the Trust Agreement.

(ii) As used in the Lease Agreement:

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

(b) failure by the City to construct the Expansion Project in accordance with the terms and conditions thereof;

(c) failure by the City or the Corporation to observe and perform any covenant, condition, or agreement, on its part to be observed or performed by it under the Lease Agreement, 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 City in the Lease Agreement or in any writing ever delivered by the City pursuant to or in connection with the Lease Agreement is false, misleading, or erroneous in any material respect;

(e) the filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment, or attachment of such consequence as would impair the ability of the City to carry on its operations at the Convention Center Facilities, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City 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 City 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 Convention Center Facilities or the City's interest in the Convention Center Facilities, and not released within sixty (60) days; or

(g) a final judgment against the City 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 Convention Center Facilities or the City's interest in the Convention Center Facilities.

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 Agreement.

Existing Convention Center - The convention center facilities currently owned and operated by the City located in the downtown area of the City and generally known as the "Henry B. Gonzalez Convention Center" but specifically excluding (i) the Alamodome (which is a venue that is owned and operated by the City as a part of the City's convention, sports and entertainment facilities on the eastside of Interstate 37), and (ii) the Grand Hyatt Hotel (which is a full-service hotel located adjacent to the Henry B. Gonzalez Convention Center but is owned and operated by private parties unrelated to the City).

Expansion Plan - The "capital improvement plan" referred to in Section 351.101(7), Tax Code, as amended, related to the expansion of the City's existing convention center facilities that is adopted by the City Council (which currently is evidenced by the capital improvement plan approved by Ordinance No. 2012-09-20-0713 adopted by the City Council on September 20, 2012), and may by amended from time to time by further action of the City Council.

Expansion Project - The proposed expansion of the Existing Convention Center which generally consists of the construction and equipping of approximately 100,000 square feet of additional convention center facilities located to the east of the Existing Convention Center towards Interstate 37 and the demolition of a portion of the Existing Convention Center upon completion of the additional facilities.

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

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

Initial Series 2012 Capital Appreciation Bond - The single fully registered Series 2012 Bond, without interest coupons, initially issued and delivered to the Underwriters in the aggregate principal amount of the Series 2012 Capital Appreciation Bonds issued under the Trust Agreement and as further described in Section 4.04 thereof.

Initial Series 2012 Current Interest Bond - The single fully registered Series 2012 Bond, without interest coupons, initially issued and delivered to the Underwriters in the aggregate principal amount of the Series 2012 Current Interest Bonds issued under the Trust Agreement and as further described in Section 4.04 thereof.

Insurance and Condemnation Account - That certain account so designated and established in accordance with Section 6.05 of the Trust Agreement.

Issuance Costs - The costs of issuance incurred in connection with the sale of a series of Parity Bonds and the execution and delivery of the Lease Agreement, 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 Agencies, 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 Agreement upon which the Convention Center Facilities are situated or are to be constructed or installed.

Lease Agreement - The **LEASE AGREEMENT RELATING TO THE CITY OF SAN ANTONIO, TEXAS CONVENTION CENTER REFINANCING AND EXPANSION PROJECT**, dated as of October 1, 2012, by and between the Corporation and the City and any duly authorized and executed amendment thereto.

Lease Payment - (i) on September 5, 2017, and on each September 5 thereafter, while any Parity Bonds are Outstanding under the Trust Agreement, an amount of money equal to the full amount of the principal installment (or Maturity Amount, in the case of Capital Appreciation Bonds) coming due on the Parity Bonds on such date, either pursuant to a mandatory sinking fund redemption or upon maturity of the Parity Bonds; and (ii) on March 5, 2013, and on each Lease Payment Date thereafter, while any Parity Bonds are Outstanding under the Trust Agreement, 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 Parity Bonds on such Lease Payment Date. Attached as *Exhibit F* to the Lease Agreement is an initial schedule of Lease Payments to be in effect following the issuance of the Series 2012 Bonds.

Lease Payment Date - March 5, 2013, and each March 5 and September 5 thereafter (or the next Business Day thereafter if such day is not a Business Day) for so long as the Lease Agreement is in effect.

Leasehold Estate - An interest in land granting to its holder a right of exclusive possession for a specified duration, subject to the payment of rent and other conditions placed upon the continued effectiveness and validity thereof included within a lease.

Lessor - The City, in its capacity as the lessor of the Convention Center Facilities under the Primary Lease, and its successors and permitted assigns.

Lessee - The Corporation, in its capacity as the lessee of the Convention Center Facilities under the Primary Lease, and its successors and permitted assigns.

Maturity Amount - The total amount of principal and accreted interest coming due on the stated maturity date of a Parity Bond that is issued as a Capital Appreciation Bond.

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

Operating Expenses - The meaning set forth in Section 6.02(b) of the Lease Agreement.

Operating Fund - The "Operating Fund" so designated and to be established by the Trustee pursuant to Section 6.07 of the Trust Agreement upon the termination of the Sublease.

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

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

(2) Parity 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 VI of the Trust Agreement, with the Trustee holding such money in trust irrevocably for the holders of such Parity Bonds;

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

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

Parity Bonds - The Series 2012 Bonds and any Additional Bonds.

Payment Account - That certain account so designated and established by the Trustee pursuant to Section 6.03 of the Trust Agreement.

Permitted Encumbrances - The matters described on *Exhibit H* to the Lease Agreement.

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) bills, interest-bearing notes, bonds, 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" (or its equivalent) by the Rating Agencies, 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 Agencies for funds held for payment of securities rated "AAA" (or its equivalent) by them, 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" (or its equivalent) by the Rating Agencies, 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" (or its equivalent) by the Rating Agencies.

Plans and Specifications - Architectural and engineering drawings and specifications approved by the City describing the Expansion Project and any similarly approved changes thereto.

Primary Lease - The conveyance of the Leasehold Estate in the Convention Center Facilities from the City to the Corporation in accordance with the Lease Agreement, particularly Section 3.01 thereof.

Project Account - That certain account so designated and established in accordance with Section 6.02 of the Trust Agreement.

Project Costs - All costs or payment of design, acquisition, construction, installation, and financing of the Expansion Project, including but not limited to 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 Expansion 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 Corporation and the City; and all other costs related to the Expansion 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 Convention Center Facilities beginning one year after construction of the Expansion Project is completed.

Prepayment Option Date - In the event of damage, destruction, or condemnation of the Convention Center Facilities as described in Section 4.13 of the Lease Agreement, the date established pursuant to such Section 4.13.

Prepayment Option Price - An amount which will be sufficient to pay the principal of all Parity Bonds then Outstanding and accrued interest thereon to the date fixed for redemption in accordance with Section 5.01(d) 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 Parity Bonds.

Rating Agencies - Fitch Ratings, Moody's Investors Service, and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business.

Rebate Account - That certain account so designated by the Trustee pursuant to Section 6.09 the Trust Agreement, and referred to herein in Section 9.03.

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

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

Redemption Account - That certain account so designated and established in accordance with Section 6.06 of the Trust Agreement.

Refunded Bonds - The following obligations issued by the City:

City of San Antonio, Texas Hotel Occupancy Tax Revenue Bonds, Series 1996, dated as of March 1, 1996, originally issued in the aggregate principal amount of $182,012,480.60, and currently outstanding in the aggregate principal amount of $12,391,114.05;

City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2004A, dated as of June 1, 2004, originally issued in the aggregate principal amount of $10,390,000, and currently outstanding in the aggregate principal amount of $10,390,000;

City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 2006, dated as of September 15, 2006, originally issued in the aggregate principal amount of $72,620,000, and currently outstanding in the aggregate principal amount of $70,485,000; and

City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Variable Rate Demand Revenue and Refunding Bonds, Series 2008, dated as of July 1, 2008, originally issued in the aggregate principal amount of $135,000,000, and currently outstanding in the aggregate principal amount of $128,600,000.

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 Parity 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 6.04 of the Trust Agreement.

Series 2012 Bond Resolution - The resolution adopted by the Board of Directors of the Corporation on September 20, 2012, authorizing the issuance of the Series 2012 Bonds and approving the Financing Documents, the Escrow Agreement, the Deposit Agreement, and other related matters.

Series 2012 Bonds - The **CITY OF SAN ANTONIO, TEXAS PUBLIC FACILITIES CORPORATION IMPROVEMENT AND REFUNDING LEASE REVENUE BONDS, SERIES 2012 (CONVENTION CENTER REFINANCING AND EXPANSION PROJECT)**, dated as of October 1, 2012, and issued pursuant to the Trust Agreement in the original aggregate principal amount of $550,373,641.50.

Series 2012 Capital Appreciation Bonds - The Series 2012 Bonds which are sold to the Underwriters on which no interest is paid prior to maturity, maturing on September 15 in the years 2035 through 2037 and as set forth in Section 4.03(b) of the Trust Agreement.

Series 2012 Current Interest Bonds - The Series 2012 Bonds which pay interest on each March 15 and September 15, commencing on March 15, 2013, and maturing serially on September 15 in the years 2017 through 2035, and in the year 2042 as set forth in Section 4.03(c) of the Trust Agreement.

State - The State of Texas.

Sublease - The conveyance of a Leasehold Estate in the Convention Center Facilities, being the Corporation's Leasehold Estate in the Convention Center Facilities acquired under the Primary Lease, conveyed back to the City as Sublessee, in accordance with the terms of the Lease Agreement, particularly Section 3.02 thereof.

Sublessee - The City, in its capacity as the sublessee of the Convention Center Facilities under the Sublease, and its successors and permitted assigns.

Sublessee Representative - The Mayor, the City Manager, any Deputy City Manager, any Assistant City Manager, the City Clerk, the Chief Financial Officer, the Director of Finance, and any Assistant Director of Finance 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 or by a certificate executed by the City Manager or the Chief Financial Officer of the City as a Sublessee Representative for the purposes of the Lease Agreement.

Sublessor - The Corporation, in its capacity as the sublessor of the Convention Center Facilities under the Sublease, and its successors and permitted assigns.

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

Tax-Exempt Parity Bonds - The Series 2012 Bonds and each series of Additional Bonds for which Bond Counsel has delivered an opinion on the date of issuance thereof to the effect that such Additional Bonds are obligations described by section 103 of the Code, the interest on which is excludable from "gross income" for federal income tax purposes.

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

Term of the Sublease - The term of the Sublease as determined pursuant to Section 5.02 of the Lease Agreement.

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

Trust Account - the trust account established pursuant to the Deposit Agreement.

Trust Agreement - The **TRUST AGREEMENT RELATING TO THE CITY OF SAN ANTONIO, TEXAS CONVENTION CENTER REFINANCING AND EXPANSION PROJECT**, dated as of October 1, 2012, 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 under the Lease Agreement including, but not limited to, all Lease Payments and other payments (other than payments for Operating Expenses) paid or payable by the City to the Corporation or the Trustee pursuant to the Lease Agreement and other income, charges, and funds realized from the lease of the Convention Center Facilities, and (ii) in and under the Trust Agreement including, but not limited to, all funds and investments in the Trust Fund (excluding the Rebate Account) and all funds deposited with the Trustee pursuant to the Financing Documents (excluding funds transferred to the Trustee for deposit in the Operating Fund or the Rebate Account), all subject to and in accordance with the Trust Agreement.

Trust Fund - The "Trust Fund" so designated and established pursuant to Section 6.01 of the Trust Agreement, consisting of the Project Account, the Payment Account, the Insurance and Condemnation Account, the Redemption Account, and all subaccounts created under such Accounts.

Trustee - **U.S. BANK NATIONAL ASSOCIATION**, 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.

Underwriters - The firm or syndicate of investment banking firms identified in the bond purchase agreement related to the issuance and sale of a series of Parity Bonds.

* * *

SELECTED PROVISIONS OF THE TRUST AGREEMENT

ARTICLE III
PARITY BONDS

SECTION 3.01. PAYMENTS FROM TRUST ESTATE ONLY. All payments to be made by the Trustee under this Trust Agreement to the Bondholders shall be made only from the income and proceeds from the Trust Estate and only to the extent that the Trustee shall have received income or proceeds from the Trust Estate.

* * *

SECTION 3.09. ADDITIONAL BONDS.

(a) *Right to Issue Additional Bonds*. The Corporation shall have the right and power at any time and from time to time, and in one or more series or issues, to authorize, issue, and deliver, at the request of the City, additional parity lease revenue bonds or other obligations (herein called "***Additional Bonds***"), in accordance with law, in any amounts, for the purpose of (i) completing the Expansion Project, if necessary, (ii) making additional renovations and improvements to the Convention Center Facilities, and/or (iii) refunding any Parity Bonds then outstanding. Such Additional Bonds, if and when authorized, issued, and delivered in accordance with the provisions hereof, shall be secured by and made payable equally and ratably on a parity with the outstanding Parity Bonds from the Trust Estate (including but not limited to the Lease Payments made by the City, as Sublessee, pursuant to the Sublease, as modified pursuant to clause (b)(ii) below). The Payment Account established pursuant to this Trust Agreement shall secure and be used to pay all Additional Bonds as well as the outstanding Parity Bonds, all on a parity lien basis. No bonds or other obligations shall be issued which may have a lien on the Trust Estate prior and superior to that securing the Parity Bonds.

(b) *Conditions Precedent to Issuance of Additional Bonds*. No series or issue of Additional Bonds shall be issued or delivered unless the following conditions have all been met:

(i) The laws of this State effective at the time of the authorization of such Additional Bonds shall permit their issuance, and, if required by law, the Attorney General of Texas shall have approved the issuance of such Additional Bonds;

(ii) the Financing Documents shall have been amended appropriately to provide for the issuance of such Additional Bonds, including but not limited to amending the Lease Agreement, if necessary, to provide for the payment by the City of Lease Payments under the Sublease to include payment of debt service related to such issue of Additional Bonds, subject to annual appropriation by the City Council of the City;

(iii) the principal of such Additional Bonds shall be scheduled to be paid or mature only on September 15 of the years in which such principal is scheduled to be paid or mature, and all interest thereon shall be payable only on March 15 and September 15;

(iv) the President of the Board of Directors of the Corporation and the Executive Director of the Corporation shall execute a written certificate to the effect that the Trust Agreement and the Lease

Agreement, as amended to provide for the issuance of such Additional Bonds, are in full force and effect, and no Event of Default exists in connection therewith; and

(v) the Mayor, City Manager and the Chief Financial Officer of the City shall execute a written certificate to the effect that the Lease Agreement, as amended to provide for the issuance of such Additional Bonds, is in full force and effect, and no Event of Default exists in connection therewith.

SECTION 3.10. NO ADDITIONAL UNRELATED OBLIGATIONS. As long as any Parity Obligations are Outstanding, the Corporation shall not have the right to issue any bonds, notes, or other obligations, nor pledge any portion of its revenues, for any purpose or in any manner other as permitted under Section 3.09 hereof.

* * *

ARTICLE VI
ESTABLISHMENT AND ADMINISTRATION OF FUND AND ACCOUNTS

SECTION 6.01. TRUST FUND. There is hereby established with the Trustee a special trust fund to be designated the *City of San Antonio, Texas Convention Center Refinancing and Expansion Project Trust Fund*, referred to herein as the "***Trust Fund***." The Trustee shall keep the Trust Fund separate and apart from all other funds held by it. Within the Trust Fund, there are hereby established, for the benefit of the Bondholders, the separate and distinct accounts and subaccounts more particularly described in this Article (excluding the Rebate Account). On the Closing Date with respect to each series of Parity Bonds, the Trustee agrees to accept and deposit the proceeds from the sale of such Parity Bonds (except proceeds of the Series 2012 Bonds that are to be deposited in the Escrow Fund to refund the Refunded Bonds) pursuant to Sections 6.02 and 6.03 below, which proceeds, together with the City's contribution, if any, shall thereafter be subject to and be administered pursuant to the terms of this Article.

SECTION 6.02. ESTABLISHMENT AND APPLICATION OF PROJECT ACCOUNT.

(a) *Establishment of Project Account*. Within the Trust Fund, there is hereby established a special account to be designated as *City of San Antonio, Texas Public Facilities Corporation Convention Center Refinancing and Expansion Project Project Account*, referred to herein as the "***Project Account***," and within the Project Account there may be established upon the issuance of a Series of Parity Bonds a subaccount to be designated as the *City of San Antonio, Texas Public Facilities Corporation Convention Center Refinancing and Expansion Project City Contribution Subaccount*, herein referred to as the "***City Contribution Subaccount***." The Trustee shall administer the Project Account and the City Contribution Subaccount as provided in this Article, shall establish "Series Subaccounts" under the Project Account and the City Contribution Subaccount, as necessary, to separately account for proceeds and other funds related to each series of Parity Bonds, and shall deposit funds into the Project Account as follows:

(i) On the Closing Date with respect to the Series 2012 Bonds, the Trustee shall deposit ***$326,412,036.65*** from proceeds of the Series 2012 Bonds to the Series 2012 Subaccount of the Project Account, of which *$1,412,036.65* is available to be used to pay Issuance Costs. (No additional funds are being contributed by the City on the Closing Date to pay Project Costs; accordingly, the Trustee shall not establish and maintain the City Contribution Subaccount until such time as Additional Bonds are issued that would require the establishment of the City Contribution Subaccount.);

(ii) On the respective Closing Date with respect to each series of Additional Bonds, the Trustee shall deposit to the related Series Subaccount of the Project Account and the related Series Subaccount of the City Contribution Subaccount such amounts as are set forth in an amendment of this Trust Agreement entered into in connection with such series of Additional Bonds.

(b) *Disbursements for Issuance Costs*. Disbursements to pay or reimburse the payment of the Issuance Costs shall be made by the Trustee from the related Series Subaccount of 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.

(c) *Disbursements for Project Costs*. Funds on deposit in each related Series Subaccount of the Project Account (including the City Contribution Subaccount) shall be disbursed for the payment of Project Costs as provided in this Subsection (c).

(i) Upon the Trustee's receipt of a properly completed and executed Requisition Requesting Disbursement of Project Costs, substantially in the form attached hereto as *Exhibit D*, together with all attachments, the Trustee shall, within three Business Days of such receipt, disburse money from the related Series Subaccount of the Project Account in an amount sufficient to pay the Project Costs which are the subject of such requisition. No funds on deposit in a related Series Subaccount of the City Contribution Subaccount of the Project Account shall be withdrawn to pay Project Costs until all proceeds of such Series of Parity Bonds on deposit in the related Series Subaccount of the Project Account have been fully expended.

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

(iii) The final disbursement from the related Series Subaccount of the Project Account for Project Costs shall additionally require the certification of the City described in subsection 6.01(e) of the Lease Agreement, if applicable.

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

(e) *Transfer to Redemption Account Upon Redemption of All Parity Bonds*. Upon a redemption of all Outstanding Parity Bonds pursuant to Section 5.01 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 6.06 hereof, and the Project Account shall be closed.

(f) *Transfer Excess Proceeds of Series 2012 Bonds to Redemption Account*. Upon the earlier of ***October 31, 2017***, or receipt by the Trustee of the Certificate of Completion described in Section 6.01(e) of the Lease Agreement, the Trustee shall transfer the amount remaining in the Series 2012 Subaccount of the Project Account to the Payment Account. Thereafter, the Series 2012 Subaccount of the Project Account shall be closed and the funds transferred to the Payment Account shall thereafter be used in accordance with Section 6.03(d) hereof.

(g) *Article VI Controls Transfers and Payments from Project Account*. No amounts shall be withdrawn or transferred from or paid out of the Project Account except as provided in this Article VI.

SECTION 6.03. ESTABLISHMENT AND APPLICATION OF PAYMENT ACCOUNT.

(a) *Establishment of Payment Account*. Within the Trust Fund, there is hereby established a special account to be designated the *City of San Antonio, Texas Public Facilities Corporation Convention Center Refinancing and Expansion 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 Agreement

(other than Operating Expenses) are paid in full, or the Prepayment Option Price and all other amounts payable under the Lease Agreement (other than Operating Expenses) are paid in full, pursuant to the terms of the Lease Agreement. On the Closing Date with respect to each series of Parity Bonds, the Trustee shall deposit to the Payment Account proceeds of such series of Parity Bonds representing accrued and/or capitalized interest, if any. The Trustee shall also deposit to the Payment Account, promptly after the receipt thereof, all Lease Payments, and, subject to Section 7.12 hereof, all other funds of the Corporation derived pursuant to the Sublease of the Convention Center Facilities, payment of the Prepayment 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 Agreement for Operating Expenses or for deposit to the Rebate Account or the City Contribution Subaccount) and such amounts as are transferred by the Trustee upon closing of the Project Account shall be immediately deposited, as soon as practicable, by the Trustee in the Payment Account.

(b) *Withdrawals by Trustee on Bond Payment Dates*. 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 Parity 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) *Transfers to Redemption Account*. Upon a redemption of all Parity Bonds pursuant to Sections 5.01 or 6.05(d), all funds in the Payment Account shall be transferred to the Redemption Account. In the event of a partial redemption of the Parity Bonds, one Business Day prior to the date fixed for redemption of the Parity 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 Parity Bonds to be redeemed, to the extent of the money contained therein.

(d) *Deposit of Excess Proceeds*. The Trustee shall transfer into the Payment Account (i) funds on deposit in the Series 2012 Subaccount of the Project Account in accordance with Section 6.02(f) hereof, and (ii) any proceeds of a Series of Additional Bonds (including investment earnings) that remain on deposit in the related Series Subaccount of the Project Account upon completion of construction of the project or projects for which such Additional Bonds were issued. Such proceeds shall be invested at a yield not exceeding the yield on the related Series of Parity Bonds (if such Parity Bonds were issued as Tax-Exempt Parity Bonds), and shall be used to pay principal (but not interest) on the related Series of Parity Bonds as such principal becomes due. Notwithstanding the foregoing, in the event the Corporation provides the Trustee with an opinion of Bond Counsel to the effect that such remaining proceeds may be used in another manner as described or approved by Bond Counsel without adversely affecting, for federal income tax purposes, the exclusion of interest on such Parity Bonds that are Tax-Exempt Parity Bonds, such proceeds may be used in accordance with the directions provided in such opinion of Bond Counsel.

(e) *Article VI Controls Withdrawals and Payments from Payment Account*. No amounts shall be withdrawn or transferred from or paid out of the Payment Account except as provided in this Article VI.

SECTION 6.04. ESTABLISHMENT AND APPLICATION OF RESERVE ACCOUNT.

(a) *Establishment of Reserve Account*. Within the Trust Fund, there shall be established a special account to be designated the *City of San Antonio, Texas Public Facilities Corporation Convention Center Refinancing and Expansion Project Reserve Account* (the "***Reserve Account***"), but the Reserve Account shall be established only for the benefit of the Bondholders of any particular Series of Parity Bonds for which a Subaccount in the Reserve Account is specifically created pursuant to an amendment to this Trust Agreement entered into in connection with the issuance of such Series of Parity Bonds. If a Series of Parity Bonds is be secured with funds on deposit in the Reserve Account, the Trustee shall create and establish a Subaccount in the Reserve Account pursuant to the provisions of an amendment to this Trust Agreement in connection with the issuance of such Series of Parity Bonds for the purpose of securing that particular issue or Series of Parity Bonds (or any specific group of issues or Series of Parity Bonds, as appropriate) and the amounts once deposited or credited to said Subaccount shall be held solely for the benefit of the Bondholders of the particular Parity Bonds for which such Subaccount in the Reserve Account is established. Each such Subaccount in the Reserve Fund shall be designated in such manner as is necessary to

identify the Series of Parity Bonds it secures and to distinguish such Subaccount from all other Subaccounts in the Reserve Account created for the benefit of a particular Series of Parity Bonds, if any. All terms relating to the requirements to establish, fund and maintain required balances in a Subaccount of the Reserve Account, including but not limited to the use of any reserve fund surety policy therein, shall be set forth in the amendment to this Trust Agreement related to the issuance of the particular series of Parity Bonds for which such Subaccount is established.

(b) *Use of Funds*. Funds on deposit in a Subaccount of the Reserve Account established for the benefit of a particular Series of Parity Bonds, if any, shall be used to (i) pay the principal of and interest on such Series of Parity Bonds for which such Subaccount was created at any time when there is not sufficient money available in the Payment Account for such purpose, (ii) pay the principal of or interest on the last maturing Parity Bonds of such Series, or (iii) pay reimbursement obligations to restore the amount available to be drawn under a reserve fund surety policy, if any, to its original amount.

(c) *Series 2012 Bonds Not Secured with Reserve Account*. No Subaccount is being established in the Reserve Account for the benefit of the Bondholders of the Series 2012 Bonds; consequently, no proceeds of the Series 2012 Bonds shall be deposited into the Reserve Account, no funds shall be deposited into the Reserve Account in the future for the benefit of the Bondholders of the Series 2012 Bonds, and the Bondholders of the Series 2012 Bonds shall not be entitled to any funds which may be on deposit in a Subaccount of the Reserve Account established in the future with respect to the issuance of any other Series of Parity Bonds, if any.

SECTION 6.05. ESTABLISHMENT AND APPLICATION OF INSURANCE AND CONDEMNATION ACCOUNT.

(a) *Establishment of Insurance and Condemnation Account*. Within the Trust Fund, there is hereby established an account designated as the *City of San Antonio, Texas Public Facilities Corporation Convention Center Refinancing and Expansion 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 Convention Center Facilities (from Net Proceeds or otherwise) or as the result of a condemnation award shall be deposited into the Insurance and Condemnation Account.

(b) *Use of Funds*. 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 Convention Center Facilities, but is not equal to or greater than a Prepayment Option Price, the City will be able to 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 Convention Center Facilities and is also equal to or greater than the Prepayment Option Price, the City has the option of (i) making all necessary repairs and/or replacements, or (ii) exercising its option to prepay Lease Payments in accordance with Section 6.05(d) hereof, with amounts from the Insurance and Condemnation Account.

(c) *Deposit of City Funds*. 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 Convention Center Facilities, in accordance with Section 4.13(a) of the Lease Agreement, 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 Convention Center Facilities. Upon such deposit, the City may make all necessary repairs and/or replacements of the Convention Center Facilities 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.

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

(e) *Deposit of City Funds*. 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 prepay Lease Payments, in accordance with Section 4.13(a) of the Lease Agreement, 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 Prepayment Option Price. Upon the City's exercise of its prepayment option, all amounts in the Insurance and Condemnation Account shall be transferred to the Redemption Account.

(f) *Transfer to Redemption Account If Funds Are Insufficient to Repair and Replace Convention Center Facilities*. 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 Convention Center Facilities or for the exercise of its prepayment 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 Convention Center Facilities or exercise its option to prepay Lease Payments, 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 6.06 hereof.

SECTION 6.06. ESTABLISHMENT AND APPLICATION OF REDEMPTION ACCOUNT. Within the Trust Fund, there is hereby established an account designated the *City of San Antonio, Texas Public Facilities Corporation Convention Center Refinancing and Expansion Project Redemption Account* (the "***Redemption Account***"). Money to be used for redemption of Parity Bonds shall be transferred to the Redemption Account at the times and in the amounts required by Sections 6.02(e), 6.02(f), 6.03(c), 6.05(d) and 6.05(f). Said money, together with other legally available funds contributed by the City or the Corporation for deposit in the Redemption Account, if any, shall be set aside in the Redemption Account solely for the purpose of redeeming Parity Bonds in advance of their maturity and shall be applied on or after (if such Parity 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 (or the Maturity Amount or Compounded Amount in the case of Capital Appreciation Bonds) on the Parity Bonds to be redeemed upon delivery of such Parity 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 (or Maturity Amount or Compounded Amount) then due on the Parity 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 Parity 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, Maturity Amount or Compounded Amount of such Parity Bonds, pro rata in proportion to the respective amount of the total amount of principal, Maturity Amount, or Compounded Amount due, if necessary. Any money remaining in the Redemption Account following redemption of, and payment of all principal and interest (or Maturity Amount or Compounded Amount) due with respect to all Parity Bonds, shall be transferred to the City after the payment of the fees and expenses of the Trustee as provided in Section 8.06.

SECTION 6.07. ESTABLISHMENT AND APPLICATION OF OPERATING FUND. In the event the Sublease is ever terminated in accordance with Section 10.03 of the Lease Agreement, there shall be established with the Trustee a special trust fund to be designated the *City of San Antonio, Texas Convention Center Refinancing and Expansion Project Operating Fund*, referred to herein as the "***Operating Fund***." The Trustee shall keep the Operating Fund separate and apart from the Trust Fund and all other funds held by it pursuant to this Trust Agreement. The Operating Fund shall not be part of the Trust Estate and is not pledged to secure the payment of the Parity Bonds. Money received by the Corporation, as Lessee under the Primary Lease, from the City, as Lessor under the Primary Lease for the payment of Operating Expenses, if any shall be deposited into the Operating Fund. Funds on deposit in the Operating Fund shall be disbursed by the Trustee to the Lessee to pay Operating Expenses (or to any third party directed by the Lessee in payment of any Operating Expenses) in accordance with written directions provided by a Corporation Representative.

SECTION 6.08. DEPOSIT AND INVESTMENT OF MONEY

(a) *Investments*. Money held in the Trust Fund and the Operating Fund shall be invested by the Trustee in Permitted Investments pursuant to written instruction of a Corporation Representative, or, if a Corporation Representative does not provide written instruction for such investment, the Trustee shall invest money on deposit in the Trust Fund and the Operating Fund in any Permitted Investments of the kind described under clause (v) of the definition of Permitted Investments in the Lease Agreement. 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 Parity 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 Parity 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 Parity Bonds. The Trustee shall not be liable for the Parity Bonds becoming "arbitrage bonds" as a result of investments it makes pursuant to instructions as required herein. The Corporation acknowledges that to the extent regulations of the Comptroller of the Currency or any other regulatory entity grant the Corporation the right to receive brokerage confirmations of the security transactions as they occur, the Corporation specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Corporation with monthly cash transaction statements, which include the detail for all investment transactions made by the Trustee hereunder.

(b) *Retainage or Disbursement of Earnings*. All interest or income received by the Trustee on the investment of money held in the Project Account, the Payment Account, the Reserve Account, the Insurance and Condemnation Account, the Redemption Account, and the Operating Fund shall be retained in such Accounts and the Operating Fund, respectively. 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 any Parity Bonds are Outstanding.

(c) *Notice by Trustee to City*. 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. Not less than ten (10) Business Days prior to each Lease Payment Date, 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 and other funds then on deposit in the Payment Account, which amount may be applied as a credit to its next Lease Payment.

(d) *Amounts in Payment Account Credited Against Lease Payments*. 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 Agreement on the Lease Payment Date following the date of deposit.

(e) *Trustee Not Liable for Investment Losses*. 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 6.10. PAYMENT OF OTHER COSTS. The Corporation, as Lessee under the Primary Lease, shall require the City, in its capacity as Lessor under the Primary Lease and as evidenced by the City's agreement contained in Section 6.02(b) of the Lease Agreement, to pay (i) from Appropriated Funds, all Operating Expenses related to the Convention Center Facilities, and (ii) from Appropriated Funds, the ordinary fees and expenses of the Trustee in accordance with the schedule provided in *Exhibit E* hereto. Upon termination of the Sublease in accordance with Section 10.03 hereof, any funds received by the Corporation from the City to pay Operating Expenses shall be deposited by the Corporation into the Operating Fund, and utilized by the Corporation (as Lessee under the Primary Lease) to pay Operating Expenses, pursuant to Section 6.07 hereof.

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ARTICLE VII
DEFAULT; LIMITATION OF LIABILITY

SECTION 7.01. 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 Parity 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 Agreement 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 Agreement 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 obligations under any of the Financing Documents, 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 Convention Center Facilities or the Corporation's Leasehold Estate in the Convention Center Facilities, 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 Convention Center Facilities or the Corporation's Leasehold Estate in the Convention Center Facilities.

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

SECTION 7.02. 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 (or, at the written direction of Bondholders owning a majority in aggregate principal amount and Maturity Amount of the Parity Bonds then Outstanding, shall), and without any further demand or notice, to take one or any combination of the following remedial steps to the extent permitted by law (provided that the right to terminate the Sublease may only occur upon the occurrence of an Event of Default described in Section 7.01(b) which is caused by the City):

(i) with or without terminating the Sublease, declare the principal of all Outstanding Parity 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 Bondholders owning not less than 25% in principal amount of the Parity Bonds Outstanding, the Trustee shall declare the principal of all Outstanding Parity Bonds and all unpaid accrued interest to be due and payable immediately;

(ii) terminate the Sublease 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 Convention Center Facilities to the Trustee and the Trustee shall have the right, thereafter, to sublease the Convention Center Facilities to any third party for a period up to but not exceeding the remaining Term of the Primary Lease; 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, the Trustee shall not exercise its option to take possession and control of the Convention Center Facilities upon an Event of Default under this Trust Agreement until indemnified in a manner satisfactory to it for any liability and expense it might incur in carrying out such remedy.

SECTION 7.03. NOTICE OF NONAPPROPRIATION. The Corporation, in the Sublease, shall require the City, as Sublessee, to provide the Corporation, the Trustee and the Rating Agencies 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 7.04. 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 Agreement 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 Agreement and this Trust Agreement.

SECTION 7.05. 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 7.06. NO ADDITIONAL WAIVER IMPLIED BY ONE WAIVER. Subject to the requirements of Section 7.11 hereof, the Trustee may waive any Event of Default and its consequences and rescind any declaration of maturity of principal upon written notice to the owners of the Parity Bonds of such waiver provided not less than 10 Business Days prior to the effective date of such waiver. If, prior to the effective date of the waiver set forth in such notice to the Bondholders, the Trustee receives a written direction from Bondholders owning a majority in aggregate principal amount and Maturity Amount of the Parity Bonds then Outstanding instructing the Trustee not to proceed with such waiver, the Trustee shall be prohibited from exercising such waiver until further instructed to do so by Bondholders owning a majority in aggregate principal amount and Maturity Amount of the Parity Bonds then Outstanding. If the Trustee does not timely receive the written direction described in the preceding sentence, the waiver shall automatically become effective on the date indicated in such notice to the Bondholders. 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 7.07. NOTICE OF EVENT OF DEFAULT. The Trustee shall give written notice of an Event of Default by registered or certified mail to the Corporation and the City, and by first-class mail, the Bondholders, as soon as practicable following the occurrence of an Event of Default (or an event which with the passage of time could become an Event of Default) of which the Trustee has actual knowledge or is deemed to have knowledge hereunder, 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 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 Agreement and demand such compliance. Notice under this Section is not a condition precedent to the exercise of any remedy under this Trust Agreement.

SECTION 7.08. INITIATION OF REMEDIES. All rights of action hereunder may be enforced by the Trustee without the possession of any of the Parity 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 7.09. 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 Sublease 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 and Maturity Amount of Parity 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 Parity 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 Parity 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 7.10. 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 7.11. 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 Parity 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 Agreement, respectively, but no such waiver or rescission shall extend to any subsequent or other Events of Default or impair any right consequent thereon.

SECTION 7.12. APPLICATION OF MONEY. Any moneys held or received by the Trustee pursuant to this Article VII 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 Parity 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 Parity Bonds.

SECOND: to the payment to the persons entitled thereto of the unpaid principal of any of the Parity Bonds which shall have become due and payable (other than Parity 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 or Maturity Amount of the Parity Bonds at the respective rates specified therein from the respective dates upon which the Parity Bonds became due and payable, and, if the amount available shall not be sufficient to pay in full the principal or Maturity Amount of the Parity 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 or Maturity Amount, ratably, according to the amount of the principal or Maturity Amount due on that date, to the person entitled thereto without any discrimination.

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

(c) If the principal of all the Parity 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 Parity 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 Parity Bond over any other Parity 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 Parity 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 Parity Bond until such Parity 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 Parity Bonds have been paid under the provisions of this Section 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 Convention Center Facilities remaining hereunder shall be paid, transferred, and assigned to the City.

SECTION 7.13. 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 7.14. 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 Agreement.

SECTION 7.15. NO RESPONSIBILITY FOR SUFFICIENCY OF LEASE. The Trustee shall not be responsible for the sufficiency of the Lease Agreement, the assignment made to it of the right to receive Lease Payments or Operating Expenses, or the value of the Convention Center Facilities; provided, however, that the

foregoing does not reduce or eliminate any of the Trustee's specified responsibilities or obligations under the Financing Documents. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it on behalf of the Corporation under the terms of and in accordance with this Trust Agreement. Further, the Trustee shall not be responsible or liable for the loss of investment income resulting from the failure of the Corporation to provide written instructions to the Trustee directing the investment of money held in the Trust Fund; provided that the Trustee invests such money in accordance with the provisions of Section 6.08 hereof.

SECTION 7.16. NO LIABILITY OF TRUSTEE. (a) The Trustee shall not be liable to anyone for any delay in the delivery of any property to the Corporation or the City, for any default on the part of any supplier, manufacturer, or builder, or for any defect in any of the property or in the title thereto, nor shall anything herein be construed as a warranty on the part of the Trustee in respect thereof or as a representation in respect of the title thereto. The Trustee shall not be liable for actions taken in good faith, or actions taken at the direction of the Bondholders owning a requisite percentage of the Parity Bonds. The Trustee shall not be liable for costs, expenses, suits, judgments, actions, claims, losses, damages, and liabilities whatsoever, including consequential damages, litigation and court costs, amounts paid in settlement, amounts paid to discharge judgments, and legal fees and expenses, directly or indirectly arising out of (i) the use, maintenance, condition, or management of, or from any work or thing done in connection with, the Convention Center Facilities by any third party; (ii) any act of negligence of any third party or of any officer, agent, contractor, servant, employee, licensee, or invitee of such third party in connection with the Convention Center Facilities or the Lease Agreement; or (iii) the authorization of payment of costs by any third party who is not acting as an attorney, agent, or servant of the Trustee.

(b) The Trustee may perform its powers and duties hereunder by or through such attorneys, agents, and servants as it shall appoint, shall be entitled to rely conclusively upon the advice of counsel and shall be answerable for only its own negligence or willful misconduct and not for any negligence or willful misconduct of any attorney, agent, or servant appointed by it with reasonable care. The Trustee shall not be responsible in any way for the recitals herein contained or for the execution (except for its own execution) or validity of this Trust Agreement or of the Parity Bonds or for any mistake of fact or law. IN NO EVENT SHALL THE TRUSTEE BE LIABLE TO ANY PARTY OR THIRD PARTY FOR SPECIAL, INDIRECT, OR CONSEQUENTIAL DAMAGES, LOST PROFITS, OR LOSS OF BUSINESS ARISING UNDER OR IN CONNECTION WITH THIS TRUST AGREEMENT OR THE OTHER FINANCING DOCUMENTS OR THE OWNERSHIP OF THE CONVENTION CENTER FACILITIES, EVEN IF APPRIZED OF THE LIKELIHOOD OF SUCH DAMAGES AND REGARDLESS OF THE FORM OF ACTION. THE TRUSTEE SHALL NOT BE RESPONSIBLE OR LIABLE TO ANY BONDHOLDER TO PAY ANY INTEREST, PRINCIPAL, OR PREMIUM DUE OR TO BECOME DUE ON THE PARITY BONDS EXCEPT OUT OF FUNDS AVAILABLE TO THE TRUSTEE IN THE TRUST FUND OR ANY ACCOUNT THEREIN (EXCLUDING THE REBATE ACCOUNT).

* * *

ARTICLE VIII
THE TRUSTEE

* * *

SECTION 8.02. 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 and to rely on any certifications provided thereby;

(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 7.16(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 Agreement 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 Convention Center Facilities;

(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 Agreement, 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 and continuance 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; and

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

SECTION 8.03. REMOVAL AND RESIGNATION. A bank or trust company authorized to provide corporate trust services, 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 Parity 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 Parity 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 Parity 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 8.04. APPOINTMENT OF AGENT. The Trustee may appoint an agent to exercise any of the powers, rights, or remedies granted to the Trustee under this Trust Agreement and to hold title to property or to take any other action which may be desirable or necessary.

SECTION 8.05. ACQUISITION, MERGER, OR CONSOLIDATION OF TRUSTEE. Any entity resulting from any acquisition, merger, or consolidation to which the Trustee or any successor to it shall be a party, or any entity in any manner succeeding to all or substantially all of the corporate trust business of the Trustee or any successor Trustee, provided that such entity, if not an affiliate of the Trustee, shall have capital and surplus aggregating at least $50,000,000, shall be the successor Trustee hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto.

* * *

ARTICLE IX
AMENDMENT; DEFEASANCE; ADMINISTRATIVE PROVISIONS

SECTION 9.01. AMENDMENT.

(a) *Amendments Without Consent of Bondholders*. The Corporation and the Trustee, without the consent of the Bondholders, may amend this Trust Agreement, 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 this Trust Agreement;

(ii) to grant to or confer upon the Trustee for the benefit of the owners of the Parity 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 Parity Bonds; or

(vi) to provide for the issuance of Additional Bonds as permitted pursuant to Section 3.09 hereof.

(b) *Amendments Requiring Consent of Bondholders*. 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 Bondholders owning not less than a majority in aggregate principal amount and Maturity Amount of the Parity 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 Parity Bond, a reduction in the principal amount or Maturity Amount of any Parity 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 Parity Bond over any other Parity Bond, a reduction in the aggregate principal amount and Maturity Amount of the Parity Bonds required for consent to such amendment or the creation of any prior or parity liens on the Trust Estate (except for a parity lien on the Trust Estate in connection with the issuance of Additional Bonds).

(c) *Notice to Bondholders*. 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 9.06. Such notice shall briefly set forth the nature of the proposed amendment and shall state that copies thereof are on file at the Designated 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 Corporation 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 shall be and is deemed to be modified and amended in accordance with such amendment.

(d) *Opinion of Bond Counsel*. There shall be filed with the Trustee with respect to each amendment to this Trust Agreement an opinion of Bond Counsel to the effect that such amendment is authorized or permitted by this Trust Agreement and that all conditions precedent with respect to the execution and delivery thereof have been fulfilled.

(e) *Trustee Not Required to Consent in Certain Cases*. The Trustee shall not be required to enter into or consent to any such amendments that affect the Trustee's own rights, duties or immunities under this Trust Agreement or otherwise.

* * *

SELECTED PROVISIONS OF THE LEASE AGREEMENT

ARTICLE II
GENERAL REPRESENTATIONS, COVENANTS, AND WARRANTIES

SECTION 2.01. GENERAL REPRESENTATIONS, COVENANTS, AND WARRANTIES OF THE CITY. The City represents, covenants, and warrants as follows:

* * *

(b) the City has full power and authority to execute this Lease Agreement and perform its obligations hereunder;

* * *

(d) the execution of this Lease Agreement and the performance of its obligations hereunder, and compliance with the terms thereof by the City will not conflict with, or constitute a default under, any law (including administrative rule), judgment, decree, order, permit, license, agreement, mortgage, lease, or other instrument to which the City is subject or by which the City or any of its property is bound;

* * *

(f) as authorized by Chapter 351, Texas Tax Code, the City currently levies a hotel occupancy tax at the rate of 9% on the cost of occupancy of any sleeping room furnished by any hotel within the corporate limits of the City in which the cost of occupancy is $2.00 or more a day, the revenues from which "*may be used only to promote tourism and the convention and hotel industry . . .*"[1], "*shall be expended in a manner directly enhancing and promoting tourism and the convention and hotel industry as permitted by Subsection (a)*". . . [and] *may not be used for the general revenue purposes or general governmental operations of*"[2] the City; accordingly, the City represents that it presently expects, while any Parity Bonds remain Outstanding, that (i) it will continue to levy a hotel occupancy tax at the rate of at least 9% on the cost of occupancy of any sleeping room furnished by any hotel within the corporate limits of the City in which the cost of occupancy is $2.00 or more a day as long as it is permitted to do so pursuant to Chapter 351, Texas Tax Code, or other applicable law, and (ii) it will enforce the provisions of any ordinance or resolution levying a hotel occupancy tax concerning the collection, remittance and payment of such tax;

(g) the City presently expects to have sufficient funds to satisfy its obligations under this Lease Agreement, including but not limited to revenues derived from the levy and collection of hotel occupancy taxes as permitted under Chapter 351, Texas Tax Code, and the City represents that it presently expects, while any Parity Bonds remain Outstanding, that it annually will prepare a Fiscal Year budget, for consideration by the City Council of the City, which contains provisions to fully pay from available revenues of the City all Lease Payments and Operating Expenses coming due during the applicable Fiscal Year; ***however, the City has no obligation to Appropriate any funds to enable the City (as Sublessee) to pay Lease Payments, or (as Lessor) to pay Operating Expenses, regardless of the amount or source of funds that are lawfully available to be Appropriated, in any Fiscal Year***;

(h) this Lease Agreement is the legal, valid, and binding obligation of the City, enforceable in accordance with its terms;

* * *

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[1] Section 351.101(a), Texas Tax Code.

[2] Section 351.101(b), Texas Tax Code.

(j) the City agrees to keep the Convention Center Facilities free and clear of all liens, encumbrances, and security interests (other than Permitted Encumbrances);

* * *

(n) the City has fee simple title, subject to Permitted Encumbrances, to the Land described in *Exhibit B* to this Lease Agreement upon which the Convention Center Facilities are situated, and, will, for the period of time commencing on the date of execution of this Lease Agreement and expiring on the termination of the Primary Lease, warrant and forever defend all and singular title to such property against every person whomsoever lawfully claiming the same, or any part thereof subject to the Permitted Encumbrances; and

(o) upon termination of the Sublease pursuant to Section 5.02 hereof, the Sublessee will deliver to the Sublessor all documents which are or may be necessary to vest all of the Sublessee's right, title, and interest in and to the Convention Center Facilities under the Sublease in the Sublessor and will release all liens and encumbrances in favor of the Sublessor created under the Sublease with respect to the Convention Center Facilities as provided in Section 7.03 hereof.

SECTION 2.02. GENERAL REPRESENTATIONS, COVENANTS, AND WARRANTIES OF THE CORPORATION. The Corporation represents, covenants, and warrants as follows:

* * *

(b) the Corporation has the full power and authority to execute the Financing Documents and perform its obligations thereunder;

* * *

(e) the execution of the Financing Documents and the performance of its obligations thereunder, and compliance with the terms thereof by the Corporation will not conflict with, or constitute a default under, any law (including administrative rule), judgment, decree, order, permit, license, agreement, mortgage, lease, or other instrument to which the Corporation is subject or by which the Corporation or any of its property is bound;

* * *

(g) upon termination of the Primary Lease pursuant to Section 5.01 hereof, the Lessee will deliver to the Lessor all documents which are or may be necessary to vest all of the Lessee's right, title, and interest in and to the Convention Center Facilities under the Primary Lease in the City and will release all liens and encumbrances in favor of the Lessee created under the Primary Lease with respect to the Convention Center Facilities as provided in Section 7.03 hereof.

(h) to the extent that it legally may, the Corporation agrees to keep the Convention Center Facilities free and clear of all liens, encumbrances, and security interests (other than the Permitted Encumbrances);

(i) subject to compliance by the Sublessee with the provisions of this Lease Agreement, the Sublessor hereby covenants to provide the Sublessee during the Term of the Sublease with the quiet use and enjoyment of the Convention Center Facilities, and the Sublessee shall peaceably and quietly have and hold and enjoy such property, without suit, trouble, or hindrance from the Sublessor;

* * *

SECTION 2.03. GENERAL ASSURANCES. The City and the Corporation, subject to Section 2.01(g) hereof, 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 the Primary Lease and the Sublease, as applicable, as each is set forth in this Lease Agreement.

* * *

ARTICLE III
PRIMARY LEASE AND SUBLEASE

SECTION 3.01. LEASE FROM CITY TO CORPORATION. In consideration of the mutual covenants and agreements set forth in this Lease Agreement [including but not limited to the Corporation's commitment to issue Parity Bonds to finance and refinance the Convention Center Facilities (at the request, and for the benefit, of the City), the annual payment by the Corporation to the City of $1.00, and other good and valuable consideration], the City (as Lessor hereunder) demises, leases and grants to the Corporation (as Lessee hereunder) a Leasehold Estate in the Convention Center Facilities to the Corporation for the period set forth in Section 5.01 hereof. Such lease from the City to the Corporation is herein referred to as the "***Primary Lease***."

SECTION 3.02. LEASEBACK (SUBLEASE) FROM CORPORATION TO CITY. In consideration of the mutual covenants and agreements set forth in this Lease Agreement, and other good and valuable consideration [including but not limited to the payment of Lease Payments by the City (as Sublessee hereunder) in accordance with Section 6.02(a) hereof], the Corporation (as Sublessor hereunder) demises, leases and grants back to the City (as Sublessee hereunder) a Leasehold Estate (identical to the Leasehold Estate received from the City under the Primary Lease) in the Convention Center Facilities for the term set forth in Section 5.02 hereof. Such lease from the Corporation back to the City is herein referred to as the "***Sublease***."

SECTION 3.03. NO MERGER OF TITLE. As long as any Parity Bonds remain outstanding, the Lessor and the Lessee expressly state their intention that there shall be no merger of the Sublease created by this Lease Agreement into the Primary Lease, also created by this Lease Agreement, or into the fee title to the Convention Center Facilities retained by the Lessor by reason of the fact that the Lessor has retained fee title to the Convention Center Facilities and has conveyed only a Leasehold Estate in the Convention Center Facilities to the Lessee pursuant to and as evidenced by the Primary Lease.

ARTICLE IV
THE CONVENTION CENTER FACILITIES

SECTION 4.01. DESIGN, CONSTRUCTION, ACQUISITION, OR INSTALLATION OF EXPANSION PROJECT. The Sublessee hereby agrees to acquire and construct the Expansion Project in accordance with the terms and conditions hereof. The Sublessee also agrees to cause the Expansion Project to be designed, constructed, acquired, or installed and existing facilities, if any, demolished in compliance with all State and federal laws applicable to the design, construction, demolition, acquisition, or installation of the Expansion Project, and to obtain all approvals necessary from the appropriate governmental authorities. The Sublessor shall have no responsibility with respect to the design, construction, acquisition or installation of the Expansion Project other than cooperating with the Sublessee in requisitioning funds on deposit in the Series 2012 Subaccount of the Project Account to pay Project Costs. The Sublessee agrees to pay from any lawfully available funds of the Sublessee any amount of the Project Costs in excess of the amount on deposit in the Series 2012 Subaccount of the Project Account which is set aside to pay Project Costs. Income and profits from investment of funds on deposit in the Series 2012 Subaccount of the Project Account shall remain in such Series 2012 Subaccount to pay Project Costs unless the Sublessee directs the Sublessor to direct the Trustee to transfer such funds to the Payment Account, subject however, to the limitations in Section 9.03 herein. Additionally, in the event any proceeds of the Series 2012 Bonds (including investment earnings) remain on deposit in the Series 2012 Subaccount of the Project Account on the earlier of ***October 31, 2017***, or the date on which Trustee receives the Certificate of Completion described in Section 6.01(e) of this Lease Agreement, such remaining proceeds shall be transferred to the Payment Account, as required by Section 6.02(f) of the Trust Agreement, and invested and used in accordance with the provisions of

Section 6.03(d) of the Trust Agreement unless such proceeds are permitted to be used in another manner as described in an opinion of Bond Counsel referred to in Section 6.03(d) of the Trust Agreement.

* * *

SECTION 4.03. MAINTENANCE OF CONVENTION CENTER FACILITIES BY SUBLESSEE. (a) During the Term of the Sublease, the Sublessee shall exercise due care in the use, operation, and maintenance of the Convention Center Facilities and shall not use, operate, or maintain the Convention Center Facilities improperly, carelessly, in violation of any State or federal law, or for a purpose, or in a manner contrary to that contemplated by this Lease Agreement. Additionally, the Sublessee shall not unreasonably obstruct or hinder the Sublessor in carrying out its duties under and pursuant to this Lease Agreement. Sublessee shall obtain all permits and licenses necessary for the operation, possession, and use of the Convention Center Facilities. Sublessee shall comply with all State and federal laws applicable to the use, possession, and operation of the Convention Center Facilities and, if compliance with any such State and federal law requires changes or additions to be made to the Convention Center Facilities, such changes or additions shall be made in accordance with Section 4.11 of this Lease Agreement.

(b) During the Term of the Sublease, the Sublessee shall maintain, preserve, and keep the Convention Center Facilities in good repair, working order, and condition, and from time to time, make or cause to be made all repairs, replacements, and improvements necessary to keep the Convention Center Facilities in such condition. The Sublessee agrees to pay the expenses of such maintenance from Appropriated Funds. The Sublessor shall have no responsibility for such maintenance, or for any such repairs, replacements, or improvements.

(c) Subject to the provision of Section 9.03 of this Lease Agreement, the Sublessee shall have the right to contract with a third party to maintain, repair, replace, and improve the Convention Center Facilities, as necessary to keep the Convention Center Facilities in good repair, working order, and condition to the extent that such contract does not adversely affect the exclusion of interest on the Tax-Exempt Parity Bonds for federal income tax purposes, provided that the Sublessee, the Sublessor, and the Trustee may rely on an opinion of Bond Counsel that the exclusion of interest on the Tax-Exempt Parity Bonds for federal income tax purposes will not be adversely affected by the agreements with such third party for maintenance, repair, replacements, and/or improvements; and provided further, that Sublessee shall not be relieved of its obligation to maintain, repair, replace, and improve the Convention Center Facilities by designating a third party to perform such duties.

(d) Notwithstanding the responsibility of the Sublessee to accomplish those matters identified in Section 4.03 (a) through (c), 4.05(b), 4.06, 4.07, 4.09, and 4.10 of this Lease Agreement, the costs therefor shall remain the responsibility of the Lessor (who shall pay such costs from Appropriated Funds on the Sublessee's behalf for the duration of the Sublease). In the event of termination of the Sublease pursuant to Section 10.03 of this Lease Agreement, during the remaining Term of the Primary Lease the Lessee expects, on an annual basis, to prepare and submit a budget to the Lessor for the Operating Expenses reasonably expected to be incurred by the Lessee during the ensuing Fiscal Year for its having to assume and undertake those responsibilities of the Sublessee, along with the cost of using and operating the Convention Center Facilities, for its intended purpose (regardless of whether the Lessee has entered into a subsequent sublease with a succeeding sublessor for all or part of the remaining term of the Primary Lease). The Lessor shall offset such amount against the amount of rent owed by the Lessee to the Lessor under the Primary Lease and remit to the Lessee, from Appropriated Funds and as a fee earned by the Lessee under the Primary Lease, any difference.

SECTION 4.04. USE OF THE CONVENTION CENTER FACILITIES. The Sublessee will use the Convention Center Facilities for any lawful purpose consistent with the normal intended use of the Convention Center Facilities so long as such use does not adversely affect the treatment of the Tax-Exempt Parity Bonds as obligations described in section 103 of the Code, the interest on which is excludable from "gross income" for purposes of federal income taxation.

SECTION 4.05. SUBLESSEE'S NEGLIGENCE; LIABILITY INSURANCE. (a) SUBLESSEE'S NEGLIGENCE. TO THE EXTENT PERMITTED BY THE LAWS OF THE STATE, THE SUBLESSEE ASSUMES ALL RISKS AND LIABILITIES, WHETHER OR NOT COVERED BY INSURANCE, FOR LOSS OR DAMAGES TO THE CONVENTION CENTER FACILITIES 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 SUBLESSEE OR OF THIRD PARTIES AND WHETHER SUCH PROPERTY DAMAGE BE TO THE SUBLESSEE'S PROPERTY OR THE PROPERTY OF OTHERS, IF SUCH INJURY, DEATH, LOSS, OR DAMAGE BE PROXIMATELY CAUSED BY THE NEGLIGENT CONDUCT OF THE SUBLESSEE, ITS OFFICERS, EMPLOYEES, AGENTS, GUESTS, AND INVITEES. TO THE EXTENT PERMITTED BY THE LAWS OF THE STATE, THE SUBLESSEE HEREBY ASSUMES RESPONSIBILITY, AND AGREES TO REIMBURSE THE SUBLESSOR, 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 SUBLESSOR (EXCEPT THOSE DIRECTLY RESULTING FROM THE SUBLESSOR'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 SUBLESSEE, ITS OFFICERS, EMPLOYEES, AGENTS, GUESTS, AND INVITEES.

(b) General Liability Insurance. During the Term of the Sublease, Sublessee will procure from Appropriated Funds, and maintain continuously in effect, or cause to be procured and maintained continuously in effect, with respect to the Convention Center Facilities, a policy of insurance or coverage of General Liability Insurance on an occurrence based form with a limit set out in *Exhibit D*, 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 Convention Center Facilities or any part thereof, and shall furnish certificates evidencing such coverage to the Trustee. 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 D*. The insurance required under this subparagraph may be provided through an "umbrella" or "excess" 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 Sublessee represents to the Sublessor 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 and the limits set out in *Exhibit D*. Notwithstanding the provisions of Section 4.05(b) above, as long as the Sublessee maintains such insurance and reserve account at such levels, it will not be necessary for the Sublessee 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 the Sublease, to the extent permitted by law, all-risk and its equivalent property insurance shall be procured and maintained in effect continuously by the Sublessee with regard to the Convention Center Facilities, in a coverage amount not less than the greater of the replacement value of the Convention Center Facilities or the Defeasance Amount then applicable, subject only to the exceptions, limitations and exclusions customarily contained in such policies. The Sublessee 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 Sublessee as the first named insured or such other term stipulating similar meaning. The Sublessor and Sublessee agree to furnish certificates evidencing such coverage to the Trustee. The cost of such insurance shall be paid by the Sublessee from Appropriated Funds. The Net Proceeds of insurance required by this Section shall be deposited by the Sublessor, the Sublessee or the Trustee to the Insurance and Condemnation Account pursuant to Section 6.05 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 Sublessee represents to the Sublessor 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 Sublessee maintains such insurance and reserve account at such levels, it will not be necessary for the Sublessee to separately procure the insurance policies described in Section 4.06(a) hereof.

SECTION 4.07. WORKERS' COMPENSATION INSURANCE. (a) Workers' Compensation Insurance. During the Term of the Sublease, to the extent required by State law, Sublessee shall, from Appropriated Funds, carry Workers' Compensation Insurance covering all employees on, in, near, or about the Convention Center Facilities and, upon request, shall furnish to the Sublessor and the Trustee certificates evidencing such coverage throughout the Term of the Sublease.

(b) Self Insurance Permitted in Lieu of Section 4.07(a) Requirements. The Sublessee represents to the Sublessor that it provides "self insurance" to cover workers' compensation claims and maintains insurance and a fully funded reserve account which meets or exceeds the statutory amounts required by the State and Section 4.07(a) above. Notwithstanding the provisions of Section 4.07(a) above, as long as the Sublessee maintains such insurance and reserve account at such levels, it will not be necessary for the Sublessee 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 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 Sublessee, Sublessor and Trustee before the cancellation or revision becomes effective. 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 Sublessor. At least 30 days before the expiration of any such policy, the Sublessee shall furnish to the Sublessor 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 Sublessee shall notify the Sublessor and the Trustee of this fact.

(b) Self Insurance Permitted. Notwithstanding the provisions of Section 4.08(a), the Sublessee 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 4.11. MODIFICATION OF CONVENTION CENTER FACILITIES BY SUBLESSEE. During the Term of the Sublease, and after delivery of the Certificate of Completion to the Trustee, the Sublessee shall have the right to remodel the Convention Center Facilities or to make additions, modifications, and improvements thereto from any lawfully available funds; provided, however, all such additions, modifications, and improvements shall thereafter comprise part of the Convention Center Facilities and shall be subject to the provisions of the Primary Lease and the Sublease. Such additions, modifications, and improvements must not damage the Convention Center Facilities, cause it to be used for purposes other than those authorized under the provisions of State or federal law, or cause the interest on the Tax-Exempt Parity Bonds to no longer be excludable for federal income tax purposes. Any property for which a substitution or replacement is made pursuant to this Section, may be disposed of by the Sublessee in such manner and on such terms as determined by the Sublessee. The Sublessee will not permit any mechanic's, materialman's or other lien to be established or remain against the Convention Center Facilities for labor or materials furnished in connection with any additions, modifications, improvements, repairs, renewals, or replacements made by the Sublessee pursuant to this Section or Sections 4.01 or 4.03, hereof. If any such lien is filed and the Sublessee shall first notify the Sublessor of the Sublessee's intention to do so, the Sublessee may in good faith contest any lien filed or established against the Convention Center Facilities

and, in such event, may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom unless the Sublessor shall notify the Sublessee that, in the opinion of its counsel, by nonpayment of any such lien the interest of the Sublessor in the Convention Center Facilities will be adversely affected or materially endangered or the Convention Center Facilities or any part thereof will be subject to loss or forfeiture; in such event, the Sublessee shall, from any lawfully available funds, promptly pay and cause to be satisfied and discharged all such unpaid liens or provide the Sublessor with full security against any such loss of forfeiture, in form satisfactory to the Sublessor and its counsel. The Sublessor will cooperate fully with the Sublessee in any such contest, upon request of the Sublessee, if the Sublessee agrees to pay the Sublessor's expenses to the extent permitted by law.

SECTION 4.12. LIENS. (a) Covenants from City to Corporation. The City 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 Convention Center Facilities, the Primary Lease, the Sublease, or the Corporation's interest therein, other than the respective rights of the Corporation and the City as provided in this Lease Agreement and Permitted Encumbrances. The City 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 Corporation 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.

(b) Covenants from Corporation to City. The Corporation 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 Convention Center Facilities, the Primary Lease, the Sublease, or the City's interest therein, other than the respective rights of the City and the Corporation as provided in this Lease Agreement and Permitted Encumbrances. The Corporation 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 City 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 Convention Center Facilities or any portion thereof is destroyed or are 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 Convention Center Facilities, the Sublessee shall make all necessary repairs and/or replacements and request the Sublessor to make requisitions through the Trustee from the Insurance and Condemnation Account pursuant to Section 6.05 of the Trust Agreement to pay such costs of repairs and replacements. If the amount deposited into the Insurance and Condemnation Account is insufficient for the necessary repair and/or replacement of the Convention Center Facilities, the Sublessee 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 Convention Center Facilities. If the Convention Center Facilities have been damaged to an extent which results in the Sublessee's inability to use 50% or more of the Convention Center Facilities for municipal purposes, the Sublessee may exercise its option to prepay the Lease Payments and cause the Sublessor to redeem the Parity Bonds 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 Prepayment Option Price. If the amount on deposit in the Insurance and Condemnation Account is insufficient for the complete repair and/or replacement of the Convention Center Facilities, and the Sublessee 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 Convention Center Facilities or exercise its option to prepay the Lease Payments and cause the Sublessor to redeem the Parity Bonds in accordance with Article VII hereof, 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 6.06 of the Trust Agreement. Regardless of the insufficiency of the Net Proceeds for either the repair and/or replacement of the Convention Center Facilities or for the prepayment of the Lease Payments, the Sublessee shall remain obligated to continue to pay the Lease Payments from Appropriated Funds.

(b) If title to or the temporary use of the Convention Center Facilities or any part thereof, or the interest of Sublessee, Sublessor, or the Trustee in the Convention Center Facilities 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 Sublessee shall have the rights and obligations specified in this Section with respect to the Net Proceeds of any condemnation award. The Sublessee and Sublessor 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 Convention Center Facilities or any portion thereof taken, the Trustee shall disburse amounts from the Insurance and Condemnation Account for such replacement in accordance with Section 6.05 of the Trust Agreement. If the Net Proceeds of any condemnation award are insufficient to replace the Convention Center Facilities or the portion thereof taken, the Sublessee may deposit into the Insurance and Condemnation Account, from available funds, the amount needed for the replacement of the Convention Center Facilities. If the Sublessee is unable to use 50% or more of the Convention Center Facilities for municipal purposes as a result of such eminent domain proceeding or taking, the Sublessee may exercise its option to prepay the Lease Payments and cause the Sublessor to redeem the Parity Bonds 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 Prepayment Option Price. If the Net Proceeds are insufficient to pay in full the cost of the replacement of all or any portion of the Convention Center Facilities, and the Sublessee does not within 45 days of such deposit of Net Proceeds with the Trustee, 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 Convention Center Facilities 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 Convention Center Facilities, the Sublessee 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 Agreement, if title to or the temporary use of the Convention Center Facilities or any part thereof, or the interest of the Lessee or the Trustee in the Convention Center Facilities or any part thereof, shall be taken under the exercise of the power of eminent domain by the City, the Lessee and the Lessor 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 Lessee or the Trustee, as the case may be, pursuant to such exercise of the power of eminent domain by the City shall be an amount which will be sufficient on the date payment is made by the City to the Lessee, 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 Lessor and the Sublessee agree that the provisions of this subparagraph (c) shall survive the termination of the Primary Lease and Sublease, notwithstanding anything herein to the contrary.

* * *

ARTICLE V
TERMS OF PRIMARY LEASE AND SUBLEASE

SECTION 5.01. TERM OF PRIMARY LEASE. The Primary Lease granted under Section 3.01 hereunder shall be and remain in effect with respect to the Convention Center Facilities for a term (the "***Term of the Primary Lease***") commencing on the date of delivery of the Series 2012 Bonds and continuing until ten (10) years following the date of final maturity of all Parity Bonds issued to finance or refinance Convention Center Facilities or (subject to Section 10.03(f) hereof) until earlier terminated upon the occurrence of the first of the following events:

(a) the payment in full of all principal and interest on all Parity Bonds at stated maturity or upon earlier redemption; or

(b) the payment to the Trustee by the Sublessee of available funds in an amount, together with amounts, if any, on deposit in the Payment Account, Insurance and Condemnation Account, Redemption Account, and Project Account, that is at least equal to the Defeasance Amount for the date fixed for redemption of all Outstanding Parity Bonds.

In no event shall the Primary Lease terminate for any reason prior to the termination of the Sublease.

SECTION 5.02. TERM OF SUBLEASE. The Sublease shall be and remain in effect with respect to the Convention Center Facilities for a term (the "***Term of the Sublease***") commencing on the date hereof and continuing until the day immediately following the date of final maturity of all Parity Bonds issued to finance or refinance Convention Center Facilities or until earlier terminated upon the occurrence of the first of the following events:

(a) the termination of the Primary Lease in accordance with Section 5.01 hereof;

(b) at the end of the Fiscal Year in which an Event of Nonappropriation occurs which results in the termination of the Sublease in accordance with Section 10.03 hereof; or

(c) upon the occurrence of an Event of Default and the Sublessor elects to terminate the Sublease pursuant to Section 10.01 hereof.

ARTICLE VI
PAYMENTS

* * *

SECTION 6.02. LEASE PAYMENTS; PAYMENT OF OPERATING EXPENSES.

(a) Lease Payments. During the Term of the Sublease, the Sublessee shall pay, from Appropriated Funds, to the Trustee for the account of the Sublessor the Lease Payments in the amounts and on the respective Lease Payment Dates set forth in *Exhibit F* attached hereto. The Sublessee further 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 F* to the Trust Agreement. The Sublessee shall be entitled to a credit against such Lease Payments at the times and in the amounts determined by the Trustee in accordance with Section 6.02(c) of 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 Sublessor (who shall notify the Sublessee), in lawful money of the United States of America no later than 10:00 a.m. Central Time on the date Lease Payments are due. All Lease Payments received by the Trustee shall be applied in the manner required by the Trust Agreement.

(b) Payment of Operating Expenses. As described in Section 4.03(d) hereof, the Lessor agrees to pay from Appropriated Funds, on behalf of the Sublessee during the Term of the Sublease, and thereafter during the remaining term of the Primary Lease as a reimbursement to the Lessee in the event of termination of the Sublease pursuant to Section 10.03 hereof, amounts sufficient for the Lessee to pay expenses required to operate and maintain the Convention Center Facilities, including without limitation, salaries and benefits of personnel employed to operate and maintain the Convention Center Facilities and the costs and expenses described in Sections 4.03(a) through (c), 4.05(b), 4.06, 4.07, 4.09, and 4.10 hereof (collectively, the "***Operating Expenses***").

SECTION 6.03. CURRENT EXPENSES. The obligations of the City under this Lease Agreement, including its obligation as Sublessee to pay the Lease Payments and other expenses described in Section 6.02(a) hereof, and its obligation as Lessor to pay Operating Expenses described in Sections 4.03(d) and 6.02(b) hereof, shall constitute a current expense of the City in each Fiscal Year, and shall not constitute an indebtedness of the City within the meaning of the laws of the State. Nothing herein shall constitute a pledge by the City of any taxes or

other money, other than Appropriated Funds for the then current Fiscal Year, to the payment of Lease Payments, Operating Expenses, or other costs and expenses due hereunder.

SECTION 6.04. SUBLESSEE'S AND LESSOR'S OBLIGATION.

(a) Sublessee's Obligation. Subject to subsection (c) of this Section, the obligation of the Sublessee to make Lease Payments shall be absolute and unconditional. Notwithstanding any dispute arising with regard to the Convention Center Facilities, the Sublessee shall make all Lease Payments when due and shall not withhold Lease Payments pending final resolution of any dispute related to the Convention Center Facilities, nor shall Sublessee assert any right of set-off or counterclaim against its obligation to make such Lease Payments. The Sublessee's obligation to make Lease Payments shall not be abated through accident or unforeseen circumstances.

(b) Lessor's Obligation. Subject to subsection (c) of this Section, the obligation of the Lessor to pay Operating Expenses shall be absolute and unconditional. Notwithstanding any dispute arising with regard to the Convention Center Facilities, the Lessor shall pay such Operating Expenses when due and shall not withhold payment thereof pending final resolution of any dispute related to the Convention Center Facilities, nor shall Lessor assert any right of set-off or counterclaim against its obligation to pay such Operating Expenses. The Lessor's obligation to pay such Operating Expenses shall not be abated through accident or unforeseen circumstances.

(c) Payment Obligations Subject to Appropriation. The obligation of the Sublessee to make Lease Payments described in Sections 6.02(a) and 6.04(a) hereof, and of the Lessor to pay costs and Operating Expenses described in Sections 4.03(d), 6.02(b) and 6.04(b) hereof, is subject to the sufficiency of Appropriated Funds. The Sublessee presently intends to continue the Sublease under this Lease Agreement for the entire Term of the Sublease and to pay all Lease Payments, Operating Expenses and other payments required hereunder. The Sublessee and the Lessor reasonably believe, 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, pay all Operating Expenses and make all other payments required hereunder will be available for such purposes; ***however, the Sublessee and the Lessor have no obligation to Appropriate any funds to enable the Sublessee and/or the Lessor to satisfy their respective obligations under this Section 6.04 regardless of the amount or source of funds that are lawfully available to be Appropriated in any Fiscal Year***.

ARTICLE VII
OPTION TO PREPAY LEASE PAYMENTS UPON DAMAGE, DESTRUCTION OR CONDEMNATION OF CONVENTION CENTER FACILITIES

SECTION 7.01. WHEN AVAILABLE. In the event of damage, destruction, or condemnation of the Convention Center Facilities during the Term of the Sublease, as further described in Section 4.13 hereof, the Sublessee shall have the option to prepay Lease Payments and require the Sublessor to prepay all of the Parity Bonds on the Prepayment Option Date for an amount equal to the Prepayment Option Price; provided, however, if the Prepayment Option Price is less than the amount required to pay all outstanding principal and unpaid interest on the Parity Bonds on the Prepayment Option Date selected by the Sublessee, the Sublessee shall not have the option to prepay Lease Payments and require the Sublessor to prepay the Parity Bonds.

SECTION 7.02. EXERCISE OF OPTION. The Sublessee shall give notice to the Sublessor and Trustee of its intention to exercise its option to prepay Lease Payments pursuant to Section 7.01 above not less than 60 calendar days prior to the Prepayment Option Date on which the option to prepay Lease Payments is to be exercised and shall deposit with the Trustee not less than 45 calendar days prior to such Prepayment Option Date an amount equal to any and all unpaid Lease Payments to the extent not otherwise included within the calculation of Prepayment Option Price, and any other amounts then due or past due and the applicable Prepayment Option Price less the funds held by the Trustee in the Project Account, the Payment Account, the Insurance and Condemnation Account and the Redemption Account, on such Prepayment Option Date and available to redeem the Parity Bonds pursuant to the

terms of the Trust Agreement. The Trustee shall use the money so deposited to redeem the Parity Bonds in accordance with the terms of the Trust Agreement.

SECTION 7.03. RELEASE OF SUBLESSOR'S INTEREST. Upon termination of the Primary Lease in accordance with Section 5.01 hereof, or upon deposit by Sublessee in full of all amounts required by Section 7.02 hereinabove and satisfaction of all requirements under Section 9.02 of the Trust Agreement, the Sublessee shall have no further obligations under the Sublease, and the Sublessor and Trustee shall concurrently therewith or as soon as practicable thereafter deliver to the Sublessee any and all documents necessary to vest in the Sublessee all of the Sublessor's right, title, and interest in and to the Convention Center Facilities, free and clear of all liens, leasehold interests, and encumbrances not created by the Sublessee, including, if necessary, a release of any and all liens or interests created under the provisions of this Lease Agreement (including the Primary Lease and the Sublease) and the Trust Agreement.

ARTICLE VIII
ASSIGNMENT OF LEASE AGREEMENT BY LESSEE AND SUBLESSOR; RESTRICTING SALE AND ASSIGNMENT OF CONVENTION CENTER FACILITIES BY LESSOR AND SUBLESSEE

SECTION 8.01. ASSIGNMENT BY LESSEE AND SUBLESSOR. (a) The Sublessee acknowledges that the Lessee and the Sublessor have assigned their respective right, title, and interest, but not their respective obligations, responsibilities, or liabilities, in the Lease Agreement to the Trustee for the benefit of the Bondholders (except the assignment to the Trustee of the Lessee's right to receive Operating Expenses from the Lessor following the termination of the Sublease is for the benefit of the Corporation only). The Sublessee shall pay all Lease Payments and all other amounts required to be paid by the Sublessee pursuant to this Lease Agreement to or at the direction of Trustee. The Lessee and the Sublessor, and the Lessor and the Sublessee, each represents, warrants, covenants, and agrees that it will do, execute, acknowledge, and deliver all and every further act, conveyance, transfer, and assurance necessary or proper for the perfection of any and all of the liens or security interests in the Trust Estate provided for in the Trust Agreement, if any, 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 Lessor or the Sublessee, or the Lessee or the Sublessor, shall be owed to the Trustee in its capacity as assignee of Lessee's and the Sublessor's rights under this Lease Agreement except for the Sublessee's obligation to pay the Trustee's fees and expenses in accordance with *Exhibit F* to the Trust Agreement.

SECTION 8.02. RESTRICTION ON MORTGAGE, SALE OR ASSIGNMENT OF INTERESTS IN CONVENTION CENTER FACILITIES BY LESSOR AND SUBLESSEE. During the Term of the Primary Lease, the Lessor may not mortgage, sell, assign, transfer, convey, or otherwise encumber, its fee simple interest in the Convention Center Facilities without the prior written consent of the Lessee and the Trustee. During the Term of the Sublease, the Sublessee may not mortgage, sell, assign, transfer, convey, or otherwise encumber, its Leasehold Estate in the Convention Center Facilities or any portion thereof without the prior written consent of the Sublessor and the Trustee.

* * *

ARTICLE X
REMEDIES

SECTION 10.01. REMEDIES ON EVENT OF DEFAULT OF SUBLESSEE. (a) Upon an Event of Default of the Sublessee, the Sublessor (or the Trustee as the assignee of the Sublessor) shall have the right, to the extent permitted by law, to take one or any combination of the following remedial steps:

(i) with or without terminating the Sublease, declare all Lease Payments due or to become due during the then current Fiscal Year to be immediately due and payable by Sublessee 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 the Primary Lease, declare all payments for Operating Expenses due or to become due during the then current Fiscal Year to be immediately due and payable by Lessor to the extent of Appropriated Funds, whereupon such payments for Operating Expenses shall be, to the extent permitted by State law, immediately due and payable; or

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

(iv) terminate the Sublease upon giving 30 days written notice to the Sublessee at the expiration of which period of time the Sublessee shall immediately surrender possession and control of the Convention Center Facilities to the Trustee and the Trustee shall have the right, thereafter, to lease, sublease, or otherwise provide for the operation of the Convention Center Facilities; or

(v) take whatever action at law or in equity may appear necessary or desirable to collect the Lease Payments and payments for Operating Expenses then due and thereafter to become due during the Term of the Primary Lease or to enforce performance and observance of any other obligation, agreement, or covenant of the Lessor under the Primary Lease and the surviving obligations of the Sublessee under the Sublease.

(b) Upon the termination of the Sublease by the Sublessor, the Sublessee shall immediately surrender possession of the Convention Center Facilities to the Sublessor, and the Sublessee shall be prohibited from conducting any operations or activities at the Convention Center Facilities.

SECTION 10.02. NOTICE OF APPROPRIATION. On or before the last day of each Fiscal Year, the City shall deliver to the Corporation and the Trustee written certification of the City's Appropriation of available funds sufficient to pay Lease Payments and other payments required, if any, to be made by the Sublessee during the succeeding Fiscal Year, such certification to be in substantially the form attached as *Exhibit G* hereto (the "***Certificate of Appropriation***"). The City hereby covenants that, once a Certificate of Appropriation has been delivered in accordance with this Section 10.02, any modification by the City Council to the Appropriation that is the subject of such Certificate that results in an unavailability of funds to satisfy in full the obligations for which such Appropriation was initially made shall immediately cause the Sublease to terminate. Under such circumstance, the parties to this Lease Agreement agree that the Sublessee shall owe to the Sublessor, as liquidated damages, an amount equal to the amount originally Appropriated for such Fiscal Year.

SECTION 10.03. NOTICE OF NONAPPROPRIATION; TERMINATION ON EVENT OF NONAPPROPRIATION. (a) The Sublessee shall provide the Sublessor, the Trustee and the Rating Agencies with written notice within 72 hours of (i) action by the City Council which would constitute (A) a failure to Appropriate funds sufficient to pay Lease Payments and any other payments, if any, required to be made by the Sublessee in accordance with this Lease Agreement due during the succeeding Fiscal Year, or (B) a modification of a previous Appropriation to pay Lease Payments in the manner described in the second sentence of Section 10.02 hereof, 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 Sublessee within the time period required in Section 10.02 hereof, the Trustee shall promptly give written notice thereof to the Sublessee and the Sublessor. Thereafter, if the Sublessee 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 and the Rating Agencies of its failure to timely receive such Certificate of Appropriation. The Trustee shall also give prompt written notification to the Bondholders and the Rating Agencies of its receipt of a notice from the Sublessee pursuant to paragraph (a) of this Section.

(c) Upon the occurrence of an Event of Nonappropriation, without further demand or notice, the Sublease shall terminate at the end of the Fiscal Year for which sufficient Appropriations have been made to pay Lease Payments (but the Primary Lease shall remain in existence and shall not terminate), and the Sublessee shall immediately, upon the expiration of such Fiscal Year, vacate the Convention Center Facilities, shall surrender possession and control of the Convention Center Facilities to the Trustee, and shall be prohibited from conducting any operations or activities at the Convention Center Facilities.

(d) Upon termination of the Sublease pursuant to Section 10.03(c), if the Sublessee has not vacated and delivered possession and control of the Convention Center Facilities to the Sublessor and conveyed or released its interest in the Convention Center Facilities as therein required, the termination shall nevertheless be effective, but the Sublessee shall be responsible, from lawfully available funds as provided in this Lease Agreement 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 Sublessee fails to take such actions.

(e) Notwithstanding Section 10.03(c) above, upon receipt of written notice that the Sublessee is legally unable to adopt a budget, the Trustee shall have the right, but not the obligation (unless directed by Bondholders in the manner set forth in the Trust Agreement), to (i) terminate the Sublease and the Sublessee shall immediately surrender possession and control of the Convention Center Facilities to the Trustee, and thereafter the Trustee shall have the right, but not the obligation (unless directed by Bondholders in the manner set forth in the Trust Agreement), to lease, sublease, or otherwise provide for the operation of the Convention Center Facilities for the remainder of the Term of the Primary Lease, or (ii) without terminating the Sublease, permit the Sublease to continue in effect, to the extent permitted by law, and continue to permit the Sublessee to exercise and enjoy its rights of quiet enjoyment, use, occupancy and control of the Convention Center Facilities.

(f) Subsequent to the occurrence of an Event of Nonappropriation, the City hereby covenants and agrees that it shall not, for the remaining term of the Primary Lease, acquire any outstanding Parity Bonds for the purpose of delivering those Parity Bonds to the Trustee for cancellation or extinguishment of the indebtedness evidenced thereby.

SECTION 10.04. REMEDIES ON EVENT OF DEFAULT OF SUBLESSOR. Upon an Event of Default of the Sublessor, the Sublessee or the Trustee shall have the right, to the extent permitted by law, at its option, upon ten days written notice delivered to the Sublessor, by the Sublessee or the Trustee, to 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 Sublessor under this Lease Agreement.

SECTION 10.05. EFFECT OF TERMINATION OF SUBLEASE. In the event of termination of the Sublease by the Sublessor or the Trustee pursuant to Section 10.01 or Section 10.02 hereof, the Primary Lease shall nevertheless survive for the remaining term, as provided in Section 5.01 hereof. In such event, all references to the Sublease, the Sublessor, and the Sublessee (as well as the specified duties and obligations of such parties) under this Lease Agreement (except for those specified in Section 4.03(d), 4.05, 4.13(c), 4.16, 12.03, and 13.09, respectively, hereof) shall be of no further force and shall not then have or be given any effect. The City, as Lessor, hereby acknowledges that, in the event of termination of the Sublease prior to the termination of the Primary Lease, the Lessee and/or the Trustee may enter into one or more separate subleases with a third party or parties, each such sublease having terms that may differ from those included in the Sublease to reflect changes in market conditions

but all of which shall be compliant with the Trust Agreement and the Primary Lease and expire on or before the termination date of the Primary Lease. In such instance, the City, as Lessor, hereby acknowledges and agrees to its remaining covenants and agreements, in favor of the Lessee (and the Trustee, by way of assignment by the Lessee), for the duration of the Primary Lease.

SECTION 10.06. DELAY; NOTICE. No delay or omission to exercise any right or power accruing upon any Event of Default or 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 any party to exercise any remedy reserved to it in this Lease Agreement it shall not be necessary to give any notice, other than such notice as may be required in this Lease Agreement.

SECTION 10.07. NO REMEDY EXCLUSIVE. No remedy herein conferred upon or reserved to the Sublessor or Trustee is intended to be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Lease Agreement or now or hereafter existing at law or in equity.

SECTION 10.08. NO ADDITIONAL WAIVER IMPLIED BY ONE WAIVER. In the event any agreement contained in this Lease Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

ARTICLE XI
TITLE

During the Term of the Primary Lease, fee simple title to the Convention Center Facilities and any and all repairs, replacements, substitutions, and modifications to the Convention Center Facilities shall be in the Lessor, but title to the Leasehold Estate granted under the Primary Lease shall be in the Lessee. The Lessor shall not permit any lien or encumbrance of any kind to exist against the title to the Convention Center Facilities, other than the Permitted Encumbrances. Upon termination of the Primary Lease under Section 5.01 hereof, all of the Lessee's interest in the Leasehold Estate relating to the Convention Center Facilities existing under the Primary Lease shall immediately terminate, and full unencumbered, with the exception of the Permitted Encumbrances, legal title to the Convention Center Facilities shall immediately be restored to the Lessor, and the Lessee and the Trustee shall execute and deliver to the Lessor such documents as the Lessor may request to evidence the restoration of such title to the Lessor and the termination of the Lessee's Leasehold Estate in the Convention Center Facilities and the Trustee's interest in the Trust Estate.

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APPENDIX D

SELECTED PORTIONS OF THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

The information contained in Appendix D consists of selected portions of the City's Comprehensive Annual Financial Report for the Fiscal Year ended September 30, 2011 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 839966
SAN ANTONIO, TEXAS 78283-3966

March 1, 2012

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, 2011. 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 a separate document. This report can be viewed on the City's webpage, under Budget and Financial information.

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. The term of the office of the Mayor or a member of the City Council is four 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, 2011, the City's geographic area was approximately 467 square miles. The United States Census Bureau cites the City as the second most populated city in the State of Texas with 1,326,539 citizens and is ranked as the seventh most populated city in the country.

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 and drainage; 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 as 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 continues to support recreational improvements that enhance citizens' quality of life and recreation and fitness opportunities. For the third time, in November 2010 San Antonio voters approved a sales tax initiative to provide up to $135.0 million to be used to acquire and preserve land or interests in land in the Edwards Aquifer recharge and contributing zones and to be used for the acquisition of open space and linear parks along San Antonio's Creekways. A total of 32 miles of linear greenway walking and biking trails have been constructed through two previous voter-approved sales tax initiatives. The City actively pursues outside opportunities for grants and community partnerships to leverage public funds.

The City has twenty-six entities that are legally separate, but are considered part of the City's operations and therefore are included in its annual financial statements. Fifteen of these entities are blended component units of the City, while the other eleven entities are discretely presented. 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, entitled, Summary of Significant Accounting Policies.

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 economic strategy resulting from SA2020 emerges as the City's roadmap to become a leader in job creation by maintaining growth in traditional industry sectors while specifically targeting 10.0% job growth in the following sectors: Healthcare and Biosciences, Information Technology and Information Security, Aerospace, and the New Energy economy. The City's SA2020 goals will be pursued through the next decade by utilizing San Antonio's unique assets, including its historical and cultural heritage, formidable local institutions (e.g. military bases, universities, medical center), and natural resources such as the Eagle Ford Shale formation in South Texas.

In addition to charting our course for continued economic prosperity, SA2020 also focuses on ongoing infrastructure improvements, neighborhood revitalization and workforce development initiatives, as well as downtown development. In February 2010, the City passed the Inner-City Reinvestment Infill Policy (ICRIP) to further support balanced and sustainable development throughout San Antonio's inner-city and southern sectors, which include Port San Antonio and Brooks City-Base. 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. Also enhancing San Antonio's business appeal is the high quality of life the City offers and a cost-of-living that is below the national average. In addition to the favorable economic climate, excellent weather conditions year round help encourage and enhance the operation of many of San Antonio's most important industries.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Economic indicators tell the story of a resilient 2011 for San Antonio exemplifying the comparative stability of the local economy as it outperformed comparable cities impacted by the national recession. According to research performed by the Brookings Institution, San Antonio is one of the 20 strongest performing metropolitan areas (metros) out of the 100 largest metros. The Brookings Metropolitan Policy Program issues the quarterly series, *MetroMonitor*, which provides an understanding of how the current economic recession has 'affected America's metropolitan economies'.

The Brookings *MetroMonitor* measures overall metropolitan performance as an aggregate of four measures: percent employment change, percent unemployment rate change, percent Gross Metropolitan Product (GMP) change and percent change in Housing Price Index (HPI). The September 2011 report, which examined data throughout the 2nd quarter of calendar year 2011, showed San Antonio in the top 20 (strongest performers) in increased employment and stable housing price index.

As of the 2nd quarter of calendar year 2011, the 100 largest metros in the United States continue to struggle to regain pre-recession employment levels. San Antonio was among the top cities that suffered a less-severe decline in overall employment. From San Antonio's pre-recession peak employment quarter to the 2nd quarter of 2011, San Antonio ranked 4th among the top 100 metros with a change of 0.2%.

San Antonio's seasonally adjusted unemployment rate was 8.1%, compared to the 100-largest metro areas average rate of 9.4%, and the national rate of 9.3%. All metros experienced a rise in unemployment rates through the onset of the recession but among the 100 metros, San Antonio ranked 29th in the nation.

In addition to employment and unemployment data, Good Manufacturing Practice (GMP) is a valuable measure of the total value of goods and services produced within a metro area. When measuring the percentage change in GMP from San Antonio's recession peak quarter to the 2nd quarter of 2011, San Antonio ranked 25th with an increase of 2.9%.

San Antonio's housing market registered a relatively small negative impact as a result of the national housing bubble. According to the September 2011 Multiple Listing Service report by the San Antonio Board of REALTORS®, even though the number of sales was down by 2.0% year-to-date, the median price of a home rose to $151,500, a 2.0% increase when compared to a year ago.

San Antonio's resilient economy was fueled by several targeted industry projects in fiscal year 2011. The City utilized a combination of tax abatements, grant and loan agreements, impact fee waivers, and nominations for State project designations that assisted in enticing the following businesses to move to or remain in San Antonio:

South Texas Research Facility

The City invested $3.3 million in the construction of the $150.0 million South Texas Research Facility through the San Antonio Economic Development Corporation (SAEDC), which entered into an economic development agreement with the University of Texas Health Science Center San Antonio on July 28, 2011. This project will create at least 150 research jobs in the targeted bioscience industry and will provide a potential return on investment of up to $4.0 million through the SAEDC's equity investment in university spinout companies.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Additional entities that the City recruited to or retained within San Antonio are included in the following table:

Company Name	No. of Jobs	Investment ($M)
Argo Group	200	$ -
Baker-Hughes	400	30.0
Becton, Dickson	296	6.4
Boeing	400	10.0
Chevron	17	335.0
Cold Car	50	10.0
Consert	200	-
Conway Freight	129	8.5
Econtrols	275	-
Fiberglass Systems	40	8.0
Green Star	38	40.0
HVHC, Inc	350	-
J.Crew	270	1.7
M-7	450	-
PETCO	400	5.0
Schlumberger	200	20.0
Sun Edison	-	42.5
UT HSC	150	150.0
Weatherford	200	18.0
Total	**4,065**	**$ 685.1**

In addition to the targeted industry projects the following are further details regarding factors affecting the business climate and local economy for the City.

Base-Realignment and Closure 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 has had a major positive impact on military medicine in San Antonio resulting in approximately $3.1 billion in construction and the addition of 12,500 jobs in San Antonio in 2011. This is an increase 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 the 2005 BRAC, 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. The San Antonio Military Medical Center (SAMMC) has been established as a result of the 2005 BRAC and combines the Level 1 Trauma elements of Wilford Hall and Brooke Army Medical Center (BAMC). Wilford Hall has been renamed SAMMC-South and BAMC has been renamed SAMMC-North. SAMMC-North is doubling its Level 1 trauma missions from SAMMC-South. SAMMC-South is an outpatient only facility that has received outpatient missions from SAMMC-North and will be replaced by the Lackland Ambulatory Care Center. The Care Center is scheduled for completion in 2013. This $486.0 million Care Center will provide world-class medical care for the community.

Base-Realignment and Closure and Fort Sam Houston (Continued)

In addition, San Antonio will receive new medical research missions. The U.S. Army Institute for Surgical Research located next to SAMMC-North will double in size as a result of new BRAC missions and will be renamed the Joint Center of Excellence for Battlefield Health and Trauma. The new mission will continue its cutting edge research in the areas of robotics, prosthetics and regenerative medicine. As a result of BRAC, San Antonio will become a leader in military medical training, education and research.

Port San Antonio

Port San Antonio (Port) is a multimodal logistics platform and aerospace complex on the 1,900-acre site of the former Kelly Air Force Base. It was created by the Texas Legislature in 2001 following the closure of the base and tasked with redeveloping and managing the property to ensure that it continues serving as an economic engine for the region. Though created by the local government, the Port is self-sustaining and operates like a business—receiving its income from the properties it leases, services it provides, and reinvesting profits into further development of the property.

The Port is the region's single largest real estate management and leasing firm, overseeing 12.9 million square feet of facilities and logistics assets that include an industrial airport (Kelly Field, SKF) and a 350-acre railport (East Kelly Railport). The entire site is contained within a foreign-trade zone (FTZ #80-10) and has quick road connections to Interstate Highways 35, 10 and 37.

The Port's redevelopment efforts to date have attracted almost 80 customers to its site, including aerospace, logistics and military/governmental organizations. These customers employ more than 14,000 workers and generate over $4.0 billion in regional economic activity each year. The Port has received numerous recognitions for its innovative work, including being named Redevelopment Community of the Year in 2010 by the Association of Defense Communities. A regional sustainability leader, since 2009 two of the Port's newly developed properties have been LEED-certified by the U.S. Green Building Council (USGBC).

Fourteen of the Port's customers are aerospace-related firms, including industry leaders Boeing, Lockheed Martin, StandardAero, Chromalloy, Gore Design Completions and Pratt & Whitney. Of the 14,000 workers at the Port, about 5,000 are employed in the aerospace sector.

The Port reached important milestones in fiscal year 2011, positioning it and its customers for further growth as an important economic engine for the region.

In the aerospace sector, Boeing's Port facility ushered in a new era of commercial projects in the past year. The company, which has been operating at Kelly Field since 1998 with a focus on maintenance, repair and overhaul (MRO) of military aircraft, welcomed its first 787 Dreamliner in the spring of 2011. The airplane is one of four scheduled to undergo change incorporation (electronics and software upgrades) at Port before final completion and delivery to customers worldwide. In addition, the first of six new 747-8 tankers arrived at Boeing's Port facility in 2011 where they, too, will undergo change incorporation through 2013.

Similarly, Gore Design Completions, which is North America's largest outfitter of custom interiors for wide body jets and the third largest such company in the world, has been steadily growing since its arrival at the Port in 2005. In 2010 Gore added over 100,000 square feet to its hangar and workshop facilities at Kelly Field, giving it the necessary room to deliver luxury interiors for a Boeing 767 and its first Boeing 777 completion to foreign heads of state in 2011. The company additionally took in two new aircraft to keep it busy through 2012.

Port San Antonio (Continued)

Elsewhere at the Port, efforts to upgrade a 450,000 square-foot office facility known as Building 171 continued in 2011. The facility accommodates 11 Air Force agency headquarters and 3,000 personnel. Since 2009 the Port has managed over $60.0 million in upgrades to the property to meet new Anti-Terrorism Force Protection (ATFP) standards that ensure the safety of its occupants and the sensitive work that takes place within. In 2012 the completion of final bays will allow the 24th Air Force, also known as the Cyber Command, to become the final occupant of the building. There, the unit will lead operations to defend the Air Force's information systems worldwide against the new frontier in warfare—cyber attacks.

Looking ahead, in 2012 the Port will reach an important milestone as two road construction phases begun in 2011 are completed. The project extends 36th Street from the Port's northwest entrance for almost two miles into the heart of the property, improving access to the Port and, starting in 2012, opening 150 acres at Kelly Field for the development of new air-served facilities.

The new sites opened by the 36th Street extension will enable the construction of new hangars and workshops that can support an additional 8,000 new jobs in that part of the Port alone—further positioning the region as an important and thriving aerospace center. The project is headed by the City's Capital Improvement Management Services Department. Additional project partners include the Metropolitan Planning Organization (MPO), CPS Energy, San Antonio Water System (SAWS) and the Texas Department of Transportation.

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.

The United States Air Force ceased all operations at BC-B on September 15, 2011. The Brooks Development Authority (BDA) gates opened in May 2011 with the completion of South New Braunfels Phase 1. BDA commissioned its first Economic Impact Study with The University of Texas at San Antonio Institute for Economic Development. Construction activities were estimated at $597.4 million in direct output and $1.0 billion in total output.

BDA completed the acceptance of $17.0 million in personal property from the Air Force. To date BDA has donated items with an estimated value of $559.0 thousand to local nonprofit organizations and schools. BDA moved to its new office space at 3201 Sidney Brooks, after a $300.0 thousand renovation of the former child care facility.

BDA signed a number of lease agreements with the following companies.

- **Volt Information Sciences, Inc** – Five-year lease agreement signed on November 17, 2010 for approximately 34,599 square feet in Building 532, for call center services. Volt expects to hire 600 employees over the next year.
- **NuStar Energy –** Two-year lease agreement with NuStar Refining, LLC signed on July 7, 2011 for approximately 12,615 square feet. The space will be utilized for office administration and lab testing.
- **Texas A&M** – Five-year lease agreement signed on July 5, 2011 for 77,648 square feet of classroom and office space.

Brooks City-Base (Continued)

- **Spine and Pain Center of San Antonio, PLLC** – 10- year lease agreement with Spine and Pain Center of San Antonio, PLLC on September 1, 2011, for approximately 9,622 rentable square feet of medical office space.
- **Wyle Laboratories, Inc** – Two-year lease agreement signed on July 1, 2011 for approximately 26,176 total square feet in Buildings 160, 170 and 159 and the surrounding grounds and parking areas for centrifugal training.

On June 27, 2011, the Mission Trail Baptist Hospital, located on 28 acres at BC-B, opened its doors. This facility consists of three stories, with the capability of adding additional floors and square footage as needed. It currently employs 567 people. Also, construction on a 300 unit multi-family apartment complex started July 20, 2011. The development will be owned by BDA and the NRP Group will be the co-developer. The development is slated to be completed in spring 2012. The apartments will be leased at market-rate and will offer all the conveniences of modern, urban living.

To continue fostering economic activities in the south side, BDA has leveraged resources by applying for designation as an EB-5 Regional Center and obtaining multiple State Energy Conservation Office (SECO) loans. The EB-5 designation will benefit BDA from an influx of foreign capital and will improve its financial operations and capital projects. The SECO loans were obtained by BDA for energy saving upgrades to various residential housing units, new chiller systems for various buildings, replacement of heating, ventilation, and air conditioning systems associated with Buildings 160 and 170, and upgrades to Buildings 532, 570, 775, and 150, for installation of rooftop solar panels and the replacement of the HVAC system.

Aerospace Industry Development

San Antonio International Airport (SAT) has 20 airlines (9 mainline and 11 regional) providing non-stop flights to a total of 30 destinations, which do not include seasonal charter flights to Mexico available during the spring and summer. During fiscal year 2011, SAT experienced an increase in enplaned passengers despite weak economic conditions. At final count, 4,057,000 passengers were enplaned in fiscal year 2011, an increase of 66,553 (or 1.6%) over the prior year. Both the United merger with Continental (now operating under a single operating certificate) and the Southwest merger with AirTran have been approved by the US government with no change in service at SAT. In November 2011, VivaAerobus and Interjet (both Mexican carriers) announced new service to Mexico City, Monterrey and Toluca from San Antonio to begin in November and December 2011. Southwest Airlines announced service from San Antonio to Mexico City to begin in May 2012 to Mexico City and Cancun.

On November 9, 2010, the first flights departed from Terminal B. The 225,000 square-foot terminal will have eight gates and four levels and replaces the demolished Terminal 2. Also completed in time for the Terminal B opening were a Central Utility Plant and a Baggage Handling System. The Central Utility Plant powers Terminals A & B and gives the SAT the capacity for future expansion, and the Baggage Handling System consolidates all baggage screening equipment from both terminals to a secured location behind the building.

In March 2011, the Vision 2050-Master Plan for SAT was adopted by City Council. Vision 2050, which updates the 1998 Master Plan, identifies the development options regarding land use, facilities and services to ensure that SAT meets its strategic objectives and can accommodate expected levels of activity over the next 20 years.

International Trade and Outlook

As part of the International Relations Office (IRO) and Economic Development Department (EDD)'s ongoing efforts to focus on core functions, the City's "international" functions fit into two distinctive services: "International Relations" which encompasses Protocol and Sister City development including the Casas San Antonio Program, and the Economic Development Department's International Business Development which focuses on attracting foreign direct investment and assisting local companies to expand into foreign markets. This redesign is a natural evolution focused on providing a greater impact in job creation and investment, driven by focused performance measures.

IRO develops and maintains foreign relations for the City, fostering partnerships that increase global visibility, cultural understanding and economic growth.

In fiscal year 2011, vigorous crosssector follow through on new Friendship City Agreements with China resulted in selecting the City of Wuxi as San Antonio's next sister city. The Sister City Agreement will be signed in San Antonio in early 2012, focusing upon exchanges in Tourism, Education, Culture, Healthcare, Investment and Business Development. The Korean Sister City, Gwangju, built an authentic Korean Pavilion at the Denman Estate Park, and the Indian Diwali Festival of Lights grew to 10,000 attendees, promising to be an annual visitor draw. The City hosted officials from Argentina, Canada, China, Germany, Mexico, Korea, India, Russia, Japan, Namibia, Slovak Republic, US Department of State, UK, Singapore, Turkey, Taiwan, Italy, and Spain. Official foreign missions from San Antonio during this period included Mayor Castro's meeting with Mexican President Felipe Calderon as well as visits to Israel, China, Korea, Taiwan, Spain, and Germany.

In fiscal year 2011, the EDD began developing an international economic development strategy, which included aligning the City's contracts with the Free Trade Alliance and the Economic Development Foundation. EDD carried out a targeted foreign prospect development strategy hosting over 12 foreign site selectors from 6 different countries as well as meeting with foreign site selectors during trade missions abroad. This strategy resulted in increased awareness of San Antonio as an ideal foreign investment destination and augmented the number of international prospects engaging Economic Development Foundation in location discussions. The 11th Annual San Antonio Export Leaders Program was carried out in partnership with the Hispanic Chamber of Commerce, UTSA International Trade Center, US Foreign Commercial Service, and other business development stakeholders. National prominence was achieved for this Program by working with the United Stated Department of Commerce in Washington DC to help replicate the program in other US Cities as part of the Presidents' National Export Initiative. EDD worked in collaboration with IRO and the Convention and Visitors Bureau (CVB) to provided support to the China Advisory Subcommittee in the development of an Action Plan to increase trade, foreign direct investment and cultural ties with China, including our Sister City of Wuxi, China.

As of August 31, 2011, the North American Development Bank participated in the development and financing of 152 environmental infrastructure projects, with approximately $1.3 billion in loans and grants. These projects are estimated to cost a total of $3.3 billion to build and will benefit an estimated 13 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, Latin America, India, Germany, China, Japan, Spain, 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 17 years, the City led the nation by establishing three commercial trade offices in Mexico's principal cities and in Tokyo, Japan.

International Trade and Outlook (Continued)

For 27 years, the IRO's trade representative in Japan has attracted multi-million dollar operations to San Antonio including Toyota and its 24 suppliers, Takata Seat Belt, Sony Corporation, MyCom International, Hyatt Hill Country Resort (a major Japanese investment joint venture), and Higuchi. 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 is continuing its efforts to redevelop portions of the community and influence development of new areas through the ICRIP. Through incentive mechanisms such as qualified fee waivers, it promotes growth and development in the heart of the City, specifically in areas that are currently served by public infrastructure and transit, but underserved by residential and commercial real estate markets. It is the intent of this Policy to coordinate public initiatives within targeted areas in order to stimulate private investment in walkable urban communities that are the building blocks of a sustainable region.

In August 2011, San Antonio became the first major Texas city to possess both a University of Texas System and a Texas A&M University System degree granting campus, when Texas A&M University-San Antonio opened as a stand-alone university. Leveraging the economic momentum surrounding the Toyota manufacturing plant, Texas A&M University-San Antonio, and new activity surrounding the Eagle Ford Shale, as well as implementing the Heritage South Sector Plan, City South Management Authority continues to foster economic growth and sustainable development in the far South Side.

Hospitality Industry

The City's diversified economy includes a significant sector relating to the hospitality industry. A recent study prepared by Richard V. Butler, Ph.D. and Mary E. Stefl, Ph.D., both professors at Trinity University, found that the hospitality industry has an economic impact of nearly $11.0 billion. The estimated annual payroll for the industry is $1.99 billion, and the industry employs more than 106,000 workers. Also, this industry contributes more than $153.4 million in taxes and fees to the City, and more than $286.4 million to all local governments combined.

San Antonio's hospitality industry attracted 26.0 million visitors in 2010, and 12.2 million were overnight leisure visitors, placing San Antonio as one of the top leisure destinations in Texas. San Antonio continues to rank high as a top leisure and convention/group meeting destination. Recent fiscal year 2011 accomplishments contributing to our success include generating over $12.0 million in positive media value for San Antonio as a tourism and convention destination; Top Chef Texas which featured San Antonio in 8 episodes and showcases the City as a growing culinary destination; implementing a marketing and communication campaign leveraging the 175th anniversary of the Battle of the Alamo; and renovated and branded our Visitor Information Center across from the Alamo which services more than 300,000 visitors.

The list of attractions in the San Antonio area includes, among many others, the Alamo (and other sites of historic significance), River Walk and two major theme parks (SeaWorld San Antonio and Six Flags Fiesta Texas).

Hospitality Industry (Continued)

San Antonio is also one of the top convention cities in the country. In fiscal year 2011, the City's CVB launched a niche CEO marketing plan which raised awareness of San Antonio with top business executives, primarily to influence meeting destination opportunities. Thus, the CVB sales staff booked more than 852,000 room nights for current and future years.

According to Smith Travel Research, in 2011, the City's overall performance for hotel occupancy increased by 3.4%. The increase was attributed to revenue per available room (REVPAR) increases of 1.9%; total room nights sold increases of 5.8%; and hotel room supply increases of 2.3%; tempered by average daily rate (ADR) decreases of 1.5%.

Convention, Sports and Entertainment Facilities

The continued success of the City's vibrant hospitality industry depends significantly on its inventory of high-quality facilities to host conventions, meetings, and major sporting events. The Convention, Sports, and Entertainment Facilities Department (CSEF) operates the Henry B. Gonzalez Convention Center, the recently-renovated Lila Cockrell Theatre, the Alamodome, and (until June 2011) the Municipal Auditorium. After 82 years of operation as a City-owned facility, the Municipal Auditorium was closed and will be redeveloped as the Tobin Center for the Performing Arts. Owned and operated by a nonprofit entity, the new facility will receive almost $200.0 million in renovations and is scheduled to open in 2014. In the past year, more than 570,000 visitors attended 314 events held at the Henry B. Gonzalez Convention Center, including 69 events at the Lila Cockrell Theatre. Significant conventions included the American College of Gastroenterology, Association for Financial Professionals, Society of Nuclear Medicine, Academy of Management, Society of Exploration Geophysicists, National Conference of State Legislators, and the Veterans of Foreign Wars of the US (VFW). The City also hosted the 2011 NCAA Men's Regional Basketball Tournament with more than 25,000 in attendance.

The Alamodome, a multi-purpose sports and general assembly facility, hosted more than 935,000 visitors over 132 event days. Many varied and significant events were held at the Alamodome in 2011, including the following: the Third Annual San Antonio Rock 'N' Roll Marathon and Half Marathon, with over 30,000 participants, which generated $26.1 million in direct visitor spending; the Dallas Cowboys Training Camp with 94,000 attendees over the 13 day camp; the 2010 Valero Alamo Bowl featuring Oklahoma State vs. University of Arizona, with more than 57,000 fans attending which generated a direct economic impact of $32.6 million for the City; the inaugural game for the new University of Texas San Antonio (UTSA) Football program featured the UTSA Roadrunners vs. Northeastern University. Attendance set a new modern-era record (56,000) for a season opener by a first-year NCAA Division I program. The Alamodome also debuted the new Illusions Theater offering a configuration of 3,785–11,000 seats and state-of-the-art curtain and LED lighting systems.

In the CSEF 2011 Capital Improvement Plan, the Convention Center constructed a new Visitor Services Center, enhanced building security with the addition of a new building access control system, and upgraded its technical infrastructure to enhance digital TV reception. Other capital improvements at the convention center include a new comprehensive digital way-finding and meeting room signage system. Total improvements in a two-year period at the Convention Center has totaled over $40.0 million, with the City projected to recover over $30.2 million in capital improvement-related rebates via the State's Convention Event Trust Legislation.

Facility enhancements to the Alamodome include design and construction for a new Home Team Locker Room and the opening of two new concessions outlets. These upgrades will assist the City in enticing future, high profile clients, and improve fan's experiences. The City is projected to recover over $4.1 million in capital improvement-related rebates via the State's Sporting Event Trust Legislation.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Downtown Development Projects

City Council approved economic development grants for center city projects that total $16.8 million for the Mosaic, 1111 Austin Highway, 1800 Broadway, Pearl Parkway North and South, Steel House Lofts, Camden Medical Office, and ButterKrust Redevelopment. These projects represent a total investment of $162.8 million and will add 770 housing units and 615 jobs to the center city.

Since October 2010, the HemisFair Park Area Redevelopment Corporation (HPARC) focused its efforts on the creation and implementation of a Master Plan for HemisFair Park. HPARC selected Johnson Fain, Inc. as the consultant for the Master Plan. Through several community workshops, Johnson Fain developed a Framework Plan that identified main points of focus for HemisFair Park. City Council endorsed the Framework Plan at the May 12, 2011 City Council meeting.

Since its endorsement, HPARC has refined the Framework Plan to include more detail. The refined document will serve as the final master plan for HemisFair Park. The Master Plan, using the Framework Plan as its basis outlines six big ideas for the redevelopment of HemisFair Park to include the following:

1. Expanding the Convention Center eastward;
2. Developing more public and open space;
3. Incorporating a multi-use amphitheater into the redevelopment;
4. Integrating water features into the site;
5. Accommodating the streetcar line through the site; and
6. Redeveloping the S Alamo and Cesar Chavez Corner to accommodate retail and a mix of activity.

Additionally, the Master Plan incorporates HPARC's guiding principles which address connectivity, development, balance, preservation, and sustainability and includes several big ideas that resulted from the public outreach efforts. City Council will take action on the final Master Plan in fiscal year 2012.

American Recovery and Reinvestment Act

President Obama signed the American Recovery and Reinvestment Act (ARRA) into law on February 17, 2009. ARRA will provide a nationwide total of $787.0 billion in spending and tax cuts. The funding is temporary, intended to preserve and create jobs, and make investments in infrastructure, energy and science, unemployment assistance, and state and local stabilization.

In order to take full advantage of the funding opportunities and additional services that may be provided to the City of San Antonio as a result of the ARRA, City staff has worked closely with City Council to strategize and align specific City Council ranked projects to individual Federal and State agency funded programs.

As of February 2012, the City has been awarded over $139.6 million in ARRA grants. These grants have and will fund public safety, street projects, various child care programs, energy efficiency programs, and homeless assistance.

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. Secondarily, 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 department 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. The City further implemented available budget controls within its system of record for capital projects and grants. The system warns when cumulative expenditures are within 75.0% of total budget. The system will not allow the processing of non-payroll transactions in excess of the budget.

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.

FINANCIAL INFORMATION (Continued)

Accounting System and Budgetary Control (Continued)

As part of the City's sound financial planning, the City Council adopted a budget that is balanced and enhances services that are most important to the community while maintaining a strong financial position. The Budget included reductions totaling $24.0 million in the General Fund that were achieved as a result of technology investments, in-depth comprehensive review and operational efficiencies. The City also maintains an enhanced process for reviewing and justifying the need to fill vacant positions. The City's budget further incorporates a strategy, adopted by City Council, to maintain the financial reserves at 9.0%. The establishment and maintenance of appropriate reserves within the General Fund is critical to prudent financial management and provides budgetary flexibility for unexpected events, financial emergencies, and the unusual fluctuation in revenue-expenditure patterns. These proactive actions assisted the City in generating a favorable ending fund balance for fiscal year 2011.

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.

In fiscal year 2010, the City achieved a triple-triple, with three national credit-rating agencies awarding the City 'AAA' status on its General Obligation Bonds, the highest bond rating a city can receive. San Antonio continues to be the only major U.S. city (with a population of more than one million) to be rated 'AAA' by all three major rating agencies: Fitch, Moody's, and Standard & Poor's. These ratings on the General Obligation Bonds were based on the City's "maintenance of strong financial reserves and continued diversification of the local economy." Over the long term, the improved ratings will result in savings to the City and its residents as a result of lower interest rates on the bonds the City sells.

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

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.

Transparency

The City actively pursues transparency of its operations. The status of voter approved $550.0 million bond projects is available for public view on the City's website. At the end of fiscal year 2010, the City streamlined its website for user friendly access to the City's budget documents, quarter and annual reports, and check register. January 19, 2012, the City launched a new website to be more user-focused with subject-based categorization of information. The City will, throughout fiscal year 2012, convert all departmental webpages to this new design, and will continue to assess ways to provide the public with a more transparent government.

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, Managements 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 a separate document.

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, 2010. This was the 35th 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 2011 Operating and Capital Budget.

The Comptroller of Public Accounts has awarded the City with a "Gold" Circle Award for the City's transparency efforts in the Texas Comptroller Leadership Circle program. The Gold level highlights those entities that set the bar with their transparency.

Acknowledgements

The preparation of the City of San Antonio, Texas Comprehensive Annual Financial Report for the fiscal year ended September 30, 2011, 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
Chief Financial Officer

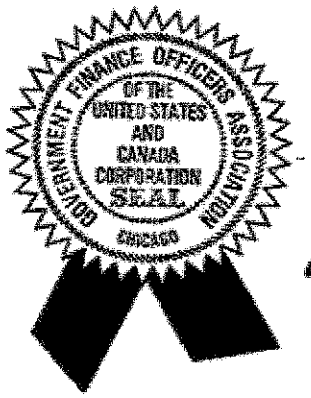
Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Antonio Texas

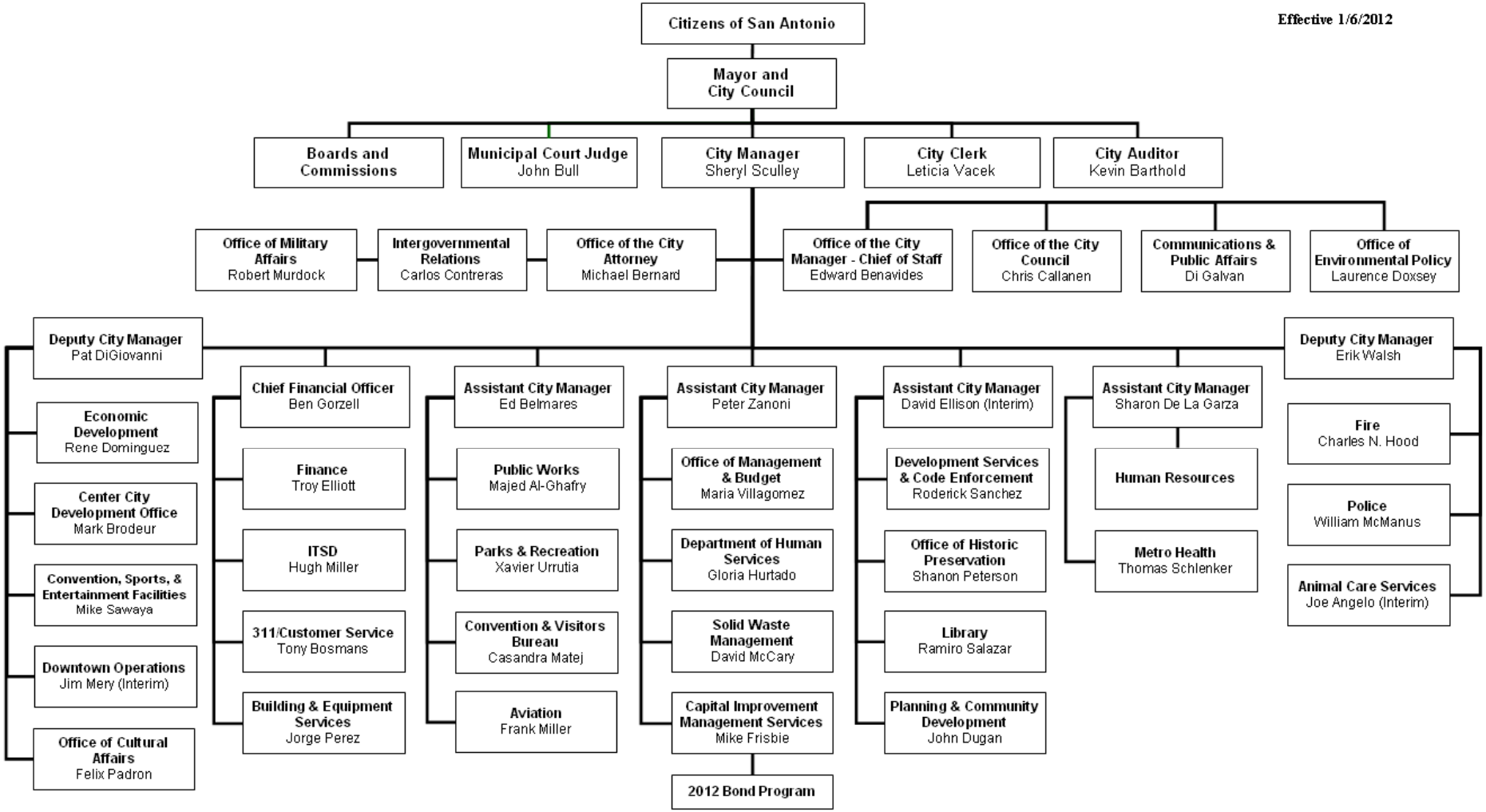
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2010

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


Effective 1/6/2012
Citizens of San Antonio
Mayor and City Council
Boards and Commissions
Municipal Court Judge John Bull
City Manager Sheryl Sculley
City Clerk Leticia Vacek
City Auditor Kevin Barthold
Office of Military Affairs Robert Murdock
Intergovernmental Relations Carlos Contreras
Office of the City Attorney Michael Bernard
Office of the City Manager - Chief of Staff Edward Benavides
Office of the City Council Chris Callanen
Communications & Public Affairs Di Galvan
Office of Environmental Policy Laurence Doxsey
Deputy City Manager Pat DiGiovanni
Economic Development Rene Dominguez
Center City Development Office Mark Brodeur
Convention, Sports, & Entertainment Facilities Mike Sawaya
Downtown Operations Jim Mery (Interim)
Office of Cultural Affairs Felix Padron
Chief Financial Officer Ben Gorzell
Finance Troy Elliott
ITSD Hugh Miller
311/Customer Service Tony Bosmans
Building & Equipment Services Jorge Perez
Assistant City Manager Ed Belmares
Public Works Majed Al-Ghafry
Parks & Recreation Xavier Urrutia
Convention & Visitors Bureau Casandra Matej
Aviation Frank Miller
Assistant City Manager Peter Zanoni
Office of Management & Budget Maria Villagomez
Department of Human Services Gloria Hurtado
Solid Waste Management David McCary
Capital Improvement Management Services Mike Frisbie
2012 Bond Program
Assistant City Manager David Ellison (Interim)
Development Services & Code Enforcement Roderick Sanchez
Office of Historic Preservation Shanon Peterson
Library Ramiro Salazar
Planning & Community Development John Dugan
Assistant City Manager Sharon De La Garza
Human Resources
Metro Health Thomas Schlenker
Deputy City Manager Erik Walsh
Fire Charles N. Hood
Police William McManus
Animal Care Services Joe Angelo (Interim)

Comprehensive Annual Financial Report
Period Ended September 30, 2011

Incorporated December 14, 1837
Charter Adopted October 2, 1951
Council - Manager Form of Government

CITY COUNCIL

Julián Castro
Mayor

Diego M. Bernal
District 1

Ivy R. Taylor
District 2

Leticia Ozuna
District 3

Rey Saldaña
District 4

David Medina, Jr.
District 5

Ray Lopez
District 6

Cris Medina
District 7

W. Reed Williams
District 8

Elisa Chan
District 9

Carlton Soules
District 10

EXECUTIVE LEADERSHIP TEAM

Sheryl L. Sculley
City Manager

Pat DiGiovanni
Deputy City Manager

Erik J. Walsh
Deputy City Manager

Sharon De La Garza
Assistant City Manager

David Ellison
Interim Assistant City Manager

Peter Zanoni
Assistant City Manager

Ed Belmares
Assistant City Manager

Ben Gorzell Jr.
Chief Financial Officer

Michael Bernard
City Attorney

Member of The Government Finance Officers
Association of the United States and Canada

City of San Antonio, Texas

Financial Section

CITY OF SAN ANTONIO, TEXAS

Comprehensive Annual Financial Report

Year-Ended September 30, 2011

City of San Antonio, Texas

Independent Auditors' Report

Grant Thornton

Audit • Tax • Advisory

Grant Thornton LLP
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Report of Independent Certified Public Accountants

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, 2011, 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 Health Trust Finance Corporation, San Antonio Industrial Development Authority, San Antonio Education Facilities Corporation and San Antonio Public Library Foundation, blended component units, which represent 71%, 78% and 20%, respectively, of the assets, net assets/fund balances 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 reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. 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 SA Energy Acquisition Public Facilities Corporation, San Antonio Health Facilities Development Corporation, San Antonio Housing Trust Finance Corporation, San Antonio Industrial Development Authority, San Antonio Education Facilities Corporation and San Antonio Public Library Foundation audited by other auditors 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 other auditors provide a reasonable basis for our opinions.

Grant Thornton

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, 2011, 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.

The Management's Discussion and Analysis on pages 1 through 12 and the Budgetary Comparison Schedule – General Fund on page 181, and Schedules of Funding Progress on pages 182 - 185 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 accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary budget and actual schedules for legally adopted 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.

Grant Thornton LLP

Houston, Texas
March 1, 2012

CITY OF SAN ANTONIO, TEXAS

Comprehensive Annual Financial Report

Year-Ended September 30, 2011

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, 2011. 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 $2,964,940 (net assets). Of this amount, $115,493 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City implemented GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions.* This new pronouncement enhances the usefulness of fund balance reporting by establishing fund balance classifications which can more consistently be applied and by clarifying existing governmental fund type definitions.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $928,648, a decrease of $28,075 compared to the fiscal year 2010 restated fund balance. Of this amount, $9,355 is nonspendable and $919,293 is spendable. Of the total spendable fund balance, $687,637 is restricted in use, $115,821 has been committed, $20,650 is assigned and $95,185 is unassigned, which is available for spending at the government's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was $170,693 or 19.8% of the total General Fund expenditures.
- Other governmental funds had a negative unassigned fund balance totaling $75,508 as of the end of the current fiscal year, resulting in net governmental fund balance of $95,185. For more information see Note 16 Deficits in Fund Balances/Net Assets.

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, urban redevelopment and housing, welfare, and economic development and opportunity.

The business-type activities of the City include the airport system, development services, market square, parking system, and solid waste management.

In addition, the basic financial statements provide information regarding the City's legally separate discretely presented component units. Discretely presented 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 funds 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, Debt Service, Categorical Grant-In Aid, 2007 General Obligation Bonds and General Obligation Project Funds 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, Development Services, Market Square, Parking System, and Solid Waste Management 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, information technology services, and capital improvements management 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, 2011.

Net Assets
Year-Ended September 30, 2011
(With Comparative Totals for September 30, 2010)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010 (Restated)*	2011	2010 (Restated)*	2011	2010 (Restated)*
Current and Other Assets	$ 1,361,540	$ 1,469,758	$ 243,483	$ 230,497	$ 1,605,023	$ 1,700,255
Capital Assets	3,806,667	3,634,537	646,095	630,125	4,452,762	4,264,662
Total Assets	5,168,207	5,104,295	889,578	860,622	6,057,785	5,964,917
Current and Other Liabilities	312,553	399,289	32,331	54,767	344,884	454,056
Long-term Liabilities	2,269,674	2,179,737	478,287	453,397	2,747,961	2,633,134
Total Liabilities	2,582,227	2,579,026	510,618	508,164	3,092,845	3,087,190
Net Assets:						
Investments in Capital Assets, Net of Related Debt	2,364,212	2,238,834	273,108	273,344	2,637,320	2,512,178
Restricted	126,142	124,300	90,532	78,558	216,674	202,858
Unrestricted	95,626	162,135	15,320	556	110,946	162,691
Total Net Assets	$ 2,585,980	$ 2,525,269	$ 378,960	$ 352,458	$ 2,964,940	$ 2,877,727

* Amounts have been restated primarily to comply with the implementation of GASB Statement No. 54 as discussed in Note 18 Prior Period Restatement.

For the year-ended September 30, 2011, total assets exceeded liabilities by $2,964,940. The largest portion of the City's net assets, $2,637,320 (89.0%) 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, and intangibles.

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 liabilities.

Of the total net assets, $216,674 (7.3%) represents resources that are subject to external restrictions on how they may be used. The remaining $110,946 (3.7%) represents unrestricted net assets, which can be used to meet the government's ongoing obligations to citizens and creditors.

The following schedule provides a detail of the changes to the City's net assets:

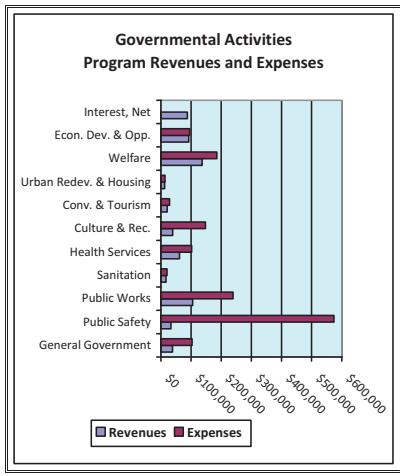
City of San Antonio, Texas
Changes in Net Assets
Year-Ended September 30, 2011
(With Comparative Totals for September 30, 2010)

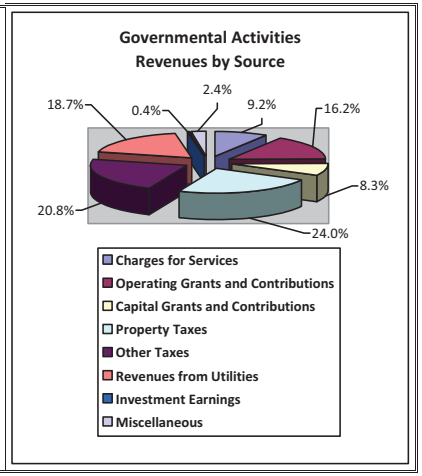
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010 (Restated)*	2011	2010 (Restated)*	2011	2010 (Restated)*
Revenues:						
Program Revenues:						
Charges for Services	$ 151,344	$ 155,336	$ 205,396	$ 181,173	$ 356,740	$ 336,509
Operating Grants and Contributions	267,524	256,214			267,524	256,214
Capital Grants and Contributions	137,892	98,362	40,237	40,156	178,129	138,518
General Revenues:						
Property Taxes	396,847	406,579			396,847	406,579
Other Taxes	343,804	328,928			343,804	328,928
Revenues from Utilities	308,838	293,114			308,838	293,114
Investment Earnings	6,184	6,954	772	823	6,956	7,777
Miscellaneous	40,217	24,016	450	1,547	40,667	25,563
Total Revenues	1,652,650	1,569,503	246,855	223,699	1,899,505	1,793,202
Expenses:						
Primary Government:						
Governmental Activities:						
General Government	103,617	114,591			103,617	114,591
Public Safety	574,263	545,359			574,263	545,359
Public Works	239,195	221,612			239,195	221,612
Sanitation	20,015	8,385			20,015	8,385
Health Services	101,995	104,667			101,995	104,667
Culture and Recreation	147,591	143,122			147,591	143,122
Convention and Tourism	28,735	26,437			28,735	26,437
Urban Redevelopment and Housing	13,696	26,486			13,696	26,486
Welfare	185,600	177,819			185,600	177,819
Economic Development and Opportunity	90,844	104,964			90,844	104,964
Interest on Long-Term Debt, Net	87,792	70,945			87,792	70,945
Business-Type Activities:						
Airport System			105,708	83,109	105,708	83,109
Development Services			20,195	19,570	20,195	19,570
Market Square			2,215	251	2,215	251
Parking System			8,703	9,135	8,703	9,135
Solid Waste Management			82,128	85,058	82,128	85,058
Total Expenses	1,593,343	1,544,387	218,949	197,123	1,812,292	1,741,510
Change in Net Assets Before Transfers	59,307	25,116	27,906	26,576	87,213	51,692
Transfers	1,404	5,429	(1,404)	(5,429)		
Net Change in Net Assets	60,711	30,545	26,502	21,147	87,213	51,692
Beginning, Net Assets (restated)	2,525,269	2,494,724	352,458	331,311	2,877,727	2,826,035
Ending, Net Assets	$ 2,585,980	$ 2,525,269	$ 378,960	$ 352,458	$ 2,964,940	$ 2,877,727

* Amounts have been restated primarily to comply with the implementation of GASB Statement No. 54 as discussed in Note 18 Prior Period Restatement; and reclassified in order to be consistent with the current year's presentation.

The City's total revenues were $1,899,505 for fiscal year-ended September 30, 2011. Revenues from governmental activities totaled $1,652,650 and revenues from business-type activities totaled $246,855. General revenues represented 57.8% of the City's total revenue, while program revenues provided 42.2% of revenue received in fiscal year 2011. Expenses for the City totaled $1,812,292. Governmental activity expenses totaled $1,593,343, or 87.9% of total expenses.

Governmental Activities





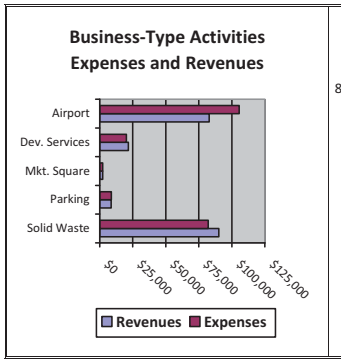
Governmental Activities increased the City's net assets by $60,711. The reason for the change is as follows:

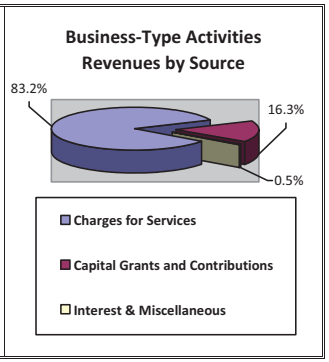
- Grants and Contributions revenues increased by $50,840 primarily due to increased contributions received for the Convention Center Hotel ($20,416), funding received from TXDOT and SAWS for various public works street and drainage projects ($23,650) and amounts received for weatherization, energy efficiency, and City retrofit programs ($9,573).
- The reduction in net taxable assessed values decreased from $72,743,219 in fiscal year 2010 to $71,007,547 in fiscal year 2011 was the primary reason causing Property Taxes revenues to be $9,732 lower than the prior year. Although assessed values for new construction increased in fiscal year 2011, values for existing properties decreased causing an overall reduction in taxable values.
- Other Taxes increased by $14,876 due to an improvement in the local economy from the prior year. This improvement came from an increase in tourism and convention business causing Hotel Occupancy Taxes and Sales and Use Taxes to increase by $13,344, and $3,234, respectively, from the prior year. These increases were tempered by a $1,284 reduction in Gross Receipts Business Taxes due to a reduction in telecommunication access lines.
- CPS Energy revenues increased by $14,128 due to a 5.65% increase in electric sales resulting from an above average hot summer in 2011. Revenues from SAWS increased by $1,597 due to an increase of sales resulting from an extreme drought in 2011, which increased water usage. The precipitation during fiscal year 2011 was 10.55" compared to 52.22" in the prior year.
- Miscellaneous Revenues increased by $16,201 as a result of $5,000 of Community Infrastructure and Economic Development (CIED) funds received from CPS Energy in fiscal year 2011, a subsidy for Build America Bonds (BAB) in the amount of $4,148, and other miscellaneous revenues associated with confiscated property and other donations received from private donors.
- General Government expenses were lower by $10,974 primarily due to $7,588 in assets expensed in fiscal year 2010 that did not meet the threshold to be capitalized.

- The increase in Public Safety expenses of $28,904 from the prior fiscal year is partly associated with higher motor fuel costs and police and fire accrued leave. Police also added additional Sergeant and Detective positions, along with equipping all police cruiser vehicles with in-car video systems. Fire added positions to create an additional fire battalion, created a second Hazardous Materials Response Team and supplied five engine companies with equipment needed to provide Advance Life Support (ALS) capabilities at all times.
- Public Works expenses were higher by $17,583 as a result of increased capital project activity of $10,554 for the 36th Street Extension through Kelly USA project. The remainder of the increase is primarily due to increased activity from the prior year associated with various city-wide drainage projects.
- Expenses for Sanitation increased by $11,630 primarily due to three ARRA grants received for the Weatherization Assistance Program, Energy Efficiency Block Grant, and the Retrofit Ramp Up Program.
- Urban Redevelopment and Housing's reduction of $12,790 was due to a decrease of $6,789 in HOME program expenditures as larger programs had not received their tax credits as expected. These dollars were reprogrammed for projected expenses in fiscal year 2012. Additionally, due to the economy, less rental rehabilitation monies were awarded to be spent. Also, two multi-year grants awarded in fiscal year 2009 have decreasing expenditures due to the closing of their grant period. In total, expenditures incurred for Neighborhood Stabilizing Program and Other Community Development Block Grants in fiscal year 2010 totaled $8,800, while dollars expended in fiscal year 2011 only totaled $2,800.
- Welfare increased $7,781 from fiscal year 2010 due to overall increased activity from grants. Categorical Grant In-aid increased by $12,446 due to increased staffing on the CCS and Head Start grant, which translated into higher expenditures in meeting grant objectives. This increase in staffing costs were mitigated by a reduction in American Recovery Reinvestment Act expenses due to funds being exhausted in fiscal year 2011.
- Economic Development and Opportunity expenses decreased $14,120 from fiscal year 2010 due to lower spending for HUD 108 in anticipation of the loan's expiration. The loan was subsequently extended through December 2013 with dollars being reprogrammed to be spent through the first quarter of fiscal year 2014.
- Net increases of $56,178 in bonds and certificates, $11,249 in capital leases, and $9,478 in unamortized premiums and discounts caused the expenses to increase by $16,847 in Interest on Long-term Debt from the prior year.

Business-Type Activities

Program revenues for the City's Business-Type Activities totaled $245,633, which is $24,304 higher than the previous fiscal year. The remaining revenues were a result of investment earnings and other miscellaneous items. Expenses for Business-Type Activities were $218,949 compared to prior year's expenses of $197,123.





Business-Type Activities increased the City's net assets by $26,502 primarily because of the following:

- Charges for Services increased by $24,223 primarily due to an increase in passenger travel through San Antonio International Airport, resulting in $19,184 more in Airport Systems revenues; Solid Waste fees increasing by $2,179, mainly due to increased recycling activity in fiscal year 2011; and Development Services by $3,327 as the City experienced increases in building permits and plan review revenues for both residential and commercial activity in fiscal year 2011.
- Airport System expenses increased by $22,955 primarily due to increased costs associated with the new terminal expansion at the San Antonio International Airport.
- Market Square expenses were higher in fiscal year 2011 by $1,604 as a result of increased repair and maintenance costs and higher personnel costs needed to operate and maintain the market square facilities.
- Solid Waste expenses decreased by $2,930 from the prior year as the final purchases for city-wide trash and recycle bins occurred 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 primary operating fund. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. 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 $5,144, which is primarily attributable to: (1) a $4,660 decrease in property tax and related penalties and interest revenues in the General Fund, (2) a $11,504 increase in sales and use tax revenues in the General Fund (3) a $2,794 decrease in property tax and related penalties and interest revenues in the Debt Service Fund, (4) a $3,204 increase in occupancy taxes and related penalties and interest revenues in the Nonmajor Governmental Funds, and (5) a $1,136 decrease in property tax revenue in the Tax Increment Reinvestment Zone Fund. The decreases in property taxes are a result of a decrease in assessed property values while the increase in sales and use taxes and occupancy taxes are results of an upswing in the economy and increased activity associated with tourism and convention business.

The total fund balance of the General Fund at year-end was $232,692, an increase of $1,870 from the total restated fund balance of $230,822 in fiscal year 2010. The total spendable General Fund balance for fiscal year 2011 is $227,753, which represents $1,107 in restricted, $48,540 in committed, $7,413 in assigned and $170,693 in unassigned fund balances. The unassigned fund balance represents amounts available for additional appropriations at the end of the fiscal year.

The total fund balance of the Debt Service Fund at year-end was $93,569, a decrease of $15,514 from the total fund balance of $109,083 in fiscal year 2010. The entire fund balance is reserved for payment of debt service.

The Categorical Grant-In Aid Fund has a total deficit fund balance of $4,209 an increase of $394 from the total restated deficit fund balance of $3,815, which is a result of providing additional program services to the community beyond what monies were provided by grantor agencies. The uncollectible amounts were incorporated into the City's annual budget process to be funded over five years of which the City has one year to fund. Remaining deficit amounts will be incorporated into future adopted budgets to fund.

The total fund balance of the 2007 General Obligation Bonds at year-end was $217,775, a decrease of $20,546 from the total fund balance of $238,321 in fiscal year 2010. This stems from capital expenditures associated with the $550,000 bond approved by voters in fiscal year 2007.

The fund balance in the General Obligation Project Fund has a deficit fund balance of $46,836, an increase of $22,286 from the prior year. This is primarily due to the timing difference between capital expenditures associated with the 2007-2012 Municipal Bond Program and the final bond issuance to fund that program.

General Fund Budgetary Highlights

Variances in Budget Appropriations (Budgetary Basis) General Fund

	Original Budget	Final Budget	Actual Results
General Government	$ 107,560	$ 89,243	$ 81,729
Public Safety	527,607	536,765	530,955
Public Works	40,505	44,905	45,357
Health Services	72,194	74,826	76,619
Sanitation	3,276	3,312	3,354
Culture and Recreation	81,829	83,884	83,291
Welfare	41,856	46,294	44,342
Economic Development and Opportunity	12,205	12,334	13,428
Transfers to Other Funds	52,070	55,616	55,500
Total	$ 939,102	$ 947,179	$ 934,575

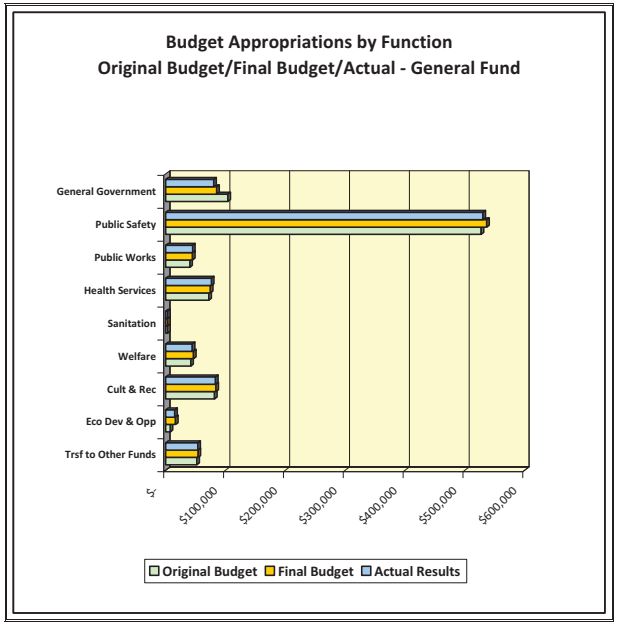
Changes in original budget appropriations to the final amended budget appropriations resulted in a net $8,077 increase in appropriations. This increase can be summarized by the following:

- General Government had an $18,317 decrease, which is attributable to indirect cost reimbursements from other funds causing a $9,459 decrease; budget carryforwards causing a $3,640 increase; and ordinance and analyst adjustments accounting for a decrease of $12,498.
- Public Safety contributed $9,158 to the overall increase, which was comprised of $3,399 in prior year budget carryforwards and $5,759 in ordinance and budget adjustments.
- Of the $4,400 increase in Public Works, $3,921 consisted of budget carryforwards while the remaining $479 increase consisted of budget adjustments.
- Health Services had an increase of $2,632 from the original budget, which was due to $555 added for budget carryforwards and $2,077 in budget adjustments during fiscal year 2011.
- Of the $4,438 increase in Welfare, $3,386 came from budget carryforwards while the remaining $1,052 was decreased via budget adjustments.
- The increase in Transfers to Other Funds consisted of $8,038 in budget carryforwards reduced by $4,492 in budget adjustments.

Final budgeted appropriations for the General Fund were $947,179, while actual expenditures on a budgetary basis were $934,575 creating a positive variance of $12,604. Significant variances are as follows:

- General Government had a $7,514 positive variance. The City budgeted the retiree payouts in the General Government function while actual payouts are charged across all functions. Salary reserves, which are mainly used for cost of living adjustments and step increases for pay, represented $2,163 in fiscal year 2011. Public Safety typically receives 70% of these funds. Further savings were achieved across departments as a result of hiring being delayed during the fiscal year.
- Public Safety had a $5,810 positive variance largely due to position vacancies during the fiscal year.

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, Development Services, Market Square, Parking System, and Solid Waste Funds are considered proprietary funds. The Airport System handles operations at both the San Antonio International Airport and Stinson Municipal Airport. Development Services supports the activities related to the regulation of City development. Market Square accounts for all revenues and expenses associated with the management and operation of the Farmers' Market, El Mercado, the Market Square parking lot and Alameda. The Parking System handles operations of the City's parking garages and lots. Solid Waste Management handles trash collection operations, recycling, 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, 2011 amounts to $4,452,762 (net of accumulated depreciation). This investment in capital assets includes land, other non-depreciable assets, buildings, improvements, infrastructure, machinery and equipment, intangible assets and construction in progress. The net increase in the City's investment in capital assets for the current fiscal year was $188,100, which comprises a $172,130 increase in governmental activities and a $15,970 increase in business-type activities.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010 (Restated)*	2011	2010 (Restated)*	2011	2010 (Restated)*
Land	$ 1,371,289	$ 1,364,382	$ 14,385	$ 14,385	$ 1,385,674	$ 1,378,767
Other Non-Depreciable Assets	575	500			575	500
Non-Depreciable Intangible Assets	81,961	81,809			81,961	81,809
Depreciable Intangible Assets	2,711	109			2,711	109
Buildings	434,600	454,417	291,449	139,354	726,049	593,771
Improvements	359,593	272,961	262,642	134,372	622,235	407,333
Infrastructure	847,588	817,171			847,588	817,171
Machinery and Equipment	170,782	163,419	21,714	23,630	192,496	187,049
Construction in Progress	537,568	479,769	55,905	318,384	593,473	798,153
Total	$ 3,806,667	$ 3,634,537	$ 646,095	$ 630,125	$ 4,452,762	$ 4,264,662

* Amounts have been restated primarily to comply with GASB Statement No. 54 as discussed in Note 18 Prior Period Restatement

During fiscal year 2011, the City transferred $507,724 of construction in progress to land and depreciable asset classes for completed capital projects which were mainly comprised of city-wide streets and drainage projects, San Antonio River Walk improvements, terminal expansion at the San Antonio International Airport and improvements to the City's convention and sports facilities to include a renovation of the Lila Cockrell Theatre.

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

Change in Capital Assets
September 30, 2011

	Governmental Activities	Business-Type Activities	Total
Beginning Balance (Restated)	$ 5,801,230	$ 844,119	$ 6,645,349
Additions	314,315	49,443	363,758
Deletions	(22,870)	(11,117)	(33,987)
Accumulated Depreciation	(2,286,008)	(236,350)	(2,522,358)
Ending Balance	$ 3,806,667	$ 646,095	$ 4,452,762

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 $2,307,999 in bonds, certificates, and tax notes outstanding, an increase of 3.2% 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.

September 30, 2011 and 2010	Governmental Activities	
	2011	2010*
Bonds Payable:		
Tax-Exempt General Obligation Bonds	$ 708,055	$ 721,350
Taxable General Obligation Bonds	191,550	$ 191,550
Tax-Exempt Certificates of Obligation	356,870	303,635
Taxable Certificates of Obligation		80
Tax Notes	27,450	28,860
Commercial Paper		14,370
Revenue Bonds	575,115	557,387
Capital Appreciation Bonds (CAB)	23,239	20,077
Total	$ 1,882,279	$ 1,837,309

	Business-Type Activities	
	2011	2010*
Bonds Payable:		
Tax-Exempt General Obligation Bonds	$ 1,310	$ 1,345
Taxable General Obligation Bonds	16,075	$ 16,875
Tax-Exempt Certificates of Obligation	2,035	2,135
Tax Notes		34,500
Revenue Bonds	406,300	344,525
Total	$ 425,720	$ 399,380

*Reclassed in order to be consistent with the current year's presentation.

Governmental Activities

In July 2011, the City issued additional indebtedness for a total of $176,635. This was composed of $59,485 in tax-exempt general obligation bonds, $79,780 in tax-exempt certificates of obligation, $9,445 in tax notes and $27,925 in revenue bonds.

The General Obligation Bonds, Series 2011 were issued to finance improvements to streets, bridges, sidewalks, and drainage.

The Combination Tax and Revenue Certificates of Obligation, Series 2011 were issued for the purpose of providing funds for, fire protection, and law enforcement facilities improvements, drainage facilities, sidewalks, bridges, and streets improvements, parks, municipal facilities improvements, and pedestrian walkway improvements along and within the San Antonio River Channel.

The Tax Notes, Series 2011 were issued to provide funding for improving the City's technology infrastructure and business systems by renovating, improving, and equipping various City facilities.

In July 2011, Municipal Facilities Corporation issued $27,925 in Municipal Facilities Corporation Lease Revenue Bonds, Series 2011, to fund the construction of a new Fire and Police Emergency Dispatch Center, also known as the Public Safety Answering Point (PSAP) facility.

Business-Type Activities

In December 2010, the City issued $42,220 in Airport System Revenue Improvement and Refunding Bonds, Series 2010A (2010A GARBs), $20,885 in Airport System Revenue Refunding Bonds, Taxable Series 2010B (2010B Taxable GARBs), and $37,335 in Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement and Refunding Bonds, Series 2010 (2010 PFC Bonds).

The 2010A GARBs were issued to fund various airport system capital improvements including PFC eligible airport-related projects, to refund a portion of the City's outstanding indebtedness originally issued to finance Airport System

improvements, provide funds for capitalized interest, and to pay the costs of issuance. The 2010B Taxable GARBs were issued to refund certain GARB obligations and to pay the costs of issuance.

The 2010 PFC Bonds were issued to pay costs related to constructing, improving, renovating, enlarging and equipping airport projects that qualify and have been approved by the Secretary of the United States Department of Transportation. The PFC Bonds were also used to refund the remaining portion of the 2010 Tax Notes attributed to PFC projects not being refunded by the 2010A GARBs, and to pay the costs of issuance.

Standard & Poor's, Moody's, and Fitch's underlying rating for City obligations during fiscal year 2011 were as follows:

	Standard & Poor's	Moody's	Fitch
General Obligation/Certificates of Obligation/Tax Notes	AAA	Aaa	AAA
Hotel Occupancy Tax Bonds (Prior Lien) [1]	A+	Aa2	AA-
Hotel Occupancy Tax Bonds (Subordinate Lien - Long Term)	A+	Aa3	A+
Hotel Occupancy Tax Bonds (Variable Rate - Short Term)	A+	Aa3	A+
Hotel Occupancy Tax Notes [2]	Private Placement - Not Rated		
Airport System	A+	A1	A+
Aiport PFC	A-	A2	A
Municipal Drainage Utility System Revenue Bonds	AA+	Aa2	AA
Sales Tax Revenue Commercial Paper Notes [3]	A-1+	P-1	F1+

[1] Standard and Poor's elevated the City's Hotel Occupancy Tax Bonds (Prior Lien) rating in December 2011 from A+ to AA-.
[2] The Hotel Occupancy Tax Notes were no longer outstanding as of August 15, 2011.
[3] The ratings assigned to the Sales Tax Revenue Commercial Paper Notes are based upon the credit rating of the Letter of Credit provider and no application for an underlying rating on the Notes was submitted.

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 gross assessed valuation for the fiscal year-ended 2011 was $82,736,182, which provides a debt ceiling of $8,273,618.

Currently Known Facts

On February 16, 2012, the City Council approved calling an election on Saturday, May 12, 2012, for the City's proposed 2012-2017 Bond Program. If approved, the $596,000 140-project program will be the largest in the City's history and will not require a property tax increase to fund the debt service obligations. These projects will be divided into the following five categories:

- Streets, Bridges and Sidewalks: 41 projects – $338,000
- Drainage and Flood Control: 17 projects – $128,000
- Parks, Recreation and Open Space: 68 projects – $87,000
- Library, Museum and Cultural Arts Facilities: 11 projects – $29,000
- Public Safety Facilities: 3 projects – $14,000

For more information on other currently known facts, please see Note 19 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

Comprehensive Annual Financial Report

Year-Ended September 30, 2011

City of San Antonio, Texas

Basic Financial Statements

Statement of Net Assets
As of September 30, 2011
(In Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Assets:				
Current Assets:				
Cash and Cash Equivalents	$ 24,149	$ 2,134	$ 26,283	$ 227,575
Securities Lending Collateral	12,975	1,356	14,331	2,055
Investments	261,354	27,322	288,676	311,327
Receivables, Net	111,509	11,103	122,612	261,599
Due From Other Governmental Agencies	21,703		21,703	12,732
Internal Balances	(1,343)	1,343		
Materials and Supplies, at Cost	6,761	706	7,467	151,771
Prepaid Expenses	1,062		1,062	87,697
Other Assets				1,204
Deposits	213		213	
Restricted Assets:				
Cash and Cash Equivalents	142,567	32,360	174,927	312,046
Securities Lending Collateral	24,982	6,744	31,726	
Investments	587,109	148,031	735,140	1,389,102
Receivables, Net	116,669	2,228	118,897	46,655
Materials and Supplies, at Cost	75		75	
Deferred Charges				3,700
Deposits	151		151	
Prepaid Expenses	459		459	
Due From Other Governmental Agencies	13,090		13,090	
Total Current Assets	1,323,485	233,327	1,556,812	2,807,463
Noncurrent Assets:				
Capital Assets:				
Non Depreciable	1,991,393	70,290	2,061,683	1,567,278
Depreciable, Net	1,815,274	575,805	2,391,079	9,297,005
Assets Held for Resale				382
Receivables, Net				3,716
Prepaid Expenses				922,726
Net OPEB Asset and Pension Asset				32,664
Other Noncurrent Assets				84,329
Unamortized Bond Issuance Costs	38,055	10,156	48,211	19,017
Total Noncurrent Assets	3,844,722	656,251	4,500,973	11,927,117
Total Assets	5,168,207	889,578	6,057,785	14,734,580
Liabilities:				
Current Liabilities:				
Accounts Payable and Current Liabilities	101,490	7,302	108,792	359,467
Unearned Revenue	8,448	1,774	10,222	8,053
Securities Lending Obligation	12,975	1,356	14,331	2,055
Accrued Interest	1	80	81	
Due To Other Governmental Agencies	2,187	6	2,193	3,408
Restricted Liabilities:				
Accounts Payable and Current Liabilities	79,355	9,618	88,973	41,169
Unearned Revenue	62,012		62,012	
Securities Lending Obligation	24,982	6,744	31,726	
Accrued Interest	15,638	5,451	21,089	26,986
Due To Other Governmental Agencies	5,465		5,465	
Total Current Liabilities	312,553	32,331	344,884	441,138
Noncurrent Liabilities:				
Due Within One Year	191,129	26,700	217,829	328,127
Due in More Than One Year	2,078,545	451,587	2,530,132	8,666,872
Total Noncurrent Liabilities	2,269,674	478,287	2,747,961	8,994,999
Total Liabilities	2,582,227	510,618	3,092,845	9,436,137
Net Assets:				
Invested in Capital Assets, Net of Related Debt	2,364,212	273,108	2,637,320	4,266,136
Restricted for:				
Debt Service	88,190	27,893	116,083	32,514
Capital Projects	20,674	62,639	83,313	450,533
Operating and Other Reserves				84,643
Perpetual Care: Expendable	12,247		12,247	2,953
Perpetual Care: Nonexpendable	5,031		5,031	
Unrestricted	95,626	15,320	110,946	461,664
Total Net Assets	$ 2,585,980	$ 378,960	$ 2,964,940	$ 5,298,443

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

Amounts are expressed in thousands

Statement of Activities

Year-Ended September 30, 2011

(In Thousands)

FUNCTION/PROGRAM ACTIVITIES	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS – PRIMARY GOVERNMENT: GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT: BUSINESS-TYPE ACTIVITIES	PRIMARY GOVERNMENT: TOTAL	COMPONENT UNITS
Primary Government:								
Governmental Activities:								
General Government	$ 103,617	$ 27,853	$ 8,803	$ 1,583	$ (65,378)	$ -	$ (65,378)	$ -
Public Safety	574,263	9,882	18,494	4,662	(541,225)		(541,225)	
Public Works	239,195	43,267	15,325	46,729	(133,874)		(133,874)	
Sanitation	20,015	407	16,694	91	(2,823)		(2,823)	
Health Services	101,995	33,815	27,426	608	(40,146)		(40,146)	
Culture and Recreation	147,591	33,037	5,238	719	(108,597)		(108,597)	
Convention and Tourism	28,735		20,915		(7,820)		(7,820)	
Urban Redevelopment and Housing	13,696	400	11,288	417	(1,591)		(1,591)	
Welfare	185,600	52	136,904		(48,644)		(48,644)	
Economic Development and Opportunity	90,844	2,631	6,437	83,083	1,307		1,307	
Amortization of Bond Related Costs	(3,891)				3,891		3,891	
Interest on Long-Term Debt	91,683				(91,683)		(91,683)	
Total Governmental Activities	1,593,343	151,344	267,524	137,892	(1,036,583)		(1,036,583)	
Business-Type Activities:								
Airport System	105,708	82,901		36,025		13,218	13,218	
Development Services	20,195	21,629				1,434	1,434	
Market Square	2,215	2,211		4,212		4,208	4,208	
Parking System	8,703	8,588				(115)	(115)	
Solid Waste Management	82,128	90,067				7,939	7,939	
Total Business-Type Activities	218,949	205,396		40,237		26,684	26,684	
Total Primary Government	$ 1,812,292	$ 356,740	$ 267,524	$ 178,129	(1,036,583)	26,684	(1,009,899)	
Discretely Presented Component Units:								
CPS Energy	$ 2,072,849	$ 2,068,686	$ -	$ 25,107				20,944
San Antonio Water System	425,761	368,780		53,692				(3,289)
Brooks Development Authority	17,939	12,817		9,011				3,889
City South Management Authority	170							(170)
Main Plaza Conservancy	597	50	545					(2)
Municipal Golf Association - San Antonio	8,748	9,146		35				433
Port Authority of San Antonio	41,879	42,242	1,300	12				1,675
SA Energy Acquisition Corporation	53,944	53,032						(912)
OUR SA	354	26						(328)
San Antonio Housing Trust Foundation, Inc.	412		379					(33)
Total Component Units	$ 2,622,653	$ 2,554,779	$ 2,224	$ 87,857				22,207
General Revenues:								
Taxes:								
Property					396,847		396,847	
General Sales and Use					236,819		236,819	
Selective Sales and Use					5,879		5,879	
Gross Receipts Business					34,341		34,341	
Occupancy					62,968		62,968	
Penalties and Interest on Delinquent Taxes					3,797		3,797	
Revenues from Utilities					308,838		308,838	
Investment Earnings					6,184	772	6,956	77,041
Miscellaneous					40,217	450	40,667	302
Adjustment for STP Pension Cost								(14,072)
Transfers, net					1,404	(1,404)		
Total General Revenues and Transfers					1,097,294	(182)	1,097,112	63,271
Change in Net Assets					60,711	26,502	87,213	85,478
Net Assets - Beginning of Fiscal Year (restated)					2,525,269	352,458	2,877,727	5,212,965
Net Assets - End of Fiscal Year					$ 2,585,980	$ 378,960	$ 2,964,940	$ 5,298,443

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

Amounts are expressed in thousands

Balance Sheet
Governmental Funds
As of September 30, 2011
(In Thousands)

	MAJOR FUNDS						
	GENERAL	DEBT SERVICE	CATEGORICAL GRANT-IN AID	2007 GENERAL OBLIGATION BONDS	GENERAL OBLIGATION PROJECT FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets:							
Cash and Cash Equivalents	$ 7,654	$ -	$ -	$ -	$ -	$ 6,906	$ 14,560
Securities Lending Collateral	4,308					2,695	7,003
Investments	87,835					53,216	141,051
Receivables, Net	103,647					4,905	108,552
Materials and Supplies, at Cost	4,854					241	5,095
Deposits						75	75
Prepaid Expenditures	85						85
Due from:							
Other Funds	84,466					12,085	96,551
Other Governmental Agencies, Net	2,943					17,775	20,718
Restricted Assets:							
Cash and Cash Equivalents	85	40,938	921	13,696	81	86,846	142,567
Securities Lending Collateral	50		459	8,546		15,927	24,982
Investments	1,003	52,482	9,256	172,163		352,205	587,109
Receivables, Net		8,057	29,495	121	7,623	71,373	116,669
Materials and Supplies, at Cost			75				75
Deposits						151	151
Prepaid Expenditures						459	459
Due from:							
Other Funds	49	467	1,906	31,865	2,506	11,837	48,630
Other Governmental Agencies, Net			2		10,631	2,457	13,090
Total Assets	$ 296,979	$ 101,944	$ 42,114	$ 226,391	$ 20,841	$ 639,153	$ 1,327,422
Liabilities and Fund Balances:							
Liabilities:							
Vouchers Payable	$ 10,996	$ -	$ -	$ -	$ -	$ 2,994	$ 13,990
Accounts Payable - Other	8,311					4,691	13,002
Accrued Payroll	4,096					404	4,500
Accrued Leave Payable	7,803					203	8,006
Deferred Revenue	22,682						22,682
Securities Lending Obligation	4,308					2,695	7,003
Due To:							
Other Funds	4,535					13,272	17,807
Other Governmental Agencies	1,476						1,476
Restricted Liabilities:							
Vouchers Payable		18	1,156		14,429	18,779	34,382
Accounts Payable - Other			5,763		10,360	25,568	41,691
Accrued Payroll			359			494	853
Accrued Leave Payable						99	99
Deferred Revenue		7,349	3,686		466	57,860	69,361
Securities Lending Obligation	50		459	8,546		15,927	24,982
Amounts Held in Trust						2,429	2,429
Due to:							
Other Funds	30	1,008	31,160	70	42,422	56,356	131,046
Other Governmental Agencies			3,740			1,725	5,465
Total Liabilities	64,287	8,375	46,323	8,616	67,677	203,496	398,774
Fund Balances:							
Nonspendable	4,939		75			4,341	9,355
Restricted	1,107	93,569		217,775		375,186	687,637
Committed	48,540					67,281	115,821
Assigned	7,413					13,237	20,650
Unassigned	170,693		(4,284)		(46,836)	(24,388)	95,185
Total Fund Balances	232,692	93,569	(4,209)	217,775	(46,836)	435,657	928,648
Total Liabilities and Fund Balances	$ 296,979	$ 101,944	$ 42,114	$ 226,391	$ 20,841	$ 639,153	$ 1,327,422

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

Amounts are expressed in thousands

Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
As of September 30, 2011
(In Thousands)

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Fund Balances - Total Governmental Funds		$ 928,648
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental Capital Assets:		
Land	1,371,289	
Other Non-Depreciable Assets	575	
Construction In Progress	537,441	
Non-Depreciable Intangible Assets	81,961	
Depreciable Intangible Assets	3,014	
Buildings	731,255	
Improvements	484,633	
Infrastructure	2,470,282	
Machinery and Equipment	232,071	
Less: Accumulated Depreciation	(2,173,802)	
Total Governmental Capital Assets		3,738,719
Some of the City's revenues will be collected after year-end, but are not available soon enough to pay for the current year's expenditures, and therefore, are not reported in the governmental funds as revenues, but as deferred revenues.		
Revenues previously recorded as deferred in the fund financial statements	29,416	
Unearned revenues previously recorded as income in the fund financial statements	(7,810)	
Net revenues recognized		21,606
Long-term receivables applicable in governmental activities are not due and payable in the current year and, therefore, are not reported in the governmental funds.		1,506
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.		118,573
Long-term liabilities are not due and payable in the current year, neither are associated unamortized assets' available financial resources and, therefore, are not reported in the governmental funds.		
Governmental Bonds Payable	(1,882,279)	
Unamortized Discount/(Premium) on Bonds, Net	(73,504)	
Deferred Amount on Refunding	23,168	
Capital Lease Liability	(16,746)	
Notes Payable	(48,816)	
Unamortized Bond Issuance Costs	38,055	
Net OPEB Obligation	(64,411)	
Accrued Interest Payable	(15,638)	
Pollution Remediation Payable	(1,545)	
Compensated Absences	(181,356)	
		(2,223,072)
Net Assets of Governmental Activities		$ 2,585,980

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

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year-Ended September 30, 2011
(In Thousands)

	MAJOR FUNDS						
	GENERAL	DEBT SERVICE	CATEGORICAL GRANT-IN AID	2007 GENERAL OBLIGATION BONDS	GENERAL OBLIGATION PROJECT FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:							
Taxes:							
Property	$ 242,242	$ 144,912	$ -	$ -	$ -	$ 9,081	$ 396,235
General Sales and Use	200,245					36,574	236,819
Selective Sales and Use	5,879						5,879
Gross Receipts Business	32,534					1,807	34,341
Occupancy						62,968	62,968
Penalties and Interest on Delinquent Taxes	2,298	1,372				127	3,797
Licenses and Permits	8,680						8,680
Intergovernmental	5,403		165,238		20,915	115,257	306,813
Revenues from Utilities	308,451						308,451
Charges for Services	50,134		28			67,445	117,607
Fines and Forfeits	13,697					427	14,124
Miscellaneous	18,880	4,532	1,883		2,636	12,695	40,626
Investment Earnings	1,819	311	72	967		2,346	5,515
Contributions			19,960			84,749	104,709
Total Revenues	890,262	151,127	187,181	967	23,551	393,476	1,646,564
Expenditures:							
Current:							
General Government	78,057	1,779	1,053	235		12,673	93,797
Public Safety	528,319		18,420			6,585	553,324
Public Works	43,981		15,655			34,339	93,975
Health Services	76,307		19,037			7,379	102,723
Sanitation	3,352		430			16,238	20,020
Welfare	42,704		130,144			12,094	184,942
Culture and Recreation	80,658		2,062			50,081	132,801
Convention and Tourism						20,043	20,043
Urban Redevelopment and Housing			3,419			9,879	13,298
Economic Development and Opportunity	10,504					13,447	23,951
Capital Outlay					154,642	256,628	411,270
Debt Service:							
Principal Retirement		135,205				5,770	140,975
Interest		69,584				14,397	83,981
Issuance Costs				512		1,114	1,626
Total Expenditures	863,882	206,568	190,220	747	154,642	460,667	1,876,726
Excess (Deficiency) of Revenues Over (Under) Expenditures	26,380	(55,441)	(3,039)	220	(131,091)	(67,191)	(230,162)
Other Financing Sources (Uses):							
Issuance of Long-Term Debt				59,485		117,150	176,635
Issuce of Notes and Loans						14,716	14,716
Premium/(Discount) on Long-Term Debt				5,402		9,780	15,182
Transfers In	14,603	39,927	6,876		108,805	165,859	336,070
Transfers Out	(39,113)		(4,231)	(85,653)		(211,519)	(340,516)
Total Other Financing Sources (Uses)	(24,510)	39,927	2,645	(20,766)	108,805	95,986	202,087
Net Change in Fund Balances	1,870	(15,514)	(394)	(20,546)	(22,286)	28,795	(28,075)
Fund Balances, October 1 (restated)	230,822	109,083	(3,815)	238,321	(24,550)	406,862	956,723
Fund Balances, September 30	$ 232,692	$ 93,569	$ (4,209)	$ 217,775	$ (46,836)	$ 435,657	$ 928,648

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year-Ended September 30, 2011

(In Thousands)

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in Fund Balances - Total Governmental Funds		$ (28,075)
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 year.		
Expenditures for Capital Assets	287,180	
Pollution Remediation Capitalization	183	
Less: Current Year Depreciation	(118,985)	
Less: Current Year Deletions	(7,122)	161,256
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		4,580
The issance 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.		
Bond, Note and Loan Amounts Issued	(191,351)	
(Premium)/Discount on Long-term Debt	(15,182)	
Bond Issuance Costs	1,626	
Amortization of Bond Premiums/Discounts, Deferred Charges, and Cost of Issuance, Net	3,974	
Principal Payments	140,975	(59,958)
The following 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:		
Interest Expense	(7,702)	
Compensated Absences	(9,060)	
Net OPEB Obligation	(16,522)	
Pollution Remediation	280	
Principal Amounts on Leases and Notes	3,364	(29,640)
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.		12,548
Change in Net Assets of Governmental Activities		$ 60,711

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

Statement of Net Assets
Proprietary Funds

As of September 30, 2011

(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Assets:				
Current Assets:				
Unrestricted Assets:				
Cash and Cash Equivalents	$ 1,123	$ 1,011	$ 2,134	$ 9,589
Securities Lending Collateral	716	640	1,356	5,972
Investments	14,430	12,892	27,322	120,303
Receivables, Net	2,871	8,232	11,103	1,451
Materials and Supplies, at Cost	646	60	706	1,666
Deposits				138
Prepaid Expenses				977
Due From:				
Other Funds		5,984	5,984	3,454
Other Governmental Agencies, Net				985
Total Unrestricted Assets	19,786	28,819	48,605	144,535
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents	15,201	947	16,148	
Securities Lending Collateral		243	243	
Investments	11,731	5,332	17,063	
Receivables, Net		3	3	
Construction Accounts:				
Cash and Cash Equivalents	8,501	241	8,742	
Securities Lending Collateral	2,948	20	2,968	
Investments	59,390	406	59,796	
Receivables, Net	42		42	
Due From:				
Other Funds	7		7	
Improvement and Contingency Accounts:				
Cash and Cash Equivalents	4,557	1,107	5,664	
Securities Lending Collateral	2,842	691	3,533	
Investments	57,255	13,917	71,172	
Receivables, Net	2,173	10	2,183	
Other Restricted Assets:				
Cash and Cash Equivalents	1,806		1,806	
Total Restricted Assets	166,453	22,917	189,370	
Total Current Assets	186,239	51,736	237,975	144,535
Noncurrent Assets:				
Capital Assets:				
Land	5,322	9,063	14,385	
Buildings	359,139	26,683	385,822	178
Improvements	365,813	14,475	380,288	244
Machinery and Equipment	14,391	31,654	46,045	179,605
Construction in Progress	50,211	5,694	55,905	127
Total Capital Assets	794,876	87,569	882,445	180,154
Less: Accumulated Depreciation	208,385	27,965	236,350	112,206
Net Capital Assets	586,491	59,604	646,095	67,948
Unamortized Bond Issuance Costs	9,833	323	10,156	
Total Noncurrent Assets	596,324	59,927	656,251	67,948
Total Assets	$ 782,563	$ 111,663	$ 894,226	$ 212,483

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

Statement of Net Assets
Proprietary Funds
As of September 30, 2011
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Liabilities:				
Current Liabilities:				
Payable from Current Unrestricted Assets:				
Vouchers Payable	$ 785	$ 1,578	$ 2,363	$ 4,805
Accounts Payable-Other	1,608	2,267	3,875	5,473
Claims Payable				58,868
Accrued Payroll	385	679	1,064	852
Accrued Interest	80		80	1
Current Portion of Accrued Leave Payable	1,312	1,744	3,056	1,991
Securities Lending Obligation	716	640	1,356	5,972
Unearned Revenue	1,672	102	1,774	23
Current Portion of Capital Lease Liability	124	5,217	5,341	106
Current Portion of Accrued Landfill Postclosure Costs		100	100	
Due To:				
Other Funds	437	1,347	1,784	3,821
Other Governmental Agencies		6	6	711
Total Payable from Current Unrestricted Assets	7,119	13,680	20,799	82,623
Payable from Restricted Assets:				
Vouchers Payable	9,283	307	9,590	
Accrued Bond Interest	5,159	292	5,451	
Securities Lending Obligation	5,790	954	6,744	
Current Portion of Bonds and Certificates	17,640	1,315	18,955	
Due To:				
Other Funds	27	141	168	
Current Portion of Unamortized Premium/(Discount)	238	59	297	
Current Portion of Deferred Amount on Refunding	(869)	(180)	(1,049)	
Other Payables		28	28	
Total Payable from Restricted Assets	37,268	2,916	40,184	
Total Current Liabilities	44,387	16,596	60,983	82,623
Noncurrent Liabilities:				
Bonds and Certificates	388,660	18,105	406,765	
Unamortized Premium/(Discount)	7,276	210	7,486	
Deferred Amount on Refunding	(1,416)	(1,552)	(2,968)	
Accrued Leave Payable	814	583	1,397	723
Capital Lease Liability	3,088	12,711	15,799	193
Net OPEB Obligation	7,119	13,004	20,123	13,067
Pollution Remediation	1,040		1,040	
Accrued Landfill Postclosure Costs		1,945	1,945	
Total Noncurrent Liabilities	406,581	45,006	451,587	13,983
Total Liabilities	450,968	61,602	512,570	96,606
Net Assets:				
Invested In Capital Assets, Net of Related Debt	241,447	31,661	273,108	67,649
Restricted:				
Debt Service	21,762	6,131	27,893	
Capital Projects	56,041	6,598	62,639	
Unrestricted	12,345	5,671	18,016	48,228
Total Net Assets	$ 331,595	$ 50,061	$ 381,656	$ 115,877
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			(2,696)	
Net assets of business-type activities			$ 378,960	

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

Amounts are expressed in thousands

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year-Ended September 30, 2011
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:				
Charges for Services	$ 82,901	$ 122,495	$ 205,396	$ 262,649
Total Operating Revenues	82,901	122,495	205,396	262,649
Operating Expenses:				
Personal Services	28,975	48,810	77,785	57,265
Contractual Services	7,339	28,010	35,349	40,890
Commodities	2,454	8,064	10,518	2,722
Materials				24,877
Claims				104,648
Other	8,058	21,124	29,182	17,202
Depreciation	23,558	4,794	28,352	15,067
Total Operating Expenses	70,384	110,802	181,186	262,671
Operating Income	12,517	11,693	24,210	(22)
Nonoperating Revenues (Expenses):				
Investment Earnings	631	141	772	593
Other Nonoperating Revenue	17,304	450	17,754	3,437
Gain (Loss) on Sale of Capital Assets	(1,183)	(333)	(1,516)	4,047
Interest and Debt Expense	(19,903)	(1,955)	(21,858)	
Other Nonoperating Expense	(14,145)	(1,538)	(15,683)	(63)
Total Nonoperating Revenues (Expenses)	(17,296)	(3,235)	(20,531)	8,014
Change in Net Assets Before Contributions and Transfers	(4,779)	8,458	3,679	7,992
Capital Contributions	18,721	4,212	22,933	
Transfers In (Out):				
Transfers In	463	3,850	4,313	7,796
Transfers Out	(268)	(5,449)	(5,717)	(1,946)
Total Transfers In (Out)	195	(1,599)	(1,404)	5,850
Change In Net Assets	14,137	11,071	25,208	13,842
Net Assets - October 1 (restated)	317,458	38,990		102,035
Net Assets - September 30	$ 331,595	$ 50,061		$ 115,877
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			1,294	
Change in Net Assets of Business-Type Activities.			$ 26,502	

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

Amounts are expressed in thousands

Statement of Cash Flows
Proprietary Funds
Year-Ended September 30, 2011
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTALS	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:				
Cash Received from Customers	$ 83,994	$ 121,433	$ 205,427	$ 260,966
Cash Payments to Suppliers for Goods and Services	(21,290)	(58,125)	(79,415)	(189,472)
Cash Payments to Employees for Service	(28,071)	(47,120)	(75,191)	(55,827)
Net Cash Provided by Operating Activities	34,633	16,188	50,821	15,667
Cash Flows from Noncapital Financing Activities:				
Transfers In from Other Funds	463	3,850	4,313	7,796
Transfers Out to Other Funds	(268)	(5,449)	(5,717)	(1,946)
Due to Other Funds	(419)	1,139	720	2,765
Due from Other Funds	1,219	(4,526)	(3,307)	(1,774)
Cash Received from Other Nonoperating Revenues	17,304	450	17,754	3,437
Net Cash Provided by (Used for) Noncapital Financing Activities	18,299	(4,536)	13,763	10,278
Cash Flows from Capital and Related Financing Activities:				
Contributed Capital	16,083		16,083	
Acquisitions and Construction of Capital Assets	(50,605)	(4,588)	(55,193)	(26,977)
Proceeds from Issuance of Long-Term Debt	45,445		45,445	
Principal Payments or Refundings on Long-Term Debt	(18,170)	(935)	(19,105)	
Interest and Fees Paid on Long-Term Debt	(23,634)	(1,080)	(24,714)	
Interest Paid on Notes and Leases	(80)	(779)	(859)	(1)
Principal Payments on Notes and Leases		(7,687)	(7,687)	(103)
Proceeds from Sale of Assets	30		30	5,083
Net Cash (Used for) Capital and Related Financing Activities	(30,931)	(15,069)	(46,000)	(21,998)
Cash Flows from Investing Activities:				
Purchases of Investment Securities	(208,803)	(41,450)	(250,253)	(148,805)
Maturity of Investment Securities	200,497	44,576	245,073	144,122
Purchases of Investments for Securities Lending	10,327	3,486	13,813	11,231
Proceeds from Cash Collected for Securities Lending Cash Collateral	(10,327)	(3,486)	(13,813)	(11,231)
Investments Earnings	551	133	684	458
Net Cash Provided by (Used for) Investing Activities	(7,755)	3,259	(4,496)	(4,225)
Net Increase (Decrease) in Cash and Cash Equivalents	14,246	(158)	14,088	(278)
Cash and Cash Equivalents, October 1 (restated)	16,942	3,464	20,406	9,867
Cash and Cash Equivalents, September 30	$ 31,188	$ 3,306	$ 34,494	$ 9,589
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating Income	$ 12,517	$ 11,693	$ 24,210	$ (22)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	23,558	4,794	28,352	15,067
Changes in Assets and Liabilities:				
(Increase) in Accounts Receivable	(123)	(7,783)	(7,906)	(1,678)
Decrease in Accrued Revenues		6,704	6,704	13
(Increase) Decrease in Due from Other Governmental Agencies		6	6	(41)
(Increase) Decrease in Materials and Supplies	(106)	23	(83)	(350)
Decrease in Prepaid Expenses	17		17	195
Increase (Decrease) in Vouchers Payable	125	68	193	(2,550)
Increase in Claims Payable				2,437
Increase (Decrease) in Accounts Payable - Other	(3,815)	(1,012)	(4,827)	1,135
(Decrease) in Accrued Payroll	(741)	(1,240)	(1,981)	(1,490)
(Decrease) in Accrued Leave Payable	(104)	(485)	(589)	(743)
(Decrease) in Landfill Postclosure Liability		(12)	(12)	
Increase in Net OPEB Obligation	1,749	3,415	5,164	3,671
Increase in Pollution Remediation Liability	340		340	
Increase in Unearned Revenue	1,216	17	1,233	23
Net Cash Provided by Operating Activities	$ 34,633	$ 16,188	$ 50,821	$ 15,667
Noncash Investing, Capital and Financing Activities				
Acquisitions and Construction of Capital Assets from Debt Proceeds and Leases	$ 3,212	$ -	$ 3,212	$ -
Contributed Capital	2,638	4,212	6,850	

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

Statement of Fiduciary Net Assets/Balance Sheet
Fiduciary Funds
As of September 30, 2011
(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	$ 75,951	$ 24	$ 8,495
Security Lending Collateral	141,570		104
Investments:			
Common Stock	781,313		
U.S. Government Securities	87,460		2,106
Corporate Bonds	413,281		
Hedge Funds	249,719		
Real Estate	233,849		
Alternative	327,951		
Receivables:			
Accounts	31,625		50
Accrued Interest	4,476		1
Accrued Revenue	29		
Total Current Assets	2,347,224	24	10,756
Capital Assets:			
Machinery and Equipment	457		
Buildings	1,469		
Total Capital Assets	1,926		
Less: Accumulated Depreciation	482		
Net Capital Assets	1,444		
Total Assets	$ 2,348,668	$ 24	$ 10,756
Liabilities:			
Vouchers Payable	$ 4,296	$ -	$ 28
Accounts Payable - Other	30,838		10,624
Claims Payable	3,069		
Accrued Payroll	169		
Securities Lending Obligation	141,570		104
Total Liabilities	179,942		$ 10,756
Net Assets:			
Net Held in Trust for Pension, OPEB Benefits and Other Purposes	$ 2,168,726	$ 24	

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

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year-Ended September 30, 2011
(In Thousands)

	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUND - SAN ANTONIO LITERACY PROGRAM
Additions:		
Contributions:		
Employer	$ 91,470	$ -
Employee	44,171	
Other Contributions	624	
Total Contributions	136,265	
Investment Earnings:		
Net Increase in Fair Value of Investments	34,072	
Real Estate Income, Net	2,231	
Interest and Dividends	33,474	
Securities Lending	400	
Other Income	117	
Total Investment Earnings	70,294	
Less: Investment Expenses		
Investment Management Fees and Custodian Fees	(10,537)	
Less: Securities Lending Expenses		
Borrower Rebates and Lending Fees	(112)	
Net Investment Earnings	59,645	
Total Additions	195,910	
Deductions:		
Benefits	127,036	
Refunds of Contributions	356	
Administrative Expense	4,603	
Total Deductions	131,995	
Change in Net Assets	63,915	
Net Assets - October 1	2,104,811	24
Net Assets - September 30	$ 2,168,726	$ 24

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

Statement of Net Assets
Discretely Presented Component Units
As of September 30, 2011
(In Thousands)

	CPS ENERGY	SAN ANTONIO WATER SYSTEM	NONMAJOR COMPONENT UNITS	TOTAL
Assets:				
Current Assets:				
Unrestricted Assets:				
Cash and Cash Equivalents	$ 154,063	$ 48,393	$ 25,119	$ 227,575
Cash Collateral from Securities Lending	2,055			2,055
Investments	215,881	95,013	433	311,327
Receivables, Net:				
Notes			7,338	7,338
Accounts	197,367	47,104	6,512	250,983
Accrued Interest	1,316	1,809	153	3,278
Materials and Supplies, at Cost	146,098	5,497	176	151,771
Due from Other Governmental Agencies			12,732	12,732
Prepaid Expenses	51,235	2,151	34,311	87,697
Other Assets			1,204	1,204
Total Unrestricted Assets	768,015	199,967	87,978	1,055,960
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents	545		15,669	16,214
Investments		42,328	11,073	53,401
Receivables - Accrued Interest	3		96	99
Capital Projects Accounts:				
Cash and Cash Equivalents	227,622	41,061		268,683
Investments	138,983	249,359		388,342
Receivables - Accrued Interest	665			665
Ordinance Accounts:				
Investments	443,955			443,955
Receivables - Accrued Interest	2,091			2,091
Other Restricted Accounts:				
Cash and Cash Equivalents	25,631	275	1,243	27,149
Investments	404,204	99,200		503,404
Deferred Charges			3,700	3,700
Receivables			40,189	40,189
Receivables - Accrued Interest	3,611			3,611
Total Restricted Assets	1,247,310	432,223	71,970	1,751,503
Total Current Assets	2,015,325	632,190	159,948	2,807,463
Noncurrent Assets:				
Capital Assets:				
Land	119,301	82,055	40,071	241,427
Infrastructure			74,326	74,326
Buildings			231,359	231,359
Utility Plant in Service	10,346,687	3,693,105		14,039,792
Machinery and Equipment		152,663	8,209	160,872
Construction in Progress	671,735	415,810	31,410	1,118,955
Other Intangible Assets		206,896		206,896
Nuclear Fuel	655,508			655,508
Total Capital Assets	11,793,231	4,550,529	385,375	16,729,135
Less: Accumulated Depreciation	4,576,190	1,187,662	101,000	5,864,852
Assets Held for Resale			382	382
Net Capital Assets	7,217,041	3,362,867	284,757	10,864,665
Other Noncurrent Assets:				
Receivables			3,716	3,716
Prepaid Expenses	397,444		525,282	922,726
Net OPEB and Pension Asset	32,664			32,664
Other Noncurrent Assets	72,979	5,575	5,775	84,329
Unamortized Bond Issuance Costs		19,017		19,017
Total Noncurrent Assets	7,720,128	3,387,459	819,530	11,927,117
Total Assets	$ 9,735,453	$ 4,019,649	$ 979,478	$ 14,734,580

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

Statement of Net Assets
Discretely Presented Component Units
As of September 30, 2011
(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	$ 316,203	$ 31,645	$ 11,619	$ 359,467
Securities Lending Obligation	2,055			2,055
Unearned Revenue			8,053	8,053
Due to Other Governmental Agencies			3,408	3,408
Current Portion of Long-term Lease/Notes Payable			5,919	5,919
Current Portion of Deferred Lease/Leaseback	22,560			22,560
Current Portion of Other Payables	28,687	6,596		35,283
Total Payable from Current Unrestricted Assets	369,505	38,241	28,999	436,745
Payable from Restricted Assets:				
Accounts Payable and Other Current Liabilities		41,169		41,169
Accrued Bond and Certificate Interest		11,106	15,880	26,986
Current Portion of Bonds and Certificates	199,890	39,730	22,025	261,645
Current Portion of Commercial Paper		2,720		2,720
Total Payable from Restricted Assets	199,890	94,725	37,905	332,520
Total Current Liabilities	569,395	132,966	66,904	769,265
Noncurrent Liabilities:				
Bonds and Certificates (Net of Current Portion)	4,661,130	1,805,255	597,396	7,063,781
Commercial Paper (Net of Current Portion)	130,000	241,930		371,930
Unamortized Premium/(Discount) on Bonds and Certificates	117,262	9,268		126,530
Deferred Amount on Refunding	(45,844)	(27,909)		(73,753)
Long-Term Lease/Notes Payable (Net of Current Portion)			90,020	90,020
Deferred Lease/Leaseback (Net of Current Portion)	453,091			453,091
Net OPEB Obligation		67,302		67,302
Other Payables (Net of Current Portion)	552,478	11,776	3,717	567,971
Total Noncurrent Liabilities	5,868,117	2,107,622	691,133	8,666,872
Total Liabilities	6,437,512	2,240,588	758,037	9,436,137
Net Assets:				
Invested in Capital Assets, Net of Related Debt	2,525,771	1,549,777	190,588	4,266,136
Restricted for:				
Debt Service	531	31,222	761	32,514
Capital Projects	449,290		1,243	450,533
Operating and Other Reserves		84,643		84,643
Perpetual Care:				
Expendable			2,953	2,953
Unrestricted	322,349	113,419	25,896	461,664
Total Net Assets	$ 3,297,941	$ 1,779,061	$ 221,441	$ 5,298,443

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

Statement of Activities
Discretely Presented Component Units
Year-Ended September 30, 2011
(In Thousands)

		PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	CPS ENERGY	SAN ANTONIO WATER SYSTEM	NONMAJOR COMPONENT UNITS	TOTALS
CPS Energy	$ 2,072,849	$ 2,068,686	$ -	$ 25,107	$ 20,944	$ -	$ -	$ 20,944
San Antonio Water System	425,761	368,780		53,692		(3,289)		(3,289)
Nonmajor Component Units	124,043	117,313	2,224	9,058			4,552	4,552
Total	$ 2,622,653	$ 2,554,779	$ 2,224	$ 87,857	20,944	(3,289)	4,552	22,207
General Revenues:								
Investment Earnings					71,919	3,742	1,380	77,041
Miscellaneous							302	302
Adjustment for STP Pension Cost					(14,072)			(14,072)
Total General Revenues and Special Items					57,847	3,742	1,682	63,271
Change in Net Assets					78,791	453	6,234	85,478
Net Assets - Beginning of Fiscal Year (restated)					3,219,150	1,778,608	215,207	5,212,965
Net Assets - End of Fiscal Year					$ 3,297,941	$ 1,779,061	$ 221,441	$ 5,298,443

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, 2011

Note 1	Summary of Significant Accounting Policies	27
Note 2	Property Taxes	53
Note 3	Cash and Cash Equivalents, Securities Lending and Investments	54
Note 4	Capital Assets	80
Note 5	Receivables and Payables	85
Note 6	Long-Term Debt	89
Note 7	Commercial Paper Programs	112
Note 8	Pension and Retirement Plans	115
Note 9	Postemployment Retirement Benefits	129
Note 10	CPS Energy South Texas Project (STP)	139
Note 11	Commitments and Contingencies	147
Note 12	Pollution Remediation Obligation	160
Note 13	Risk Financing	161
Note 14	Interfund Transfers	171
Note 15	Fund Balance Classifications	173
Note 16	Deficits in Fund Balances/Net Assets	174
Note 17	Other Disclosures	175
Note 18	Prior Period Restatement	177
Note 19	Subsequent Events	178

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 are 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 were 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Reporting Entity (Continued)

The criteria outlined above were excerpted 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, 2011, published by GASB, Section-2600. 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.

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 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:

Convention Center Hotel Finance Corporation P.O. Box 839966 San Antonio, TX 78283-3966 Contact: Margaret Villegas Telephone No. (210) 207-5734	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.
Empowerment Zone Development Corporation P.O. Box 839966 San Antonio, TX 78283-3966 Contact: Brian James Telephone No. (210) 207-0150	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.
San Antonio Fire and Police Pension Fund 11603 W. Coker Loop, Ste 201 San Antonio, TX 78216 Contact: Mark Gremmer Telephone No. (210) 534-3262	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 members of the City Council 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

San Antonio Fire and Police Retiree Health Care Fund
11603 W. Coker Loop, Ste 130
San Antonio, TX 78216
Contact: James Bounds
Telephone No. (210) 494-6500

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 members of the City Council of San Antonio and the Mayor or his appointee. The City, active employees and retirees on behalf of their dependents are obligated to make all contributions to the Health Fund in accordance with rates established by state laws. Benefits are established pursuant to legislation enacted by the State with the Health Fund Board's ability to modify those benefits within certain parameters.

San Antonio Health Facilities Development Corporation
100 W. Houston St., 19th Floor
San Antonio, TX 78205
Contact: Rene Dominguez
Telephone No. (210) 207-8080

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 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
P.O. Box 15915
San Antonio, TX 78212
Contact: John Kenny
Telephone No. (210) 735-2772

The San Antonio Housing Trust Finance Corporation (HTFC) 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. HTFC is managed by a five-member board of directors, which is appointed by the City Council of San Antonio.

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Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

San Antonio Industrial Development Authority
100 W. Houston St., 19th Floor
San Antonio, TX 78205
Contact: Rene Dominguez
Telephone No. (210) 207-8080

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 a 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.

San Antonio Public Library Foundation
625 Shook
San Antonio, TX 78212
Contact: Kaye Lenox
Telephone No. (210) 225-4728

The San Antonio Public Library Foundation (the Foundation) was created in 1983 to emphasize the important role the private sector has in helping to enhance library resources and services. The Foundation works to raise funds from several sources, including individuals, corporations and charitable foundations for the sole benefit of the City's libraries and to raise awareness of reading. The library board of trustees' Chairman and two additional members of the library 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 its board of trustees, how its funds are expended, or 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, TX 78283-3966
Contact: Margaret Villegas
Telephone No. (210) 207-5734

The 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, TX 78283-3966
Contact: Margaret Villegas
Telephone No. (210) 207-5734

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.

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

HemisFair Park Area Redevelopment Corporation
c/o City of San Antonio
200 E. Market St.
San Antonio, TX 78205
Contact: Lori Houston
Telephone No. (210) 207-2129

The HemisFair Park Area Redevelopment Corporation (HPARC) was established in fiscal year 2009 in accordance with state laws for the purposes of, and to act on behalf of the City in, assisting with acquiring property, planning, developing, constructing, managing and financing projects within HemisFair Park and its surrounding area in order to promote economic development, employment, and to stimulate business, housing, tourism, and commercial activity within the City. The HPARC is governed by eleven members approved by the City Council of San Antonio. As HPARC had minimal activity through September 30, an audit is not deemed necessary in fiscal year 2011.

San Antonio Education Facilities Corporation
100 W. Houston St., 19th Floor
San Antonio, TX 78205
Contact: Rene Dominguez
Telephone No. (210) 207-8080

City of San Antonio Higher Education Authority (HEA) 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 (the Code), all to be done on behalf of the City and its duly constituted authority and instrumentality. In 2001, the HEA changed its name to San Antonio Education Facilities Corporation (EFC). The Code authorizes EFC to issue revenue bonds for these purposes on behalf of the City. These bonds are not obligations of the City. The City Council of San Antonio comprises the board of directors that govern EFC. The City reserves the right to terminate and dissolve EFC at any time.

Westside Development Corporation
2300 W. Commerce, Ste 207
San Antonio, TX 78207-3839
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 west side 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, comprised of 17 members.

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Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

San Antonio Economic Development Corporation
100 W. Houston St., 19th Floor
San Antonio, TX 78205
Contact: Rene Dominguez
Telephone No. (210) 207-8080

The San Antonio Economic Development Corporation (EDC) was established in fiscal year 2010 as a nonprofit corporation to promote, assist, and enhance economic development activities for the City. EDC was organized for the purposes of undertaking any statute-authorized projects to benefit and accomplish the public purpose of promoting economic development in the City. The affairs of EDC are managed by a board of directors appointed by the City Council of San Antonio. The City Council may remove a director at any time without cause. EDC's budget is not effective until adopted by the City Council.

San Antonio Housing Trust Public Facility Corporation
2515 Blanco Rd.
San Antonio, TX 78212
Contact: John Kenny
Telephone No. (210) 735-2772

San Antonio Housing Trust Public Facility Corporation (HTPFC) was established in fiscal year 2010 as a nonprofit corporation, organized for the purpose of assisting the City in financing, refinancing, or providing public facilities. HTPFC was created to provide a tool to develop affordable housing. HTPFC enables housing resources to be better coordinated and directed to accomplish the City's revitalization goals, and gives the City another tool to establish housing in downtown and other areas targeted for development. HTPFC's board of directors is appointed by the City Council of San Antonio, and consists of five City Council members.

The blended component unit with a different fiscal year-end from the City is the Foundation with a fiscal year-end of December 31st.

It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to Pension Fund and Health Fund would be misleading. Therefore, relevant disclosures have been included in the City's financial statements.

The City noted that EDC, HTPFC and WDC did not complete audits of their fiscal year 2011 activities in time for the City to include in its financial statements. It is management's belief that the exclusion of these component units' statements does not materially misrepresent the City's financial statements. The City restated beginning fund balance/net assets for HTPFC and EDC. WDC was not reported in fiscal year 2010 and will not be reported in fiscal year 2011's financial statements so a restatement is not needed. See Note 18 Prior Period Restatement.

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Note 1 Summary of Significant Accounting Policies (Continued)

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 as discretely presented component units.

Brooks Development Authority
1 B.D.A. Crossing, Ste 100
Brooks City-Base, TX 78235-5355
Contact: Bart Sanchez
Telephone No. (210) 678-3306

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 BDA is through the City Council having the power to remove board members.

City South Management Authority
c/o City of San Antonio
1901 S. Alamo
San Antonio, TX 78204
Contact: David Ellison
Telephone No. (210) 207-7833

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 fiscal year 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, TX 78296-1771
Contact: Gary W. Gold
Telephone No. (210) 353-2523

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.

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Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

Main Plaza Conservancy
111 Soledad, Ste 825
San Antonio, TX 78205
Contact: Jane Pauley-Flores
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 a seven-member board of directors, with one representative from both the City and Bexar County. MPC must obtain written permission from the City Manager or designee on such items as security guidelines, charges for admittance, improvements and changes to Main Plaza, and debt issuances.

Municipal Golf Association – San Antonio
2315 Avenue B
San Antonio, TX 78215
Contact: James E. Roschek
Telephone No. (210) 853-2261

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.

Urban Renewal Agency of the City of San Antonio dba Office of Urban Redevelopment of San Antonio
c/o City of San Antonio
1400 S. Flores
San Antonio, TX 78204
Contact: Scott Price
Telephone No. (210) 207-6357

The Urban Renewal Agency of the City of San Antonio dba Office of Urban Redevelopment of San Antonio (Our SA) was created under the provisions of the Urban Renewal Law of the State of Texas. OUR SA was formerly known as San Antonio Development Agency (SADA), but changed its name in fiscal year 2011. Our SA 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. Our SA receives a majority of its operating funds from the sale of land owned by the entity. Our SA is governed by a six-member board of commissioners appointed by the City Council of San Antonio.

SA Energy Acquisition Public Facility Corporation
P.O. Box 1771
San Antonio, TX 78296-1771
Contact: Gary W. Gold
Telephone No. (210) 353-2523

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.

Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

Port Authority of San Antonio dba Port San Antonio
907 Billy Mitchell Blvd,
San Antonio, TX 78226-1802
Contact: Maria Booth
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 that 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 Port's governing board at will. The Port is authorized to issue bonds to finance projects as permitted by state laws. These bonds are not obligations of the City.

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

San Antonio Housing Trust Foundation, Inc. (HTF) is a nonprofit entity incorporated in 1990 under the laws of the State of Texas. HTF was organized for the purposes of supporting charitable, educational, and scientific undertakings, and specifically for providing housing for low- and middle-income families, promoting public health, safety, convenience, and welfare, revitalizing neighborhoods and the downtown area through appropriate housing activities, 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. HTF is governed by an eleven-member board of directors appointed by the City Council of San Antonio. HTF administers the HTFC. The City has the ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations of the HTF as it authorizes a contract for the administration and management of the operations on an annual basis.

Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

San Antonio Water System
P.O. Box 2449
San Antonio, TX 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.

San Antonio Housing Trust Reinvestment Corp.
2515 Blanco Rd
San Antonio, TX 78212
Contact: John Kenny
Telephone No. (210) 735-2772

San Antonio Housing Trust Reinvestment Corporation (HTRC) was created to act as a duly constituted authority of the City and is authorized by the City Council of San Antonio to aid, assist, and act on behalf of the City to promote for the common good and general welfare of reinvestment zones. As HTRC had no activity through September 30, an audit is not deemed necessary in fiscal year 2011.

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.

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.

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.

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.

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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 nonfiduciary 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. Additionally, 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 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, 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 related to 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 proceeds of revenue sources, those proceeds' restrictions or commitments for which they are to be spent and the means by which spending activities are controlled. The City has three types of funds: governmental, proprietary, and fiduciary. 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 and 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 expenditures/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 enterprise funds.
- The Categorical Grant-In-Aid Fund, a special revenue fund, accounts for the receipt and disbursement of all federal and state grants, except for Community Development Block Grants, HUD 108 loans, HOME Investment Partnership Grants, Confiscated Property, and the American Recovery and Reinvestment Act Grants.
- The 2007 General Obligation Bonds Fund, a capital projects fund, accounts for the receipt and disbursement of $550,000 in bond sales for physical infrastructure development and improvement projects approved by a bond election held on May 12, 2007. These projects were within five areas: streets and pedestrian, drainage improvements, parks and recreation, library and public health.
- The General Obligation Project Fund, a capital projects fund, accounts for the work effort activities to construct assets primarily funded by General Obligation Bonds.

The following is a brief description of the major enterprise 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

Governmental Funds

General Fund is the primary operating fund for the City, which accounts for and reports all financial resources of the general government not accounted for and reported in another fund.

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service and capital projects. The specific revenue sources are the foundation for the fund's designation and are expected to continue to compromise a substantial portion of the inflows reported in the fund. If the fund no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources, the fund's remaining resources and activities are reported in the General Fund.

Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest as well as financial resources that are being accumulated for principal and interest maturing in future years.

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets, except those financed by enterprise funds and trust funds.

Permanent Funds are used to account for and report resources that are 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, Debt Service Fund, Special Revenue Funds (excluding HOME Program, Categorical Grant-In-Aid, HUD 108 Loan Program, Community Development Program, American Recovery and Reinvestment Act, Tax Increment Reinvestment Zone, and most Community Services Funds), and City Cemeteries.

Proprietary Funds

Enterprise Funds are used to account for and report 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 and report 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, other internal service programs, and Capital Improvements Management Services (CIMS) are accounted for in these funds.

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

Fiduciary Funds

Trust and Agency Funds are used to account for and report assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governmental units. These include the Pension Fund and Health Fund, which account for resources for pension and health care benefits for the City's firefighters and police officers. The Private Purpose Trust Fund includes 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 various deposits held. Pension Fund, Health Fund, and the Private Purpose Trust Fund are accounted for in essentially the same manner as proprietary funds. 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

Primary Government (City)

The government-wide financial statements present information about the City as a whole. Government-wide financial statements exclude both fiduciary funds and fiduciary component units. The Statement of Net Assets and the Statement of Activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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.

Program revenues are presented in the government-wide Statement of Activities. The City reports program revenues in 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.

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, 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Primary Government (City) (Continued)

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included in their balance sheets and revenues are recognized in the accounting period in which they become available and measurable. “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, investment earnings, 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. Grant funds received in advance and delinquent property taxes are recorded as deferred 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, accrued leave, debt service expenditures, claims and judgments, arbitrage rebates, postemployment obligations, and pollution remediation 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, prepaid expenditures, and deposits 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 nonspendable accounts.

Proprietary, Pension, private purpose trust, Health Funds, and governmental and business-type activities 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 accrued leave, 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)

Primary Government (City) (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 personal 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, private purpose trust and Health 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

CPS Energy’s operating revenue includes receipts from energy sales and miscellaneous revenue related to the operation of electric and gas systems.

CPS Energy revenues are recorded when earned. Customers’ meters are read and bills are prepared monthly based on billing cycles. Rate tariffs 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. Also included in unbilled revenue are the over/under-recoveries of electric and gas fuel costs and regulatory assessments.

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.

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.

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

CPS Energy (Continued)

Nonoperating revenue consists primarily of investment income, including fair market value adjustments, and grant programs. The amortization of net gains from the lease/leaseback of J.K. Spruce Unit 1 is 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 2011 were recorded net of expenses.

In fiscal year 2009, CPS Energy changed its method of accounting for the Decommissioning Trusts. 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 include 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 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 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 sheet as net costs refundable through future rates since any excess funds are payable to customers. Going forward, prolonged unfavorable economic conditions 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.

To more accurately reflect funding methodology, the Allowance for Funds Used During Construction (AFUDC) rate was modified in fiscal year 2010 to include both a debt and an equity component. The new blended rate is composed of 50.0% equity and 50.0% debt based on construction funding forecasts. Both the investment rate as well as the debt rate will continue to be reviewed quarterly to determine if any adjustments are necessary. Projects costing more than $100,000 use alternate AFUDC rates, which reflect the method by which they are funded.

Federal stimulus funds have been made available to CPS Energy as a subrecipient for a portion of the grant funds allocated to the State of Texas under the American Recovery and Reinvestment Act of 2009. Used primarily for the weatherization of qualifying homes, grant receipts are recorded as nonoperating income and are to reimburse CPS Energy for costs, recorded as operating expenses, incurred in the administration of the program. This accounting treatment results in no impact to fund net assets. Revenues associated with the stimulus programs are exempt from City payment.

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.

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

San Antonio Water System (SAWS) (Continued)

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 2011, the City implemented the following GASB Statements:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements for this Statement are effective for fiscal periods beginning after June 15, 2010. The City's implementation of this Statement in fiscal year 2011 resulted in the reclassification of funds reported within the financial statements and the new classifications of governmental fund balances. See Note 15 Fund Balance Classifications.

GASB Statement No. 59, *Financial Instruments Omnibus*, updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. This Statement provides for amendments to the National Council on Governmental Accounting Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*; GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools;* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures.* The City does not currently own any of the applicable financial instruments impacted by this Statement; therefore, there was no impact to the City's financial statements in fiscal year 2011.

Note 1 Summary of Significant Accounting Policies (Continued)

Future GASB Statement Implementations

GASB Statement No. 57, *OPEB Measurements by Agent Employees and Agent Multiple-Employer Plans*, is intended to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agency multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements for this Statement are effective for fiscal periods beginning after June 15, 2011. The City will implement this Statement in fiscal year 2012.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, improves financial reporting by addressing issues related to service concession arrangements (SCAs). The requirements of this Statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. The requirements of this Statement are effective for fiscal periods beginning after December 15, 2011. The City will implement this Statement in fiscal year 2013.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34,* improves financial reporting for a governmental financial reporting entity. The requirements of this Statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. This Statement provides amendments to Statement No. 14, *The Financial Reporting Entity,* and Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* The requirements of this Statement are effective for fiscal periods beginning after June 15, 2012. The City will implement this Statement in fiscal year 2013.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, improves financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This requirement will bring the authoritative accounting and financial reporting literature together in one place. This Statement will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, resulting in more consistent application of applicable guidance. The requirements of this Statement are effective for fiscal periods beginning after December 15, 2011. The City will implement this Statement in fiscal year 2013.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The requirements of this Statement are effective for fiscal periods beginning after December 15, 2011. The City will implement this Statement in fiscal year 2013.

Note 1 Summary of Significant Accounting Policies (Continued)

Future GASB Statement Implementations (Continued)

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. The City will implement this Statement in fiscal year 2012.

The City has not fully determined the effects that implementation of Statements No. 57 and Nos. 60 through 64 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 Federal Deposit Insurance Corporation (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, 2011, 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 Pension Fund and Health 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 Pension Fund and the Health 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Materials and Supplies and Prepaid Items (Continued)

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.

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, furniture and office equipment, and intangible assets (e.g. right of ways, easements, internally generated software). Some intangible assets may have an indefinite life. For those assets, depreciation is not calculated. 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
Infrastructure	15-100	100
Machinery and Equipment	5-20	5
Furniture and Office Equipment	5-10	5
Intangible Assets	5-40	100

During fiscal year 2011, the useful life for machinery and equipment was modified from 2-20 years to 5-20 years to more accurately reflect the actual lives of the City's assets.

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, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, any losses associated with capital asset impairments will be charged to operations, not to accumulated depreciation.

Note 1 Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation (Continued)

CPS Energy (Continued)

CPS Energy's utility plant is stated at the cost of construction, including expenditures for contracted services; direct equipment, material and labor; indirect costs, including general engineering, labor, equipment and material overheads; 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 Activities 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 3.1% for fiscal year 2011.

The estimated useful lives of capital assets were as follows:

Assets	Useful Life (Years)
Buildings and Structures	20-60
Systems and Improvements:	
Generation	18-60
Transmission and Distribution	20-55
Gas	50-65
Machinery and Equipment	4-30
Mineral Rights and Other	20-40
Nuclear Fuel	Units of Production

Capitalization thresholds contained in CPS Energy's capitalization policy for fiscal year 2011 were as follows:

Assets	Capitalization Threshold
Land, Land Improvements and Certain Easements	Capitalize All
Buildings and Building Improvements	$ 10
Computer Software:	
Purchased	10
Internally Developed	100
Enhancements/Upgrades	100
Computer Hardware	3
All Other Assets	3

Note 1 Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation (Continued)

San Antonio Water System (SAWS)

SAWS' capital assets in service are capitalized when the unit cost is greater than or equal to $5. Utility plant additions are recorded at cost, which includes materials, labor, overhead, and interest capitalized during construction. Included in capital assets are intangible assets, which consist of purchased water rights and land easements, costs associated with acquiring additional Certificates of Convenience and Necessity (CCN) related to new service areas and development costs for internally generated computer software. Overhead consists of internal costs that are clearly related to the acquisition of capital assets. 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 developers, are recorded at estimated fair market 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 and intangible assets. 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. Intangible assets not considered to have indefinite useful lives are amortized over their estimated useful life. All capital assets are periodically reviewed for potential impairment. The following table shows an estimated range of useful lives used in providing for depreciation of capital assets:

Assets	Useful Life (Years)
Structures and Improvements	25-50
Pumping and Purification Equipment	10-50
Distribution and Transmission System	25-50
Collection System	50
Treatment Facilities	25
Equipment and Machinery	5-20
Furniture and Fixtures	3-10
Computer Equipment	5
Software	3-10
Intangible Assets (Definite Useful Life)	20

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, investment earnings within the Debt Service Fund, and transfers from other funds.

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Note 1 Summary of Significant Accounting Policies (Continued)

Accrued Leave

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 both civilian and uniformed employees. The matured portion of the City's compensatory time is also accrued annually for both civilian and uniformed employees. In addition, the City accrues the matured portion of its uniformed employees' accrued sick leave, holiday, and bonus pay.

For governmental fund types, the matured current portion of the liability resulting from the accrual of these leave liabilities 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 funds.

CPS Energy

Employees earn vacation benefits based upon their employment status and years of service.

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 and required pension contributions 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, workers' compensation, unemployment compensation, and employee wellness are included.

The City is insured for property loss on a primary basis through Great American Insurance Company of New York. 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 insurance, which includes 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, 2011, 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. The City additionally determines and accrues postemployment 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 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 13, Risk Financing.

Fund Balance

Fund balances are classified as Nonspendable, Restricted, Committed, Assigned and Unassigned based on the extent to which the City is bound to observe constraints imposed on the use of the resources in the governmental funds. The classifications are as follows:

- Nonspendable – The nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.
- Restricted – The fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or it's imposed by law through enabling legislation.
- Committed – The committed fund balance includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for other purposes unless City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- Assigned – Amounts in the assigned fund balance are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund assigned amounts represent intended uses established by City Council.
- Unassigned – Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and does not have a specific purpose. In the governmental funds, other than the general fund, if expenditures incurred exceeded the amounts restricted, committed or assigned, the fund may report a negative unassigned fund balance.

Generally, the City would apply restricted, committed or assigned resources prior to unassigned resources when an expenditure is incurred for purposes for which more than one of the classification of fund balance is available. See Note 15 Fund Balance Classification.

Note 1 Summary of Significant Accounting Policies (Continued)

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 2011, general government expenditures were reduced by $8,857, resulting in increased expenditures/expenses in other governmental functions and in business-type activities in the amounts of $6,492 and $2,365, 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 and discounts are amortized over the life of the debt. Debt refundings (carrying value of the debt net of any unamortized costs of the old debt) 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 period of issuance. 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 life of the debt.

In the fund financial statements, governmental fund types recognize bond issuance costs as expenditures of the funds during the period in which proceeds of debt issuances are recorded.

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.

Note 1 Summary of Significant Accounting Policies (Continued)

Elimination of Internal Activity (Continued)

The City has four Internal Service Funds: Other Internal Services, Information Technology Services, Self-Insurance Funds, and CIMS. Other Internal Services and Information Technology Services charge user fees for requested goods or services. Building maintenance, a component of the Other Internal Services Fund, charges are based on the space occupied by departments. Information Technology Services also charges a monthly amount based on the number of personnel positions in each department. Through the tracking of these charges to the applicable departments, the net income or loss is allocated back to the user department, based on actual charges incurred.

The Self-Insurance Funds generate their revenues through fixed assessments charged to the various funds each year. The Employee Benefits Fund charges pro rata user fees to employees, and 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.

CIMS generates revenues by charging a capital administrative fee for projects worked on. The fund additionally generates revenue through reimbursements of costs incurred for various arts and general service activities. The net income or loss generated is allocated back to the user funds, based on actual charges incurred.

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.

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.

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 (note amounts are not reflected in thousands). The tax rate approved by City ordinance for the fiscal year-ended September 30, 2011, was $0.56569 per $100 taxable valuation, which means that the City has a tax margin of $1.93431 per $100 taxable valuation (note that tax rate amounts are not reflected in thousands). This could raise an additional $1,373,506 per year based on the net taxable valuation of $71,007,547 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. 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, 2011, there are 24 existing TIRZ with a total taxable captured value of $2,488,758. For fiscal year 2011, this total taxable captured value produced $8,325 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 13 years to 30 years which are anticipated to expire starting in fiscal year 2014 through fiscal year 2038. It is estimated that the City will contribute approximately $689,378 in tax increment revenues in aggregate over the life of these TIRZ projects.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments

Summary of Cash and Cash Equivalents, Securities Lending and Investments

A summary of cash and cash equivalents, securities lending and investments for the primary government (City), Pension Fund, Health 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	$ 26,283	$ 72,510	$ 3,441	$ 154,063	$ 48,393
Security Lending Collateral	14,331	133,809	7,761	2,055	
Investments	288,676	1,895,071	198,502	215,881	95,013
Total Unrestricted	329,290	2,101,390	209,704	371,999	143,406
Restricted:					
Cash and Cash Equivalents	183,446			253,798	41,336
Security Lending Collateral	31,830				
Investments	737,246			987,142	390,887
Total Restricted	952,522	-	-	1,240,940	432,223
Total Cash and Cash Equivalents, Securities Lending Collateral and Investments	$ 1,281,812	$ 2,101,390	$ 209,704	$ 1,612,939	$ 575,629

[1] Private Purpose Trust and Agency Funds, City South Management Authority, WDC and Our SA's cash, security lending collateral and investments are included in the City's pooled cash, security lending collateral 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 $8,519, Security Lending Collateral of $104, and Investments of $2,106. City South Management Authority and Our SA's assets are presented in the Discretely Presented Component Unit's Statement of Net Assets. WDC is not included in these financial statements.

[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, 2011.

[4] For the fiscal year ended December 31, 2010.

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	$ 57,377	$ 228	$ 298	$ 16,394	$ 73,371
Investments with Original Maturities of Less than Ninety Days	151,339	72,282	3,143	391,350	16,328
Cash with Other Financial Agents	779				
Petty Cash Funds	81			117	
Cash on Hand	153				30
Total Cash and Cash Equivalents	$ 209,729	$ 72,510	$ 3,441	$ 407,861	$ 89,729

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Summary of Cash and Cash Equivalents, Securities Lending 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 Mutual Funds	$ 1,172,930	$ 159,742	$ 3,143	$ 1,328,310	$ 502,228
Repurchase Agreements	1,767				
Fixed Income Securities [1]	654				
Equity Securities [1]	1,910				
Corporate Bonds		413,281		56,340	
Foreign Bonds				6,005	
Government & Agency Notes					
Common Stock		739,584	28,787	203,718	
Real Estate		197,654	36,195		
Hedge Funds		215,601	34,118		
International Equities - Common Stock			12,942		
Alternative Investment		241,491	86,460		
Total Investments	1,177,261	1,967,353	201,645	1,594,373	502,228
Less: Investments with Original Maturities of Less than Ninety Days included in Cash and Cash Equivalents	(151,339)	(72,282)	(3,143)	(391,350)	(16,328)
Total	$ 1,025,922	$ 1,895,071	$ 198,502	$ 1,203,023	$ 485,900

[1] These investments are reported under a blended component unit (the 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.

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 a similar purpose.

The City's investment portfolio is managed in accordance with the Texas Public Funds Investment Act, as amended, and its own Investment Policy. Authorized investments include demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. government agencies, commercial paper, and repurchase agreements. The City maintains in its investment portfolio U.S. Treasury securities and U.S. government agency securities with original maturities 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, 2011.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City)

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 $231 for the year-ended September 30, 2011. 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.

City Investments

	Carrying Amount [1]	Fair Value [1]	Allocation [2]	Rating [3]	WAM
U.S. Government Agency Securities	$ 850,139	$ 850,105	72.2%	AA+/A-1+	.56 years
U.S. Treasuries	172,986	173,251	14.7%	N/A	.43 years
Money Market Mutual Fund	149,574	149,574	12.7%	AAAm	1 day
Fixed Income Securities [4]	654	654	0.1%		
Equity Securities [4]	1,910	1,910	0.2%		
Repurchase Agreement	1,767	1,767	0.1%	N/A	1 day
Total City Investments	$ 1,177,030	$ 1,177,261	100.0%		

[1] The Carrying Amount and Fair Value include blended component unit investments for SIDC, TMFC, CCHFC, and the Foundation, which total $31,929.
[2] The allocation is based on fair value.
[3] Standard & Poors Rating.
[4] These investments are reported under a blended component unit (the 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 at 102.0% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the U.S. government and its agencies and obligations of the State and its municipalities, school districts, and district corporations.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

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 (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 and its agencies or U.S. government guaranteed obligations held in book entry form by the Federal Reserve Bank in the City's name.

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 U.S. government agency securities that are guaranteed to be without credit risk. To limit the City's 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, 2011, 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, and Federal Agricultural Mortgage Corporation, were rated 'AA+' (Long-term) and 'A-1+' (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 greater than 100.0% collateralized with U.S. government agency securities.

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, 2011, the U.S. government agency's 72.2% securities allocation was as follows: Federal National Mortgage Association 20.7%, Federal Home Loan Mortgage Corporation 22.8%, Federal Home Loan Bank 16.8%, Federal Agricultural Mortgage Corporation 8.5%, and Farm Federal Credit Bank 3.4%.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Securities Lending – The City engages in securities lending transactions under a contract with its lending agent, Frost National Bank. Authority to engage in these transactions is authorized under the Texas Public Funds Investment Act (the Act) and the City's Investment Policy. The City has authorized Frost National Bank to loan up to 100.0% of the par value of its investments in the Pooled Operating Funds Portfolio, consisting of agency and treasury securities, in securities lending transactions for fiscal year 2011.

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions,* provides guidance for 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, the City, through its lending agent, transfers securities to approved borrowers in exchange for collateral and simultaneously agrees to return the collateral for the same securities in the future. Cash collateral received from borrowers may be invested in 'AAA'-rated money market mutual funds or investments that adhere to the Act and the City's Investment Policy. The liquidity provided by the money market mutual funds allows for the easy return of collateral upon termination of a security loan. As of September 30, 2011, all cash collateral was invested in next day money market funds. The money market mutual funds' overnight liquidity is a shorter maturity than the term of the securities lending loan which can vary for one day to the length of the maturity of the security.

Securities lending income is earned if the investment returns on the cash collateral exceeds the rebate paid to borrowers of the securities. The income is then split with the lending agent to cover its fees based on a contractually negotiated rate (70.0% allocated to the City and 30.0% allocated to Frost National Bank). In the event that the investment income of the cash collateral does not provide a return that exceeds the rebate or if the investment incurs a loss of principal, the payment to the borrower would come from the City and the lending agent based on the negotiated rate split.

Loans that are collateralized with securities generate income when the borrower pays a loan premium for the securities borrowed. This income is split at the same rate as the earnings for cash collateral. The collateral pledged to the City for the loaned securities is held by the lending agent or the tri-party bank. These securities are not available to the City for selling or pledging unless the borrower is in default of the loan.

All 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 fair value of the collateral falls below 102.0%. Cash collateral is reported on the balance sheet as an asset, with a corresponding liability for the obligation to repay the cash collateral. 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 borrowed, the City has authorized the lending agent to seize the borrower's collateral. 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 the City from any loss due to borrower default in the event the collateral is insufficient to replace the securities.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

At September 30, 2011, the City had no custodial credit risk exposure to borrowers because the amount of collateral held by the City exceeded the amount of the securities loaned to the borrowers. There were no violations of legal or contractual provisions nor were there any borrower or lending agent default losses related to securities lending in fiscal year 2011.

As of September 30, 2011, the City had no credit risk exposure to borrowers because the amounts the City owed to borrowers exceeded the amounts the borrowers owed.

At September 30, 2011, there was a total of $931,099 in securities, or 100.0% of the market value of the City's Pooled Operating Funds Portfolio, plus accrued interest, on loan. In exchange, the City received $46,175 in cash collateral and $904,475 in securities collateral, or 102.1% of the market value of the corresponding securities loaned. Income generated from securities lending transactions, net of rebates to borrowers of $222, amounted to $2,175 in fiscal year 2011, of which 30.0% was paid as fees to the lending agent totaling $652. As WDC, Our SA and EZDC's cash is combined in the City's Pooled Operating Funds Portfolio, $14 of the cash collateral is recorded in their financial statements; along with $1 in net income generated from securities lending.

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; 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. The fair values of private equity investments are estimated by the General Partners based on consideration of various factors, including current net asset valuations of underlying investments in limited partnerships, the financial statements of investee limited partnerships prepared in accordance with GAAP, and other financial information provided by the General Partners of investee-limited partnerships. 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 $2,101,390. A summary of the Pension Fund's cash, cash equivalents, and investments can be found at the beginning of Note 3.

Credit Risk – Using Standard and Poor's rating system for fixed income securities as of September 30, 2011, 11.0% of the Pension Fund's bonds were rated 'AAA', 18.0% were rated 'AA', 8.0% were rated 'A', 11.0% were rated 'BBB', 24.0% were rated 'BB', 12.0% were rated 'B', 2.0% were rated 'CCC', and 14.0% were unrated or not rated.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

Custodial Credit Risk – 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, 2011, the Pension Fund had cash deposits held by investment managers in the amount of $854 that were uninsured and uncollateralized.

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, 2011 amount to $505,287 and have a weighted-average maturity (WAM) of 8.27 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	$ 54,023	9.40
Government Agencies	5,394	7.92
Government Bonds	70,497	14.61
Mortage-backed securities	104,943	4.15
Municipal/Provincial bonds	11,570	14.83
Non-Government Backed C.M.O.s	12,034	24.45
Pinebridge*	63,728	3.60
GoldenTree*	57,379	9.70
Ashmore*	25,345	11.22
Ashmore LFC*	35,262	3.10
Wellington Emerging Market Debt*	65,112	10.00
Total Interest Rate Sensitive Securities	$ 505,287	

*Wellington Asset Management, Ashmore and Ashmore LCF are commingled funds invested in emerging market debt and report their weighted average maturities (WAM) for the portfolio. GoldenTree is a commingled fund invested in high-yield corporate bonds, and Pinebridge is a commingled fund invested in senior bank loans. These also report their WAM for the portfolio.

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, 2011 amounted to $274,535 in equities, $114,704 in bonds and $854 in cash. Detailed as follows:

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Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

Country	Equities	Bonds	Cash	Total
Argentine Peso	$ 19	$ -	$ -	$ 19
Australian Dollar	9,016	11,645	80	20,741
Bermuda Dollar	170			170
Brazilian Real	12,516	9,239		21,755
Canadian Dollar	3,539			3,539
Swiss Franc	12,222			12,222
Chinese Yuan	6,510	74		6,584
Chilean Peso	535	651		1,186
Colombian Peso	13	1,297		1,310
Czech Republic Krona	485	2,828		3,313
Danish Krone	1,085		14	1,099
Egyptian Pound	13			13
European Union	62,142	521	11	62,674
British Pound	34,574	9,002	8	43,584
Hong Kong Dollar	7,930		31	7,961
Hungarian Forint		3,860		3,860
Indonesian Rupiah	363	5,093		5,456
Israeli New Shekel	1,112			1,112
Indian Rupee	3,313	3,004		6,317
Japanese Yen	58,388		469	58,857
South Korean Won	16,620	7,239		23,859
Cayman Dollar	189			189
Mexican Peso	4,995	12,767		17,762
Morocco Dirham	151			151
Malaysian Ringgit	1,571	7,922		9,493
Norwegian Krone	1,564	4,717	2	6,283
New Zealand Dollar	60	4,198		4,258
Pakistani Rupee	403			403
Peruvian Nuevo Sol		391		391
Philippine Peso	151	779		930
Polish Zloty	1,803	9,519		11,322
Romanian Leu		1,114		1,114
Russian Ruble	3,882	1,199		5,081
Swedish Krona	4,074		90	4,164
Singapore Dollar	3,299	3,660	16	6,975
Thai Baht	5,016	797		5,813
Turkey New Lira	2,834	2,274		5,108
Taiwan Dollar	9,718	1,456		11,174
UAE Dirham		1,593		1,593
Uruguay Peso		946		946
South African Rand	4,260	6,919	133	11,312
	$ 274,535	$ 114,704	$ 854	$ 390,093

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (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 38 days at September 30, 2011. For the year-ended September 30, 2009, the Pension Fund has recognized an unrealized loss amounting to $2,019. The loss is due to the write down of some of the fixed income assets in the investment pool. On December 16, 2009, a cash amount of $314 was due to the custodial bank to cover a portion of the loss that has been realized. The custodial bank has reimbursed the Pension Fund for $298 of this realized loss by contributing cash to the short term investment fund and by a reduction in the fees charged to the Pension Fund. The unrealized portion of the loss gradually reversed as the underlying securities regained their market value, and in March 2010, the loss was completely reversed. A gain of $1,740 was recognized in the year ended September 30, 2010, related to the reversal of the loss net of the amount of the loss that was realized.

As of September 30, 2011, the Pension Fund had lending arrangements outstanding with a total market value of $128,321, which were fully collateralized with cash and securities. Of this amount, cash collateral of $133,809 is recorded in the accompanying Statement of Fiduciary Net Assets. Net income for the year ended September 30, 2011, under the securities lending arrangement, was $283.

Cash Collateral Pool	2011
U.S. Treasury Notes	$ 8,166
U.S. Asset Backed Securities	5,186
U.S. Corporate Notes	539
U.S. Repo Agreements	26,790
U.S. Sweep Vehicle	(217)
U.S. Agencies Bonds	34,459
U.S. Certificates of Deposit	1,705
U.S. Time Deposits	5,138
International Commercial Paper	1,232
International Certificates of Deposit	16,143
International Time Deposits	27,813
International Asset Backed Securities	1,787
International Corporate Notes	2,696
International MM demand accts.	2,372
Total	$ 133,809

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

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, 2011, was approximately $12,034, 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 $215,601 as of September 30, 2011.

As of September 30, 2011, the fund held currency forward contracts as follows:

	2011	
Currency	Market Value Receivable/ (Payable)	Maturity Date
Austrialian Dollars	$ (11,554)	10/12/2011
Brazilian Real	(3,424)	11/3/2011
British Pound	9,146	12/1/2011
Canadian Dollars	4,026	11/15/2011
Chinese Yuan	2,897	1/11/2012
Chinese Yuan	2,240	1/13/2012
New Zealand Dollar	(3,712)	12/9/2011
Norwegian Krone	(4,491)	10/11/2011
Singapore Dollar	2,367	12/23/2011
Turkish Lira	4,313	11/10/2011
U.S. Dollars	4,755	10/11/2011
U.S. Dollars	12,549	10/12/2011
U.S. Dollars	3,848	11/3/2011
U.S. Dollars	(4,572)	11/10/2011
U.S. Dollars	(4,020)	11/15/2011
U.S. Dollars	(9,601)	12/1/2011
U.S. Dollars	4,028	12/9/2011
U.S. Dollars	(2,420)	12/23/2011
U.S. Dollars	(2,897)	1/11/2012
U.S. Dollars	(2,217)	1/13/2012
Total	$ 1,261	

Fire and Police Retiree Health Care Fund

The Fire and Police Retiree Health Care Fund (Health Fund) board of trustees administers investments of the Health 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.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

Alternative investments are substantially held in the form of nonmarketable limited partnerships interests, private real estate investment trusts, and open-ended hedge funds. These investments are subject to the terms of the respective partnerships' or other types of governing documents which may limit the Health Fund's withdrawal to specified times and conditions and restrict the transferability of the Health Fund's interest. The fair valuation of these investments is based on net asset values as set by the partnerships' fund managers or general partners. These net asset values may differ from the value that would have been used had a ready market for the investments existed. 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 Fund's assets are invested as authorized by the Investment Policy. The Health Fund utilizes an investment consultant that makes recommendations to the Health Fund as to the appropriate target portfolio weightings among the major asset classes (e.g. stocks, mutual funds, limited liability partnerships, cash, etc.) within the Health Fund. Additionally, the Health 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 Fund's assets are held by a custodial bank, Frost National Bank of San Antonio, Texas.

Investments authorized by the Health 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 such as corporate bonds and certificates of deposit; commercial paper; private equity; and alternative investments, including real estate, absolute return hedge funds, and natural resources. The cash portion of the Health Fund will be invested in a short-term money market mutual fund administered by the custodian bank.

The fair value of the Health Fund's cash and investments at September 30, 2011 is $209,704. A summary of the Health Fund's cash, cash equivalents, and investments can be found at the beginning of Note 3.

Custodial Credit Risk (Deposits) – The Health 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, 2011, 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 Fund holds in demand accounts are exposed to custodial credit risk as of September 30, 2011.

The Health Fund does not have deposit or investment policies related to custodial credit risk as of September 30, 2011. The Health 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, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

Custodial Credit Risk (Investments) – The custodial credit risk for investments is the risk that, in the event of failure of the counterparty to an investment transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At September 30, 2011, the Health Fund's common stock investments are held at Frost National Bank's third-party custodian, Bank of New York. Since the investments are maintained separately from the bank's assets, in the event of failure of the bank, the investments held in trust would not be affected.

Credit Risk – In accordance with the Health Fund's Investment Policy, investments in money market mutual fund must be rated at least 'A-2' by Standard and Poor's (S & P). The Health Fund's investments' rating from S & P was 'AAAm' for the money market mutual fund.

Concentration of Credit Risk – The Health Fund's Investment Policy to diversify equity investments 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. For hedge funds, no individual hedge fund investment manager will comprise more than 15.0% of the total hedge funds portfolio. In multiple strategy portfolios, no single hedge fund strategy will comprise more than 35.0% of the total portfolio.

Following are the investments that represent 5.0% or more of the total investments, by issuer and amount:

Issuer	Amount	% of Total Investment
M. Kingdome Offshore, Ltd.	$ 12,859	6.5%
Clovis Capital Partners Institutional, LP	13,274	6.7%
Portfolio Advisers Privet Equity Fund IV	10,679	5.4%
Catalyst Fund Limited Partnership II	10,393	5.2%

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Health Fund's Investment Policy limits the maturities of money market mutual funds to two years at time of purchase. At September 30, 2011, the money market fund weighted average to maturity is 34 days.

Securities Lending – The Health Fund participates in a securities lending program as a means to augment income. The program is operated in accordance with a contract between the Health Fund and its custodian bank, Frost National Bank, and compliance with State statutes and Health Fund policies. Securities are lent to select borrowers for a fee. It is the policy of the Health 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. Collateral is maintained by the custodian bank and 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 Fund may suffer a loss. Management of the Health Fund considers the possibility of such a loss to be remote.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

At September 30, 2011, the Health Fund was not exposed to credit risk to borrowers because the amounts owed to borrowers exceeded the amount 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 2011.

At September 30, 2011, there was a total of $7,306 in securities out on loan to borrowers. In exchange, the Health Fund received $7,761 in securities collateral invested in open-ended money market type mutual funds, or 106.0% of the market value of the corresponding securities loaned.

Subscribed Capital Commitments – As of September 30, 2011, the Fund had non-binding commitments to invest capital in thirteen 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 $96,272. As of September 30, 2011, $24,674 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/dealer information. 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, Junior Lien Obligations and Tax-Exempt Commercial Paper, the Flexible Rate Revolving Note 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 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, 2011 were either insured by federal depository insurance or collateralized by banks. While not entirely collateralized as stipulated in CPS Energy's Investment Policy, all noninterest-bearing cash deposits were fully insured by the FDIC in accordance with the Dodd-Frank financial reform legislation that was enacted in the summer of 2010. CPS Energy's Investment Policy was revised effective March 1, 2011, to allow for a reduction in collateral to the extent of FDIC coverage. 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 the Federal Reserve Bank of New York in CPS Energy's name.

Note 3 Cash and Cash Equivalents, Securities Lending 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 Decommissioning Trusts. Consistent with other investments in the Decommissioning 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, 2011
Cash and Cash Equivalents:	
Petty Cash funds on hand	$ 117
Deposits with financial institutions:	
Unrestricted CPS Energy Deposits	16,111
Restricted CPS Energy Deposits:	
Debt Service	213
Project Warm	70
Investments with original maturities of less than 90 days:	
CPS Energy unrestricted (current)	137,835
CPS Energy restricted (noncurrent)	235,467
Decommissioning Trusts - restricted (noncurrent)	18,048
Total Cash and Cash Equivalents	407,861
CPS Energy - Securities Lending Cash Collateral	2,055
Total Cash, Cash Equivalents and Securities Lending Cash Collateral	$ 409,916

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 fiscal year. The Decommissioning Trusts are reported on a calendar-year basis.

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Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

Summary of Cash and Cash Equivalents, Along with Current and Noncurrent Investments

	January 31, 2011
Cash and Cash Equivalents:	
CPS Energy unrestricted and restricted	$ 389,813
Decommissioning Trusts - restricted	18,048
Total Cash and Cash Equivalents	407,861
Gross Investments - current and noncurrent:	
CPS Energy - unrestricted and restricted	1,172,121
Decommissioning Trusts - restricted	422,252
Total Gross Investments	1,594,373
Investments with original maturities of less than 90 days also included in Cash Equivalents:	
CPS Energy unrestricted and restricted	(373,302)
Decommissioning Trusts - restricted	(18,048)
Total Investments also included in Cash Equivalents	(391,350)
Net Current and Noncurrent Investments	1,203,023
Total Cash, Cash Equivalents and Investments	$ 1,610,884

CPS Energy's 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 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, as well as PUCT and Nuclear Regulatory Commission (NCR) guidelines. Allowable investments for the Decommissioning Trusts include those directly permissible for CPS Energy, as well as equities and corporate bonds (including international securities traded in U.S. dollars and on U.S. stock exchanges). In accordance with the Decommissioning Trusts' Investment Policy, total investments can include a maximum of 60.0% equity securities.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

Permissible Investments		
Investment Description	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	✓	✓

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Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

Cash, Cash Equivalents and Investments by Fund	January 31, 2011
Unrestricted	
Cash and Cash Equivalents	$ 154,063
Investments	215,881
Total Unrestricted (current)	369,944
Restricted	
Debt Service	
Cash and Cash Equivalents	545
Total Debt Service	545
Capital Projects	
Cash and Cash Equivalents	227,622
Investments	138,983
Total Capital Projects	366,605
Ordinance	
Investments	443,955
Total Ordinance	443,955
Other	
Project Warm	
Cash and Cash Equivalents	7,583
Total Project Warm	7,583
Decommissioning Trusts	
Cash and Cash Equivalents	18,048
Investments	404,204
Total Decommissioning Trusts	422,252
Total Other	429,835
Total Restricted	
Cash and Cash Equivalents	253,798
Investments	987,142
Total Restricted (noncurrent)	1,240,940
Total Cash, Cash Equivalents and Investments (unrestricted and restricted)	$ 1,610,884

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. Equity investments are exposed to 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. Due to market fluctuations, it is possible that substantial changes in the market value of investments could occur after the end of the reporting period.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

CPS Energy's 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 PFIA, 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.

Summary of Investments by Organizational Structure and Type	January 31, 2011
CPS Energy Investments	
U.S. Treasury, Government Agencies and Money Market Funds	$ 1,172,121
Decommissioning Trusts	
U.S. Treasury, Government Agencies and Money Market Funds	156,189
Corporate Bonds	56,340
Foreign Bonds	6,005
Subtotal	218,534
Common Stock	203,718
Total Decommissioning Trusts	422,252
Grand Total - all Investments	$ 1,594,373

In accordance with State law, the Decommissioning Trusts' Investment Policy allows for investment in additional types of securities, such as corporate bonds and equity securities. The policy provides 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 Policy continues 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.

CPS Energy Investments – In accordance with GASB Statement No. 40, the following tables address credit risk and interest rate risk exposure by investment type using the weighted-average maturity (WAM) method. Since CPS Energy does not hold foreign instruments in its direct investments (those held by CPS Energy), foreign currency risk is not applicable.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

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 federal agency to 50.0% and investment in any other issuer of debt securities to 5.0% of the total fixed-income portfolio. Additionally, certificates of deposit are limited to 50.0% per issuer.

Investment Type	Carrying Value	Market Value	Allocation	Weighted-Average Maturity (Years)
U.S. Agencies:				
Federal Home Loan Mortgage Corp.	$ 105,850	$ 105,879	9.0%	4.1
Federal National Mortgage Assn.	292,763	292,750	25.0%	2.6
Federal Home Loan Bank	284,297	284,335	24.3%	0.8
Federal Farm Credit Bank	19,981	19,981	1.7%	3.3
Federal Agriculture Mortgage Corp.	7,159	7,165	0.6%	0.5
Municipal Bonds	58,810	58,806	5.0%	1.8
Certificates of Deposit	10,000	10,000	0.9%	0.7
Commercial Paper	19,969	19,969	1.7%	0.5
Repurchase Agreement	181,904	181,904	15.5%	N/A
Money Market Mutual Funds	191,388	191,388	16.3%	N/A
Total Fixed-Income Investments	1,172,121	1,172,177	100.0%	1.6
Cash Collateral - Securities Lending	2,055	2,055		
Total Fixed-Income Portfolio	$ 1,174,176	$ 1,174,232		

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, 2011, CPS Energy held no direct investments with a credit rating below 'A1'.

Credit Rating	Carrying Value	Market Value	Allocation
AAA	$ 914,269	$ 914,326	77.9%
Aaa	7,800	7,800	0.7%
SP-1+	2,805	2,805	0.2%
AA+	4,453	4,453	0.4%
AA-	2,668	2,668	0.2%
AA	25,107	25,105	2.1%
Aa1	1,876	1,876	0.2%
Aa2	650	650	0.1%
Aa3	2,676	2,676	0.2%
A1	19,968	19,969	1.7%
Certicates of Deposits (not rated)	191,904	191,904	16.3%
Total Fixed-Income Investments	$ 1,174,176	$ 1,174,232	100.0%

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

Decommissioning Trust Investments – As mentioned above, the Decommissioning Trusts 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, 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.

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. 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. 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 Barclays Capital Aggregate Index, which is 5.0 for 2010.

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, 2010, total nongovernment-sponsored (corporate and foreign) issuers amounted to 36.4% of the 28% Decommissioning Trust and 16.8% of the 12% Decommissioning Trust.

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Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

The following tables list the fixed-income investment holdings by type:

	28% Interest			12% Interest		
Investment Type	Market Value [1]	Allocation	Weighted-Average Duration (Years)	Market Value	Allocation	Weighted-Average Duration (Years)
U.S. Treasuries	$ 16,061	10.6%	4.8	$ 13,868	32.2%	4.9
U.S. Agencies:						
Federal National Mortgage Assn.	34,281	22.6%	2.8	6,812	15.8%	3.2
Federal Home Loan Mortgage Corp.	15,894	10.5%	3.1	4,902	11.4%	3.0
Small Business Administration	3,774	2.5%	5.9			
Government National Mortgage Assn.	2,802	1.9%	3.5	3,660	8.5%	6.5
Municipal Bonds - Texas	496	0.3%	6.0	674	1.6%	12.8
Municipal Bonds - Other States	7,407	4.9%	9.7	3,375	7.9%	10.5
Corporate Bonds	49,131	32.4%	6.2	7,209	16.8%	5.6
Foreign Bonds	6,005	4.0%	5.3			
AIM Money Market	15,540	10.3%	N/A	2,508	5.8%	N/A
Total Fixed-income Investments	$ 151,391	100.0%	4.9	$ 43,008	100.0%	5.3
Cash Collateral - Securities Lending	17,230			6,905		
Total Portfolio	$ 168,621			$ 49,913		

[1] Market Value and carrying value are the same amount.

Credit Risk – In accordance with the Investment Policy, 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. If a security's rating falls below the minimum investment grade rating of 'BBB-' after it has been purchased, the investment policy allows investment managers to continue to hold the security as long as the total fair value of securities rated below investment grade does not exceed 5.0% of the total fixed-income portfolio. As noted in the following tables, which list the fixed-income holdings by credit rating, investments with a credit rating below 'BBB-' totaled 1.6% and 0.8% of the fixed-income portfolio for the 28% Trust and the 12% Trust, respectively. Standard & Poor's (S&P) ratings are provided when available; if no S&P rating is available, the Moody's rating is listed.

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Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

The following table lists the fixed-income investment holdings by credit rating:

Credit Rating	28% Interest		12% Interest	
	Market Value [1]	Allocation	Market Value [1]	Allocation
U.S. Treasuries	$ 16,061	9.6%	$ 13,868	27.8%
AAA	99,797	59.2%	26,172	52.4%
Aaa	1,051	0.6%		
AA+	2,189	1.3%	1,005	2.0%
AA	1,322	0.8%	1,648	3.3%
Aa1	121	0.1%		
Aa2	126	0.1%		
AA-	3,055	1.8%	846	1.7%
Aa3	82	0.1%		
A+	3,782	2.2%	492	1.0%
A	7,926	4.7%	1,316	2.6%
A-	10,510	6.2%	2,768	5.6%
A1	136	0.1%		
BBB+	6,469	3.8%	982	2.0%
BBB	6,548	3.9%	397	0.8%
BBB-	6,624	3.9%		
BB+	1,501	0.9%		
BB-	217	0.1%	419	0.8%
B	58	0.0%		
B-	47	0.0%		
CCC	477	0.3%		
CC	5	0.0%		
Not rated	517	0.3%		
Total Fixed-income Portfolio	$ 168,621	100.0%	$ 49,913	100.0%

[1] Market Value and carrying value are the same amount.

Foreign Currency Risk – With the exception of dedicated foreign-equity portfolios, all investments authorized for purchase by the Decommissioning Trusts are U.S. dollars. This reduces the potential foreign currency risk exposure to the portfolio. All foreign bonds outstanding were issued in the U.S. and amounted to $6,005 as of December 31, 2010. In accordance with the Investment Policy, investments in international portfolios are limited to international commingled funds, American Depository Receipts and Exchange Traded Funds that are diversified across countries and industries. The international portfolio will be limited to 20.0% of the total equity portfolio. At December 31, 2010, total foreign equity securities amounted to 13.7% of the 28% Trust's equity portfolio. There were no foreign equity securities held by the 12% Trust at December 31, 2010.

Securities Lending – CPS Energy and the Decommissioning Trusts engage in securities lending transactions 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.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

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 entirely in money market mutual funds. The liquidity provided by the money market mutual funds allows for the easy return of collateral at the termination of a security loan.

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.

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 to repay the cash collateral. 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, 2011, neither CPS Energy nor the Decommissioning Trusts had any credit risk exposure to borrowers because the amounts CPS Energy and 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 related to securities lending in fiscal year 2011.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

Direct Investments – At January 31, 2011, there was a total of $488,222 in securities, or 42.2% of CPS Energy's direct investments, out on loan to brokers/dealers. In exchange, CPS Energy received $2,055 in cash collateral and $496,724 in securities collateral, or 102.2% of the market value of the corresponding securities loaned. Income generated from securities lending transactions amounted to $1,238 in fiscal year 2011, of which 30.0% was paid as fees to the lending agent totaling $371.

Decommissioning Trusts – For the 28% Decommissioning Trust at December 31, 2010, there was a total of $25,618 in securities, or 8.6% of the Decommissioning Trust's investments, out on loan to brokers/dealers. In exchange, the Trust received $17,230 in cash collateral and $8,890 in securities collateral, or a total of 102.0% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for the Decommissioning Trust amounted to $27 in calendar year 2010, of which 30.0% was paid as fees to the lending agent totaling $8.

For the 12% Decommissioning Trust at December 31, 2010, there was a total of $12,151 in securities, or 12.2% of the Decommissioning Trust's investments, out on loan to brokers/dealers. In exchange, the Trust received $6,905 in cash collateral and $5,459 in securities collateral, or a total of 101.8% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for this Decommissioning Trust amounted to $15 in calendar year 2010, of which 30.0% was paid as fees to the lending agent totaling $5.

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 are reported at 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 in demand and savings accounts or certificates of deposit at Frost National Bank, 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, 2010, the collateral pledged is being held by the Federal Reserve Bank of Boston under SAWS' name so SAWS incurs no custodial credit risk. As of December 31, 2010, the bank balance of demand and savings account was $31,851 and the reported amount was $29,401 which included $30 of cash on hand, and certificates of deposits totaled $44,000.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

San Antonio Water System (SAWS) (Continued)

Custodial Credit Risk (Investment) – All investments, with the exception of those held in escrow, are securities issued by agencies of the United States and are held in safekeeping by SAWS' depository bank, Frost National Bank and registered as accounts of SAWS. Funds held in escrow are Money Market Funds managed by Frost National Bank or Wells Fargo Bank and are invested in securities issued by the U.S. government or by U.S. agencies.

As of December 31, 2010, SAWS had the following investments and maturities:

Investments Maturities (in Days)						
Investment Type	90 Days or Less	91 to 180	181 to 365	Greater than 365	Fair Value	Reported
U.S. Agency Discount Notes	$ 49,159	$ 90,748	$ 22,470	$ -	$ 162,377	$ 162,377
U.S. Agency Coupon Notes	123,043	116,861	69,748	13,839	323,491	323,523
Money Market Funds:						
Frost National Bank	274				274	274
Wells Fargo Bank	16,054				16,054	16,054
	$ 188,530	$ 207,609	$ 92,218	$ 13,839	$ 502,196	$ 502,228
Percentage of Portfolio	37.5%	41.3%	18.4%	2.8%	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, 97.2% of SAWS' investment portfolio is invested in maturities less than one year.

Credit Risk – In accordance with its Investment Policy, 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, 2010, SAWS held no direct investments with a credit rating below 'AAA'.

Credit Rating	Carrying Value	Market Value	Allocation	Investment Policy Limit
December 31, 2010				
AAA	$ 502,228	$ 502,196	100.0%	Max. = 100.0%
Total Portfolio	$ 502,228	$ 502,196	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, 2010, SAWS has invested more than 5.0% of its investments in the following government-sponsored entities in the form of discount or coupon notes: 37.0% in Federal Home Loan Bank, 20.0% in Federal National Mortgage Association, and 32.0% in Federal Home Loan Mortgage Corporation.

Note 3 Cash and Cash Equivalents, Securities Lending 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 cash equivalents and investments in the balance sheet for 2010:

	December 31, 2010
Reported amounts in Note for:	
Deposits, including certificates of deposit	$ 73,401
Investments	502,228
Total Deposits and Investments	$ 575,629
Totals for Balance Sheet:	
Cash and Cash Equivalents:	
Unrestricted cash and cash equivalents	$ 48,393
Restricted cash and cash equivalents:	
Capital Projects Accounts	41,061
Other Restricted Accounts:	
Reserve Fund	275
Total Cash and Cash Equivalents	$ 89,729
Investments:	
Unrestricted current investments	$ 95,013
Restricted current investments:	
Debt Service Accounts	42,328
Capital Project Accounts	32,570
Other Restricted Accounts:	
Operating reserve	33,955
Customer deposits	8,599
Total Other Restricted Accounts	42,554
Total Current Investments	$ 212,465
Restricted noncurrent investments:	
Capital Project Accounts	$ 216,789
Other Restricted Accounts:	
Reserve Fund	56,646
Total Cash, Cash Equivalents and Investments	$ 575,629

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Note 4 Capital Assets

Primary Government (City)

In November 2003, 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 $2,956 were identified and reduced in capital assets for governmental activities. Capital asset activity for governmental activities, to include Internal Service Funds, for the period-ended September 30, 2011 is as follows:

Capital Assets - Governmental Activities

Governmental Activities	Beginning Balance (Restated)	Increases	Decreases	Transfers	Ending Balance
Non-Depreciable Assets:					
Land	$ 1,364,382	$ 3,849	$ -	$ 3,058	$ 1,371,289
Intangible Assets	81,809	152			81,961
Construction in Progress	479,769	268,730	(6,615)	(204,316)	537,568
Other Assets	500	75			575
Total Non-Depreciable Assets	1,926,460	272,806	(6,615)	(201,258)	1,991,393
Depreciable Assets:					
Buildings	732,768		(1,639)	304	731,433
Improvements	373,015	3,060		108,802	484,877
Infrastructure	2,380,302	351		89,629	2,470,282
Machinery and Equipment	388,565	37,616	(14,616)	111	411,676
Intangible Assets	120	482		2,412	3,014
Total Depreciable Assets	3,874,770	41,509	(16,255)	201,258	4,101,282
Accumulated Depreciation:					
Buildings	(278,351)	(20,121)	1,639		(296,833)
Improvements	(100,044)	(25,230)			(125,274)
Infrastructure	(1,563,133)	(59,563)			(1,622,696)
Machinery and Equipment	(225,154)	(28,846)	13,098		(240,902)
Intangible Assets	(11)	(292)			(303)
Total Accumulated Depreciation	(2,166,693)	(134,052)	14,737		(2,286,008)
Total Depreciable Assets, net	1,708,077	(92,543)	(1,518)	201,258	1,815,274
Total Capital Assets, net	$ 3,634,537	$ 180,263	$ (8,133)	$ -	$ 3,806,667

Depreciation expense was charged to governmental functions as follows:	
General Government	$ 15,888
Public Safety	8,282
Public Works	76,079
Health Services	737
Sanitation	101
Welfare	919
Culture and Recreation	12,187
Convention and Tourism	4,611
Urban Redevelopment and Housing	167
Economic Development and Opportunity	14
Depreciation on Capital Assets Held by City's Internal Service Funds are Charged to Various Functions Based on Asset Usage	15,067
Total Depreciation Expense for Governmental Activities	$ 134,052

The capital assets of Internal Service Funds are included in governmental activities. In fiscal year 2011, Internal Service Funds capital assets increased by $26,952, and decreased by $11,337, resulting in an ending balance of $180,154. Depreciation expense of $15,067 resulted in an ending accumulated depreciation balance of $112,206, to arrive at net book value of $67,948.

Note 4 Capital Assets (Continued)

Primary Government (City) (Continued)

The City capitalizes interest incurred on construction projects, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities That Use Proprietary Fund Accounting*. In fiscal year 2011, the City capitalized construction period interest for the Airport System in the amount of $1,094. Interest costs for nonmajor enterprise funds were not capitalized as the construction in progress in these funds during fiscal year 2011 were funded by capital contributions from governmental funds. Impairments of $7,306 were identified and reduced in capital assets for business-type activities. Capital asset activity for business-type activities for the year-ended September 30, 2011, is as follows:

Capital Assets - Business-Type Activities

	Beginning Balance (Restated)	Increases	Decreases	Transfers	Ending Balance
Non-Depreciable Assets:					
Land:					
Airport System	$ 5,322	$ -	$ -	$ -	$ 5,322
Nonmajor Enterprise Funds	9,063				9,063
Total Land	14,385				14,385
Construction in Progress:					
Airport System	317,647	38,260	(3,025)	(302,671)	50,211
Nonmajor Enterprise Funds	737	5,694		(737)	5,694
Total Construction in Progress	318,384	43,954	(3,025)	(303,408)	55,905
Total Non-Depreciable Assets	332,769	43,954	(3,025)	(303,408)	70,290
Depreciable Assets:					
Buildings:					
Airport System	200,673		(5,712)	164,178	359,139
Nonmajor Enterprise Funds	26,683				26,683
Total Buildings	227,356		(5,712)	164,178	385,822
Improvements:					
Airport System	225,666	2,728	(809)	138,228	365,813
Nonmajor Enterprise Funds	13,738			737	14,475
Total Improvements	239,404	2,728	(809)	138,965	380,288
Machinery and Equipment:					
Airport System	14,603	637	(1,114)	265	14,391
Nonmajor Enterprise Funds	29,987	2,124	(457)		31,654
Total Machinery and Equipment	44,590	2,761	(1,571)	265	46,045
Total Depreciable Assets	511,350	5,489	(8,092)	303,408	812,155
Accumulated Depreciation:					
Buildings:					
Airport System	(77,834)	(9,762)	4,111		(83,485)
Nonmajor Enterprise Funds	(10,168)	(720)			(10,888)
Total Buildings	(88,002)	(10,482)	4,111		(94,373)
Improvements:					
Airport System	(101,928)	(12,748)	725		(113,951)
Nonmajor Enterprise Funds	(3,104)	(591)			(3,695)
Total Improvements	(105,032)	(13,339)	725		(117,646)
Machinery and Equipment:					
Airport System	(10,938)	(1,048)	1,037		(10,949)
Nonmajor Enterprise Funds	(10,022)	(3,483)	123		(13,382)
Total Machinery and Equipment	(20,960)	(4,531)	1,160		(24,331)
Total Accumulated Depreciation	(213,994)	(28,352)	5,996		(236,350)
Total Depreciable Assets, net	297,356	(22,863)	(2,096)	303,408	575,805
Total Capital Assets, net	$ 630,125	$ 21,091	$ (5,121)	$ -	$ 646,095

Note 4 Capital Assets (Continued)

CPS Energy

CPS Energy's plant-in service includes four power stations, which are solely owned and operated by CPS Energy. In total, there are 24 generating units at these four power stations—four are coal-fired and 20 are gas-fired. The following is a list of power stations and relative generating units:

Power Station	Generating Units	Type	Power Station	Generating Units	Type
Calaveras	6	Coal (4)/Gas (2)	Leon Creek	6	Gas
Braunig	8	Gas	Tuttle	4 *	Gas

* Included as a part of the 20 gas generating units are W.B. Tuttle Unit 2, which is currently not available for use, and W.B. Tuttle Units 1, 3 and 4, which were mothballed in FY 2010. All W.B. Tuttle units are fully depreciated.

In fiscal year 2011, CPS Energy brought new generation facilities on-line, J.K. Spruce Unit 2 (Spruce 2) and the four V.H. Braunig (VHB) peaking units. Construction on Spruce 2 was started on March 21, 2006. The plant went into commercial operation on May 28, 2010. Spruce 2 is a 750-megawatt unit and is the largest of the coal units at Calaveras Lake. The plant is equipped with current emissions-control technology. Construction of the VHB peaking units project began on September 10, 2008. The peaking units went into commercial operation on December 1, 2010. The peaking units will provide an additional 186 megawatts of capacity to the CPS Energy generation portfolio to meet customer demand during periods of peak load and provide quick response capacity as necessary. These facilities were tested prior to commercial operation, and the power that was produced during this testing period is referred to as precommercial generation. In accordance with Federal Energy Regulatory Commission guidance, revenues and expenses associated with precommercial generation were capitalized as components of construction costs.

Other notable capital assets in electric and gas plant include supporting coal yard assets, a fleet of railcars, a transmission network for the movement of electric power from the generating stations to substations, electric and gas distribution systems, and metering.

Included in the general plant are: the Energy Management Center; the main office complex; the construction and customer service centers; the Villita Assembly Building; and a fleet of automobiles, trucks, and work equipment. Intangible assets consist of easements and software.

Impairments – No capital asset impairments were identified for fiscal year 2011.

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; the City of Austin; and NRG South Texas LLP, a wholly owned subsidiary of NRG Energy, Inc. CPS Energy's 40.0% interest in STP Units 1 and 2 is included in plant assets. See Note 10 for more information on CPS Energy's South Texas Project.

Note 4 Capital Assets (Continued)

CPS Energy (Continued)

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 generation units to be constructed in Bay City, Texas, on a site where STP Units 1 and 2 currently operate. These generation units are referred to as STP Units 3 and 4. At January 31, 2010, CPS Energy held a 50.0% interest in the development. As a result of a litigation settlement with Nuclear Innovation North America, Inc. (NINA), CPS Energy's partner in the project, CPS Energy's ownership in STP Units 3 and 4 was reduced from 50.0% to 7.6% effective March 1, 2010. Excluding AFUDC of $21,000, project costs incurred by CPS Energy to date of $370,000 are included in construction in progress. For more detailed information on project development and legal issues associated with STP Units 3 and 4, see Note 10 CPS Energy South Texas Project (STP).

STP Capital Investment (40.0% share), Net	January 31, 2010
STP Capital Assets, net	
Construction in Progress	$ 415,976
Land	5,701
Electric and general plant	1,177,292
Nuclear fuel	82,572
Total STP Capital Assets, net	$ 1,681,541
Total CPS Energy Capital Assets, net	$ 7,217,041
STP Capital Investments as a percentage of total CPS Energy Capital Assets, net	23.3%

The following tables provide more detailed information on the activity of CPS Energy's net capital assets as presented on the balance sheet, including capital asset activity for fiscal year 2011:

Capital Assets - CPS Energy	Beginning Balance	Additions/ Increases	Transfers In/(Out)	Reductions/ Decreases	Ending Balance
Non-Depreciable Assets:					
Land	$ 107,150	$ -	$ 12,231	$ (80)	$ 119,301
Construction in Progress	1,893,686	436,072	(1,658,023)		671,735
Total Non-Depreciable Assets	2,000,836	436,072	(1,645,792)	(80)	791,036
Depreciable Capital Assets:					
Utility Plant in Service:					
Electric Plant	7,318,256	36,247	1,550,519	(26,506)	8,878,516
Gas Plant	662,763	4,486	26,130	(31)	693,348
General Plant	716,339	10,784	69,143	(21,443)	774,823
Nuclear Fuel	643,545	11,963			655,508
Total Depreciable Capital Assets	9,340,903	63,480	1,645,792	(47,980)	11,002,195
Accumulated Depreciation					
Depletion and Amortization:					
Utility Plant in Service:					
Electric Plant	(3,227,287)	(255,783)		38,187	(3,444,883)
Gas Plant	(244,467)	(15,047)		378	(259,136)
General Plant	(269,339)	(51,021)		21,125	(299,235)
Nuclear Fuel	(536,453)	(36,483)			(572,936)
Total Accumulated Depreciation Depletion and Amortization	(4,277,546)	(358,334)		59,690	(4,576,190)
Total Capital Assets, net	$ 7,064,193	$ 141,218	$ -	$ 11,630	$ 7,217,041

Note 4 Capital Assets (Continued)

CPS Energy (Continued)

Cash flow information – Cash paid for additions and net removal costs was $514,600. This included $487,600 in additions to construction in progress and electric, gas and general plant, partially offset by $34,400 in AFUDC and $7,300 in donated assets.

Other – The increases in electric plant included new substations and distribution infrastructure. Depreciation and amortization of utility plant in service totaled $321,851, which included $146,200 related to intangible assets.

San Antonio Water System (SAWS)

SAWS' 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, 2010, interest capitalized was $7,578. 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	$ 78,814	$ -	$ 3,307	$ 66	$ 82,055
Acquisition of Water Rights	156,704		48,475		205,179
Other Intangible Assets	388	1,329			1,717
Construction in Progress	427,971	300,461	(299,348)	13,274	415,810
Total Non-Depreciable Assets	663,877	301,790	(247,566)	13,340	704,761
Depreciable Assets:					
Utility Plant in Service:					
Structures and Improvements	444,000	79	41,375		485,454
Pumping and Purification	126,234	254	16,699		143,187
Distribution and Transmission System	1,508,547	1,101	110,646	6	1,620,288
Treatment Facilities	1,424,980		68,127	48,931	1,444,176
Machinery and Equipment:					
Machinery and Equipment	102,624	4,348	8,305	8,101	107,176
Furniture and Fixtures	5,048		7	3	5,052
Computer Equipment	21,451	2,276	438	3,608	20,557
Software	17,735	187	1,969	13	19,878
Total Depreciable Assets	3,650,619	8,245	247,566	60,662	3,845,768
Accumulated Depreciation:					
Utility Plant in Service:					
Structures and Improvements	(99,958)	(9,908)			(109,866)
Pumping and Purification	(27,183)	(3,453)			(30,636)
Distribution and Transmission System	(412,334)	(35,750)		(48)	(448,036)
Treatment Facilities	(519,499)	(46,352)		(48,954)	(516,897)
Machinery and Equipment:					
Machinery and Equipment	(50,330)	(8,116)		(7,694)	(50,752)
Furniture and Fixtures	(3,888)	(239)		(3)	(4,124)
Computer Equipment	(15,122)	(2,348)		(3,632)	(13,838)
Software	(11,918)	(1,595)			(13,513)
Total Accumulated Depreciation	(1,140,232)	(107,761)		(60,331)	(1,187,662)
Total Depreciable Assets, net	2,510,387	(99,516)	247,566	331	2,658,106
Total Capital Assets, net	$ 3,174,264	$ 202,274	$ -	$ 13,671	$ 3,362,867

Note 4 Capital Assets (Continued)

San Antonio Water System (SAWS) (Continued)

In 2006, SAWS diverted all effluent flow from Salado Creek Treatment plant to its Dos Rios Treatment Plant in order to take advantage of the additional capacity and more efficient treatment process available at the Dos Rios Plant. At that time, SAWS began identifying and disposing of assets no longer utilized at the Salado Creek Plant. In 2010, SAWS completed the dismantling and closure of the portion of the Salado Creek Plant that was no longer in use. In connection with this effort, the $13,400 remaining book value of the assets eliminated was charged off to depreciation expense.

Asset Impairment – SAWS periodically reviews its capital assets for possible impairment. As part of SAWS' capital improvement program, SAWS incurs costs to design capital improvement projects. These costs are included in capital assets as Construction in Progress. Periodically the actual construction of these projects may not occur due to changes in plans. Once it has been determined that construction will not proceed, any incurred design costs are charged off to operating expenses. Design costs were charged off totaling $13,274 in 2010. Of the amount charged off in 2010, $12,400 related to the design of a pipeline to transport water expected to be produced from the Carrizo Aquifer in Gonzales County to a SAWS facility in southeastern Bexar County. In anticipation of an expected agreement with the Schertz Seguin Local Government Corporation (SSLGC), which would enable SAWS to utilize SSLGC's existing pipeline to transport water from the Carrizo Aquifer to a SAWS facility in northeast Bexar County, SAWS wrote off the design costs related to the original proposed pipeline. The agreement with SSLGC was executed in February 2011.

Note 5 Receivables and Payables

Primary Government (City)

Disaggregation of Receivables

Net receivables at September 30, 2011 are as follows:

	Accounts	Taxes	Note and Loans	Accrued Interest	Other	Total Net Receivables
Governmental Activities	$ 163,875	$ 21,836	$ 39,719	$ 636	$ 2,112	$ 228,178
Business-Type Activities:						
Airport System	$ 4,994	$ -	$ -	$ 92	$ -	$ 5,086
Nonmajor Enterprise Funds	8,223			22		8,245
Total Business-Type Activities	$ 13,217	$ -	$ -	$ 114	$ -	$ 13,331

The receivable balances for Governmental Activities have been reduced by estimated allowances for doubtful accounts of $64,152 against customer, and other receivables, $23,384 for notes and loans, and $5,229 against property and occupancy taxes. The receivable balances for Business-Type Activities have been reduced by estimated allowances for doubtful accounts of $554 against customer and other receivables.

Note 5 Receivables and Payables (Continued)

Primary Government (City) (Continued)

Disaggregation of Receivables (Continued)

The only receivables not expected to be collected within one year are $36,386 of notes and loans receivables, net of allowance for doubtful accounts, related to General Government, Urban Redevelopment and Housing and Economic Development and Opportunity. These notes and loans have a corresponding deferred revenue balance recorded within the respective funds. $6,935 of the notes and loans receivable balance are non-interest bearing, and relate to Urban Redevelopment and Housing and Economic Development and Opportunity functions.

Disaggregation of Payables

Payables at September 30, 2011 are as follows:

	Accounts	Accrued Payroll	Other	Total Payables
Governmental Activities	$ 174,640	$ 6,205	$ -	$ 180,845
Business-Type Activities:				
Airport System	$ 11,676	$ 385	$ -	$ 12,061
Nonmajor Enterprise Funds	4,152	679	28	4,859
Total Business-Type Activities	$ 15,828	$ 1,064	$ 28	$ 16,920

Interfund Receivable and Payable Balances

As of September 30, 2011, the interfund receivable and payable balances represent short-term loans resulting from (1) timing differences between the dates that transactions are recorded in the accounting system and (2) short-term borrowings at year-end. Of the $84,515 due from other funds in the General Fund, $79,308 is a result of overdraws of pooled cash. Except for internal loans from the Other Internal Service Fund of $648 and $193 to the Nonmajor Governmental Fund and General Fund, respectively, all interfund balances are expected to be paid within one year. See Note 6 Long-Term Debt, for additional information regarding the internal loans.

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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, 2011:

Summary Table of Interfund Receivables and Payables
As of September 30, 2011

	Due from Other Funds	Due To Other Funds
General Fund:		
Debt Service Fund	$ 1,008	$ 467
Categorical Grant-In-Aid	30,844	1,600
2007 General Obligation Bonds	70	
General Obligation Project Fund	10,534	
Airport System Fund	27	
Nonmajor Governmental Funds	40,789	1,326
Nonmajor Enterprise Funds		712
Internal Service Funds	1,243	460
Total General Fund	84,515	4,565
Debt Service Fund:		
General Fund	467	1,008
Total Debt Service Fund	467	1,008
Categorical Grant-In-Aid:		
General Fund	1,600	30,844
Nonmajor Governmental Funds	293	299
Internal Service Funds	13	17
Total Categorical Grant-In-Aid	1,906	31,160
2007 General Obligation Bonds:		
General Fund		70
General Obligation Project Fund	31,865	
Total 2007 General Obligation Bonds	31,865	70
General Obligation Project Fund:		
General Fund		10,534
2007 General Obligation Bonds		31,865
Nonmajor Governmental Funds	2,506	20
Internal Service Funds		3
Total General Obligation Project Fund	2,506	42,422
Airport System Fund:		
General Fund		27
Nonmajor Governmental Funds	7	
Internal Service Funds		437
Total Airport System Fund	7	464
Nonmajor Governmental Funds:		
General Fund	1,326	40,789
Categorical Grant-In-Aid	299	293
General Obligation Project Fund	20	2,506
Airport System Fund		7
Nonmajor Governmental Funds	21,914	21,914
Nonmajor Enterprise Funds	141	3,241
Internal Service Funds	222	878
Total Nonmajor Governmental Funds	23,922	69,628

(Continued)

Note 5 Receivables and Payables (Continued)

Primary Government (City) (Continued)

Interfund Receivable and Payable Balances (Continued)

Summary Table of Interfund Receivables and Payables (Continued)
As of September 30, 2011

	Due from Other Funds	Due To Other Funds
Nonmajor Enterprise Funds:		
General Fund	$ 712	$ -
Nonmajor Governmental Funds	3,241	141
Nonmajor Enterprise Fund		
Internal Service Funds	2,031	1,347
Total Nonmajor Enterprise Funds	5,984	1,488
Internal Service Funds:		
General Fund	460	1,243
Categorical Grant-In-Aid	17	13
General Obligation Project Fund	3	
Airport System Fund	437	
Nonmajor Governmental Funds	878	222
Nonmajor Enterprise Funds	1,347	2,031
Internal Service Funds	312	312
Total Internal Service Funds	3,454	3,821
Total	$ 154,626	$ 154,626

CPS Energy

Disaggregation of Receivables – Net customer accounts receivable as of January 31, 2011, included $33,212 for unbilled revenue receivables; $135,524 for billed utility services; $5,909 for regulatory-related receivables; and $22,722 for other miscellaneous receivables.

Disaggregation of Payables – At January 31, 2011, accounts payable and accrued liabilities included $184,553 related to standard operating supplier and vendor payables, including fuels payable; $34,714 for employee-related payables; and $96,936 for 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, 2010
Water Delivery	$ 14,522
Water Supply	12,753
Wastewater	18,271
Chilled Water and Steam	1,558
	$ 47,104

Included within the receivables above are unbilled revenue receivables of $21,811 at December 31, 2010.

Note 6 Long-Term Debt

Primary Government (City)

Governmental Activity Long-Term Debt

Issuances

The City's debt management and on-going capital improvement financing for infrastructure and "quality of life" purposes resulted in the issuance of additional indebtedness during fiscal year 2011:

On July 12, 2011, the City issued $59,485 in General Improvement Bonds, Series 2011 and $79,780 in Combination Tax and Revenue Certificates of Obligation, Series 2011.

The General Improvement Bonds, Series 2011 were issued to finance improvements to streets, bridges, sidewalks, and drainage. The Bonds have maturities ranging from 2012 to 2031, with interest rates ranging from 2.0% to 5.0%.

The Combination Tax and Revenue Certificates of Obligation, Series 2011 were issued for the purpose of providing funds for: (i) public safety, fire protection, and law enforcement facilities improvements; (ii) drainage facilities, sidewalks, bridges, and streets improvements; (iii) cultural, recreation, park, and library facilities improvements; (iv) municipal facilities improvements; and (v) pedestrian walkway improvements along and within the San Antonio River Channel. The Certificates have maturities ranging from 2012 to 2031, with interest rates ranging from 2.0% to 5.0%.

On July 12, 2011, the City issued $9,445 in Tax Notes, Series 2011. The Tax Notes, Series 2011 were issued to provide funds for improving the City's technology infrastructure and business systems and renovating, improving, and equipping various City facilities and the payment of costs of various professional services necessary for and related to the design and installation, including the costs of necessary consultants, advisors, and designers and/or engineers. The Tax Notes have maturities ranging from 2012 to 2016, with interest rates ranging from 2.0% to 4.0%.

On July 12, 2011, Municipal Facilities Corporation issued $27,925 in Municipal Facilities Corporation Lease Revenue Bonds, Series 2011 (Public Safety Answering Point Project). The Bonds were issued to fund the construction of a new Fire and Police Emergency Dispatch Center, also known as the Public Safety Answering Point (PSAP) facility, construct a parking lot for joint use by the new PSAP facility and the City's Emergency Operations Center, fund 12 months of capitalized interest on the Bonds, and pay the costs of issuing the Bonds. The Bonds have maturities ranging from 2013 to 2041, with interest rates ranging from 2.0% to 5.0%.

Pledges

The City of San Antonio's General Obligation, Certificates of Obligation, and Tax Notes are pledged by ad-valorem taxes levied upon all taxable property located within the City, within the limitations prescribed by law. The Certificates of Obligations are additionally secured by a lien on and pledge of certain pledged revenues of the City's municipal parks system not to exceed $1 during the entire period the Certificates of Obligation or interest thereon remains outstanding in order to permit the Certificates of Obligation to be sold for cash.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

The Hotel Occupancy Tax Revenue Bonds are secured by Hotel Occupancy Tax (HOT) currently levied at 9.0% of which 7.0% is designated as "General HOT" and 2.0% is designated as the "Expansion HOT". The General HOT is comprised of the pledged 1.8% HOT and the pledged 5.2% HOT. The Series 1996 HOT Bonds are secured by prior liens on revenues from the General HOT and a lien on the revenues from the Expansion HOT. The 2004A, 2006, and the 2008 HOT Bonds are secured by subordinate liens on revenues from the General HOT. The 2008 HOT Bonds are additionally supported by an irrevocable direct-pay Letter of Credit dated as of July 8, 2010 issued by Wells Fargo Bank, National Association, whom also serves as the remarketing agent. The current Letter of Credit agreement will expire July 11, 2012; however, the City is currently in negotiations to extend the agreement. As of September 30, 2011, there have been no borrowings under the Letter of Credit.

The 2008 HOT Bonds were issued as variable-rate bonds and as such have interest rates set on a weekly basis.

The Municipal Drainage Utility System Revenue Bonds are secured by a lien on Stormwater revenues.

The Municipal Facilities Corporation Lease Revenue Bonds are paid by annually appropriated lease payments made by the City which equal the annual debt service on the Bonds.

The Starbright Industrial Development Corporation Contract Revenue Bonds are secured with a pledge of utility revenue received by the City from CPS Energy.

The Convention Center Hotel Finance Corporation Contract Revenue Empowerment Zone Bonds are secured by net operating revenues to be received from the Convention Center Hotel operations. In the event the net operating revenues are insufficient to pay all debt service, City tax revenues will be pledged in the following order of priority: first, from the Convention Center Hotel State HOT revenues; second, from Convention Center Hotel State sales tax revenues; third, from Convention Center Hotel 7.0% local HOT revenues; and fourth, from available Expansion HOT revenues on a subordinate basis.

Prior Years' Defeased Debt

In prior years, the City advance refunded, prior to maturity, certain general obligation bonds, revenue bonds, certificates of obligation and tax notes. 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, 2011, $161,470 of previously defeased bonds was outstanding.

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, 2011 for governmental activity debt:

Governmental Activity Long-Term Debt							
	Time of Original Issuance						
Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2010	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2011
Tax-Exempt General Obligation Bonds:							
Series 2000A	$ 15,615	2021	5.250-5.375	$ 735	$ -	$ 735	$ -
Series 2001	84,945	2022	3.000-5.250	2,180		400	1,780
Series 2002 Forward Refunding	251,280	2013	4.000-5.250	55,960		34,920	21,040
Series 2002	55,850	2023	2.000-5.500	7,205		515	6,690
Series 2003	40,905	2014	2.750-5.000	16,015		2,215	13,800
Series 2003A	56,515	2016	2.000-5.000	38,080		7,410	30,670
Series 2004	33,570	2024	2.375-4.750	14,495		1,560	12,935
Series 2005	116,170	2025	3.500-5.250	100,835		1,405	99,430
Series 2006 Forward Refunding	33,090	2016	5.250-5.500	28,140		5,320	22,820
Series 2006 Refunding	169,785	2026	3.500-5.000	132,175		2,710	129,465
Series 2007 Refunding	121,220	2028	4.000-5.000	85,960		3,995	81,965
Series 2008	75,060	2028	4.000-5.500	75,060		2,705	72,355
Series 2010 Refunding	155,710	2023	2.000-5.000	155,710		8,890	146,820
Series 2010A	8,800	2020	5.000	8,800			8,800
Series 2011	59,485	2031	2.000-5.000		59,485		59,485
Total Tax-Exempt General Obligation Bonds	$ 1,278,000			$ 721,350	$ 59,485	$ 72,780	$ 708,055
Taxable General Obligation Bonds:							
Series 2010B BABs	$ 191,550	2040	4.314-6.038	$ 191,550	$ -	$ -	$ 191,550
Total Taxable General Obligation Bonds	$ 191,550			$ 191,550	$ -	$ -	$ 191,550
Tax-Exempt Certificates of Obligation:							
Series 2000A	$ 8,810	2021	5.250-5.375	$ 415	$ -	$ 415	$ -
Series 2001	65,195	2014	4.000-5.250	6,460		6,460	
Series 2002	69,930	2023	3.000-5.500	16,840		4,935	11,905
Series 2004	29,525	2024	2.000-5.000	20,140		2,340	17,800
Series 2005	10,535	2025	4.000-5.250	10,535			10,535
Series 2006	72,755	2026	3.500-4.375	62,495		2,820	59,675
Series 2007	104,255	2028	4.000-5.000	69,080		6,580	62,500
Series 2008	85,005	2028	3.500-5.500	79,295		2,995	76,300
Series 2010	38,375	2019	4.000-5.000	38,375			38,375
Series 2011	79,780	2031	2.000-5.000		79,780		79,780
Total Tax-Exempt Certificates of Obligation	$ 564,165			$ 303,635	$ 79,780	$ 26,545	$ 356,870
Taxable Certificates of Obligation:							
Series 2000B	$ 1,755	2021	7.450-7.550	$ 80	$ -	$ 80	$ -
Total Taxable Certificates of Obligation	$ 1,755			$ 80	$ -	$ 80	$ -
Tax Notes:							
Series 2007A	$ 21,270	2012	4.000-5.000	$ 9,335	$ -	$ 4,555	$ 4,780
Series 2008	15,320	2013	3.500-5.000	9,870		3,160	6,710
Series 2010A	9,655	2013	2.000-4.000	9,655		3,140	6,515
Series 2011	9,445	2016	2.000-4.000		9,445		9,445
Total Tax Notes	$ 55,690			$ 28,860	$ 9,445	$ 10,855	$ 27,450
Revenue Bonds:							
Series 1996 Hotel Occupancy Tax [1]	$ 182,012	2017	4.500-6.200	$ 18,112	$ -	$ 2,837	$ 15,275
Series 2004A Hotel Occupancy Tax	10,390	2029	5.000	10,390			10,390
Series 2006 Hotel Occupancy Tax Ref	72,620	2026	4.000-4.500	71,055		280	70,775
Series 2008 Hotel Occupancy Tax Ref	135,000	2034	Variable	129,500		395	129,105
Series 2003 Municipal Drainage	44,150	2028	2.000-5.000	36,115		1,335	34,780
Series 2005 Municipal Drainage	61,060	2030	3.500-5.250	54,020		1,580	52,440
Series 2001 Municipal Facility Corp	14,465	2020	3.370-5.200	725		725	
Series 2010 Municipal Facility Corp Ref	9,090	2020	1.000-3.250	8,965		140	8,825
Series 2011 Municipal Facility Corp	27,925	2041	2.000-5.000		27,925		27,925
Convention Series 2005A	129,930	2039	4.750-5.000	129,930			129,930
Convention Series 2005B	78,215	2028	4.500-5.310	76,065		2,320	73,745
Starbright Industrial Development Corp.	24,685	2033	2.180-5.110	22,510		585	21,925
Total Revenue Bonds	$ 789,542			$ 557,387	$ 27,925	$ 10,197	$ 575,115
Total	$ 2,880,702			$ 1,802,862	$ 176,635	$ 120,457	$ 1,859,040

[1] A portion of the Hotel Occupancy Tax Revenue Bonds Series 1996 was sold as Capital Appreciation Bonds (CABS). Interest on the CABS accrete from date of delivery and will be payable only at maturity or redemption. Interest accreted decreased by $4,148 due to the bond payment's maturity schedule, and increased by $7,310 for interest on the remaining maturities outstanding, resulting in an ending balance of $23,239, which increases revenue bonds payable. This increase is reflected in the combined Statement of Net Assets but is not reflected in this 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 all revenue bonds outstanding as of September 30, 2011 are as follows:

Principal and Interest Requirements									
	General Obligation Bonds			Certificates of Obligation		Tax Notes		Revenue Bonds	
Year Ending September 30,	Principal	Interest	Direct Subsidy [1]	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ 62,610	$ 44,687	$ (3,825)	$ 24,025	$ 16,170	$ 13,070	$ 1,019	$ 10,744	$ 27,402
2013	70,770	41,620	(3,825)	21,095	15,381	8,520	579	11,666	27,044
2014	58,280	38,344	(3,825)	27,715	14,527	1,875	204	11,970	26,673
2015	45,350	35,573	(3,825)	31,315	13,303	1,955	129	12,005	26,268
2016	43,255	33,433	(3,825)	21,395	11,880	2,030	51	12,398	25,860
2017-2021	244,640	132,726	(19,064)	87,755	45,330			97,052	119,341
2022-2026	181,490	78,565	(17,034)	96,245	24,999			130,225	92,293
2027-2031	92,275	43,568	(13,372)	47,325	5,767			131,730	59,014
2032-2036	51,755	24,460	(8,561)					107,125	26,657
2037-2041	49,180	7,567	(2,649)					50,200	5,521
Total	$ 899,605	$ 480,543	$ (79,805)	$ 356,870	$ 147,357	$ 27,450	$ 1,982	$ 575,115	$ 436,073

[1] The City issued Build America Bonds (BABs) in fiscal year 2010. These BABs are eligible for Direct Subsidies or rebates from the federal government for issuing the debt as taxable instruments.

In May 2007, the citizens authorized the City to sell $550,000 in debt for the 2007-2012 Municipal Bond Program. The program included 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, Recreation, 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. The Bonds authorized but unissued as of September 30, 2011 are as follows:

Authorized but Unissued General Obligation Debt				
Authorization Date	Purpose	Amount Authorized	Bonds Previously Issued [1]	Bonds Authorized but Unissued
5/12/2007	Streets, Bridges, and Sidewalks	$ 306,998	$ 238,503	$ 68,495
5/12/2007	Drainage	152,052	122,837	29,215
5/12/2007	Parks, Recreation, Open Space, and Athletics	79,125	78,187	938
5/12/2007	Library	11,025	11,025	
5/12/2007	Public Health Facilities	800	800	
Total		$ 550,000	$ 451,352	$ 98,648

[1] Includes a portion of the reoffering premium on the General Improvement Bonds, Series 2011 issuance in the amount of $4,874 allocated against the voted authorization.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Debt Limitation

The amount of debt that the City may incur is limited by City Charter and by the Constitution of the State of Texas. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10.0% of the total assessed valuation. The total assessed valuation for the fiscal year 2011 was $82,736,182, which provides a debt ceiling of $8,273,618. The total outstanding debt that is secured by an ad valorem tax pledge is $1,303,345 including $19,420 that is reported 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 Fund (Other Internal Service Fund) to meet those needs.

In May 2008, a loan was authorized from the City's Other Internal Service Fund to the City's Tax Increment Reinvestment Zone 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 average rate for the year-ended September 30, 2011 was 0.4%, resulting in interest of $2. Cumulative interest incurred through fiscal year 2011 was $14. Repayment of the principal and interest on this loan will occur as funding is available and authorized for disbursement from the revenues of the TIRZ.

The following is a summary of changes in the loan for the year-ended September 30, 2011:

Balance October 1, 2010	Additions	Reductions	Balance September 30, 2011
$ 648	$ -	$ -	$ 648

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

In June 2009, a loan in the amount of $460 was authorized from the City's Other Internal Service Fund to the General Fund to finance the City's participation in an interagency agreement with the San Antonio Water System to implement a water efficiency project at the HemisFair Fountain. Upon completion of the project, the City received a one-time rebate.

The HemisFair Fountain uses an estimated 36,000 gallons of water each year which equates to an annual estimated cost of $130 to the Downtown Operations Department (General Fund). These savings, along with the one-time rebate and interest earnings, will be transferred to the Other Internal Service Fund to reimburse the Other Internal Service Fund for its loan for the capital project. Interest earned in fiscal year 2011 using the City's average rate for the year-ended September 30, 2011 of 0.4% was $1. Cumulative interest incurred through fiscal year 2011 was $11.

The following is a summary of changes in the loan for the year ended September 30, 2011:

Balance October 1, 2010	Additions	Reductions	Balance September 30, 2011
$ 257	$ -	$ 64	$ 193

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, 2011 were approximately $8,686.

The City has entered into various lease purchase agreements for the acquisition of printers and related components, fire fighting gear, self-contained breathing apparatus, a mainframe computer, various fire trucks and parts, electrocardiograms, an inventory theft detection system, hybrid vehicles, energy/water saving conservation improvements, in-car police video equipment, and various medical emergency services equipment. 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	$ 33,266
Less: Accumulated Depreciation	(19,827)
Total	$ 13,439

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

As of September 30, 2011, 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:

	Capital Leases	Operating Leases	Total
Fiscal Year Ending September 30:			
2012	$ 3,585	$ 8,376	$ 11,961
2013	2,710	6,953	9,663
2014	2,291	5,040	7,331
2015	2,011	3,628	5,639
2016	2,011	2,773	4,784
2017-2021	3,765	5,943	9,708
2022-2026	3,765	2,614	6,379
2027-After	188	3,492	3,680
Future Minimum Lease Payments	20,326	$ 38,819	$ 59,145
Less: Interest	(3,281)		
Present Value of Future Minimum Lease Payments	17,045		
Less: Current Portion	(2,851)		
Capital Lease, Net of Current Portion	$ 14,194		

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 enterprise fund 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.

Issuances

On December 9, 2010, the City issued $42,220 in Airport System Revenue Improvement and Refunding Bonds, Series 2010A (2010A GARBs), $20,885 in Airport System Revenue Refunding Bonds, Taxable Series 2010B (2010B Taxable GARBs), and $37,335 in Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement and Refunding Bonds, Series 2010 (2010 PFC Bonds).

The 2010A GARBs were issued to fund various airport system capital improvements including PFC eligible airport-related projects, to refund a portion of the City's outstanding indebtedness originally issued to finance Airport System improvements, provide funds for capitalized interest, and to pay the costs of issuance. The City's net proceeds from the sale of the 2010A GARBs, which included a discount of $620, were used for the redemption of the GARB portion of the 2010 Tax Notes. As a result of converting the debt, the City will realize a total increase of $17,954 in debt service payments and total deferred charges of $68. Through this redemption, the City realized an economic loss (difference between the present values of the debt service payments on the old and new debt plus the City's cash contribution) of $1,646. The 2010A GARBs have maturities ranging from 2014 to 2040, with interest rates ranging from 2.0% to 5.3%.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

The 2010B Taxable GARBs were issued to refund certain GARB obligations and to pay the costs of issuance. The City's net proceeds from the sale of the 2010B Taxable GARBS were applied to fund an escrow account for the redemption, discharge, and defeasance of the refunded GARB obligations. As a result of converting the debt, the City will realize a total decrease of $19 in debt service payments and total deferred charges of $1,431. Through this defeasance, the City obtained an economic gain of $2,040. The 2010B Taxable GARBs have maturities ranging from 2014 to 2018, with interest rates ranging from 3.2% to 4.9%.

The 2010 PFC Bonds were issued to pay costs related to constructing, improving, renovating, enlarging and equipping the airport projects that qualify and have been approved by the Secretary of the United States Department of Transportation, including the payment of costs and expenses of projects included in the Airport Capital Program, to refund the remaining portion of the 2010 Tax Notes not being refunded by the 2010A GARBs, and to pay the costs of issuance. The City's net proceeds from the sale of the 2010 PFC Bonds, which included a discount of $816, were used for the redemption of the PFC portion of the 2010 Tax Notes. As a result of converting the debt, the City will realize a total increase of $19,139 in debt service payments and total deferred charges of $85. Through this redemption, the City realized an economic loss of $999. The 2010 PFC Bonds have maturities ranging from 2011 to 2040, with interest rates ranging from 2.0% to 5.4%.

Pledges

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 consists of Airport System Revenue Improvement Bonds (GAR) and Passenger Facility Charge and Subordinate Lien Bonds (PFC). GAR Bonds are payable from and secured solely by an irrevocable 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. PFC Bonds are payable from and secured by an irrevocable first lien on and pledge of the PFC revenues and a first lien on and pledge of the subordinate net revenues.

The Parking System operation includes the ownership and operation of parking facilities, parking lots, parking meters, and retail/office space. Long-term debt is allocated to the Parking System on a pro rata basis from proceeds received from the issuance of taxable general obligation debt and is paid from revenues derived from the operation of the Parking System. The allocated debt is secured by an ad valorem tax pledge.

Solid Waste Management 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 Solid Waste Management on a pro rata basis from proceeds received from the issuance of general obligation and certificates of obligation debt for Solid Waste Management related improvements and is paid from revenues derived from the operation of Solid Waste Management. The allocated debt is secured by an ad valorem tax pledge.

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 and other borrowing totaled $19,971 for the Airport System. For fiscal year 2011, the amount of $1,177 was capitalized for the Airport System and included as an addition to construction in progress. Interest costs for nonmajor enterprise funds were not capitalized as the construction in progress in these funds during fiscal year 2011 was funded by capital contributions from governmental funds.

Prior Years' Defeased Debt

In prior years, the City advance refunded, prior to maturity, certain 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 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, 2011, $21,135 of previously defeased bonds was outstanding.

The following table is a summary of changes in debt obligations for the fiscal year ended September 30, 2011:

Business-Type Long-Term Debt							
	Time of Original Issuance						
Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2010	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2011
Airport System:							
Revenue Bonds:							
Series 2001	$ 17,795	2016	5.375	$ 17,795	$ -	$ 17,795	$ -
Series 2002	92,470	2027	5.000-5.750	83,040		3,020	80,020
Series 2002 PFC	37,575	2027	4.000-5.750	30,360		1,105	29,255
Series 2003 Refunding	50,230	2013	5.500-6.000	18,145		8,400	9,745
Series 2005 PFC	38,085	2030	3.375-5.250	33,635		1,000	32,635
Series 2006	17,850	2014	5.000	11,685		2,540	9,145
Series 2007	82,400	2032	4.950-5.250	80,435		2,065	78,370
Series 2007 PFC	74,860	2032	5.000-5.250	69,430		1,780	67,650
Series 2010A Refunding	42,220	2040	2.000-5.250		42,220		42,220
Series 2010B Refunding	20,885	2018	3.197-4.861		20,885		20,885
Series 2010 PFC Refunding	37,335	2040	2.000-5.375		37,335	960	36,375
Tax Notes							
Series 2010	34,500	2011	0.600	34,500		34,500	-
Subtotal	$ 546,205			$ 379,025	$ 100,440	$ 73,165	$ 406,300
Parking System:							
Taxable General Obligation Bonds:							
Series 2004 Refunding	$ 13,245	2016	2.800-4.650	$ 6,755	$ -	$ 800	$ 5,955
Series 2008 Refunding	10,120	2024	5.820-6.570	10,120			10,120
Subtotal	$ 23,365			$ 16,875	$ -	$ 800	$ 16,075
Solid Waste Management:							
Tax-Exempt General Obligation Bonds:							
Series 2006 Refunding	$ 1,000	2026	3.500-5.000	$ 800	$ -	$ 35	$ 765
Series 2010 Refunding	545	2021	2.000-5.000	$ 545			545
Tax-Exempt Certificate of Obligations:							
Series 2006	400	2026	3.500-5.000	350		15	335
Series 2007	2,500	2028	4.000-5.000	1,785		85	1,700
Subtotal	$ 4,445			$ 3,480	$ -	$ 135	$ 3,345
Total	$ 574,015			$ 399,380	$ 100,440	$ 74,100	$ 425,720

Amounts are expressed in thousands

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, 2011 are as follows:

Principal and Interest Requirements									
	Airport System			Parking System			Solid Waste Management		
Year Ending September 30,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2012	$ 17,640	$ 20,634	$ 38,274	$ 1,175	$ 862	$ 2,037	$ 140	$ 157	$ 297
2013	18,365	19,701	38,066	1,300	810	2,110	145	151	296
2014	18,730	18,718	37,448	1,480	750	2,230	150	145	295
2015	16,860	17,843	34,703	1,000	694	1,694	165	137	302
2016	17,645	17,069	34,714	1,000	648	1,648	165	129	294
2017-2021	86,650	72,127	158,777	5,755	2,482	8,237	970	500	1,470
2022-2026	99,630	49,510	149,140	4,365	576	4,941	1,240	250	1,490
2027-2031	80,380	24,573	104,953				370	26	396
2032-2036	32,080	8,795	40,875						
2037-2041	18,320	2,494	20,814						
Total	$ 406,300	$ 251,464	$ 657,764	$ 16,075	$ 6,822	$ 22,897	$ 3,345	$ 1,495	$ 4,840

Leases

The City has entered into various lease purchase agreements for the acquisitions of refuse collection containers, refuse collections trucks, brush grappler trucks, brush tractor/trailer combinations, and energy/water saving conservation improvements. 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 met the criteria for capital lease recognition these items were expensed in the initial period leased 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	$ 15,251
Less: Accumulated Depreciation	(5,734)
Total	$ 9,517

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Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

As of September 30, 2011, 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:

	Capital Leases	Operating Leases	Total
Fiscal Year Ending September 30,			
2012	$ 6,105	$ 11	$ 6,116
2013	4,948		4,948
2014	3,699		3,699
2015	3,651		3,651
2016	2,252		2,252
2017-2021	1,478		1,478
2022-2026	1,382		1,382
2027-After	69		69
Future Minimum Lease Payments	23,584	$ 11	$ 23,595
Less: Interest	(2,444)		
Present Value of Future Minimum Lease Payments	21,140		
Less: Current Portion	(5,341)		
Capital Leases, Net of Current Portion	$ 15,799		

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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:

	Beginning Balance (Restated)	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
Tax-Exempt General Obligation Bonds	$ 721,350	$ 59,485	$ (72,780)	$ 708,055	$ 62,610
Taxable General Obligation Bonds	191,550			191,550	
Tax-Exempt Certificates of Obligation	303,635	79,780	(26,545)	356,870	24,025
Taxable Certificates of Obligation	80		(80)		
Tax Notes	28,860	9,445	(10,855)	27,450	13,070
Revenue Bonds	557,387	27,925	(10,197)	575,115	10,744
Gross Bonds Payable	1,802,862	176,635	(120,457)	1,859,040	110,449
Unamortized (Discount) / Premium	64,026	15,182	(5,704)	73,504	9,878
Deferred Amount on Refunding	(25,374)		2,206	(23,168)	(2,291)
Net Bonds Payable	1,841,514	191,817	(123,955)	1,909,376	118,036
Commercial Paper [1]	14,370		(14,370)		
Other Payables:					
Capital Lease Liability	5,796	14,716	(3,467)	17,045	2,851
Accrued Leave Payable	187,788	21,067	(16,680)	192,175	68,132
Notes Payable	50,880		(2,064)	48,816	2,110
Pollution Remediation Liability [4]	1,825	435	(715)	1,545	
Net OPEB Obligation [2]	57,284	20,194		77,478	
Total Other Payables	303,573	56,412	(22,926)	337,059	73,093
Total Governmental Activities Long-Term Liabilities	$ 2,159,457	$ 248,229	$ (161,251)	$ 2,246,435	$ 191,129
Business-Type Activities:					
Bonds Payable:					
Tax-Exempt General Obligation Bonds	$ 1,345	$ -	$ (35)	$ 1,310	$ 40
Taxable General Obligation Bonds	16,875		(800)	16,075	1,175
Tax-Exempt Certificates of Obligation	2,135		(100)	2,035	100
Tax Notes	34,500		(34,500)		
Revenue Bonds	344,525	100,440	(38,665)	406,300	17,640
Gross Bonds Payable	399,380	100,440	(74,100)	425,720	18,955
Unamortized (Discount) / Premium	9,167	(1,436)	52	7,783	297
Deferred Amount on Refunding	(3,523)	(1,583)	1,089	(4,017)	(1,049)
Net Bonds Payable	405,024	97,421	(72,959)	429,486	18,203
Other Payables:					
Capital Lease Liability	25,615	3,212	(7,687)	21,140	5,341
Accrued Leave Payable	5,042	1,613	(2,202)	4,453	3,056
Accrued Landfill Postclosure Costs [3]	2,057		(12)	2,045	100
Pollution Remediation Liability [4]	700	340		1,040	
Net OPEB Obligation [2]	14,959	5,164		20,123	
Total Other Payables	48,373	10,329	(9,901)	48,801	8,497
Total Business-Type Activities Long-Term Liabilities	$ 453,397	$ 107,750	$ (82,860)	$ 478,287	$ 26,700

NOTE: Interest accreted decreased by $4,148 due to the bond payment's maturity schedule, and increased by $7,310 for interest on the remaining maturities outstanding, resulting in an ending balance of $23,239, which increases governmental activities' revenue bonds payable. This increase is reflected in the combined Statement of Net Assets but is not reflected in this table.

[1] See Note 7, Commercial Paper Programs 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 Landfill Postclosure Care Costs.

[4] See Note 12, Pollution Remediation Obligation for a description of the Pollution Remediation Liability.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt (Continued)

Accrued Leave

The following is a summary of accrued leave for the year-ended September 30, 2011:

Governmental Activities					
Fund Type	Short-Term Available	Short-Term Remaining	Total Short-Term	Long-Term	Total
Governmental Funds	$ 8,105	$ 58,036	$ 66,141	$ 123,320	$ 189,461
Internal Service Funds		1,991	1,991	723	2,714
Total Governmental Activities	$ 8,105	$ 60,027	$ 68,132	$ 124,043	$ 192,175

The General Fund accounts for approximately 70.0% of the City's employees; therefore, most of the accrued leave 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 accrued leave.

Business-Type Activities			
Fund	Short-Term	Long-Term	Total
Airport System	$ 1,312	$ 814	$ 2,126
Nonmajor Enterprise Funds	1,744	583	2,327
Total Business-Type Activities	$ 3,056	$ 1,397	$ 4,453

Conduit Debt Obligations

The City facilitates the issuance of bonds to enable IDA, EFC and the EZDC, 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, 2011, the aggregate principal amounts payable are as follows: eight series of EFC Revenue Bonds in the amount of $98,559; three series of IDA Revenue Bonds in the amount of $12,800; and two series of EZDC Revenue Bonds in the amount of $21,900.

The City also facilitates the issuance of tax-exempt revenue bonds to enable the HTFC 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, 2011, 29 series of tax-exempt revenue bonds were outstanding, with an aggregate principal amount payable of $225,225 and an aggregate principal amount issued of $228,459.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt (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 at September 30, 2011 was $2,800.

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, 2011, the aggregate amount of the outstanding loan totaled $10,825.

The City has authorized HTFC to issue single family and multi-family mortgage revenue bonds used to provide affordable housing to the citizens 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, 2011, the amount of conduit debt was $47,132.

The City also facilitates the issuance of tax-exempt revenue bonds for 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, 2011, SAEAPFC has one series of tax-exempt revenue bonds with an aggregate principal amount outstanding of $565,915.

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, 2011 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.

Subject to applicable timing restrictions that may prevent early payoff, CPS Energy also has the option to defease or extinguish debt. A defeasance occurs when funds are 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, since the issuer no longer has the legal obligation, the defeased debt is removed from the balance sheet, the related unamortized costs are expensed, and the gain or loss is immediately recognized.

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

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.

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, 2011, 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 revenues 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.

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

The junior lien obligations are composed of two categories of debt: fixed interest rate and variable interest rate. The junior lien fixed interest rate debt is similar to the senior lien New Series Bonds, as they have fixed and set interest rates for the life of the bonds. The junior lien, Variable-Rate Demand Obligation (VRDO) bonds are debt instruments of the City. The junior lien obligations are 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 parity 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 parity bonds;
- 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, the interest on and principal of all notes, and the credit agreement (as defined in the ordinance authorizing the commercial paper); and
- Any legal debt or obligation of CPS Energy as and when the same shall become due.

As of January 31, 2011, 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.

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Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds

The American Recovery and Reinvestment Act of 2009 provided authority for the issuance of Build America Bonds (BABs), which are issuable in calendar years 2009 and 2010 as taxable bonds. The BABs permit the issuer to receive subsidy payments equal to 35.0% of the bond's interest costs directly from the U.S. Department of the Treasury. On March 23, 2010, CPS Energy issued $380,000 of taxable New Series 2010A Revenue Direct Subsidy BABs. Including the BABs subsidy, the true interest cost for this issue, which has two term bonds maturing in 2041, was 3.8%. The subsidy received through January 31, 2011 for the 2010A BABs was $2,800. Total bond proceeds are being used to fund generation, electric distribution, and other qualified construction projects.

On November 4, 2010, CPS Energy issued $300,000 of Junior Lien Taxable Series 2010A Revenue Direct Subsidy BABs (2010A Junior Lien BABs) and $200,000 of Junior Lien Taxable Series 2010B Revenue Refunding Direct Subsidy BABs (2010B Junior Lien BABs). Including the BABs subsidy, the true interest cost for the 2010A Junior Lien BABs, which have a term bond maturing in 2041, was 3.8%. Total bond proceeds are being used to fund general system improvements. Including the BABs subsidy, the true interest cost for the 2010B Junior Lien BABs, which have a term bond maturing in 2037, was 4.1%. On November 5, 2010, proceeds from the 2010B Junior Lien BABs issuance were used to refund $200,000 of outstanding TECP obligations.

CPS Energy Revenue Bond Summary

Issuance	Maturities	Weighted-Average Yield on Oustanding Bonds at January 31, 2011	January 31, 2011
Tax Exempt new series bonds 1994A-2009D	2011-2034	4.8%	$ 3,183,205
Taxable new series bonds[1] 2009C and 2010A	2033-2041	3.8%	755,000
Total New Series Bonds		4.4%	3,938,205
Taxable series bonds[1] 2010A-2010B	2037-2041	3.8%	500,000
Tax Exempt Variable-Rate Series Bonds 2003-2004	2024-2033		397,615
Total series bonds			897,615
Total Long-Term Revenue Bonds Outstanding			4,835,820
Less: Current Maturities of Bonds			174,690
Total Revenue Bonds Outstanding, Net of Current Maturities			$ 4,661,130

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Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds (Continued)

As of January 31, 2011, principal and interest amounts due for all revenue bonds outstanding for each of the next five years and thereafter to maturity are:

CPS Energy
Principal and Interest Requirements

Year	Principal	Interest	Direct Subsidy	Total
2012	$ 174,690	$ 236,967	$ (26,132)	$ 385,525
2013	171,175	228,085	(26,132)	373,128
2014	183,610	219,045	(26,132)	376,523
2015	157,035	209,328	(26,132)	340,231
2016	157,735	201,236	(26,132)	332,839
2017-2021	894,730	881,725	(130,659)	1,645,796
2022-2026	1,042,395	636,090	(130,659)	1,547,826
2027-2031	558,750	468,511	(130,659)	896,602
2032-2036	705,635	353,835	(119,399)	940,071
2037-2041	790,065	136,831	(47,891)	879,005
Totals	$ 4,835,820	$ 3,571,653	$ (689,927)	$ 7,717,546

The above table includes senior lien and junior lien bonds. Interest on the senior lien bonds and the junior lien fixed-rate bonds are based upon the stated coupon rates of each series of bonds outstanding. The direct subsidy associated with the BABs has been presented in a separate column. CPS Energy has taken the position that the BABs direct subsidy should be deducted when calculating total debt service.

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, 2010, the 2004 Junior Lien Bonds were remarketed for a two-year term at an interest rate of 1.2%. This interest rate will remain in effect until the next interest reset date of December 1, 2012. The total interest amounts for all revenue bonds outstanding included a blended interest rate for the 2003 and 2004 Junior Lien Bonds of 0.6% at January 31, 2011.

The interest rate term mode for the junior lien variable-rate 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 City Council. Following such a conversion, the junior lien bonds, or portion thereof, will bear interest at the corresponding daily, weekly, auction, commercial paper, term, or fixed rate.

On October 18, 2010, CPS Energy received notice from the Internal Revenue Service (IRS) that it would be conducting an audit of the 2009C BABs. The IRS routinely examines municipal debt issuances to confirm compliance with applicable federal tax law. CPS Energy fully complied with the requests made by the IRS in conjunction with this audit, noting no issues.

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds (Continued)

Long-Term Debt Activity							
Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding February 1, 2010	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2011
Revenue and Refunding Bonds:							
1994A Tax Exempt	$ 684,700	2012	5.008	$ 68,965	$ -	$ 1,500	$ 67,465
2001 Tax Exempt	115,280	2011	3.843	12,425		12,425	
2002 Tax Exempt	436,090	2017	4.055	361,580		35,520	326,060
2002 Tax Exempt	140,615	2015	4.751	10,525			10,525
2003 Tax Exempt Junior Lien	250,000	2033	Variable	250,000			250,000
2003A Tax Exempt	93,935	2014	3.675	81,240		7,030	74,210
2003 Tax Exempt	350,490	2013	3.081	118,950		68,625	50,325
2004 Tax Exempt Junion Lien	160,000	2027	Variable	152,000		4,385	147,615
2005 Tax Exempt	294,625	2020	4.381	294,625			294,625
2005 Tax Exempt	240,675	2025	4.683	240,675		875	239,800
2005A Tax Exempt	197,335	2025	4.571	197,335		2,120	195,215
2006A Tax Exempt	384,185	2025	4.555	358,225		13,940	344,285
2006B Tax Exempt	128,845	2021	3.974	104,130		8,880	95,250
2007 Tax Exempt	46,195	2018	4.159	46,195			46,195
2007 Tax Exempt	403,215	2032	4.575	403,215		1,085	402,130
2008 Tax Exempt	287,935	2032	4.582	287,935			287,935
2008A Tax Exempt	158,030	2016	3.736	130,530		23,910	106,620
2009A Tax Exempt	442,005	2034	4.863	442,005		2,505	439,500
2009C Taxable	375,000	2039	3.944	375,000			375,000
2009D Tax Exempt	207,940	2021	3.720	207,940		4,875	203,065
2010A Taxable	380,000	2041	3.834		380,000		380,000
2010A Taxable Junior Lien	300,000	2041	3.806		300,000		300,000
2010B Taxable Junior Lien	200,000	2037	4.101		200,000		200,000
Bonds Outstanding				4,143,495	880,000	187,675	4,835,820
Bond Current Maturities				(162,235)	(12,841)	(386)	(174,690)
Bond (Discount)/Premium				137,332	6	20,076	117,262
Bond Reacquisition Costs				(61,308)	(2,870)	(18,334)	(45,844)
Revenue Bonds, Net				4,057,284	864,295	189,031	4,732,548
Tax Exempt Commercial Paper (TECP)			Variable	350,000		220,000	130,000
Total Long-Term Debt, Net				$ 4,407,284	$ 864,295	$ 409,031	$ 4,862,548

Flexible Rate Revolving Note

In fiscal year 2010, the San Antonio City Council adopted an ordinance authorizing the establishment of the Flexible Rate Revolving Note (FRRN) Private Placement Program, under which CPS Energy may issue taxable or tax-exempt notes, bearing interest at fixed or variable rates in an aggregate principal amount at any one time outstanding not to exceed $100,000. This ordinance provides for funding to assist in the interim financing of eligible projects that include the acquisition or construction of improvements, additions, or extensions to CPS Energy, including capital assets and facilities incident and related to the operation, maintenance, and administration of fuel acquisition and development and facilities for the transportation thereof: capital improvements to CPS Energy; and refinancing or refunding of any outstanding obligations secured by the net revenues of CPS Energy; or with respect to the payment of any obligation of CPS Energy pursuant to any credit. Under the program, maturity dates cannot extend beyond November 1, 2028.

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

Flexible Rate Revolving Note (Continued)

On May 10, 2010, CPS Energy issued a $25,200 taxable Flexible Rate Revolving Note, Series A, under its taxable Note Purchase Agreement with JPMorgan Chase Bank, N.A., which currently serves as the note purchaser under the program. On May 11, 2010, the proceeds from the note, along with cash, were used to defease $25,700 in principal amounts of the allocable portion of the debt associated with the common facilities of STP Units 1 and 2 that were assigned to NINA in March 2010 when CPS Energy reduced its ownership share of STP Units 3 and 4 to 7.6%. The outstanding FRRN balance at January 31, 2011 was $25,200.

The FRRN has been classified as short-term in accordance with the financing terms under the taxable Note Purchase Agreement and is reported on the balance sheet under current maturities of debt. At January 31, 2011, only the taxable facility was being utilized through the taxable Note Purchase Agreement. The taxable notes are being secured by a pledge of investment collateral and a limited, subordinate and inferior lien on and pledge of net revenues in the amount of $100. The current taxable Note Purchase Agreement will expire on December 31, 2012, but through an annual renewal process may be extended through November 1, 2028.

Accrued Leave

As of January 31, 2011 the accruals for employee vested benefits were $16,200. These accruals are reported under Accounts Payable and Other Current Liabilities.

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.

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

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.

Revenue Bonds

On March 4, 2010, SAWS issued $59,145 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2010. The proceeds from the sale of the bonds were used to (i) refund $38,130 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 1999 (the 1999 Junior Lien Bonds), (ii) refund $25,070 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 1999-A (the 1999-A Junior Lien Bonds), and (iii) pay the cost of issuance. The refunding of the 1999 Junior Lien Bonds and the 1999-A Junior Lien Bonds resulted in a reduction of SAWS' total debt service payments over the next ten years of approximately $4,900 and SAWS obtained an economic gain of approximately $4,300. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on the pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On November 23, 2010, SAWS issued $110,000 City of San Antonio, Texas Water System Revenue Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds) (the Series 2010B Bonds). The proceeds from the sale of the bonds were used to (i) finance capital improvement projects, and (ii) pay the cost of issuance. The Series 2010B Bonds qualify for and were designated as Build America Bonds under and pursuant to the authority provided for in the American Recovery and Reinvestment Act of 2009 (the Stimulus Act). In connection with the issuance of the Series 2010B Bonds, and as permitted in the Stimulus Act, SAWS elected an option (which election is irrevocable pursuant to the provisions of the Stimulus Act) permitting it to receive directly from the United States Department of the Treasury (the Treasury) a subsidy payment equal to 35.0% of the taxable interest it pays on the Series 2010B Bonds (the Tax Credit). SAWS has provided for the Tax Credit to be delivered from the Treasury directly to the paying agent/registrar of the Series 2010B Bonds solely for the use to reduce the amount of the regularly scheduled debt service payment on the Series 2010B Bonds that SAWS is required to make. The Tax Credit is a general revenue of SAWS and is not directly pledged to the payment of the Series 2010B Bonds, however, SAWS anticipates that the entirety of the Tax Credit, as a result of the direct deposit from the Treasury to the paying agent/registrar will be available solely to off-set the scheduled debt service payment requirements attributable to the Series 2010B Bonds. The bonds are collateralized, together with other currently outstanding Senior Lien Obligations, solely by a lien on a pledge of net revenues.

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Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

On December 14, 2010, SAWS issued $17,930 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2010A through the Texas Water Development Board. The Bonds were sold under the State Revolving Fund (SRF) Program. 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 $3,400 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 new revenues and are subordinate to outstanding Senior Lien Obligations.

Senior Lien Water System Revenue Bonds, comprised of Series 2001, Series 2002, Series 2002-A, Series 2004, Series 2005, Series 2007, Series 2009, Series 2009A, Series 2009B, and Series 2010B outstanding in the amount of $1,483,980 at December 31, 2010, 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. Interest rates range from 1.1% to 6.3%.

Junior Lien Water System Revenue Bonds, comprised of Series 2001, Series 2001-A, Series 2002, Series 2002-A, Series 2003, Series 2004, Series 2004-A, Series 2007, Series 2007A, Series 2008, Series 2008A, Series 2009, Series 2009A, Series 2010, and Series 2010A outstanding in the amount of $361,005 at December 31, 2010, 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. Interest rates range from 0.0% to 5.0%.

The following summarizes transactions of the Revenue Bonds for the year-ended December 31, 2010:

	Beginning Balance Jan. 1, 2010	Additions	Reductions	Ending Balance Dec. 31, 2010	Due Within One Year
Bonds Payable	$ 1,759,700	$ 187,075	$ 101,790	$ 1,844,985	$ 39,730
Deferred Amounts for Issuance (Discounts)/Premiums	(22,190)	4,464	915	(18,641)	
Total Bonds payable, Net	$ 1,737,510	$ 191,539	$ 102,705	$ 1,826,344	$ 39,730

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Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

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:

Annual Debt Service Requirements Revenue and Refunding Bonds						
	Senior Lien				Junior Lien	
Year Ended December 31,	Principal	Interest Expense	Direct Subsidy[1]	Net Interest	Principal	Interest Expense
2011	$ 22,360	$ 73,657	$ (3,971)	$ 69,686	$ 17,370	$ 10,201
2012	25,000	72,775	(4,014)	68,761	17,735	10,295
2013	26,055	71,628	(4,006)	67,622	18,265	9,833
2014	27,300	70,354	(3,997)	66,357	18,800	9,310
2015	28,600	69,016	(3,969)	65,047	19,375	9,081
2016-2020	180,505	320,843	(18,960)	301,883	110,780	36,668
2021-2025	281,220	263,119	(16,934)	246,185	69,410	21,816
2026-2030	294,660	185,056	(14,006)	171,050	38,735	13,359
2031-2035	293,660	119,003	(9,375)	109,628	26,885	7,710
2036-2040	304,620	36,635	(2,274)	34,361	23,650	1,874
Total	$ 1,483,980	$ 1,282,086	$ (81,506)	$ 1,200,580	$ 361,005	$ 130,147

[1] Federal interest rate subsidy on Build America Bonds is utilized to pay interest on those bonds but is reported as nonoperating revenue.

Debt Covenants – SAWS is required to comply with various provisions included in the ordinances which authorized the bond issuances. SAWS is in compliance with all significant provisions of the ordinances.

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, 2010, $38,710 of bonds outstanding were considered defeased.

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. These accruals are reported under Other Payables.

	Liability Beginning Balance	Current-Year Accruals	Payments	Liability Ending Balance	Estimated Due Within One Year
Year Ended December 31, 2010	$ 7,202	$ 6,002	$ (6,591)	$ 6,613	$ 6,591

Note 7 Commercial Paper Programs

Primary Government (City)

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, 2011, the City has no outstanding Commercial Paper Notes.

The Commercial Paper Notes were 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 was to assure the timely payment of principal and interest on the Commercial Paper Notes at maturity. The Letter of Credit provider 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 was Ramirez & Co., Inc. as of July 1, 2008 and the issuing and paying agent was Wells Fargo, N.A. The Letter of Credit in an amount equal to $53,699 enabled 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 matured later than August 1, 2017. Under the terms of the Letter of Credit, the City was able to 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 was terminated on August 12, 2011. As of September 30, 2011, there were no borrowings under the Letter of Credit.

Issue	Balance Outstanding October 1, 2010	Additions	Deletions	Balance Outstanding September 30, 2011
Series A (2007)	$ 14,370	$ -	$ (14,370)	$ -

CPS Energy

In 1988, the City Council adopted an ordinance authorizing the issuance of up to $300,000 in 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. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing New Series Bonds and junior lien obligations. The program's scheduled maximum maturities cannot extend beyond November 1, 2028.

On April 1, 2010, the unused TECP funds issued in January 2010 were used to pay down TECP principal in the amount of $20,000. On November 5, 2010, proceeds from the 2010B Junior Lien BABs issuance were used to refund $200,000 of outstanding TECP obligations. As of January 31, 2011, the current outstanding TECP balance was $130,000.

Note 7 Commercial Paper Programs (Continued)

CPS Energy (Continued)

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 program. On September 6, 2007, the revolving credit agreement was extended until November 1, 2012. At January 31, 2011, there was no amount outstanding under the revolving credit agreement. Further, there have been no borrowings under the agreement since inception.

TECP Outstanding	$ 130,000
Weighted Average Interest Rate of Outstanding TECP	0.3%
Average Life of Outstanding TECP (Approximate Number of Days)	124

San Antonio Water System (SAWS)

SAWS maintains a commercial paper program that is used to provide funds for the interim financing of a portion of its capital improvements. The City Council of the City of San Antonio has authorized the commercial paper program in an amount of $500,000. 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. Pursuant to the most recent amendment to the revolving credit agreement, the capacity of the revolving credit agreement has been reduced to $350,000.

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., State Street Bank and Trust Company, and U.S. Bank National Association
- Issuing and Paying Agency Agreement with The Bank of New York Mellon Trust Company, N.A.

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 $244,650 are outstanding as of December 31, 2010. Of this balance, $106,530 relates to the refunding of the Series 2003 Bonds while the remaining $138,120 proceeds were used solely for financing of capital improvements. Interest rates on the notes outstanding at December 31, 2010 range from 0.2% to 0.3% and maturities range from 28 to 145 days. The outstanding notes had an average rate of 0.3% and averaged 78 days to maturity.

Note 7 Commercial Paper Programs (Continued)

San Antonio Water System (SAWS) (Continued)

SAWS intends to reissue maturing commercial paper, in accordance with the terms of the revolving credit agreement, and ultimately refund such maturities with proceeds from the issuance of long-term revenue bonds. Consistent with this intent, and since SAWS has the available $350,000 revolving credit agreement described above, SAWS has classified nearly all outstanding commercial paper notes as long-term debt. In accordance with the amortization schedule of the interest rate swap agreement discussed in Note 13 Risk Financing, SAWS intends to redeem $2,720 of commercial paper in 2011. Therefore, this portion of the commercial paper is classified as a current liability.

The following summarizes transactions of the program for the year-ended December 31, 2010.

	Beginning Balance January 1, 2010	Additions	Reductions	Ending Balance December 31, 2010
Tax Exempt Commercial Paper Notes	$ 173,650	$ 77,000	$ 6,000	$ 244,650

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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:

Contributory Pension and Retirement Plans						
Entity	Title	Type of Plan	Covered Payroll [3]	Employee Contribution	Employer Contribution	Total Contribution
City	Fire and Police Pension Plan	Single Employer Defined Benefit Plan	$ 273,689	$ 33,663	$ 67,328	$ 100,991
	Texas Municipal Retirement System (TMRS) - Civilian	Nontraditional Hybrid Defined Benefit Agent Plan	$ 270,708	$ 16,249	$ 33,883	$ 50,132
Component Units:						
SAWS	[1] Texas Municipal Retirement System (TMRS)	Nontraditional Hybrid Defined Benefit Agent Plan	$ 86,013	$ 2,510	$ 4,703	$ 7,213
	[1] SAWSRP Contract	Single Employer Defined Benefit Plan	$ 83,505	$ -	$ 7,849	$ 7,849
CPS Energy	[2] CPS All Employee Plan	Single Employer Defined Benefit Plan	$ 222,427	$ 11,056	$ 32,400	$ 43,456

[1] Fiscal year ended December 31, 2010.

[2] Fiscal year ended January 31, 2011.

[3] Covered payroll presented in this table for the City is as of September 30, 2011.

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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, 2009. 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 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, 2011, membership of the Pension Fund consisted of:

	2011
Retirees and beneficiaries receiving benefits	2,169
Active participants	3,917
Total	6,086

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. 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. A retirement annuity under this subsection may not exceed, as of the date of retirement, 87.5% of the member's average total salary.

There is a provision for the Backwards Deferred Retirement Option Plan (BackDROP), which, as of October 1, 2009, 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 60 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.

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Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

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 annualized 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 of the Pension Fund (retirees/beneficiaries with less than one year of benefits will receive a prorated check, and no check will be paid to members who retired after the end of the fiscal year). Authorization for one year does not obligate the Board to authorize a thirteenth and fourteenth check for any other year. The Pension Fund did not meet the criteria for the thirteenth and fourteenth checks for the year ended September 30, 2011.

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. As of October 1, 2009, the allocation of death benefits between a surviving spouse and the dependent children of a member is 75.0% to the spouse and 25.0% to the children. The spousal death benefit for a spouse who married a retiree after retirement and at least five years prior to the date of the retiree's death is the same as a spouse who married a member prior to retirement. At October 1, 2009 amendments establish a 55-year-old minimum age for marriage-after-retirement spouses to begin receiving annuity payments for those that qualify for such annuity payments. As of October 1, 2009, the spousal death benefit for a spouse who married a retiree after retirement, and less than five years prior to the date of the retiree's death, was $15,000 if there are no other beneficiaries (please note figure not reflected in thousands).

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.

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Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

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. 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, receive 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, 1999, receive 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, 1999 receive an increase equal to 75.0% of the increase in the CPI.

Beginning October 1, 2009, the Pension Fund has a provision that allows the fire chief and police chief to opt out of membership in the Pension Fund.

The Pension Fund's contribution requirements are established and funded in accordance with Texas state statues and are not actuarially determined. The City was required to contribute 24.6% of salary, excluding overtime pay, in 2011. The employee contribution rate was 12.3% in 2011. 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. As part of the amendments effective October 1, 2009, from October 1, 2009 to December 31, 2009, members who served probationary time prior to becoming a member were allowed to elect to purchase service credit for that time. If the member elected to purchase the service credit, the member was responsible for paying 3 times the member's contribution rate that would have been due during the probationary period, with interest calculated from the time of the probation until the amount was paid. The interest rate was 8.0%, which was the Pension Fund's assumed actuarial rate of return on the assets.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

The annual required contributions for fiscal year 2011 were determined as part of the October 2010 actuarial valuations, using the entry-age actuarial cost method. The actuarial assumptions included (a) an 7.8% investment rate of return and (b) a projected annual salary increase of 4.0%. Both (a) and (b) include inflation components of 4.0%. 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, 2010 was 9.1 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.

Contributions for the year-ended September 30, 2011 were as follows:

	2011	
		Percentage of Covered Payroll
Employer	$ 67,328	24.6%
Employee	33,663	12.3%
Total	$ 100,991	

The City of 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.

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, 11603 W. Coker Loop, Suite 201, San Antonio, Texas 78216 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 TMRS. 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, 2010, is the agent for 842 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.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

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 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. These changes had a significant impact on TMRS' Unfunded Actuarial Accrued Liability (UAAL) and funded position as well as the City's contribution requirements. As of December 31, 2006, the City's Plan had a UAAL of $178,521 with a funded ration of 72.2%. After adoption of these changes, the City's Plan had a UAAL of $317,720 with a funded ratio of 60.1% as of December 31, 2007.

The Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board rules 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 resulted 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). As a result of these changes, the City's contribution rate was projected to increase from 12.5% to 16.7%. Due to the significant increase in contribution requirements, the City selected to phase in the contribution rate in fiscal year 2009 from 12.5% to 13.1% with an ultimate projected rate to be in excess of 18.0% after phase-in (or triple the employee contribution rate).

The City additionally created a work plan to review and address the changes being made by TMRS. Six focus groups with employees and retirees were held to obtain input via a survey on their TMRS benefits and priorities to assist the City in evaluating its options and decisions made on the TMRS Board. Furthermore, the City engaged a legal firm to provide legal advice 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 assist in exploring viable pension alternatives. A task force of current employees and retirees was formed to provide input regarding the work to be completed by this actuarial firm.

The City further adopted a plan change in 2010 removing the annually repeating Cost of Living Adjustment (COLA) feature as a way to mitigate future contribution increases. This change does not prevent adoption of either ad hoc or annually repeating COLAs in the future, but it did reduce the City's contribution rate in 2010 from 13.9% to 12.3%. The City also proposed legislation to the State's 82nd Legislative Session held in January 2011 which would: 1) allow cities to provide COLAs which would not be subject to current provisions requiring retroactive application of changes and 2) provide cities the ability to grant additional payments (e.g. 13th check) where funding is available. This proposed legislation was developed to provide additional flexibility and options for addressing the significant challenges associated with the current TMRS plan. While neither of these proposals passed, the City will continue to work on ways to manage its contribution rate.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

TMRS also proposed legislation during the State's 82nd Legislative Session to combine the Municipal Accumulation Fund (MAF), Current Service Annuity Reserve Fund (CSARF), and the Employees Savings Fund (ESF), into a single city trust fund. Under TMRS, assets were held in trust in three distinct accounts, which were called "funds." The MAF holds city contributions and interest. The ESF holds member contributions and interest. When a member retires, the accumulated contributions and interest in the member's account transfer from the ESF, along with matching funds from the city's MAF into the CSARF. The basic retirement benefit is therefore fully funded at the time of a member's retirement and is then paid monthly to the retiree from the CSARF. At the time a member retires, the basic retirement benefit becomes a liability of TMRS. Since the passage of House Bill 360 in 2009, each year the ESF and CSARF are credited, by law, with 5.0% interest. This guaranteed interest credit may result in a highly leveraged (positive or negative) interest credit to the MAF. In years when TMRS as a whole earns less than the amount needed to provide the 5.0% guaranteed interest credit to the ESF and CSARF, additional funding will be needed from the MAF. Additionally, as each city's plan matures and retirements increase, more funds transfer into the CSARF from the ESF and the MAF, and the MAF balance, combined with the highly leveraged interest allocations, can result in city contribution rates that may be more volatile than a typical pension plan.

Restructuring, or combining, funds eliminated the leverage inherent in the asset structure and helped to make city contribution rates less volatile. Under a restructured pension fund, at the time of retirement, money would not be transferred to the CSARF (it would stay in the combined/single trust fund of the city). By reallocating the CSARF assets and liabilities and the ESF assets into each city's single trust fund, all future investment earnings base on that city's contributions for active and retired members would be directly applied to that specific city's trust assets and included in the funding equation, resulting in decreased liabilities and contribution rates. Additionally, a city's funded ratio would improve because the city would receive "credit" for the excess of the assets over liabilities for those retirements that are currently being paid from the CSARF; and the city's annual requirement contribution would be reduced since the city would receive interest on a larger base of assets over a longer period of time. The vast majority of defined benefit plans are funded under a similar structure. This proposal passed as Senate Bill 350 and was enacted in June 2011. This legislation permitted the actuarial valuation to be completed, as if restructuring occurred on December 31, 2010.

In addition to the restructuring, the actuarial assumptions were updated based on an actuarial experience study that was adopted by the TMRS board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). The City's UAAL as of December 31, 2010 prior to restructuring was calculated at $201,451 with a funded ratio of 73.0%. The City's UAAL using the new rate structure calculates to $100,426 with a funded ratio of 90.6%. Further, the amortization periods differed; prior to restructuring the period is 25.6 years; after restructuring the period is 24.1 years, resulting in a reduction to the contribution rate from 13.3% to 10.0% for the first quarter of fiscal year 2012.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

In the fiscal year 2012 budget, City Council adopted a one-time annuity increase that will be provided to retired employees and to beneficiaries of deceased employees. The amount of the increase is computed as the sum of the prior service and current service annuities on the effective date of retirement of the person on whose service the annuities are based. This number was multiplied by 70.0% of the percentage change in the Consumer Price Index for All Urban Consumers, from December of the year immediately preceding the effective date of the person's retirement to the December that is 13 months before the effective date of the increase. This one-time annuity increase will cause the contribution rate to increase from 10.0% to 10.3%, effective January 1, 2012.

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.

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 was 12.6% for calendar year 2010, 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, using the Projected Unit Credit actuarial cost method. 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 portion of an active member's projected benefit allocated annually; the prior service contribution rate amortized the unfunded (overfunded) actuarial liability (asset) over the applicable period for the City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

The normal cost contribution 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 UAAL over the remainder of the plan's 24.1-year amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased UAAL is being amortized over a new 24.1-year period. Currently, the UAAL is amortized over a constant 24.1-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.

Investments are reported at fair value. The fair values of fixed income securities are valued by the custodian using the last trade date price information supplied by various pricing data vendors. Fair values of the equity index funds (comingled funds) are determined based on the funds' net asset values at the date of valuation. Short-term investment funds are reported at cost, which approximates market value. Security transactions are reported on a trade date basis.

Membership as of the Valuation Date	12/31/2010
Number of :	
Active Members	5,951
Retirees and beneficiaries	3,402
Inactive members	2,188
Total	11,541

TMRS' administration costs are funded from a portion of TMRS' annual investment earnings.

TMRS issues a publicly available financial report that includes financial information and required supplementary information for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used 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 (800) 924-8677. In addition, the report is available on TMRS' website at www.TMRS.com. 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.

San Antonio Water System (SAWS)

SAWS' pension 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, 2009, while the information related to the San Antonio Water System Retirement Plan has been prepared as of January 1, 2010.

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (TMRS)

SAWS provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide TMRS, one of more than 837 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and SAWS financed monetary credits, with interest. 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 age 60 and above with 5 or more years of services 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 and actuarial constraints in the state statutes governing TMRS.

Under the state law governing TMRS, SAWS is required to contribute at an actuarially determined rate. These rates are provided on an annual basis, following the completion of the actuarial valuation. There is a delay in the valuation and when the rate becomes effective – for example the 2010 contribution rate is based on the December 31, 2008 valuation results. If a change in plan provisions is adopted by SAWS' board of trustees, the contribution rate can change.

Beginning with the December 31, 2007 actuarial valuation, a change was made in the funding method and the amortization period used in the valuation. To assist in this transition to higher rates, TMRS approved an eight-year phase-in period beginning in 2009, which allows governments the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate). SAWS elected to transition the increase in its contribution rate over the eight-year phase-in period. As a result of these changes, SAWS' actuarially required contribution for 2010 was 5.6% while the phased-in rate of 2010 was 4.2% of salary. The current contribution rate for employees is 3.0% of salary.

TMRS
Schedule of Contributions

	2010
Employer Contribution	$ 4,703
Employee Contribution	$ 2,510
Employer Contribution Rate	5.6%

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 and administer the payment of benefits to Principal Financial Group.

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

San Antonio Water System Retirement Plan (SAWSRP) (Continued)

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.

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:

- Twenty years of vesting service regardless of age, or
- 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:

- 1.2% of the average compensation, times years of credited service not in excess of 25 years, plus
- 0.8% of the average compensation, times years of credited service in excess of 25 years but not in excess of 35 years, plus
- 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. 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. 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 SAWSRP shall be paid by SAWS.

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

San Antonio Water System Deferred Compensation Plan (SAWSDCP)

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
Amortization Method	Level Dollar
Remaining Amortization Period	27 Years - Closed Period
Asset Valuation Method	Smoothed Market Value (4 years)
Investment Rate of Return	8.0%
Inflation Rate	None
Salary Scale	Table S-5 from the Actuary's Pension Handbook plus 3.4%
Cost of Living Adjustments	None

The SAWSRP 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 at 711 High Street, Des Moines, Iowa 50392. In addition, the report may be obtained at www.principal.com.

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.

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 President and CEO, the Chief Financial Officer and the Audit Committee Chair of CPS Energy's board of trustees. Plan assets are segregated from CPS Energy's assets and are separately managed by an Administrative Committee whose members are appointed by the Oversight Committee.

Note 8 Pension and Retirement Plans (Continued)

CPS Energy (Continued)

All Employee Plan (Continued)

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 Benefit Trust Administration at CPS Energy. Plan net assets had a market value of $1,100,000 at December 31, 2010.

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 Plan due to Internal Revenue Code restrictions on benefit and compensation limits. The benefits due under those Restoration Plans have been paid annually 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 $109 for fiscal year 2011. These costs were recorded when paid.

Funding Policy – The current policy of CPS Energy is to use each actuarial valuation as the basis for determining monthly employer contributions to the Plan during the fiscal year beginning in the calendar year after the valuation year. The January 1, 2009, valuation was the basis for contributions in fiscal year 2011. CPS Energy establishes funding levels, considering annual actuarial valuations and recommendations of the Administrative Committee, which is composed of a cross-functional group of active and retired CPS Energy employees, using both employee and employer contributions. Generally, participating employees contribute 5.0% of their total compensation and are typically fully vested in CPS Energy's matching 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 crediting rate was 8.0% for fiscal year 2011.

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 2011, the amount to be funded was established using a general target near the 30-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 14.6% of covered payroll in fiscal year 2011.

Annual Pension Cost and Net Pension Obligation – CPS Energy's annual pension cost (APC) and net pension obligation (NPO) for fiscal year 2011 is presented at the end of this Note. 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.

Funded Status and Funding Progress – The funded status of the Plan as of January 1, 2009 valuation date is noted at the end of this Note. 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.

Note 8 Pension and Retirement Plans (Continued)

CPS Energy (Continued)

All Employee Plan (Continued)

Actuarial Methods and Assumptions – Beginning with the 2008 Plan year, the cost method was revised to project January 1 data to February 1 of the next calendar year based on assumptions. Actuarial valuation methods used for the February 1, 2009 valuation included (a) the five-year smoothed market for asset valuation, (b) the projected unit credit for the actuarial cost method for the actuarial accrued liability, and (c) the 20-year level-dollar open for amortization of pension service costs.

The cost method was revised for the 2010 Plan year to eliminate the 13-month projection from January 1 to February 1 of the succeeding year. Instead, the January 1 valuation results were used to determine the contributions for the fiscal year commencing in the succeeding calendar year. There was no change in actuarial valuation methods for the 2010 Plan year.

Significant actuarial assumptions used for the January 1, 2009, 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%.

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, *Accounting for Pensions by State and Local Government Employers*.

Three-Year Trend Information

Pension Plan	Fiscal Year	Annual Required Contribution (ARC)	Interest on Net Pension Obligation (NPO)	Adjustment To ARC	Annual Pension Cost (APC)	Contributions In Relation to ARC	Increase (Decrease) in NPO	Net Pension Obligation at Beginning of Year	Net Pension Obligation at End of Year	Percentage of ARC Contributed
Fire and Police	2009	$ 62,071	$ -	$ -	$ 62,071	$ (62,071)	$ -	$ -	$ -	100.0%
Pension Plan City	2010	64,498			64,498	(64,498)				100.0%
of San Antonio	2011	67,328			67,328	(67,328)				100.0%
TMRS -	2009	$ 33,510	$ -	$ -	$ 33,510	$ (33,510)	$ -	$ -	$ -	100.0%
City of	2010	32,338			32,338	(32,338)				100.0%
San Antonio	2011	33,883			33,883	(33,883)				100.0%
CPS All	2009	$ 20,561	$ (164)	$ 193	$ 20,590	$ (20,561)	$ 29	$ (1,973)	$ (1,944)	100.0%
Employee Plan [1]	2010	23,468	(156)	191	23,503	(23,732)	(229)	(1,944)	(2,173)	101.1%
	2011	33,921	(169)	205	33,957	(32,400)	1,557	(2,173)	(616)	95.4%
TMRS -	2008	$ 2,600	$ -	$ -	$ 2,600	$ (2,600)	$ -	$ -	$ -	100.0%
SAWS [2]	2009	4,275			4,275	(4,275)	1,066		1,066	100.0%
	2010	4,703	80	(64)	4,719	(4,703)	1,247	1,066	2,313	100.0%
SAWRP -	2008	$ 4,891	$ -	$ -	$ 4,891	$ (4,891)	$ -	$ -	$ -	100.0%
SAWS [2]	2009	6,035			6,035	(6,035)				100.0%
	2010	7,849			7,849	(7,849)				100.0%

[1] Fiscal year-ended January 31, 2011.
[2] Fiscal year-ended December 31, 2010.

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Note 8 Pension and Retirement Plans (Continued)

Three-Year Trend Information (Continued)

Funded Status and Funding Progress					
	Fire and Police Pension Plan [1]	City of San Antonio TMRS [2]	SAWS TMRS	SAWS SAWSRP	CPS Energy
Actuarial value of plan assets (a)	$ 2,250,549	$ 973,554	$ 116,123	$ 83,320	$ 1,067,841
Actuarial accrued liability (b)	2,481,624	1,073,980	140,565	128,700	1,183,961
Unfunded actuarial accrued liability (funding excess) (b) - (a)	$ 231,075	$ 100,426	$ 24,442	$ 45,380	$ 116,120
Funded ratio (a) / (b)	90.7%	90.6%	82.6%	64.7%	90.2%
Covered payroll (c)	$ 271,533	$ 259,455	$ 86,013	$ 83,505	$ 222,427
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(b) - (a)] / (c))	85.1%	38.7%	28.4%	54.3%	52.2%

[1] Covered payroll presented in this table is as of 10/1/2010.

[2] Covered payroll presented in this table is as of 12/31/2010.

Significant TMRS Actuarial Assumptions and Methods

Significant assumptions used in the actuarial valuation of December 31, 2010, by the Texas Municipal Retirement System's (TMRS) actuary are provided in the following table for both the City and SAWS. The City's actuarial assumptions and methods are based on the restructuring of the TMRS funds as enacted by SB 350.

TMRS Actuarial Assumptions and Methods	
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period - SAWS	28 Years - Closed Period
Remaining Amortization Period - City	24.1 Years - Closed Period
Asset Valuation Method	Amortization Cost
Investment Return - City	7.0%
Investment Return - SAWS	7.5%
Projected Salary Increases	Varies by Age and Service
Includes Inflation At	3.0%
Cost of Living Adjustments - City	2.1%

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 most retired employees with certain health benefits under two postemployment benefit programs. Pursuant to GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the City is required to account for and disclose its other postemployment liability for these programs. The City continues to actively review and have actuarial valuations performed for these programs as required.

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

The first of the two programs is a health insurance plan, which provides benefits for nonuniformed City retirees and for pre-October 1, 1989 uniformed (fire and police) retirees who are not eligible for Medicare. The program compromises 3 self-funded PPO health plans currently administered by United Healthcare. These plans may be amended at any time with approval from the City Council. This program is funded on a pay-as-you-go basis with an aggregate sharing of premium costs based on the following targets: 67.0% by the City and 33.0% by the retiree for those retirees hired prior to October 2007. With the adoption of the fiscal year 2008 Budget, additional changes were made to this retirement health plan. For all non-uniformed employees beginning employment on or after October 1, 2007, a revised schedule for sharing of the costs on a pay-as-you-go basis is effective. The revised schedule is as follows: (1) Employees who separate from the City with less than five years of service are not eligible to participate in the program; (2) Employees who separate with at least five years of service but less than 10 years of service are eligible to participate in the program but without City subsidy; and (3) Employees who separate from employment with 10 years of service or more will pay for 50.0% of the pay-as-you-go contributions to the program and the City will contribute the remaining 50.0%. The ability to participate in the program remains based on eligibility for the TMRS Pension Plan.

Currently, there are 6,068 active civilian employees who may become eligible in the future. Employees may become eligible to participate in this program based on eligibility for a retirement benefit under the rules for TMRS Pension Plan and their number of years of service to City of San Antonio. Under the TMRS Pension Plan, employees may retire at age 60 and above with five or more years of service or with 20 years of service regardless of age. 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. As of September 30, 2011, there were 435 retirees and surviving spouses participating in this program.

The second program with 893 participating retirees is available to eligible retirees who have Medicare coverage. All retirees and dependents are required to apply for and maintain Medicare Part A & B coverage once they reach age 65 or otherwise become eligible for Medicare. Of the current 893 participating Medicare retirees, 145 participate in a fully insured Medicare Advantage HMO and the remaining 748 participate in a fully insured Medicare Supplement. This program may be amended at any time by the City Council.

Participant data disclosed above is not expressed in thousands.

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, based on the allocations described above. For retirees, total program expenses were $11,618 of which $7,023 were medical claims. For the year-ended September 30, 2011, total contributions were as follows:

Total Contributions	
City	$ 9,138
Retiree Premiums	2,480
Total Contributions	$ 11,618

No contributions were made in fiscal year 2011 to prefund benefits.

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

The Health Care Reform Act, enacted March 23, 2010, provides $5,000,000 to reimburse employers for a portion of the cost of health claims for early retirees (aged 55 through 64). Reimbursements are available for 80.0% of individual medical claim costs between $15 and $90. The program's purpose is to encourage employers not to drop coverage for early retirees at least until the health insurance exchanges are available in 2014. The employer may use reimbursements to reduce plan participants' premium contributions, co-payments, deductibles, co-insurance, or other out-of-pocket costs. The City has applied for $1,887 in reimbursement and has received $1,517 to date. As $4,500,000 has been disbursed to various entities by December 2011, the program will cease taking claims incurred after December 31, 2011.

Annual OPEB Cost and Net OPEB Obligation – For the fiscal year-ended September 30, 2011, the City's annual postemployment benefits other than pension (OPEB) cost was not 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 City will not be fully funding the ARC at this time. The City will continue to fund OPEB on a pay-as-you-go basis.

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 ARCs 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. The table below details the actuarial methods and assumptions for the City's OPEB calculation for the fiscal year-ended September 30, 2011:

Assumptions	
Actuarial Valuation Date	1/1/2011
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar, Open
Remaining Amortization Period	30.0 years
Asset Valuation Method	N/A
Actuarial Assumptions:	
Investment Rate of Return	3.0%
Projected Salary Increase	N/A
Healthcare Inflation Rate - Medical and Prescription	9.0% initial (2011) 5.0% ultimate (2015)

Below are the health care cost trend assumptions used for the City's January 1, 2011 actuarial study for the fiscal year-ended September 30, 2011.

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

City's Health Care Cost Trend Assumptions	
Year	Medical & Prescription Drugs
2011	9.0%
2012	8.0%
2013	7.0%
2014	6.0%
2015+	5.0%

The City's retiree participation rate is estimated to be at 60.0%. This estimate is based on evaluation of City retiree's 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.

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.

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 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 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 Health 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 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 Fund. Additional administrative services were provided to the Health Fund by PTRX, Inc. during fiscal year 2011.

Contributions – Since its inception, the Health 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 Health 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.

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

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 Fund's actuary. For the year ending September 30, 2011, and years thereafter, the specified employee contribution rate was 4.7%. 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, 2011 (not expressed in thousands):

Biweekly Contributions:	
Active Fire and Police Members	$101.72
City of San Antonio for Each Member	$233.21
Monthly Contributions for Each Retiree with Under 30 Years of Service who Retires after October 1, 2007	$228.86
Dependent Children	$157.35

Total contributions by active firefighters and police officers were $10,508 for the year ended September 30, 2011.

Membership in the Plan consisted of the following at September 30, 2011 (not expressed in thousands):

Retirees and Beneficiaries Receiving Benefits	2,910
Active Plan Members	3,807
Total Membership	6,717

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)

Fire and Police Retiree Health Care Fund (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:

Assumptions	
Valuation Date	10/1/2010
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 Net of Expense	8.0%
Annual Inflation Rate	4.0%
Projected Annual Salary Increases	4.5% to 14.5%
Health Care Cost Rate Trend:	9.0% Initial 5.5% Ultimate
Annual Payroll Growth Rate	4.0%

CPS Energy

CPS Energy provides certain health, life insurance and disability income 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 may be amended at any time by CPS Energy, acting by and through an Oversight Committee, which includes the President and CEO, the Chief Financial Officer and the Audit Committee Chair of CPS Energy's board of trustees.

Note 9 Postemployment Retirement Benefits (Continued)

CPS Energy (Continued)

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. The plans report results on a calendar-year basis and issue separately audited financial statements that may be obtained by contacting Benefit Trust Administration at CPS Energy.

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. The current policy of CPS Energy is to use each actuarial valuation as the basis for determining monthly employer contributions to the plans during the fiscal year beginning in the calendar year after the valuation year. The January 1, 2009 valuation was the basis for contributions in fiscal year 2011.

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 2.3% 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 $4,200 in fiscal year 2011 for their health insurance benefits.

There were no contributions in relation to ARC in fiscal year 2011.

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. These payments totaled $696 for fiscal year 2011. 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 Health 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 2.3% 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 (amounts not expressed in thousands). 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 (amounts not expressed in thousands). Retirees and covered dependents contributed $234 in fiscal year 2011 for their life insurance benefits. CPS Energy's contributions in relation to the ARC for the Life Plan amounted to 0.1% of covered payroll in fiscal year 2011.

The Disability Plan is funded completely by CPS Energy. CPS Energy's contributions in relation to the ARC were 0.3% of covered payroll in fiscal year 2011.

Note 9 Postemployment Retirement Benefits (Continued)

CPS Energy (Continued)

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 $7,404 for fiscal year 2011. 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.

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. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plans and the ARCs of the employer are subject to continued 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, 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.

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, with an amortization period of 20 years. The asset valuation method used for all three plans was the five-year smoothed market valuation method. Beginning with the 2008 plan year, the cost method was revised to project January 1 data to February 1 of the next calendar year based on assumptions. The cost method was revised for the 2010 plan year to eliminate the 13-month projection from January 1 to February 1 of the succeeding year. Instead, the January 1 valuation results were used to determine the contributions for the fiscal year commencing in the succeeding calendar year.

Significant actuarial assumptions used in the calculations for the January 1, 2009 actuarial valuation 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 8.5% for 2009, decreasing annually to 5.5% in 2016 and thereafter.

Note 9 Postemployment Retirement Benefits (Continued)

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.

By State law, any employee that retires under either the TMRS or SAWS retirement plans is eligible, at the time of retirement, to obtain health insurance benefits similar to those offered to active SAWS employees. Contributions made by retirees for health insurance benefits vary based on retirement date, years of service and the health care options selected. Retirees may also purchase coverage for their spouse at group rates partially subsidized by SAWS. After age 65, healthcare benefits under the plan are supplemental to Medicare benefits.

The following is the participant summary as of January 1, 2009 (the most recent actuarial valuation date, not expressed in thousands):

Active employees	1,548
Retired employees	625
Spouses of retired employees	448
Total	2,621

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, if any, to prefund benefits as determined annually by SAWS' board of trustees. SAWS is currently evaluating ways to phase-in full funding of the actuarially determined ARC.

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, 2010, SAWS' contribution to the plan equaled the current premiums of $6,162, while plan members receiving benefits contributed $246 through their required contribution. No contributions were made in 2010 to prefund benefits.

Annual OPEB Cost and Net OPEB Obligation – For the year-ended December 31, 2010, SAWS' annual OPEB cost is calculated based on the ARC.

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.

Since no portion of SAWS' OPEB obligation has been funded in a separate trust as of December 31, 2010, SAWS does not issue a separate financial report for its OPEB plan.

Note 9 Postemployment Retirement Benefits (Continued)

San Antonio Water System (SAWS) (Continued)

In the January 1, 2009 actuarial valuation, the projected unit credit funding method was used. The investment return assumption used in the calculation of the AAL was 4.8%, 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 ARC over the years. There is not an inflation rate projected for this actuarial valuation. As of December 31, 2009, the UAAL is being amortized as a level dollar amount over a 28 year closed period.
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:

	Annual Rate of Increase		
Year Beginning January 1	Pre-Medicare Medical	Medicare Eligible Medical	Prescription Drugs
2010	7.4%	6.1%	8.3%
2011	7.3%	6.2%	8.0%
2012	7.2%	6.3%	7.8%
2013	7.1%	6.4%	7.6%
2014	7.1%	6.5%	7.4%
2015	7.0%	6.6%	7.2%
2016	6.9%	6.7%	7.0%
2017	6.8%	6.8%	6.8%
2018	6.6%	6.6%	6.6%
2019	6.4%	6.4%	6.4%
2020	6.2%	6.2%	6.2%
2021	6.0%	6.0%	6.0%
2022	5.8%	5.8%	5.8%
2023	5.6%	5.6%	5.6%
2024	5.4%	5.4%	5.4%
2025	5.2%	5.2%	5.2%
2026	5.0%	5.0%	5.0%
2027	4.9%	4.9%	4.9%
2028+	4.5%	4.5%	4.5%

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Note 9 Postemployment Retirement Benefits (Continued)

Three-Year Trend Information

The City's, CPS Energy's and SAWS' annual OPEB cost, employer contributions, percentage cost contributed to the plan, and net OPEB obligation for the three most recent fiscal years were as follows:

Three-Year Trend Information

Pension Plan	Fiscal Year	Annual Required Contribution (ARC)	Interest on Net OPEB Obligation	Adjustment To ARC	Annual OPEB Cost	Contributions In Relation to ARC	Increase (Decrease) in Net OPEB	Net OPEB Obligation at Beginning of Year	Net OPEB Obligation at End of Year	Percentage of ARC Contributed
City of San Antonio	2009	$ 35,818	$ 656	$ (1,116)	$ 35,358	$ (7,279)	$ 28,079	$ 21,872	$ 49,951	20.6%
	2010	35,818	1,499	(2,549)	34,768	(12,475)	22,293	49,951	72,244	35.9%
	2011	36,012	2,168	(3,685)	34,495	(9,138)	25,357	72,244	97,601	26.5%
Fire and Police Retiree Health Care Fund	2009	$ 30,893	$ 804	$ (549)	$ 31,148	$ (21,560)	9,588	$ 10,044	$ 19,632	69.2%
	2010	28,889	1,571	(1,073)	29,387	(22,265)	7,122	19,632	26,754	75.8%
	2011	29,733	2,140	(1,462)	30,411	(23,896)	6,515	26,754	33,269	78.6%
CPS - Health Plan[1]	2009	$ 12,337	$ (2,384)	$ 2,810	$ 12,763	$ (15,192)	$ (2,429)	$ (29,803)	$ (32,232)	119.0%
	2010	7,940	(2,578)	3,040	8,402	(13,820)	(5,418)	(32,232)	(37,650)	164.5%
	2011	6,507	(3,012)	3,551	7,046		7,046	(37,650)	(30,604)	0.0%
CPS - Life Plan[1]	2009	$ -	$ (35)	$ 42	$ 7	$ (127)	$ (120)	$ (438)	$ (558)	1814.3%
	2010		(45)	58	13	(140)	(127)	(558)	(685)	1076.9%
	2011		(55)	65	10	(140)	(130)	(685)	(815)	1400.0%
CPS - Disability Plan[1]	2009	$ 285	$ 2	$ (2)	$ 285	$ (433)	$ (148)	$ 23	$ (125)	151.9%
	2010	381	(10)	12	383	(617)	(234)	(125)	(359)	161.1%
	2011	341	(40)	47	348	(617)	(269)	(359)	(628)	177.3%
SAWS - OPEB[2]	2008	$ 17,696	$ 765	$ -	$ 18,461	$ (5,132)	$ 13,329	$ 13,217	$ 26,546	27.8%
	2009	25,759	1,261	(1,655)	25,365	(5,884)	19,481	26,546	46,027	23.2%
	2010	25,759	2,189	(2,824)	25,124	(6,162)	18,962	46,027	64,989	24.5%

[1] Fiscal year-ended January 31, 2011
[2] Fiscal year-ended December 31, 2010

The City's, Health Fund, SAWS' and CPS Energy's funded status for the most recent year are as follows:

Funded Status and Funding Progress

Pension Plan	City of San Antonio	Fire and Police Health Care Fund	SAWS	CPS Energy Health Plan	CPS Energy Life Plan	CPS Energy Disability Plan
Actuarial value of plan assets (a)	$ -	$ 219,404	$ -	$ 199,195	$ 46,815	$ 3,631
Actuarial accrued liability (b)	324,516	606,861	242,388	198,286	36,091	6,945
Unfunded actuarial accrued liability (funding excess) (b) - (a)	$ 324,516	$ 387,457	$ 242,388	$ (909)	$ (10,724)	$ 3,314
Funded ratio (a) / (b)	0.0%	36.2%	0.0%	100.5%	129.7%	52.3%
Covered payroll (c)	$ 270,708	$ 255,010	$ 83,505	$ 222,427	$ 200,342	$ 200,342
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(b) - (a)] / (c))	119.9%	151.9%	290.3%	(0.4)%	(5.4)%	1.7%

Note 10 CPS Energy South Texas Project (STP)

Joint Operations

Units 1 and 2 – CPS Energy is one of three participants in STP, currently a two-unit nuclear power plant with each unit having a nominal output of approximately 1,350 megawatts. The other participants in STP Units 1 and 2 are NRG South Texas LLP, a wholly owned subsidiary of NRG Energy, Inc. (NRG) and the City of Austin. 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. On October 28, 2010, STP submitted license renewal applications to the NRC. Upon approval of these applications, it is expected that STP Units 1 and 2 will be licensed for a total of 60 years of operation.

Note 10 CPS Energy South Texas Project (STP) (Continued)

Joint Operations (Continued)

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. STPNOC is financed and controlled by the owners pursuant to an operating agreement among the owners and STPNOC. Currently, a four-member board of directors governs STPNOC, with each owner appointing one member to serve with STPNOC's chief executive officer.

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.

CPS Energy's 40.0% ownership in STP Units 1 and 2 represents approximately 1,080 megawatts of total plan capacity. See Note 4, Capital Assets for more information about CPS Energy's capital investments in STP.

Units 3 and 4 Project – In September 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 participation agreement among the STP owners and agreed to potentially own up to 50.0% of STP Units 3 and 4. The Supplemental Agreement provided 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 was effective on October 29, 2007. CPS Energy's adoption of its resolution to participate in the initial development of STP Units 3 and 4 did not constitute a commitment to make the complete investment in the proposed construction and operation of new nuclear units at STP.

Also in September 2007, STPNOC, on behalf of CPS Energy and NRG, filed with the NRC a combined construction and operating license application (COLA) to build and operate STP Units 3 and 4. This COLA 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 it had accepted the COLA for review.

On March 26, 2008, NRG announced the formation of Nuclear Innovation North America, LLC (NINA). NRG has an 88.0% ownership interest in NINA, while Toshiba American Nuclear Energy Corporation (TANE) 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 became CPS Energy's partner for the co-development of STP Units 3 and 4.

On September 24, 2008, STPNOC, on behalf of CPS Energy and NINA, filed with the NRC an updated COLA naming TANE as the provider of STP Units 3 and 4. The project expects to receive the final Safety Evaluation Report in 2012. Receipt of the NRC-approved combined operating license is a condition precedent to starting significant project construction.

Note 10 CPS Energy South Texas Project (STP) (Continued)

Joint Operations (Continued)

Also in September 2008, CPS Energy filed a Phase I application for a Department of Energy (DOE) loan guarantee related to its portion of the estimated project costs. Following the DOE's evaluation of all Phase I applications, the DOE ranked the project third out of a field of fourteen nuclear loan guarantee project applications that were submitted. Subsequently, the DOE narrowed the list of nuclear project candidates for DOE loan guarantees to four projects, including STP Units 3 and 4.

On November 5, 2008, STPNOC and the DOE executed a Standard Contract in which the DOE undertook the obligation to provide for permanent disposal of used nuclear fuel from the proposed STP Units 3 and 4 project.

On January 20, 2009, the Board authorized CPS Energy to work with STPNOC to enter into an engineering, procurement and construction (EPC) agreement with TANE for STP Units 3 and 4. The EPC agreement did not commit CPS Energy to build the new nuclear units. Instead, it enabled CPS Energy to lock in favorable terms and conditions with the contractor prior to a final construction decision once the NRC issues a license for the project. The agreement was subsequently signed by all parties on February 24, 2009.

Following notice published on February 19, 2009, on April 21, 2009, three individuals and three groups joined to file one Petition to Intervene against the STP Units 3 and 4 COLA. This initial petition contained 28 contentions. Interveners subsequently filed seven additional contentions. As a result of NRC Licensing Board decisions, most of the contentions were dismissed. The remaining contentions have been combined into a single contention which has been admitted for further consideration. STPNOC, as agent for the owners, plans to file supporting information as required to address any open issues, and the STPNOC staff believes these contentions can be resolved without hearings. The project schedule 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.

On October 13, 2009, the Board approved selection of STP Units 3 and 4 as the next baseload generation resource and approved a request for $400,000 in bonds to support the project. However, amid reports that CPS Energy had knowledge that costs of the project might be significantly higher than previously reported, the City Council of San Antonio's vote on the bonds was postponed. This higher project cost estimate prompted the City Council to reevaluate CPS Energy's stake in the project and members of CPS Energy's management to engage in negotiations with representatives from TANE in November 2009.

Following the postponement of the City Council's vote, the Board undertook an investigation to determine whether CPS Energy's management had knowledge of an increase in the preliminary cost estimate for STP Units 3 and 4 and why that information was not previously communicated to the Board. The results of this investigation were reported to the Board in late 2009 and, based on the report, the Board adopted a resolution finding that there was a failure of the communication from certain members of CPS Energy executive management to the Board and the City Council regarding a revised cost estimate that was publicly disclosed in October 2009. The investigation report also concluded that there was no malicious intent on the part of any member of the management team in connection with the failure of the communication. Further, the report found 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.

Note 10 CPS Energy South Texas Project (STP) (Continued)

Joint Operations (Continued)

While the project's cost controversy was being investigated, CPS Energy explored all its options regarding participation in or withdrawal from the project. On December 6, 2009, CPS Energy filed a petition in Bexar County district court to clarify the roles and obligations of CPS Energy and NINA to define the rights of both parties should either decide to withdraw from the project. NRG escalated the litigation when it sued CPS Energy and claimed CPS Energy should forfeit all investment to date and lose all value in the project's land and water rights. CPS Energy amended its petition on December 23, 2009, and raised significant issues concerning misconduct by NRG and NINA. CPS Energy specified actual and exemplary damages of $32,000,000.

On February 17, 2010, CPS Energy and NINA announced that a proposed settlement had been reached that ended the parties' legal disagreement and allowed the proposed expansion of STP Units 3 and 4 to proceed. As a result of the settlement, CPS Energy's ownership stake in STP Units 3 and 4 was reduced from 50.0% to 7.6%, while NINA retained 92.4% ownership. CPS Energy is not liable for any project development costs incurred after January 31, 2010. Project costs incurred by CPS Energy as of January 31, 2011 totaled $391,000. However, once the new units reach commercial operation, CPS Energy will be responsible for its 7.6% share of ongoing costs to operate and maintain the units. CPS Energy has withdrawn its pending application for a DOE loan guarantee. Also as a result of the settlement, NINA also agreed to pay CPS Energy $80,000, in two $40,000 payments, upon DOE issuance of a conditional loan guarantee. NINA also agreed to make a contribution of $10,000 over a four-year period to the Residential Energy Assistance Partnership (REAP), which provides emergency bill payment assistance to low-income customers in San Antonio and Bexar County. The settlement agreement was finalized on March 1, 2010. As of January 31, 2011, CPS Energy had received $2,500 from NINA for REAP.

Shortly after the announcement on February 17, Tokyo Electric Power Company (TEPCO) expressed conditional interest in participating in the project. TEPCO operates multiple nuclear units in Japan, including six that were in operation at its Fukushima plant.

On March 11, 2011, a region of Japan sustained significant loss of life and destruction as a result of a major earthquake and resulting tsunami. Included in the damage areas were the Fukushima nuclear units, which lost power to components of the backup and safety control systems and began emitting radiation into the surrounding environment. Following the incident, the NRC began looking into the safety aspects of nuclear plant operations in the United States with the objective of assuring that events such as those at the Fukushima plant do not occur in this country. The NRC's assessments confirmed the safety of U.S. nuclear power plants and included 12 recommendations to the NRC to enhance readiness to safely manage severe events. The NRC Commissioners have directed the staff to implement several of the recommendations that were identified as those that should be implemented without delay. The NRC staff is developing the strategy and the regulatory activities needed to implement these recommendations. In addition, the Commissioners have directed the staff to identify the schedule and resource needs associated with the Near-Term Task Force recommendations that were identified as long-term actions and/or that require additional staff study to inform potential regulatory changes.

On March 21, 2011, NINA initially announced that it was reducing the scope of development of STP Units 3 and 4 to allow time for the NRC to assess the lessons that can be learned from the events in Japan. They further stated that continuing work, for the time being, would be limited to licensing and securing the DOE loan guarantee.

Note 10 CPS Energy South Texas Project (STP) (Continued)

Joint Operations (Continued)

In the wake of the disaster, TEPCO is now expected to focus its most immediate efforts in Japan. It is currently unknown whether TEPCO will continue with its planned investment in STP Units 3 and 4 in the long-term.

On April 19, 2011, NRG announced that it will not invest additional capital in STP Units 3 and 4 development effort and in the first quarter it would write off the entire value of its investment to date in the project while continuing to own a legal interest. TANE will be responsible for funding ongoing costs to continue the licensing process; however, TANE has yet to publicly disclose any specific plans beyond its possible short-term licensing effort. After extensive evaluation and consideration of several factors, CPS Energy's management has made an assessment that the STP Units 3 and 4 project is not impaired.

Excluding AFUDC of $21,000, project costs incurred by CPS Energy to date of $370,000 are included in construction in progress.

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.

NRC 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 Units 1 and 2 currently maintain approximately $2,800,000 of nuclear property insurance, which is above the legally required amount of $1,100,000. 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 (NEIL). A retrospective assessment could occur if property losses, as a result of an accident at any nuclear plant insured by NEIL, exceed the accumulated funds available to NEIL.

Note 10 CPS Energy South Texas Project (STP) (Continued)

Nuclear Decommissioning

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% Decommissioning Trust's assets and related liabilities are included in CPS Energy's financial statements as a component unit. Excess or deficient funds related to the 28% Trust will be received from or distributed to CPS Energy's ratepayers after decommissioning is complete.

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% 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, excess or deficient funds related to the 12% Trust will be received from or distributed to AEP customers after decommissioning is complete.

CPS Energy, together with the other owners of STP Units 1 and 2, files a certificate of financial assurance with the 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 March 2008 showed that decommissioning costs for CPS Energy's 28.0% ownership in STP Units 1 and 2 were estimated at $386,300 in 2007 dollars. Included in the cost study was a 10.0% contingency component as required to comply with the PUCT. 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 further decommissioning contributions will be required to be deposited into the Decommissioning Trust.

CPS Energy has determined that some decommissioning activities will be required prior to shutdown of STP Units 1 and 2 at the end of the plant's life. Since the NRC prohibits any spending out of the Decommissioning Trusts for other than administrative expenses prior to shutdown, CPS Energy established a preshutdown account to fund decommissioning expenses incurred prior to shutdown. Contributions to fund preshutdown decommissioning costs for CPS Energy's 28.0% ownership in STP amounted to $2,200 in fiscal year 2011. Preshutdown decommissioning expenses for the 28.0% ownership totaled $80 for fiscal year 2011. For the 12.0% ownership, preshutdown costs were funded by AEP's ratepayers; preshutdown decommissioning expenses for this ownership totaled $33 for fiscal year 2011.

Excluding securities lending collateral, as of December 31, 2010, CPS Energy had accumulated approximately $301,700 in the 28% Trust. Total funds are allocated to decommissioning costs, spent fuel management and site restoration. Based on the most recent annual calculation of financial assurance required by the NRC, the 28% Trust funds allocated to decommissioning costs totaled $209,000, which exceeded the calculated financial assurance amount of $139,500 at December 31, 2010.

Note 10 CPS Energy South Texas Project (STP) (Continued)

Nuclear Decommissioning (Continued)

The March 2008 cost study estimated decommissioning costs for the 12.0% ownership in STP Units 1 and 2 at $165,600 million in 2007 dollars. Excluding securities lending cash collateral, as of December 31, 2010, approximately $100,100 had been accumulated in the 12% Trust. Total funds are allocated to decommissioning costs, spent fuel management and site restoration. Based on the most recent annual calculation of financial assurance required by the NRC, the 12% Trust funds allocated to decommissioning costs totaled $68,900, which exceeded the calculated financial assurance amount of $59,800 at December 31, 2010.

In fiscal year 2009, CPS Energy changed its method of accounting for the Decommissioning Trusts. Under the new method, a pro rata share of total decommissioning costs (as determined by the March 2008 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, guidance under FASB Statement 71, *Accounting for the Effects of Certain Types of Regulation*, will be followed to retain the zero fund net assets approach to accounting for the Decommissioning Trusts. There was no impact to fund net assets as a result of this change in accounting method.

Both Decommissioning Trusts have separate calendar-year financial statements, which are separately audited and can be obtained by contacting the Controller at CPS Energy.

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 totaling $8,665 were made in fiscal year 2010, of which approximately $8,300 related to the 2010 plan year, while approximately $400 related to plan year 2009. A final contribution of $6,200 for plan year 2010 will be required to be made by September 15, 2011, in order to meet minimum funding requirements of the Internal Revenue Code.

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 sheet 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. FAS 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 defined benefit funding obligations to CPS Energy was $(14,700) for fiscal year 2011 and was reflected as a reduction in Other Changes in Fund Net Assets on the Statements of Revenues, Expenses and Changes in Fund Net Assets.

Employees whose pension benefits exceed $245 for the 1974 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. STPNOC has a supplemental retirement plan for certain key individuals.

Note 10 CPS Energy South Texas Project (STP) (Continued)

STP Pension Plan and Other Postretirement Benefits (Continued)

STPNOC approved a change to the pension plan, effective January 1, 2007, to preclude the eligibility of employees hired after December 31, 2006, in the plan. Employees hired after this date will receive enhanced matching contributions under the STP Nuclear Operating Company Savings Plan.

STPNOC 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. STPNOC 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.

Schedule of Funding Status (RSI-Unaudited)
Calendar Year 2010

	Pension Benefits	Other Benefits
Change in Benefit Obligation:		
Benefit Obligation - Beginning	$ 259,244	$ 76,990
Service Cost	8,652	6,264
Interest Cost	15,415	4,511
Actuarial Loss	29,732	16,827
Benefits Paid	(3,943)	(2,487)
Benefit Obligation - Ending	309,100	102,105
Change in Plan Assets:		
Fair Value of Plan Assets - Beginning	161,845	9,665
Actual Return on Plan Assets	16,747	1,332
Employer Contributions	8,665	2,125
Benefits Paid	(3,943)	(2,487)
Fair Value of Plan Assets - Ending	183,314	10,635
Funded Status - Ending	(125,786)	(91,470)
Unrecognized Net Actuarial Loss	100,137	38,668
Unrecognized Prior Service Cost	5,581	(10,597)
Unrecognized Transition Obligation		196
Net Amount Recognized	(20,068)	(63,203)
Accrued Benefit Cost	$ (20,068)	$ (63,203)
Weighted-Average Assumptions:		
Discount Rate	5.5%	5.3%
Expected Return on Plan Assets	8.0%	8.0%
Rate of Compensation Increase	3.0%	3.0%

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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, 2011. Grants awarded by federal, state, and other governmental agencies but not yet earned as of September 30, 2011 were $60,871.

Capital Improvement Program

The City will be undertaking various capital improvements during fiscal year 2012. The estimated cost of these improvements is $565,474, which consist of the following:

Function/Program	FY 2012
General Government	
Information Technology	$ 10,185
Municipal Facilities	46,753
Total General Government	$ 56,938
Public Health & Safety	
Drainage	$ 100,147
Fire Protection	22,097
Law Enforcement	41,547
Total Public Health & Safety	$ 163,791
Recreation & Culture	
Libraries	$ 3,600
Municipal Facilities	14,848
Parks	38,438
Total Recreation & Culture	$ 56,886
Transportation	
Air Transportation	$ 88,689
Street	199,170
Total Transportation	$ 287,859
Total Capital Plan	$ 565,474

These projects are scheduled to be funded with a combination of grants, contributions from others, bonds, certificates, notes and other designated City resources.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

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 $21,545. 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.

Kopplow Development, Inc. v. City of San Antonio. Plaintiff contends that the construction of a regional storm water 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, but the City's motion for new trial was granted. After a retrial, the jury awarded approximately $600 to Plaintiff for the inverse condemnation and statutory condemnation. The City and Plaintiff appealed. The Fourth Court of Appeals recently issued its opinion affirming the trial court's ruling awarding Kopplow $5 as compensation for the land taken, but reversed the other portion of the judgment for the remainder of the damages. Kopplow's motion for rehearing was denied on December 29, 2010. Kopplow filed a Petition for Review to the Texas Supreme Court, which was granted. Kopplow filed their brief on the merits in October, and the City filed its reply in December 2011. The matter has not yet been set for submission to the court.

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 where she allegedly was struck by a City vehicle. Ms. Rosenbaum later died, allegedly as a result of this incident. Damages in this matter are capped by the Texas Tort Claims Act at $250. The case was stayed pending the prosecution of an interlocutory appeal of Judge's denial of the City's plea to the jurisdiction, motion for traditional summary judgment and no-evidence Motion for Summary Judgment to the Fourth Court of Appeals. On December 21, 2011, the Fourth Court of Appeals issued its opinion reversing the trial court's denial of the plea to the jurisdiction and dismissing the case. Plaintiffs have not yet indicated whether or not they will seek further appellate review.

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. After decedent refused commands to stop and drop his weapon, and in fear for their safety, the officers shot and killed the decedent. Plaintiffs filed suit in Federal Court against the City and the officers in their individual capacities. If liability is determined, damages could be in excess of $250. In December 2011, the court granted the City's Motion for Summary Judgment. The remaining claims against the officers are set for trial on March 5, 2012.

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.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Litigation (Continued)

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. Damages could exceed $250. The City filed a plea to the jurisdiction, which was denied by the Court. The Fourth Court of Appeals issued its opinion on February 16, 2011, affirming the Trial Court's denial of the City's Plea to the Jurisdiction. The case was remanded back to State Court. As of this date, there is no trial setting.

Melissa Hopkins, et. al. v. William Karman, et. al. Plaintiff's decedent was the victim of armed robbery. A San Antonio Police Officer arrived on the scene. Shots were exchanged with suspects and Plaintiff's decedent was killed. Plaintiff filed suit against the officer and the City alleging violations of civil rights under 42 U.S.C. §1983. This case is in the early discovery stages. Damages could exceed $250.

Headwaters Coalition, et. al. v. City of San Antonio. The Headwaters Coalition, owners of the property alleged to contain the headwaters of the San Antonio River, and a local homeowners association filed suit to prevent the use of 2007 General Obligation Bond funds for constructing a drainage system to run down Hildebrand Avenue from Broadway to the San Antonio River, intending to alleviate floodwaters on Broadway. Plaintiffs contend that the wording of the 2007 bond election documents strictly limits the construction of the drainage system to Broadway and that no work may be done off of that street. The City contends that the intent of the 2007 General Obligation Bond proposition election documents was to alleviate the flooding on Broadway and that placement of the drainage system on Hildebrand is the most efficient and cost-effective means of achieving that goal. Alternatively, the City contends that the Hildebrand drainage system plan substantially complies with the 2007 General Obligation Bond proposition documents. A State District Court Judge entered a temporary injunction preventing the City not only from using the 2007 bond proceeds on the Hildebrand system, but prohibiting any further construction work or the expenditures of any other City funds on the Hildebrand drainage system project during the pendency of the suit. The City filed an interlocutory appeal to the Fourth Court of Appeals. Court-ordered mediation has been ordered on this matter and will commence on March 20, 2012.

Abilmelch Garcia v. City of San Antonio. Plaintiff claims he was operating his wheelchair at the intersection of E. Commerce and Soledad when he was struck by a City of San Antonio Waste Management truck operated by a City employee. As a result, he alleges serious and permanent bodily injuries, including loss of both legs. Plaintiff sued under the Texas Tort Claims Act and for violation of Section 552.003 of the Texas Transportation Code (failure to yield right-of-way to a pedestrian). Plaintiff sued for an unknown amount of money for damages to include past and future medical expenses, physical pain, mental anguish and physical impairment, which allegations exceeds $250. Damages are capped by the Texas Tort Claims Act at $250. Case is set for trial on April 16, 2012.

Maria Elena Rodriguez v. City of San Antonio. Plaintiffs sued under the Texas Tort Claims Act for negligence, gross negligence, and wrongful death alleging that the San Antonio Police Officer negligently struck and killed the driver in a motor vehicle accident on Loop 1604 on March 7, 2010. Maria Elena Rodriguez was riding as a passenger in the vehicle. She allegedly sustained injuries to both knees and her back, and alleges damages in excess of $250. Damages are capped by the Texas Tort Claims Act at $250. Plaintiff has until March 7, 2012 to refile her suit due to Motion for Continuance being denied by the judge on February 27, 2012.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Litigation (Continued)

Barbara Webb, et. al. v. City of San Antonio. Plaintiffs sued under the Texas Tort Claims Act for injuries sustained in a motor vehicle accident. A San Antonio Police Officer was en route to an emergency call when a vehicle turned into the street in front of her. The officer swerved to avoid that vehicle and lost control of her car, moving into the oncoming traffic. The patrol vehicle struck Plaintiffs' car head on. Plaintiff suffered life threatening injuries. This case is in the discovery stage. Damages could reach $250.

Arbitrage

The City has issued certain tax-exempt obligations that are subject to 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. As of September 30, 2011, the City has no arbitrage liability for its governmental or proprietary funds.

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. The Airport System's revenue is net of Ground Abatement Credits and Building Improvement Credits allowed to lessees per signed contracts. Total rental revenue on operating leases for the fiscal year-ended September 30, 2011 was $65,534. As of September 30, 2011, the leases provide for the following future minimum rentals:

Lease Revenues				
	Governmental Activities	Airport System	Nonmajor Enterprise Funds	Total
Fiscal year ending September 30:				
2012	$ 5,804	$ 43,383	$ 1,229	$ 50,416
2013	5,534	39,368	1,218	46,120
2014	5,245	29,758	937	35,940
2015	5,132	28,113	195	33,440
2016	2,516	8,358	183	11,057
2017-2021	9,560	28,584	913	39,057
2022-2026	3,342	9,757	720	13,819
2027-2031	1,149	5,029		6,178
2032-2036	142	1,277		1,419
Future Minimum Lease Rentals	$ 38,424	$ 193,627	$ 5,395	$ 237,446

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 Solid Waste Management 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, 2011 resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of $2,045. This represents a decrease of $12 from the prior fiscal year for expenditures incurred for geotechnical and environmental engineering services.

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) 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. As of September 30, 2001, the permit for the North East Transfer Station has been transferred from the City, and the new permitee has provided adequate financial assurance and assumes all liabilities for this facility. Additionally, financial assurance is required to demonstrate financial responsibility for underground storage petroleum facilities. 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 City is currently the Park's anchor tenant.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Brooks City-Base – Electric and Gas Utilities (Continued)

In fiscal year 2003, CPS Energy entered into a 20-year agreement with 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 incremental revenues to the City for electric and gas sales to customers that reside on the BDA-developed property. Annual reductions to BDA's obligation are also made in accordance with contract terms for economic development at Brooks City-Base that benefits CPS Energy's Systems. If BDA's operating revenues cannot cover the annual minimum payment, then, as BDA's obligation is backed by the City, the City will fund the obligation for that fiscal year. Obligations for fiscal year 2011 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.

To the extent that the capital renewals and upgrades do not total $12,600 by September 2022, BDA's and CPS Energy's committed investments each will be reduced equally. To date, CPS Energy has invested $5,600 and BDA has invested, net of annual interest, $4,200. BDA has fully funded its commitment.

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 – As of January 31, 2011, CPS Energy had no capital leases in which CPS Energy was the lessee. The only capital lease arrangement for which CPS Energy was the lessee, a four year lease for the use of computer servers, ended October 31, 2010. As such there were no future lease payments associated with this capital lease. The value of the assets acquired through the completed computer capital lease at January 31, 2011 was as follows:

	January 31, 2011
Equipment	$ 2,723
Accumulated Depreciation	(2,723)
Net book value	$ -

Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Leases (Continued)

Operating Leases – CPS Energy has entered into operating lease agreements to secure the usage of railroad cars, natural gas storage facilities, land, a building, office space, parking lot space and engineering equipment. The lease of the building contains an escalation clause whereby the minimum monthly lease payments will increase by $3 per month beginning in the sixth year of the lease. The leases for the parking lot space contain a provision for a slight escalation in the monthly payment amount after the first year of each lease.

The future minimum lease payments made by CPS Energy for noncancelable operating leases with terms in excess of one year were as follows:

Year Ended January 31,	Operating Lease Payments
2012	$ 5,852
2013	4,072
2014	2,130
2015	1,770
2016	738
Total future minimum lease payments	$ 14,562

CPS Energy's minimum lease payments for all operating leases for which CPS Energy was the lessee amounted to $8,000 in fiscal year 2011. There were no contingent lease or sublease payments in fiscal year 2011.

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 communication towers. New leases pertaining to the use of CPS Energy's communication towers contain an escalation clause whereby the annual lease payments will increase by 4.0% per year after the first year of each lease.

Additionally, CPS Energy has three operating leases for the use of land that CPS Energy owns, and it has entered into multiple agricultural leases allowing the lessees to use CPS Energy's land for sheep and cattle grazing. 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 three land leases also contain a provision for contingent lease receipts based on the Consumer Price Index.

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Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Leases (Continued)

The future minimum lease receipts to CPS Energy for noncancelable operating leases with terms in excess of one year were as follows:

Year Ended January 31,	Operating Lease Receipts
2012	$ 2,746
2013	2,756
2014	2,701
2015	2,679
2016	2,182
Later years	10,307
Total future minimum lease payments	$ 23,371

CPS Energy's minimum lease receipts for all operating leases for which CPS Energy was the lessor amounted to $8,900 in fiscal year 2011. Contingent lease receipts amounted to $328 for fiscal year 2011. There were no sublease receipts in fiscal year 2011.

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. As a result, net proceeds from the transaction of approximately $75,700 are being reported over the 32-year leaseback term. In fiscal year 2011, the net amount recorded as income by CPS Energy was $2,800.

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Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Other

Purchase and construction commitments amounted to approximately $2,400,000 at January 31, 2011. 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 $2,700,000. This amount includes provisions for wind power through May 2030, solar power through December 2040, landfill power through December 2020, and raw uranium associated with STP fabrication and conversion services needed for refueling through May 2026.

On January 20, 2009, the Board approved a policy statement on sustainability. The basis of the policy is to affirm that CPS Energy's strategic direction centers on transforming from a company focused on providing low-cost power from traditional generation sources to a company providing competitively priced power from a variety of sources. To be sustainable, CPS Energy has to balance its financial viability, environmental commitments and social responsibility as a community-owned provider. Further, the objective of sustainable energy development is to meet current needs without compromising the ability of future generations to meet their needs. CPS Energy committed more than $5,000,000 by 2020 toward sustainability initiatives.

During fiscal year 2008, CPS Energy entered into a Natural Gas Supply Agreement with the SAEAPFC 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 SAEAPFC and a third-party gas supplier, the SAEAPFC 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 $2,400,000 purchase and construction commitments amount.

In December 2007, CPS Energy and Exelon Generation Company LLC (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 (ESBWR), nominally rated at 1,520 megawatts each. Under this agreement, CPS Energy has the option to acquire between a 25.0% and 40.0% ownership in the Exelon Project. Exelon submitted the COLA for the Exelon Project to the NRC on September 3, 2008. On October 30, 2008, the NRC accepted the application for a detailed review. Exelon announced on November 24, 2008, that they intended to select an alternate technology, other than the ESBWR, for the Exelon Project. Subsequently on December 18, 2008, the NRC placed the review of Exelon's COLA on hold. On March 27, 2009, Exelon announced that it had selected Hitachi's Advanced Boiling Water Reactor 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. Exelon has delayed development of the Exelon Project but will continue to pursue an Early Site Permit for the Victoria County location. CPS Energy's investment in the Exelon Project totaled $2,700 as of January 31, 2011.

Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Other (Continued)

In fiscal year 2003, CPS Energy entered into a 20-year agreement with 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 incremental revenues to the City for electric and gas sales to customers that reside on the BDA-developed property. Annual reductions to BDA's obligation are also made in accordance with contract terms for economic development at Brooks City-Base that benefits CPS Energy's Systems. To the extent that the capital renewals and upgrades do not total $12,600 by September 2022, BDA's and CPS Energy's committed investments each will be reduced equally. To date, CPS Energy has invested $5,600 and BDA has met its obligation, net of annual interest, $4,200.

On June 8, 2010, CPS Energy committed to partner in the Texas Sustainable Energy Research Institute at the University of Texas at San Antonio for sustainable energy research. The agreement calls for CPS Energy to invest up to $50,000 over 10 years in the institute. The first two years' investment will be $3,500, from funds currently allocated to research and development. Future funding will be developed by the scope of the projects defined by the partnership and subject to annual approval by the Board.

CPS Energy sells its excess power into the wholesale market. While the majority of these transactions are conducted in the short-term market, from time to time, CPS Energy enters into long-term wholesale power supply agreements with other public power entities. CPS Energy currently has two such agreements, one covering the period from 2011 through 2016 and one from 2016 through 2023. The volumes committed under these agreements represent less than 2.0% of current capacity. CPS Energy regularly monitors the market values of these transactions to manage contract provisions with the counterparties.

Save for Tomorrow Energy Program (STEP)

During fiscal year 2009, CPS Energy projected to spend approximately $849,000 over the next 12 years on energy efficiency and conservation through its Save for Tomorrow Energy Program (STEP). Annually, the first $8,000 of STEP expenses are funded through the base rate and are reported as CPS Energy operation and maintenance (O&M) expenses.

STEP expenses over the initial $8,000 per year are recovered through the fuel adjustment factor over a twelve-month period beginning in the subsequent fiscal year after they are incurred and have been independently validated. These STEP recoveries will be deferred as STEP net costs recoverable in accordance with guidance provided by FAS 71, *Accounting for the Effects of Certain Types of Regulation*. This guidance requires that certain costs be capitalized as a regulatory asset until they are recovered through future rates.

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Note 11 Commitments and Contingencies (Continued)

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 $6,596 at December 31, 2010. 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.

In March 2007, SAWS was notified by of the Environmental Protection Agency (EPA) Region 6 of alleged failures to comply with the Clean Water Act due to the occurrence of sanitary sewer overflows. The EPA subsequently referred the matter to the United States Department of Justice (DOJ) for an enforcement action. In October 2007, EPA/DOJ and SAWS entered into a tolling agreement that precludes the running of any applicable statutes of limitation that might otherwise bar a claim in anticipation that the parties would engage in settlement negotiations. The tolling agreement has been extended on eight occasions, with the Ninth Tolling Agreement currently set to expire on April 30, 2012. Since 2007, SAWS has engaged in settlement negotiations with the EPA and the DOJ to resolve the allegations. SAWS last met with EPA/DOJ representatives in November 2011 to discuss resolution of the enforcement action. Additional negotiations are anticipated. While these negotiations are ongoing, SAWS expects that any settlement, consent decree, or enforcement action will result in required capital improvements and increased annual maintenance and operating expenses that will be phased in over the term of any settlement agreement or consent decree between SAWS and EPA/DOJ. SAWS' very preliminary estimates of the cost of capital improvements and other actions that may be required to settle this matter range from approximately $250,000 to approximately $1,000,000; however, the total final costs may significantly exceed SAWS preliminary estimates, and will depend on the course of action ultimately agreed upon between SAWS and EPA/DOJ or ordered by a Federal District Court if the parties are unable to settle the matter. SAWS currently expects that negotiations with the EPA and DOJ may conclude during calendar year 2012. Since 2007, SAWS has spent approximately $159,800 in capital projects to address and prevent sanitary sewer overflows.

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 2002, SAWS and LCRA executed a Definitive Agreement outlining SAWS' and LCRA's obligations. The agreement called for a multi-year study period, at the end of which both SAWS and LCRA were to determine whether or not to proceed with implementation of the project. Finalization of studies and obtaining appropriate permits for the project were expected to be completed between 2013 and 2015 (figures in this paragraph are not in thousands).

Throughout the study period, SAWS and LCRA evaluated the project's viability on an ongoing basis. In 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 to San Antonio from the planned project. In May 2009, SAWS' Board of Trustees declared LCRA in breach of the 2002 Definitive Agreement between the parties. The parties unsuccessfully conducted formal mediation in August 2009 and SAWS filed suit against LCRA.

Note 11 Commitments and Contingencies (Continued)

San Antonio Water System (SAWS) (Continued)

Litigation (Continued)

In September 2009, LCRA filed a plea asserting full or partial governmental immunity from suit. In February 2010, the District Judge in the 200th Judicial District Court of Travis County, Texas granted LCRA's plea asserting full or partial governmental immunity from suit and dismissed SAWS' law suit. SAWS' filed an appeal to the Court of Appeals for the Third Appellate District of Texas in Austin, Texas. Following a decision by the Court of Appeals, either party may further appeal to the Supreme Court of Texas. However, consideration by the Supreme Court is discretionary with the Court and may be refused. Resolution of the appeal on the issue of governmental immunity is expected to take from two to five years, although the time is very difficult to predict.

SAWS has expensed $39,300 in study period costs through December 31, 2010. Under the terms of the 2002 Definitive Agreement with LCRA, SAWS is entitled to receive a reimbursement from LCRA of approximately one-half of those study period costs in the event the agreement is terminated by SAWS. No receivable for this reimbursement has been recorded due to the ongoing litigation.

Other

As of December 31, 2010, SAWS has entered into various water leases to obtain rights to pump water from the Edwards Aquifer. The term of these agreements vary, with some expiring as early as 2011 and others continuing until 2020. Some of the leases include price escalations and the average annual cost per acre foot ranges from $121 to $145 (these figures are not in thousands). The future commitments under these leases are as follows:

	2011	2012	2013	2014	2015	Thereafter
Lease obligations	$ 4,735	$ 3,927	$ 2,170	$ 1,421	$ 1,435	$ 4,100
Lease obligations (acre feet)	34,793	28,839	17,922	11,127	10,927	28,929

SAWS has various commitments relating to the production of water supplies. A summary of these commitments is provided below. As with any estimates, the actual amounts paid could differ materially.

	2011	2012	2013	2014	2015	Thereafter
Firm purchased water obligations	$ 4,913	$ 5,009	$ 5,106	$ 5,203	$ 5,301	$ 123,559
Firm purchased water obligations (acre feet)	6,700	6,700	6,700	6,700	6,700	101,500
Variable purchased water obligations	$ 3,991	$ 3,898	$ 3,795	$ 3,685	$ 3,195	$ 99,149
Variable purchased water obligations (acre feet)	4,853	4,613	4,373	4,133	3,529	90,528

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 11,000 acre feet of water annually during the years 2011-2037 at prices ranging from $893 to approximately $1,527 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.)

Note 11 Commitments and Contingencies (Continued)

San Antonio Water System (SAWS) (Continued)

Other (Continued)

In 2000, 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. This agreement expired in February 2010. In 2010, SAWS and Massah Development Corporation negotiated a new Water Supply Agreement for a term of 15 years beginning July 1, 2010. The minimum take or pay commitment for the contract is 100 acre feet per month or 1,200 acre feet per year. The initial price is $550 per acre foot with an escalator based on the Producers Price Index. SAWS has an option at the end of the primary term to extend the contract for 10 years. (Figures in this paragraph are not in thousands)

In 2006, SAWS renegotiated the terms of a contract with Sneckner 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 are 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. (Figures in this paragraph are not in thousands)

In July 2010, SAWS was granted a permit by the Gonzales County Underground Water Conservation District (the District) to pump 11,688 acre feet from the Carrizo Aquifer. In December 2010, opponents filed an appeal from the District's decision in the Judicial District Court of Gonzales County. Resolution of the appeal could take from one to four years. SAWS has entered into 20 separate agreements to pump water from the Carrizo Aquifer. SAWS makes minimum water payments under the terms of these agreements until such time as the necessary infrastructure to produce and transport the water has been completed. At December 31, 2010, SAWS is committed to make payments under only three of these agreements. Minimum water payments are required under these three agreements through 2029 even if no water is produced. The remaining agreements are currently subject to cancellation by SAWS. The table below summarizes both the required minimum water payments under these agreements as well as the projected additional payments under the agreements assuming that water production begins in 2014.

	2011	2012	2013	2014	2015	Thereafter
Required minimum water payments	$ 580	$ 700	$ 824	$ 865	$ 891	$ 16,654
Projected additional payments	$ -	$ -	$ -	$ 319	$ 328	$ 4,809
Produced water (acre feet)				11,688	11,688	163,632

SAWS is also committed under various contracts for completion of construction or acquisition of utility plant totaling approximately $270,000 as of December 31, 2010. Funding of this amount will come from excess revenues, contributions from developers, restricted assets and available commercial paper capacity.

Note 12 Pollution Remediation Obligation

Primary Government (City)

The City follows the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

The general nature of existing pollution that has been identified on City property is consistent with City operations of acquiring properties for infrastructure and improvement development. Under most circumstances, the triggering event relevant to the City is the voluntary commencement of activities to clean up the pollution. Costs were estimated using the expected cash flow technique prescribed under GASB Statement No. 49 utilizing information provided by the City's respective departments which included previous knowledge of clean-up costs, existing contracts, etc. Depending on the length of time it takes the City to remediate the pollution, costs may be different from that estimated below as a result of market rate changes, improvements to technology, etc.

	Balance at 10/1/2010	Additions	Deletions	Balance at 9/30/2011
Governmental Activities:				
Liabilities	$ 1,825	$ 435	$ (715)	$ 1,545
Construction in Progress	1,205	183	(527)	861
Business-Type Activities:				
Liabilities	$ 700	$ 340	$ -	$ 1,040

The Governmental Activities' liabilities were a result of cost estimates to clean existing pollution found on land acquired by the City's CIMS and Parks Departments for the construction of streets and drainage and parks, respectively. Any net changes in the Governmental Activities pollution liability that was not capitalized under Construction in Progress was expensed under the City's public works and culture and recreation activities.

The Business-Type Activities' liability was a result of cost estimates to clean existing pollution found on land acquired by the Airport System for the construction of airport structures. As the City acquired this property in the early 1940s, the liability did not meet the criteria to be capitalized, and as such was expensed in fiscal year 2009. The additional $340 of costs recorded in fiscal year 2011 relate to incremental estimates for the same property which was expensed in both Business-Type Activities and the Airport System Fund.

The City does not foresee receiving any recoveries from third parties for the costs associated with cleaning up these pollution obligations.

CPS Energy

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, requires that a liability be recognized for expected outlays for cleaning up existing pollution when certain triggering events occur. The general nature of existing pollution that has been identified at CPS Energy sites is consistent with that experienced within the electric and gas utilities industry. Under most circumstances, the triggering event most relevant to CPS Energy is the voluntary commencement of activities to clean up pollution.

Note 12 Pollution Remediation Obligation (Continued)

CPS Energy (Continued)

Under the FERC guidance, reserves have been established for dismantling and closure costs. In fiscal year 2008, in preparation for implementation of GASB Statement No. 49, a portion of those reserves were reclassified to remediation and dismantling reserve accounts reported on the balance sheet within other liabilities and deferred credits. When a triggering event occurs, those reserves will be reclassified as a pollution remediation liability also reported within other liabilities and deferred credits.

The pollution remediation liability was $2,600 as of January 31, 2011. Costs were estimated using the expected cash flow technique prescribed under GASB Statement No. 49 utilizing information provided by CPS Energy's environmental staff and consultants.

San Antonio Water System (SAWS)

SAWS had no material pollution remediation liabilities at December 31, 2010.

Note 13 Risk Financing

Primary Government (City)

Property and Casualty Liability

At September 30, 2011, the City maintains excess liability insurance coverage through Star Insurance Company. The policy provides coverage in excess of the City's self-insured retention of $500 for general liability, law enforcement legal liability, public official's liability, and employee benefits liability. The City utilizes a third-party administrator to adjust its claims. Great American Insurance Company provides coverage for the City's real property and contents. The City's deductible for property damage is $200, and the insurance will reimburse up to $2,510,577.

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 four years.

Workers' Compensation

As of September 30, 2011, 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 Workers' Compensation 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 four years.

Note 13 Risk Financing (Continued)

Primary Government (City) (Continued)

Employee Health Benefits

The City offers employees and their eligible dependents a comprehensive employee benefits program including medical, dental, vision and basic and supplemental life insurance. Employees may also participate in healthcare or dependent care spending accounts through our Section 125 Cafeteria Plan. The City's health and dental programs are self-funded. Obligations for benefits are accrued in the Employee Health Benefits Fund based upon the City's estimates of the aggregate liability for unpaid benefits.

Retiree Health Benefits

The City offers medical coverage for its retirees and their dependents. The City offers both self insured and fully insured plans to participating retirees who retire from the TMRS Pension Plan immediately following retirement from the City. Self Funded obligations for benefits are accrued in the City's Retiree Health Benefits Insurance Fund (a subfund of the Employee Health Benefits Fund) based upon the City's estimates of the aggregate liability for unpaid benefits. The City additionally, determined and accrued OPEB liabilities based on an actuarial assessment of historical self funded claims data performed bi-annually and reviewed annually. Current year unpaid benefit liabilities for retirees are netted against the OPEB liability as additional contributions.

Unemployment Compensation Program

The Unemployment Compensation Program 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 in the Employee Health Benefits Fund.

Extended Sick Leave Program

The Extended Sick Leave Program 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. The Extended Sick Leave Program is currently administered out of the Employee Health Benefits Fund.

Employee Wellness Program

The Employee Wellness Program is designed to mitigate future health and productivity loss costs by creating awareness of health risks and providing education about healthy lifestyle choices. In 2008, the City opened the COSA Health and Wellness Center in partnership with Gonzaba Medical Group. The Center is available exclusively to provide primary and occupational medicine to active employees. Additionally, the City provides every employee and members of their household an Employee Assistance Program to assist employees with basic situational and behavioral counseling, as well as, financial counseling and legal referral services. The Employee Wellness Program is managed out of the Employee Health Benefits Fund.

Note 13 Risk Financing (Continued)

Primary Government (City) (Continued)

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 due to the multi-year life cycle to close out these claims and the average historical as well as forecasted yield on the City's investments.

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, 2011:

Fund	October 1,	Estimates	Claims	Payments	September 30,
Insurance Reserve[2]:					
Fiscal Year 2010	$ 18,497	$ 4,638	$ 4,031	$ (4,031)	$ 23,135
Fiscal Year 2011	23,135	(1,590)	5,259	(5,259)	21,545
Employee Health Benefits: [1]					
Fiscal Year 2010	$ 8,654	$ (289)	$ 85,058	$ (85,058)	$ 8,365
Fiscal Year 2011	8,365	(496)	87,068	(87,068)	7,869
Workers' Compensation:					
Fiscal Year 2010	$ 26,217	$ 1,703	$ 12,270	$ (12,270)	$ 27,920
Fiscal Year 2011	27,920	1,534	12,333	(12,333)	29,454

[1] FY11 fund financial claims expense reflects an additional $525 paid for Unemployment Claims that are not included in the calculation of claims liability.

[2] FY11 fund financial claims expense reflects an additional $15 paid for claims handled outside of the reserves.

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Note 13 Risk Financing (Continued)

CPS Energy

Insurance and Reserves – 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 $5,900,000 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 per occurrence applicable to non-power-plant. The liability insurance program includes:

- $100,000 of excess general liability coverage over a retention amount of $3,000;
- $25,000 of fiduciary liability coverage;
- $100,000 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 $3,000 is maintained. No claims settlements exceeded insurance coverage and there were no decreases in the last three fiscal years.

Actuarial studies are performed periodically to assess and determine the adequacy of insurance reserve retentions. Actuarial valuations include nonincremental claims expenses. An actuarial study was performed during the third quarter of fiscal year 2011.

In the table below, the remaining balance under the property reserves column at January 31, 2011, relates to estimated obligations for the clean up, closure, and post-closure 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.

Under CPS Energy's reserve program, all claims are recorded against the reserve.

Schedule of Changes in Claims Liability				
Fund	Liability February 1,	Claims Adjustments	Claims Payments	Liability January 31,
Property Reserves:				
Fiscal Year 2010	$ 3,105	$ 799	$ -	$ 3,904
Fiscal Year 2011	3,904	344		4,248
Employee and Public Liability Claims:				
Fiscal Year 2010	$ 10,303	$ 4,314	$ (4,254)	$ 10,363
Fiscal Year 2011	10,363	6,343	(4,427)	12,279

Note 13 Risk Financing (Continued)

CPS Energy (Continued)

Counterparty Risk – CPS Energy is exposed to counterparty risk associated with various transactions primarily related to debt, investments, a lease/leaseback transaction and wholesale power. Counterparty risk is the risk that a counterparty will fail to meet its obligations in accordance with the terms and conditions of its contract with CPS Energy. CPS Energy has policies and practices in place to ensure the solvency of counterparties is assessed accurately, monitored regularly and managed actively through its Enterprise Risk Management & Solution Division.

Hedging – The 1999 Texas utility deregulation legislation, Senate Bill 7, contained provisions modifying the Texas PFIA 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. In 2002, CPS Energy began hedging its exposure to changes in natural gas prices, with the goal of controlling fuel costs to native load customers and stabilizing the expected cash flows associated with wholesale power transactions.

In fiscal year 2010, CPS Energy implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses recognition, measurement and disclosures related to derivative instruments. CPS Energy does not use derivative instruments for speculative purposes. The only derivative instruments entered into are for the purposes of risk mitigation; therefore, these instruments are considered potential hedging derivative instruments under GASB Statement No. 53.

On December 20, 2010, 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.

In accordance with the requirements of GASB Statement No. 53, all fuel hedges are reported on the balance sheet at fair value. 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.

All potential hedging derivative instruments were evaluated for effectiveness at January 31, 2011, and were determined to be effective in substantially offsetting the changes in cash flows of the hedgeable items. The instruments were categorized into two broad groups for purposes of this testing. In one category, hedges utilize only NYMEX natural gas futures and options that are priced based on the underlying Henry Hub natural gas price, while the physical gas is typically purchased at prices based on either the Western Area Hub Association (WAHA) or the Houston Ship Channel (HSC). Therefore, effectiveness testing was based on the extent of correlation between the first of the month index prices of natural gas at each of these locations and the settlement price at Henry Hub. The correlation coefficient was established at the critical term to be evaluated, with 0.89 established as the minimum standard tolerated. The testing, based on two different location hubs (WAHA and HSC), demonstrated a substantial offset in the fair values, as evidenced by their calculated R values, 0.91 and 0.97, respectively, indicating that the changes in cash flows substantially offset the changes in cash flows of the hedgeable item. Additionally, the substantive characteristics of the hedge have been considered, and the evaluation of this effectiveness measure has been sufficiently completed and documented such that a different evaluator, using the same method and assumptions, would reach substantially similar results.

Note 13 Risk Financing (Continued)

CPS Energy (Continued)

The second category includes hedges with both Henry Hub priced swaps and basis swaps to appropriate natural gas hub (WAHA or HSC) with volumes matching the underlying expected physical transaction. Considering the substantive characteristics of these hedge transactions, these instruments were determined to be effective utilizing the consistent critical terms method prescribed under GASB Statement No. 53.

As of January 31, 2011, the total fair value of outstanding hedge instruments was a net liability of $14,230. Fuel hedging instruments with a fair value of $(6,287) are reported as a current liability and classified on the balance sheet as a component of accounts payable and accrued liabilities. Long-term fuel hedging instruments with a fair value of $(7,943) are reported as a noncurrent asset and classified as a component of noncurrent and other assets.

Consistent with hedge accounting treatment required for derivative instruments that are determined to be effective in offsetting changes in the cash flows of the hedged item, changes in fair value are reported as deferred (inflows) outflows of resources on the balance sheet until the contract expiration that occurs in conjunction with the hedged expected fuel purchase transaction. When fuel hedging contracts expire, at the time the purchase transactions occur, the deferred balance is recorded as an adjustment to fuel expense. The current deferred (inflows) outflows of resources related to fuel hedges totaled $6,905 at January 31, 2011. These amounts are reported on the balance sheet as current assets and are classified as a component of prepayments, deferred and other current assets. The noncurrent deferred (inflows) outflows of resources totaled $7,943 at January 31, 2011. These amounts are reported on the balance sheet as noncurrent assets and are classified as a component of other deferred costs.

Following is information related to CPS Energy's outstanding fuel hedging derivative instruments:

Fuel Derivative Transactions as of January 31, 2011

Type of Transaction		Duration	Volumes in MMBTU	Fair Value	Changes in Fair Value
Long	Call	Feb 2011 - Sep 2011	2,130,000	$ 4	$ (1,328)
Short	Call	Mar 2011 - Mar 2011	260,000		35
Long	Put	Mar 2011 - Mar 2011	260,000	193	29
Short	Put	Feb 2011 - Jul 2011	1,560,000	(1,179)	186
Long	Fixed Price Natural Gas	Feb 2011 - Jan 2014	22,374,416	(13,883)	(13,160)
Short	Fixed Price Natural Gas	Feb 2011 - Mar 2011	600,000	676	676
Long	HSC Basis Swap	Feb 2011 - Jun 2011	1,400,000	(3)	(106)
Short	WAHA Basis Swap	Feb 2011 - Mar 2011	600,000	(38)	(38)
				$ (14,230)	$ (13,706)

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.

Note 13 Risk Financing (Continued)

CPS Energy (Continued)

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. Only if expressly requested in advance may an exchange for physical assets take place.

Preassigned Congestion Rights – In the normal course of business, CPS Energy acquires Preassigned Congestion Rights (PCRs) and Transmission Congestion Rights (TCRs) as a hedge against unexpected congestion costs. The TCRs are purchased at auction, annually and monthly, at market value. Municipally owned utilities are granted the right to purchase PCRs annually at 15.0% of the cost of TCRs. This low initial investment is an indication of the leverage characteristic of derivatives. Additionally, PCRs exhibit the other two characteristics of derivatives as defined by GASB Statement No. 53 (settlement factors and net settlement). Therefore, PCRs are reported at fair value on the balance sheet in accordance with GASB Statement No. 53, with fair value determined by the cost of annual TCRs purchased at the same time.

The effectiveness of these hedges is satisfied utilizing the consistent critical terms method prescribed under GASB Statement No. 53, whereby the forward contract is for the same quantity of the hedgeable item (one Megawatt per PCR) and covers the same time (15-minute intervals over the course of a month) and location (a specified directional constraint). When combined with the hedgeable item (congestion cost), the contract value is zero since the reference rate of the contract is consistent with the rate of the hedgeable item.

Due to ERCOT's conversion from a zonal to nodal market in December 2010, annual auction rights will not be available until later in 2011. Consequently, there were no PCRs held at January 31, 2011.

Credit Risk – CPS Energy began executing over-the-counter hedge transactions directly with approved counterparties in April 2010. These counterparties are generally highly rated entities that are leaders in their respective industries. CPS Energy monitors the creditworthiness of these entities on a daily basis and manages the resulting financial exposure via a third-party, vertically integrated risk system. Contractual terms with each existing counterparty vary, but each is structured so that should the counterparty's credit rating fall below BBB- with S&P or Baa3 with Moody's, no unsecured credit would be granted and the counterparty would be required to post collateral for any calculated credit exposure. In the event of default or nonperformance by counterparties, brokers or NYMEX, the operations of CPS Energy could be materially affected. However, CPS Energy does not expect these entities to fail to meet their obligations given the level of their credit ratings and the monitoring procedures in place with which to manage this risk. As of January 31, 2011, the exposure to all hedge-related counterparties was such that no counterparty credit risk existed.

Termination Risk – For CPS Energy's fuel hedges that are executed over the counter directly with approved counterparties, the possibility exists that one or more of these derivative instruments may end earlier than expected, thereby depriving CPS Energy of the protection from the underlying risk that was being hedged or potentially requiring CPS Energy to make a significant termination payment. This termination payment between CPS Energy and its counterparty is determined based on current market prices. In the event a transaction is terminated early, CPS Energy would likely be able to replace the transaction at current market prices with similar, although not exact, terms with one of its other approved counterparties.

Note 13 Risk Financing (Continued)

CPS Energy (Continued)

Basis Risk – CPS Energy is exposed to basis risk on its fuel hedges because the expected commodity purchases being hedged will price based on a pricing point (HSC or WAHA) different than that at which the contracts are expected to settle (Henry Hub). For January 2011, the HSC price was $4.10 per MMBtu, the WAHA price was $3.91 per MMBtu, and the Henry Hub price was $4.22 per MMBtu.

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 remediation, legal liability and commercial property claim. Claims that exceed the self-insured retention limit are covered through SAWS' comprehensive commercial insurance program. For the year-ended December 31, 2010, there were no reductions in insurance coverage from the previous year and there were no new claims 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 $6,596 as of December 31, 2010, 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 two fiscal years were as follows:

San Antonio Water System
Schedule of Changes in Claims Liability

Year Ended	Balance at Beginning of Fiscal Year	Estimates	Claims and Payments	Balance at End of Fiscal Year	Estimated Due Within One Year
December 31, 2010	$ 5,504	$ 2,701	$ (1,609)	$ 6,596	$ 6,596
December 31, 2009	$ 5,401	$ 2,050	$ (1,947)	$ 5,504	$ 5,504

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.

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Note 13 Risk Financing (Continued)

San Antonio Water System (SAWS) (Continued)

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. In August 2008, SAWS issued a Notice of Partial Redemption for $110,615 of the outstanding principal amount of $111,615 of the Series 2003 Bonds due to continued unfavorable market conditions relating to the ratings downgrade of MBIA Insurance Corporation. In 2009, SAWS redeemed the remaining $1,000 of the Series 2003 Bonds through the issuance of additional commercial paper. The interest rate swap agreement was not terminated upon the redemption of the 2003 Bonds and instead serves as an off-market hedge for that portion of the commercial paper notes outstanding which pertain to the redemption of the 2003 Bonds. SAWS currently intends to maintain a portion of its outstanding commercial paper in amounts matching the notional amounts of the swap. SAWS did not recognize any economic gain or loss as a result of this refunding since the debt service requirements of the commercial paper are expected to closely match the debt service requirements of the refunded debt. At December 31, 2010, $106,530 of commercial paper notes are hedged by the interest rate swap agreement.

Terms – The swap agreement contains scheduled reductions to the outstanding notional amounts that are expected to follow the original scheduled reductions in the Series 2003 Bonds. The Series 2003 Bonds were issued on March 27, 2003, with a principal amount of $122,500. The swap agreement matures on May 1, 2033. At the time the swap was entered into, the counterparty was Bear Stearns Financial Products, Inc. (Bear Stearns FPI), with the index for the variable rate leg of the SWAP being the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index.

In March 2008, JP Morgan Chase & Co. announced its acquisition of The Bear Stearns Companies, Inc., the parent of Bear Stearns FPI. JP Morgan Chase & Co. has guaranteed the trading obligations of Bear Stearns and its subsidiaries. Effective June 16, 2009, the swap agreement was amended between SAWS, JP Morgan Chase & Co. , and MBIA to provide for JP Morgan Chase Bank N.A. to become the swap counterparty and allow for the remainder of outstanding Series 2003 Bonds to be redeemed, while maintaining the swap agreement as an obligation to all parties. The amendment provides for the conditional release of MBIA's swap insurance policy upon the occurrence of certain future events. The combination of commercial paper notes and a floating-to-fixed swap creates a synthetic fixed-rate of 4.2%. The synthetic fixed-rate protects against the potential of rising interest rates.

Fair Value – The swap had a negative fair value of approximately $11,800 at December 31, 2010. 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.

The swap agreement has been deemed an effective hedge and therefore qualifies for hedge accounting treatment. Since the fair value is negative, the fair value is recorded as a non-current liability. Changes in the swap's fair value are recorded as a deferred outflow and included in unrestricted non-current assets. At the time the 2003 Bonds were redeemed in 2008, the fair value of the swap was $6,200. The deferred outflow at the time of redemption was included in the carrying value of the 2003 Bonds and resulted in a loss on redemption of $6,200. This loss is amortized over the remaining life of the 2003 Bonds.

Note 13 Risk Financing (Continued)

San Antonio Water System (SAWS) (Continued)

Credit Risk – As of December 31, 2010, 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, JP Morgan Chase Bank, N.A. was rated 'AA-' by Fitch Ratings and Standard & Poor's and 'Aa1' by Moody's Investors Service as of December 31, 2010. The amended swap agreement contains a credit support annex which will become effective upon the release of MBIA from the swap insurance policy. Collateralization would be required by either party should the fair market value of the swap reach applicable thresholds as stated in the amended swap agreement.

Basis Risk – SAWS is exposed to basis risk to the extent that the interest payments on its hedged commercial paper notes do not match the variable-rate payments received on the associated swap. SAWS attempts to mitigate this risk by (a) matching the outstanding hedged commercial paper notes associated with the redemption of the variable-rate debt to the notional amount and amortization schedule of the swap and (b) selecting an index for the variable-rate leg of the swap that is reasonably expected to closely match the interest rate on the hedged commercial paper notes.

Termination Risk – SAWS may terminate the swap at any time for any reason. JP Morgan Chase may terminate the swap if SAWS fails to perform under the terms of the agreement. The ongoing payment obligations under the swap are insured as provided for in the swap amendment and JP Morgan Chase cannot terminate as long as the insurer does not fail to perform. Also, 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.

Market-access Risk – SAWS is subject to market-access risk as $106,530 of variable-rate debt hedged by the swap is outstanding commercial paper notes with current maturities less than 49 days. As previously noted, SAWS intends to reissue the commercial paper notes in amounts matching the notional amounts.

Swap Payments and Associated Debt – As of December 31, 2010, debt service requirements of the hedged commercial paper notes and net swap payments, assuming current interest rates remain the same, are detailed in the following table. As rates vary, variable-rate interest payments and net swap payments will vary. Principal payments assume that commercial paper will be repaid in accordance with the amortization schedule of the swap.

Pay-Fixed, Receive-Variable Interest Rate Swap
Estimated Debt Service Requirements of Variable-Rate
Debt Outstanding and Net Swap Payments

Year	Principal	Interest Paid on Debt	Interest Rate Swap, Net	Total
2011	$ 2,720	$ 318	$ 4,021	$ 7,059
2012	2,840	310	3,913	7,063
2013	2,970	301	3,801	7,072
2014	3,105	292	3,684	7,081
2015	3,245	282	3,561	7,088
2016-2020	18,590	1,247	15,757	35,594
2021-2025	23,235	928	11,728	35,891
2026-2030	29,035	530	6,692	36,257
2031-2033	20,790	86	1,088	21,964
Total	$ 106,530	$ 4,294	$ 54,245	$ 165,069

Note 14 Interfund Transfers

The following is a summary of interfund transfers for the City for the year-ended September 30, 2011:

Summary Table of Interfund Transfers
Year-Ended September 30, 2011

	Transfers From Other Funds	Transfers To Other Funds
General Fund:		
Airport System Fund	$ 196	$ -
Categorical Grant-In-Aid		6,664
General Obligation Project Fund		745
Internal Service Funds	820	7,565
Nonmajor Governmental Funds	9,653	20,605
Nonmajor Enterprise Funds	3,934	3,534
Total General Fund	14,603	39,113
Debt Service Fund:		
Internal Service Funds	173	
Nonmajor Governmental Funds	39,754	
Total Debt Service Fund	39,927	
Categorical Grant-In-Aid:		
General Fund	6,664	
General Obligation Project Fund		469
Airport System	38	
Internal Service Funds	26	
Nonmajor Governmental Funds	148	3,762
Total Categorical Grant-In-Aid	6,876	4,231
2007 General Obligation Bonds:		
General Obligation Project Fund		85,378
Nonmajor Governmental Funds		275
Total 2007 General Obligation Bonds		85,653
General Obligation Project Fund:		
General Fund	745	
Categorical Grant-In-Aid	469	
2007 General Obligation Bonds	85,378	
Nonmajor Governmental Funds	21,763	
Nonmajor Enterprise Funds	450	
Total General Obligation Project Fund	108,805	

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Note 14 Interfund Transfers (Continued)

Summary Table of Interfund Transfers (Continued)
Year-Ended September 30, 2011

	Transfers From Other Funds	Transfers To Other Funds
Airport System Fund:		
General Fund	$ -	$ 196
Categorical Grant-In-Aid		38
Internal Service Funds	463	34
Total Airport System Fund	463	268
Internal Service Funds:		
General Fund	7,565	820
Debt Service Fund		173
Categorical Grant-In-Aid		26
Airport System Fund	34	463
Internal Service Funds	85	85
Nonmajor Governmental Funds	112	361
Nonmajor Enterprise Funds		18
Total Internal Service Funds	7,796	1,946
Nonmajor Governmental Funds:		
General Fund	20,605	9,653
Debt Service Fund		39,754
Categorical Grant-In-Aid	3,762	148
2007 General Obligation Bonds	275	
General Obligation Project Fund		21,763
Internal Service Funds	361	112
Nonmajor Governmental Funds	140,001	140,001
Nonmajor Enterprise Funds	855	88
Total Nonmajor Governmental Funds	165,859	211,519
Nonmajor Enterprise Funds:		
General Fund	3,534	3,934
General Obligation Project Fund		450
Internal Service Funds	18	
Nonmajor Governmental Funds	88	855
Nonmajor Enterprise Funds	210	210
Total Nonmajor Enterprise Funds	3,850	5,449
Total	$ 348,179	$ 348,179

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 or comply with other direction from the City Council of San Antonio.

Note 15 Fund Balance Classifications

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented in the following table. Please see the definitions of the various fund balance classifications in Note 1 Summary of Significant Accounting Policies, Fund Balance.

	General Fund	Debt Service Fund	Categorical Grant-In-Aid	2007 General Obligation Bonds	General Obligation Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances:							
Nonspendable:							
In nonspendable form:							
Inventory	$ 4,854	$ -	$ 75	$ -	$ -	$ 241	$ 5,170
Prepaid	85					459	544
Legally or contractually intact:							
Permanent Fund Corpus						3,641	3,641
Total Nonspendable	4,939		75			4,341	9,355
Restricted for:							
General Government						25,455	25,455
Public Safety						4,632	4,632
Public Works						47,560	47,560
Health Services	133					79	212
Welfare	14						14
Culture and Recreation	930					38,592	39,522
Urban Redevelopment and Housing	30					1,870	1,900
Economic Development and Opportunity						5,615	5,615
Capital Projects				217,775		218,806	436,581
Debt Service		93,569				32,577	126,146
Total Restricted	1,107	93,569		217,775		375,186	687,637
Committed:							
General Government	8,667						8,667
Public Safety	2,635					32	2,667
Public Works	26,790						26,790
Health Services	311						311
Sanitation	2						2
Welfare	1,638						1,638
Culture and Recreation	2,608					670	3,278
Convention and Tourism						17,995	17,995
Economic Development and Opportunity	5,889						5,889
Capital Projects						48,584	48,584
Total Committed	48,540					67,281	115,821
Assigned:							
General Government	6,747						6,747
Public Safety	15						15
Public Works						1,320	1,320
Sanitation	281						281
Welfare	16						16
Culture and Recreation	3					382	385
Urban Redevelopment and Housing						11,535	11,535
Economic Development and Opportunity	351						351
Total Assigned	7,413					13,237	20,650
Unassigned	170,693		(4,284)		(46,836)	(24,388)	95,185
Total Fund Balance	$ 232,692	$ 93,569	$ (4,209)	$ 217,775	$ (46,836)	$ 435,657	$ 928,648

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Note 15 Fund Balance Classifications (Continued)

The City utilizes encumbrance accounting to ensure appropriated funds are adequately committed and remaining unspent balances are carried forward into the next fiscal year. Encumbrances are created for purchase order, grant match requirements, and capital project funding. The City further carries forward available unspent uncommitted funds identified through the Closing Ordinance into the next fiscal year as authorized by City Council. These amounts are reported in fund balance as follows:

	General Fund	Debt Service Fund	Categorical Grant-In-Aid	2007 General Obligation Bonds	General Obligation Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Encumbrances:							
Restricted	$ 392	$ -	$ -	$ 323,132	$ -	$ 233,977	$ 557,501
Committed	31,188					17,683	48,871
Assigned						164	164
Unassigned			45,932		156,702	144,479	347,113
Total Encumbrances	$ 31,580	$ -	$ 45,932	$ 323,132	$ 156,702	$ 396,303	$ 953,649

The City further maintains a 9.0% of General Fund expenditures' Budgeted Financial Reserve which was adopted by City Council. This Reserve is reviewed and adopted by City Council annually in the City's Budget Ordinance. Additions to the balance are considered annually as part of the City's overall budget adoption process and is contingent upon the General Fund's overall estimated expenditures and related funding.

The Reserve may be utilized to meet one of more of the following events upon subsequent adoption by the City Council.

- Unforeseen operational or capital requirements which arise during the course of the fiscal year;
- Unforeseen or extraordinary occurrence such as a natural disaster, catastrophic change in the City's financial position, or the occurrence of a similar event; or
- To assist the City in managing fluctuations in available General Fund resources from year to year in stabilizing the budget.

The balance within the Budgeted Financial Reserve as of September 30, 2011 was $83,416. This Reserve balance is presented in the General Fund under the unassigned fund balance classification. The City does not have a minimum fund balance policy.

Note 16 Deficits in Fund Balances / Net Assets

Special Revenue Funds

As of September 30, 2011, deficit fund balances are reported in the Categorical Grant-in-Aid Fund and the Community Development Program Fund in the amounts of $4,209 and $606 respectively. The deficit fund balance in Categorical Grant-in-Aid is a result of providing additional program services to the community beyond what monies were provided by grantor agencies. The uncollectible amounts were incorporated into the City's annual budget process to be funded over five years of which the City has one year remaining to fund. The deficit balance in the Community Development Program Fund is a result of utilizing grant monies for activities that were determined not to benefit the mission/purpose of the grant. The City has created an obligation to reimburse the grantor and will incorporate the funding of this deficit as well as the remaining deficits within CGIA into future adopted budgets.

Note 16 Deficits in Fund Balances / Net Assets (Continued)

Capital Projects Funds

As of September 30, 2011, deficit fund balances are reported in the General Obligation Project Fund, Certificates of Obligation Project Fund, and Improvement Projects in the amounts of $46,836, $10,825, and $12,699, respectively. The deficit balances in these work effort funds are a result of a one year reimbursement clause allowing departments to spend up to one year in advance of bonds being sold and proceeds transferred in to fund the work efforts. Another contribution to this deficit is the timing of invoices billed to third party contributors. The deficits will be addressed by identifying the appropriate funding source and transferring funds from a bond authorization (when sold), operating funds, grants, and/or by billing and collecting contributions from third party contributors.

Internal Service Funds

As of September 30, 2011, the Workers' Compensation Fund had deficit net assets of $1,337. The deficit balance was a result of higher than expected actuarially determined accruals in fiscal year 2011 that were more than the amount considered in the annual Workers' Compensation Fund assessment. The City will fund the deficit by revising the future assessment charged to various City funds over the course of the next three years.

As of September 30, 2011, a deficit fund balance was reported in CIMS in the amount of $3,719. The deficit in CIMS is due to the fund not including long-term liabilities (OPEB and Accrued Leave) in its assessments. Due to the fund's GASB Statement No. 54 reclassification the long-term liabilities not previously recorded in the fund are now included, and resulted in a negative fund balance. Reevaluation of assessments, fees, and other funding sources will be reviewed to determine future capacity.

Enterprise Funds

As of September 30, 2011, a deficit fund balance was reported in the Development Services Fund in the amount of $619. The deficit in the Development Services Fund is due to the fund not including long-term liabilities (OPEB and Accrued Leave) in its assessments. Due to the fund's GASB Statement No. 54 reclassification, the long-term liabilities not previously recorded in the fund are now included, and resulted in a negative fund balance. Reevaluation of assessments, fees, and other funding sources will be reviewed to determine future capacity.

Note 17 Other Disclosures

Donor Restricted Endowment

The City has five Permanent Funds: the City Cemeteries Fund, the Carver Cultural Center Endowment Fund, the San Antonio Housing Trust Fund, the William C. Morris Endowment Fund, and the Boza Becica Endowment Fund. The City is only allowed to spend interest proceeds generated from the principal amount for each of these funds. The City's endowments' spending policy for authorizing and spending investment income is a total return policy. Income will include not only interest and dividends, but also include increase and/or decreases in the market value of the endowed assets, if applicable. Market value fluctuations are included as an integral part of investment returns. The net assets from these endowment funds are classified as restricted net assets and are reported in the government-wide financial statements.

Note 17 Other Disclosures (Continued)

Donor Restricted Endowment (Continued)

The City Cemeteries Fund generated $11 in investment earnings to be expended for specified purposes. Chapter 713 of the Texas Health and Safety Code governs what expenditures the City may incur when spending the interest income. Per Chapter 713, the revenue can be spent for the maintenance and care of the graves, lots, and burial places, and to beautify the entire cemetery. The principal amount of this fund is increased each year by sales of lots from the San Jose Cemetery. The principal is required to be retained in perpetuity.

The Carver Cultural Center Endowment Fund generated $2 in investment earnings. 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 Prudent 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 $100 in investment earnings. 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, regulated, and administered in all respects under the laws of the State of Texas.

The William C. Morris Endowment Fund generated $1 in investment earnings. These earnings are used on an annual basis to enhance the City Library's Educational Programming and Services for Children. The earnings of the funds will be expended in accordance with the spending policy of the Library's board of directors or trustees.

The Boza Becica Endowment Fund generated $2 in investment earnings. These earnings will be used for the acquisition of books and materials for the San Antonio Public Library in accordance with the terms and conditions of the Last Will and Testament of Boza Becica. The principal is required to be retained in perpetuity.

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Note 18 Prior Period Restatement

During fiscal year 2011, the following restatements were made to implement GASB Statement No. 54; to adjust for the addition/removal of various blended component units reported in the financial statements due to the availability of their respective reports for inclusion in the current year; to account for the business consolidation of Market Square; and to properly account for the construction of an asset under the Municipal Facilities Corporation (Blended Component Unit) rather than under the City's capital projects fund.

		Reconciliation of the Balance Sheet to Statement of Net Assets					
	Total Governmental Activities Net Assets	Revenues/ Receivables	Internal Service Fund Allocation	Capital Assets	Long-term Liabilities	Total Governmental Funds' Fund Balances	Total Business-type Activities Net Assets
Beginning Balances, October 1	**$ 2,526,951**	**$ 18,596**	**$ 108,773**	**$ 3,580,613**	**$ (2,139,752)**	**$ 958,721**	**$ 351,892**
Increase/(Decrease)							
General Fund:							
Capital Improvements Reserve						4,770	
Community Services						4,750	
Community Services (PEG)						(11,795)	
International Center						1,906	
Job Training						1,555	
Total General Fund						1,186	
Categorical Grant-In-Aid:							
Improvement Projects						356	
Community Services						226	
Total Categorical Grant-In-Aid						582	
Nonmajor Governmental:							
Special Revenue Funds:							
Confiscated Property	240					240	(240)
Development Services	2,587			(176)	3,388	(625)	(2,587)
CIMS			(2,748)	(32)	2,826	(46)	
Capital Improvements Reserve						(4,770)	
International Center						(1,906)	
Job Training						(1,555)	
Community Services:							
Noise Abatement	(7)					(7)	7
Market Square	(3,386)			(2,942)		(444)	3,386
PEG						11,795	
Starbright						(105)	
Equipment Acquisition						1,647	
General Fund						(4,750)	
Categorical Grant-In-Aid						(226)	
Special Event Security Trust	(449)					(449)	
Blended Component Units:							
HFDC	12					12	
EFC	68					68	
IDA	9					9	
EDC	(700)					(700)	
HTPFC	(56)					(56)	
Municipal Facilities Corp.						(1,653)	
Starbright						105	
Capital Project Funds:							
Improvement Projects							
Categorical Grant-In-Aid						(356)	
Municipal Facilities Corp.						1,653	
Equipment Acquisition						(1,647)	
Total Nonmajor Governmental	(1,682)		(2,748)	(3,150)	6,214	(3,766)	566
Restated Beginning Balances, October 1	**$ 2,525,269**	**$ 18,596**	**$ 106,025**	**$ 3,577,463**	**$ (2,133,538)**	**$ 956,723**	**$ 352,458**

Note 19 Subsequent Events

Primary Government (City)

On February 16, 2012, the City Council approved calling an election on Saturday, May 12, for the City's proposed 2012-2017 Bond Program. If approved, the $596,000 140-project program will be the largest in the City's history and will not require a property tax increase to fund the debt service obligations. These projects will be divided into the following five categories:

- Streets, Bridges and Sidewalks: 41 projects – $338,000
- Drainage and Flood Control: 17 projects – $128,000
- Parks, Recreation and Open Space: 68 projects – $87,000
- Library, Museum and Cultural Arts Facilities: 11 projects – $29,000
- Public Safety Facilities: 3 projects – $14,000

Fire and Police Pension Fund

The Pension Fund had their actuarial study as of October 1, 2011 completed and issued in January 2012. The results of the study include an increase in the Fund's Unfunded Actuarially Accrued Liability (UAAL) from $231,075 as of October 1, 2010 to $242,741. The years to amortize the UAAL remained at 9.1 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 smoothed market approach for the value of assets which provides for asset gains or losses to be smoothed over a five-year period. Smoothing of the Pension Fund's investment returns as of September 30, 2011 resulted in the deferral of $360,467 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 7.8% or other actuarial gains.

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 its actuarial study as of October 1, 2011 completed in February 2012. The results of the study include an increase in the Fund's Unfunded Actuarially Accrued Liability (UAAL) from $387,457 as of October 1, 2010 to $403,614. 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 statue. 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 2019.

Note 19 Subsequent Events (Continued)

CPS Energy

Long-Term Debt

In September 2011, the City Council approved an ordinance authorizing the issuance of the City's Electric and Gas Systems Revenue Refunding Bonds, New Series 2011, in a principal amount not to exceed $60,000, and other financial matters as necessary to refund certain portions of the City's Electric and Gas Systems Revenue and Refunding Bonds, New Series 2002 for debt service savings. Approximately $50,900 in bonds were issued in November 2011 to refund $57,400 of the outstanding New Series 2002 bonds. The transaction resulted in a net present value savings of $7,700.

Solar Power Agreement

In January 2012, CPS Energy entered into negotiations for a power purchase agreement relating to one of the nation's largest solar projects. The project will mean new corporate headquarters and U.S. manufacturing operations for global companies in San Antonio. The offer from OCI Solar Power is expected to result in 400 megawatts (MW) of zero-emissions solar energy, 800-plus professional and technical jobs, and more than $1,000,000 in construction investment.

The OCI Solar Power proposal outlines a partnership that should result in:

- Multiple solar manufacturing facilities in the San Antonio area to produce proven components of solar power plants;
- More than $100,000 in capital investment;
- 800+ jobs with an annual payroll of nearly $40,000; and
- A 25-year purchased power agreement for up to 400 MW of solar generation.

OCI Solar will begin construction of the first plant in 2013 and plans to build additional facilities through 2016, subject to power purchase agreements.

San Antonio Water System (SAWS)

Long-Term Debt

In August 2011, the City Council approved an ordinance that authorized SAWS to refund $381,000 of its Series 2002 and 2002A bonds via three options: an advanced refunding, a current refunding, or a forward refunding. In addition, the ordinance authorized SAWS to convert $60,000 of tax-exempt commercial paper to long-term debt. SAWS priced the advanced refunding and commercial paper takeout in September 2011 and closed the deal in October 2011. The par amount of the bonds that were issued totaled $165,090, which included an advance refunding of $115,080 of Series 2002 and Series 2002-A Bonds and proceeds to redeem $60,000 of outstanding commercial paper notes. The refunding netted savings of $15,700 over the life of the bonds, with $10,500 net present value savings. After the advance refunding, $265,885 of Series 2002 Bonds remain, which will be eligible for a current refunding starting February 2012. SAWS anticipates pricing the current refunding in February 2012, should market conditions remain favorable.

Note 19 Subsequent Events (Continued)

San Antonio Water System (SAWS) (Continued)

BexarMet Consolidation

In November 2011, 74.0% of BexarMet ratepayers voted to dissolve the utility and consolidate it into SAWS. In January 2012, the DOJ certified the vote and the BexarMet Board of Directors was dissolved. The Texas Commission on Environmental Quality will transfer all of BexarMet's assets and liabilities to SAWS within 90 days after the DOJ certification is received, and then dissolve the district entirely. Texas Senate Bill 341 provides SAWS up to five years to completely integrate the former BexarMet system.

Litigation

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 2002, SAWS and LCRA executed a Definitive Agreement outlining SAWS' and LCRA's obligations. The agreement called for a multi-year study period, at the end of which both SAWS and LCRA were to determine whether or not to proceed with implementation of the project. Finalization of studies and obtaining appropriate permits for the project were expected to be completed between 2013 and 2015. Throughout the study period, SAWS and LCRA evaluated the project's viability on an ongoing basis. In 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 to San Antonio from the planned project. In May 2009, SAWS' Board of Trustees declared LCRA in breach of the 2002 Definitive Agreement between the parties. The parties unsuccessfully conducted formal mediation in August 2009 and SAWS filed suit against LCRA. In November 2011, the SAWS Board agreed to settle the lawsuit. The settlement called for the LCRA to reimburse SAWS $18,800 immediately and $1,400 annually for eight years.

Rate Increase Approval

In December 2011, the City Council approved an overall 7.9% system wide increase applied to each business unit as follows: 3.4% for Water Delivery; 3.0% for Water Supply; and 13.6% for Wastewater. The rate increase is expected to produce an annual increase in revenues of $26,100. The Council also authorized SAWS to adjust some miscellaneous service charges that are expected to generate $1,500 in additional annual revenue. The increases became effective January 2012.

CITY OF SAN ANTONIO, TEXAS

Comprehensive Annual Financial Report

Year-Ended September 30, 2011

City of San Antonio, Texas

Required Supplementary Information Other Than MD&A (Unaudited)

Budgetary Comparison Schedule
General Fund
Year-Ended September 30, 2011
(In Thousands)

	2011			
	BUDGETED AMOUNTS		BUDGETARY BASIS	VARIANCE WITH FINAL BUDGET POSITIVE
	ORIGINAL	FINAL	ACTUAL	(NEGATIVE)
Resources (Inflows):				
Taxes	$ 469,952	$ 474,859	$ 483,198	$ 8,339
Licenses and Permits	5,651	7,416	8,680	1,264
Intergovernmental	7,534	6,475	5,403	(1,072)
Revenues from Utilities	285,628	296,590	308,451	11,861
Charges for Services	43,940	46,873	50,134	3,261
Fines and Forfeits	14,794	14,902	13,697	(1,205)
Miscellaneous	9,229	15,298	18,880	3,582
Investment Earnings	1,259	786	1,819	1,033
Transfers from Other Funds	23,563	15,946	14,603	(1,343)
Amounts Available for Appropriation	861,550	879,145	904,865	25,720
Charges to Appropriations (Outflows):				
General Government	107,560	89,243	81,729	7,514
Public Safety	527,607	536,765	530,955	5,810
Public Works	40,505	44,905	45,357	(452)
Health Services	72,194	74,826	76,619	(1,793)
Sanitation	3,276	3,312	3,354	(42)
Welfare	41,856	46,294	44,342	1,952
Culture and Recreation	81,829	83,884	83,291	593
Economic Development and Opportunity	12,205	12,334	13,428	(1,094)
Transfers to Other Funds	52,070	55,616	55,500	116
Total Charges to Appropriations:	939,102	947,179	934,575	12,604
Surplus (Deficiency) of Resources Over (Under) Charges to Appropriations	(77,552)	(68,034)	(29,710)	38,324
Fund Balance Allocation	77,552	68,034	29,710	(38,324)
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	$ 904,865
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(14,603)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 890,262
Uses/Outflows of Resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 934,575
Differences - budget to GAAP:	
Encumbrances for supplies, equipment, and services ordered but not received are reported in the year the orders are placed for budgetary purposes, but in the year the supplies, equipment and services are received for financial reporting purposes	(31,580)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(39,113)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 863,882

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 not encumbered or earmarked lapse at fiscal year-end.

The City noted budget violations within Public Works, Health Services, Sanitation, and Economic Development and Opportunity. However, as sufficient fund balances covered individual functional excesses these were not deemed to be material violations.

(unaudited - see accompanying auditors' report)

City of San Antonio, Texas

Pension and Postemployment Schedules

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
10-01-10	$ 2,250,549	$ 2,481,624	$ 231,075	90.7%	$ 271,533	85.1%
10-01-09	2,166,924	2,442,620	275,696	88.7%	269,359	102.4%
10-01-08	2,096,072	2,350,132	254,060	89.2%	243,904	104.2%

TEXAS MUNICIPAL RETIREMENT SYSTEM - CITY OF SAN ANTONIO[4]

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
12-31-10	$ 973,554	$ 1,073,980	$ 100,426	90.6%	$ 259,455	38.7%
12-31-09	515,884	712,223	196,339	72.4%	259,835	75.6%
12-31-08	492,604	825,180	332,576	59.7%	259,224	128.3%

CPS ENERGY - ALL EMPLOYEE PLAN

ACTUARIAL VALUATION DATE [2, 3]	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL) [1]	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-09	$ 1,067,841	$ 1,183,961	$ 116,120	90.2%	$ 227,427	52.2%
02-01-09	1,145,029	1,169,302	24,273	97.9%	219,716	11.0%
02-01-08	1,084,569	1,103,865	19,296	98.3%	217,018	8.9%

[1] 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.

[2] Subsequent to the January 1, 2007, valuation, the cost method was revised to project January 1 data to February 1 of the next calendar year based on assumptions

[3] The cost method was revised to eliminate the 13-month projection from January 1 to February 1 of the succeeding year. Instead, the January 1 valuation results were used to determine the contribution for the fiscal year in the succeeding calendar year.

[4] In December 2007, TMRS adopted the projected unit credit actuarial funding method. Previously TMRS used the traditional unit credit method

Amounts are expressed in thousands

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
12-31-10	$ 116,123	$ 140,565	$ 24,442	82.6%	$ 86,013	28.4%
12-31-09	68,756	107,311	38,555	64.1%	81,821	47.1%
12-31-08	63,674	96,539	32,865	66.0%	74,448	44.1%

SAN ANTONIO WATER SYSTEM - SAWSRP

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
01-01-11	$ 83,320	$ 128,700	$ 45,380	64.7%	$ 83,505	54.3%
01-01-10	77,365	112,263	34,898	68.9%	82,923	42.1%
01-01-09	74,611	99,144	24,533	75.3%	70,252	34.9%

Amounts are expressed in thousands

(unaudited - see accompanying auditors' report)

Required Supplementary Information - (Unaudited)
Postemployment Schedules
Schedules of Funding Progress
Last Three Fiscal Years
(In Thousands)

CPS ENERGY - HEALTH PLAN

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL) [1]	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
02-01-09	$ 199,195	$ 198,286	$ (909)	100.5%	$ 222,427	(0.4)%
02-01-09	204,246	219,364	15,118	93.1%	219,716	6.9%
02-01-08	194,876	247,283	52,407	78.8%	217,018	24.1%

CPS ENERGY - DISABILITY PLAN

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) [2]	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
02-01-09	$ 3,631	$ 6,945	$ 3,314	52.3%	$ 200,342	1.7%
02-01-09	3,763	6,575	2,812	57.2%	198,669	1.4%
02-01-08	3,734	5,712	1,978	65.4%	185,090	1.1%

CPS ENERGY - LIFE PLAN

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) [2]	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
02-01-09	$ 46,815	$ 36,091	$ (10,724)	129.7%	$ 200,342	(5.4)%
02-01-09	49,614	35,491	(14,123)	139.8%	198,669	(7.1)%
02-01-08	49,098	33,024	(16,074)	148.7%	185,090	(8.7)%

[1] The AAL consisted of the liability for both retired employees and active employees. The AAL for retired employees was $87,900 for February 1, 2009, and $94,200 for February 1, 2008.

[2] CPS Energy has selected the aggregate cost method for determining Disability and Life Plans' 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.

Amounts are expressed in thousands

Required Supplementary Information - (Unaudited)
Postemployment 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
01-01-11	$ -	$ 324,516	$ 324,516	0.0%	$ 270,708	119.9%
01-01-09		342,018	342,018	0.0%	259,224	131.9%
01-01-06		258,428	258,428	0.0%	231,262	111.7%

FIRE AND POLICE RETIREE HEALTH CARE FUND

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
10-01-10	$ 219,404	$ 606,861	$ 387,457	36.2%	$ 255,010	151.9%
10-01-09	200,329	549,466	349,137	36.5%	236,372	147.7%
10-01-08	208,384	561,035	352,651	37.1%	226,707	155.5%

SAN ANTONIO WATER SYSTEM - OPEB PLAN

ACTUARIAL VALUATION DATE [2]	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
01-01-11	$ -	$ 242,388	$ 242,388	0.0%	$ 83,505	290.3%
01-01-09		297,259	297,259	0.0%	75,270	394.9%
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] SAWS will perform actuarial studies bi-annually and review annually assumptions and changes in plan design to compute OPEB liability.

Amounts are expressed in thousands

CITY OF SAN ANTONIO, TEXAS

Comprehensive Annual Financial Report

Year-Ended September 30, 2011

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*
- *Community and Visitor Facilities*
- *Confiscated Property*
- *Hotel/Motel Tax 2% Revenue*
- *Parks Development and Expansion – 2005 and 2000 Venue Projects*
- *Right of Ways*
- *Stormwater Operations*
- *Tax Increment Financing**
- *Community Service Funds:*
  - *Child Safety*
  - *Golf Course Operating and Maintenance*
  - *Juvenile Case Manager*
  - *Municipal Court Security*
  - *Municipal Court Technology*
  - *Tree Canopy Investment*
  - *Tree Preservation Mitigation*

PERMANENT FUND:

- *City Cemeteries*

* This fund is incorporated within the Tax Increment Reinvestment Zone reporting unit.

Schedules of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2011
(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Taxes	$ 474,859	$ 483,198	$ 8,339
Licenses and Permits	7,416	8,680	1,264
Intergovernmental	6,475	5,403	(1,072)
Revenues from Utilities	296,590	308,451	11,861
Charges for Services	46,873	50,134	3,261
Fines and Forfeits	14,902	13,697	(1,205)
Miscellaneous	15,298	18,880	3,582
Investment Earnings	786	1,819	1,033
Total Revenues	863,199	890,262	27,063
Expenditures:			
General Government	89,243	81,729	7,514
Public Safety	536,765	530,955	5,810
Public Works	44,905	45,357	(452)
Health Services	74,826	76,619	(1,793)
Sanitation	3,312	3,354	(42)
Welfare	46,294	44,342	1,952
Culture and Recreation	83,884	83,291	593
Economic Development and Opportunity	12,334	13,428	(1,094)
Total Expenditures	891,563	879,075	12,488
Excess (Deficiency) of Revenues Over (Under) Expenditures	(28,364)	11,187	39,551
Other Financing Sources (Uses):			
Transfers In	15,946	14,603	(1,343)
Transfers Out	(55,616)	(55,500)	116
Total Other Financing Sources (Uses)	(39,670)	(40,897)	(1,227)
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(68,034)	(29,710)	$ 38,324
Fund Balances, October 1 (Restated)	230,822	230,822	
Add Encumbrances		31,580	
Fund Balances, September 30	$ 162,788	$ 232,692	

Schedule of Revenues Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2011
(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Taxes:			
Property:			
Current	$ 239,079	$ 239,760	$ 681
Delinquent	1,605	2,482	877
General Sales and Use:			
City Sales	195,315	200,245	4,930
Selective Sales and Use:			
Alcoholic Beverages	5,921	5,879	(42)
Gross Receipts Business:			
Telecommunication Access Lines Fees	15,148	16,679	1,531
Cablevision Franchise	14,579	14,532	(47)
Bingo	700	1,030	330
Other	195	293	98
Penalties and Interest on Delinquent Taxes	2,317	2,298	(19)
Total Taxes	474,859	483,198	8,339
Licenses and Permits:			
Alcoholic Beverages Licenses	460	494	34
Health Licenses	3,500	4,447	947
Amusement Licenses	148	130	(18)
Professional and Occupational Licenses	2,228	2,258	30
Animal Licenses	141	93	(48)
Street Permits	939	1,258	319
Total Licenses and Permits	7,416	8,680	1,264
Intergovernmental:			
Library Aid from Bexar County	3,697	3,697	
Park Reservation Services	40	40	
Bexar County - Child Support	73	50	(23)
Magistration and Detention - Bexar	1,143	13	(1,130)
Health Aid from Bexar County	1,170	1,266	96
VIA Contributions	302	302	
Hotel/Motel Tax Collection Fee	50	35	(15)
Total Intergovernmental	6,475	5,403	(1,072)
Revenues from Utilities:			
CPS Energy	286,553	297,630	11,077
San Antonio Water System	10,037	10,821	784
Total Revenues from Utilities	296,590	308,451	11,861

(Continued)

Schedule of Revenues Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2011
(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Charges for Services:			
General Government	$ 5,586	$ 7,712	$ 2,126
Public Safety:			
Police Department	7,003	6,203	(800)
Fire Department	707	709	2
Sanitation:			
Abatement of Nuisances	352	407	55
Health	22,733	24,434	1,701
Culture and Recreation:			
Tower of the Americas	501	523	22
Hemisphere Plaza	96	122	26
La Villita	466	471	5
Recreation Fees	1,627	1,366	(261)
Concessions in Other Parks	61	70	9
River Boats	5,526	5,748	222
Governor's Palace	76	87	11
Swimming Pools	137	139	2
Community Centers	485	483	(2)
Library	853	951	98
Cemeteries	27	27	
Miscellaneous Recreation Revenue	637	682	45
Total Charges for Services	46,873	50,134	3,261
Fines and Forfeits:			
Municipal Court Fines	14,902	13,697	(1,205)
Investment Earnings:			
Interest	786	1,819	1,033
Miscellaneous:			
Sales	3,644	4,912	1,268
Recovery of Expenditures	2,273	3,622	1,349
Interfund Charges	1,463	1,838	375
Rents, Leases, and Concessions	2,375	2,064	(311)
Other	5,543	6,444	901
Total Miscellaneous	15,298	18,880	3,582
Total Revenues	$ 863,199	$ 890,262	$ 27,063

(End of Statement)

Schedule of Expenditures Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2011
(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Expenditures:			
General Government:			
Legislative:			
Personal Services	$ 7,080	$ 7,049	$ 31
Contractual Services	2,757	2,341	416
Commodities	385	287	98
Other Expenditures	3,281	3,082	199
Capital Outlay		18	(18)
Total Legislative	13,503	12,777	726
Judicial:			
Personal Services	11,019	10,514	505
Contractual Services	733	833	(100)
Commodities	155	271	(116)
Other Expenditures	1,536	1,532	4
Total Judicial	13,443	13,150	293
Executive:			
Personal Services	34,880	28,397	6,483
Contractual Services	19,779	19,559	220
Commodities	2,724	2,220	504
Other Expenditures	4,914	5,267	(353)
Capital Outlay		359	(359)
Total Executive	62,297	55,802	6,495
Total General Government	89,243	81,729	7,514
Public Safety:			
Police:			
Personal Services	261,169	261,881	(712)
Contractual Services	8,325	8,014	311
Commodities	1,762	1,693	69
Other Expenditures	17,152	17,332	(180)
Total Police	288,408	288,920	(512)
Fire:			
Personal Services	141,338	139,694	1,644
Contractual Services	3,387	3,149	238
Commodities	2,917	3,074	(157)
Other Expenditures	15,300	16,129	(829)
Capital Outlay	1,195	1,207	(12)
Total Fire	164,137	163,253	884

(Continued)

Schedule of Expenditures Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2011
(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Public Safety (Continued):			
Building Inspection and Regulations:			
Personal Services	$ 221	$ 227	$ (6)
Contractual Services	7	5	2
Commodities	3	3	
Other Expenditures	34	35	(1)
Total Building Inspection and Regulations	265	270	(5)
Administration:			
Personal Services	19,332	15,820	3,512
Contractual Services	2,205	2,227	(22)
Commodities	1,422	1,088	334
Other Expenditures	7,793	7,470	323
Total Administration	30,752	26,605	4,147
Other Protection:			
Personal Services	28,919	27,399	1,520
Contractual Services	6,988	4,908	2,080
Commodities	3,711	4,588	(877)
Other Expenditures	13,585	14,901	(1,316)
Capital Outlay		111	(111)
Total Other Protection	53,203	51,907	1,296
Total Public Safety	536,765	530,955	5,810
Public Works:			
Streets:			
Personal Services	11,763	11,333	430
Contractual Services	2,804	4,443	(1,639)
Commodities	11,961	10,281	1,680
Other Expenditures	6,101	6,310	(209)
Total Streets	32,629	32,367	262
Lighting:			
Contractual Services	90		90
Commodities	12,186	12,990	(804)
Total Lighting	12,276	12,990	(714)
Total Public Works	44,905	45,357	(452)

(Continued)

Schedule of Expenditures Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2011
(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Health Services:			
Personal Services	$ 56,396	$ 57,486	$ (1,090)
Contractual Services	7,608	7,809	(201)
Commodities	3,447	3,824	(377)
Other Expenditures	7,152	7,246	(94)
Capital Outlay	223	254	(31)
Total Health Services	74,826	76,619	(1,793)
Sanitation:			
Personal Services	2,565	2,636	(71)
Contractual Services	126	160	(34)
Commodities	87	57	30
Other Expenditures	524	486	38
Capital Outlay	10	15	(5)
Total Sanitation	3,312	3,354	(42)
Welfare:			
Personal Services	14,287	14,221	66
Contractual Services	22,760	21,500	1,260
Commodities	955	887	68
Other Expenditures	8,115	7,357	758
Capital Outlay	177	377	(200)
Total Welfare	46,294	44,342	1,952
Culture and Recreation:			
Libraries:			
Personal Services	20,276	18,893	1,383
Contractual Services	3,037	3,301	(264)
Commodities	4,078	4,221	(143)
Other Expenditures	4,185	3,912	273
Total Libraries	31,576	30,327	1,249
Parks:			
Personal Services	28,647	27,804	843
Contractual Services	9,820	10,727	(907)
Commodities	4,294	4,055	239
Other Expenditures	9,266	10,030	(764)
Capital Outlay	281	348	(67)
Total Parks	52,308	52,964	(656)
Total Culture and Recreation	83,884	83,291	593
Economic Development and Opportunity:			
Personal Services	2,334	2,225	109
Contractual Services	9,713	10,832	(1,119)
Commodities	152	88	64
Other Expenditures	135	283	(148)
Total Economic Development and Opportunity	12,334	13,428	(1,094)
Total Expenditures	$ 891,563	$ 879,075	$ 12,488

(End of Statement)

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Debt Service Fund
Year-Ended September 30, 2011
(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Property Taxes:			
Current	$ 142,847	$ 143,429	$ 582
Delinquent	650	1,483	833
Penalties and Interest on Delinquent Taxes	1,383	1,372	(11)
Miscellaneous	4,401	4,532	131
Investment Earnings	430	311	(119)
Total Revenues	149,711	151,127	1,416
Expenditures:			
General Government:			
Contractual Services	115	1,779	(1,664)
Debt Service:			
Principal Retirement	135,205	135,205	
Interest	76,077	69,584	6,493
Total Expenditures	211,397	206,568	4,829
(Deficiency) of Revenues (Under) Expenditures	(61,686)	(55,441)	6,245
Other Financing Sources:			
Transfers In	41,615	39,927	(1,688)
Total Other Financing Sources	41,615	39,927	(1,688)
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures	(20,071)	(15,514)	$ 4,557
Fund Balances, October 1	109,083	109,083	
Add Encumbrances			
Fund Balances, September 30	$ 89,012	$ 93,569	

Amounts are expressed in thousands

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Advanced Transportation District
Year-Ended September 30, 2011
(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
General Sales and Use:			
City Sales Tax	$ 11,048	$ 11,544	$ 496
Investment Earnings	37	52	15
Total Revenues	11,085	11,596	511
Expenditures:			
General Government:			
Other Expenditures		9	(9)
Total General Government		9	(9)
Public Works:			
Personal Services	1,407	1,327	80
Contractual Services	240	217	23
Commodities	58	15	43
Other Expenditures	290	347	(57)
Capital Outlay	10	1	9
Total Public Works	2,005	1,907	98
Total Expenditures	2,005	1,916	89
Excess of Revenues Over Expenditures	9,080	9,680	600
Other Financing (Uses):			
Transfers Out	(14,577)	(14,514)	63
Total Other Financing (Uses)	(14,577)	(14,514)	63
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(5,497)	(4,834)	$ 663
Fund Balances, October 1	12,629	12,629	
Add Encumbrances		5,147	
Fund Balances, September 30	$ 7,132	$ 12,942	

Amounts are expressed in thousands

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community and Visitor Facilities
Year-Ended September 30, 2011

(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Taxes:			
Occupancy	$ 47,777	$ 48,975	$ 1,198
Penalties and Interest on Delinquent Taxes	82	99	17
Intergovernmental		20,915	20,915
Charges for Services	17,034	17,114	80
Miscellaneous	1,173	1,458	285
Investment Earnings	68	161	93
Total Revenues	66,134	88,722	22,588
Expenditures:			
General Government:			
Contractual Service		3	(3)
Other Expenditures		26	(26)
Total General Government		29	(29)
Cultural and Recreation:			
Arts and Cultural Affairs:			
Personal Services	951	962	(11)
Contractual Services	1,078	990	88
Commodities	43	41	2
Other Expenditures	70	71	(1)
Total Arts and Cultural Affairs	2,142	2,064	78
Convention Facilities:			
Personal Services	17,394	16,570	824
Contractual Services	3,436	3,209	227
Commodities	969	943	26
Other Expenditures	13,584	13,187	397
Total Convention Facilities	35,383	33,909	1,474
Nondepartmental:			
Personal Services	87	54	33
Contractual Services	985	1,670	(685)
Commodities	2		2
Other Expenditures	4	5	(1)
Total Nondepartmental	1,078	1,729	(651)
Contributions to Other Agencies	5,374	5,235	139
Total Cultural and Recreation	43,977	42,937	1,040
Convention and Tourism:			
Convention and Visitors Bureau:			
Personal Services	7,702	7,438	264
Contractual Services	11,890	11,904	(14)
Commodities	309	316	(7)
Other Expenditures	528	595	(67)
Total Convention and Tourism	20,429	20,253	176
Economic Development and Opportunity:			
Personal Services	527	395	132
Contractual Services	427	438	(11)
Commodities	52	54	(2)
Other Expenditures	29	33	(4)
Total Economic Development and Opportunity	1,035	920	115
Total Expenditures	65,441	64,139	1,302
Excess of Revenues Over Expenditures	693	24,583	23,890
Other Financing Sources (Uses):			
Transfers In	14,579	13,515	(1,064)
Transfers Out	(34,802)	(43,043)	(8,241)
Total Other Financing Sources (Uses)	(20,223)	(29,528)	(9,305)
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(19,530)	(4,945)	$ 14,585
Fund Balances, October 1	27,305	27,305	
Add Encumbrances		17,828	
Fund Balances, September 30	$ 7,775	$ 40,188	

Note: Includes revenues and expenditures generated from Convention and Tourism activities relating to the promotion of City of San Antonio owned facilities to be used for conventions, community and entertainment venues; the marketing and promotion of San Antonio through the Convention and Visitors Bureau and support for arts and cultural organizations in the Office of Cultural Affairs and International Affairs.

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Confiscated Property
Year-Ended September 30, 2011

(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Miscellaneous	$ 1,643	$ 1,068	$ (575)
Investment Earnings	14	22	8
Total Revenues	1,657	1,090	(567)
Expenditures:			
Public Safety:			
Personal Services	349	339	10
Contractual Services	918	504	414
Commodities	338	179	159
Other Expenditures	124	185	(61)
Capital Outlay	689	690	(1)
Total Expenditures	2,418	1,897	521
(Deficiency) of Revenues (Under) Expenditures	(761)	(807)	(46)
Other Financing (Uses):			
Transfers In			
Transfers Out	(381)	(381)	
Total Other Financing (Uses)	(381)	(381)	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(1,142)	(1,188)	$ (46)
Fund Balances, October 1(Restated)	5,251	5,251	
Add Encumbrances		46	
Fund Balances, September 30	$ 4,109	$ 4,109	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Hotel/Motel 2% Revenue
Year-Ended September 30, 2011
(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Taxes:			
Occupancy	$ 13,655	$ 13,993	$ 338
Penalties and Interest on Delinquent Taxes	25	28	3
Miscellaneous		22	22
Investment Earnings	1	64	63
Total Revenues	13,681	14,107	426
Expenditures:			
General Government:			
Other Expenditures		11	(11)
Convention and Tourism:			
Contractual Service	204	269	(65)
Total Expenditures	204	280	(76)
Excess of Revenues Over Expenditures	13,477	13,827	350
Other Financing Sources (Uses):			
Transfer In		6,952	6,952
Transfers Out	(32,112)	(25,078)	7,034
Total Other Financing Sources (Uses)	(32,112)	(18,126)	13,986
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(18,635)	(4,299)	$ 14,336
Fund Balances, October 1	19,523	19,523	
Add Encumbrances		360	
Fund Balances, September 30	$ 888	$ 15,584	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Parks Development and Expansion - 2005 and 2000 Venue Projects
Year-Ended September 30, 2011
(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
General Sales and Use:			
City Sales Tax	$ 21,690	$ 25,030	$ 3,340
Investment Earnings	86	119	33
Total Revenues	21,776	25,149	3,373
Expenditures:			
General Government:			
Other Expenditures	53	43	10
Total General Government	53	43	10
Culture and Recreation:			
Contractual Services	434	497	(63)
Total Culture and Recreation	434	497	(63)
Total Expenditures	487	540	(53)
Excess of Revenues Over Expenditures	21,289	24,609	3,320
Other Financing (Uses):			
Transfers Out	(42,854)	(42,201)	653
Total Other Financing (Uses)	(42,854)	(42,201)	653
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(21,565)	(17,592)	$ 3,973
Fund Balances, October 1	30,371	30,371	
Add Encumbrances		20,257	
Fund Balances, September 30	$ 8,806	$ 33,036	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Right of Ways
Year-Ended September 30, 2011
(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services	$ 1,407	$ 1,594	$ 187
Investment Earnings		3	3
Total Revenues	1,407	1,597	190
Expenditures:			
General Government:			
Other Expenditures		1	(1)
Total General Government		1	(1)
Streets and Roadways:			
Personal Services	1,157	1,104	53
Contractual Services	96	77	19
Commodities	17	14	3
Other Expenditures	237	244	(7)
Capital Outlay	88	59	29
Total Public Works	1,595	1,498	97
Total Expenditures	1,595	1,499	96
Excess (Deficiency) of Revenues Over (Under) Expenditures	(188)	98	286
Other Financing (Uses):			
Transfers Out	(42)		42
Total Other Financing (Uses)	(42)		42
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing (Uses)	(230)	98	$ 328
Fund Balances, October 1	1,222	1,222	
Add Encumbrances			
Fund Balances, September 30	$ 992	$ 1,320	

Amounts are expressed in thousands

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Stormwater Operations
Year-Ended September 30, 2011
(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services	$ 39,630	$ 40,415	$ 785
Intergovernmental			
Miscellaneous	-	15	15
Investment Earnings	183	157	(26)
Total Revenues	39,813	40,587	774
Expenditures:			
General Government:			
Other Expenditures		27	(27)
Total General Government		27	(27)
Public Works:			
Administration:			
Personal Services	1,169	1,092	77
Contractual Services	4,582	4,620	(38)
Commodities	31	23	8
Other Expenditures	135	219	(84)
Capital Outlay	22	91	(69)
Total Administration	5,939	6,045	(106)
Vegetation Control:			
Personal Services	3,519	4,040	(521)
Contractual Services	848	954	(106)
Commodities	333	283	50
Other Expenditures	883	1,042	(159)
Capital Outlay	480	623	(143)
Total Vegetation Control	6,063	6,942	(879)
River Maintenance:			
Personal Services	4,009	4,210	(201)
Contractual Services	672	1,302	(630)
Commodities	455	490	(35)
Other Expenditures	2,042	2,033	9
Capital Outlay		72	(72)
Total River Maintenance	7,178	8,107	(929)
Street Sweeping:			
Personal Services	2,479	2,557	(78)
Contractual Services	534	628	(94)
Commodities	172	382	(210)
Other Expenditures	1,038	1,060	(22)
Total Street Sweeping	4,223	4,627	(404)
Tunnel Maintenance:			
Personal Services	1,392	1,435	(43)
Contractual Services	422	421	1
Commodities	247	228	19
Other Expenditures	511	565	(54)
Capital Outlay		75	(75)
Total Tunnel Maintenance	2,572	2,724	(152)
Design Engineering:			
Personal Services	1,487	1,499	(12)
Contractual Services	535	516	19
Commodities	8	16	(8)
Other Expenditures	163	152	11
Total Design Engineering	2,193	2,183	10
Total Expenditures	28,168	30,655	(2,487)
Excess of Revenues Over Expenditures	11,645	9,932	(1,713)
Other Financing (Uses):			
Transfers Out	(49,513)	(38,755)	10,758
Total Other Financing (Uses)	(49,513)	(38,755)	10,758
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(37,868)	(28,823)	$ 9,045
Fund Balances, October 1	36,779	36,779	
Add Encumbrances		27,070	
Fund Balances, September 30	$ (1,089)	$ 35,026	

Amounts are expressed in thousands

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Tax Increment Financing
Year-Ended September 30, 2011

(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services:			
Administrative Fee	$ 793	$ 175	$ (618)
Processing Fee	62	46	(16)
Total Revenues	855	221	(634)
Expenditures:			
Economic Development and Opportunity:			
Personal Services	429	322	107
Contractual Services	23	28	(5)
Commodities	7	28	(21)
Other Expenditures	26	26	
Capital Outlay	5	2	3
Total Expenditures	490	406	84
Excess (Deficiency) of Revenues Over (Under) Expenditures	365	(185)	(550)
Other Financing (Uses):			
Transfers Out	(73)	(73)	
Total Other Financing (Uses)	(73)	(73)	
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing (Uses)	292	(258)	$ (550)
Fund Balances, October 1	77	77	
Add Encumbrances		28	
Fund Balances, September 30	$ 369	$ (153)	

Amounts are expressed in thousands

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Child Safety
Year-Ended September 30, 2011

(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services:			
Parking Fines	$ 172	$ 128	$ (44)
Moving Violations	272	298	26
Intergovernmental	1,618	1,901	283
Total Revenues	2,062	2,327	265
Expenditures:			
Public Safety:			
Personal Services	1,748	1,333	415
Contractual Services	3	11	(8)
Commodities	33	8	25
Other Expenditures	441	607	(166)
Total Expenditures	2,225	1,959	266
Excess (Deficiency) of Revenues Over (Under) Expenditures	(163)	368	531
Other Financing (Uses):			
Transfers Out	(289)	(289)	
Total Other Financing (Uses)	(289)	(289)	
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing (Uses)	(452)	79	$ 531
Fund Balances, October 1	164	164	
Add Encumbrances			
Fund Balances, September 30	$ (288)	$ 243	

Amounts are expressed in thousands

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Services Funds - Golf Course Operating and Maintenance
Year-Ended September 30, 2011
(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Miscellaneous	$ 600	$ 404	$ (196)
Total Revenues	600	404	(196)
Expenditures:			
Total Expenditures			
Excess of Revenues Over Expenditures	600	404	(196)
Other Financing (Uses):			
Transfers Out	(106)	(106)	
Total Other Financing (Uses)	(106)	(106)	
Excess of Revenues Over Expenditures and Other Financing (Uses)	494	298	$ (196)
Fund Balances, October 1	(2,254)	(2,254)	
Add Encumbrances			
Fund Balances, September 30	$ (1,760)	$ (1,956)	

Amounts are expressed in thousands

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Juvenile Case Manager
Year-Ended September 30, 2011
(In Thousands)

	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services:			
Juvenile Case Manager Fee	$ 543	$ 744	$ 201
Investment Earnings		1	1
Total Revenues	543	745	202
Expenditures:			
General Government:			
Personal Services	539	490	49
Other Expenditures	33	33	
Capital Outlay		47	(47)
Total Expenditures	572	570	2
Excess (Deficiency) of Revenues Over (Under) Expenditures	(29)	175	204
Other Financing Sources:			
Transfers In	33	33	
Total Other Financing Sources	33	33	
Excess of Revenues and Other Financing Sources Over Expenditures	4	208	$ 204
Fund Balances, October 1	211	211	
Add Encumbrances			
Fund Balances, September 30	$ 215	$ 419	

Amounts are expressed in thousands

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Municipal Court Security
Year-Ended September 30, 2011
(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services:			
Building Security	$ 485	$ 505	$ 20
Total Revenues	485	505	20
Expenditures:			
General Government:			
Personal Services	414	394	20
Contractual Services	36	63	(27)
Commodities	8	2	6
Other Expenditures	37	52	(15)
Total Expenditures	495	511	(16)
(Deficiency) of Revenues (Under) Expenditures	(10)	(6)	$ 4
Fund Balances, October 1	82	82	
Add Encumbrances			
Fund Balances, September 30	$ 72	$ 76	

The City noted budget violations of excess expenditures over appropriations. As there was sufficient actual revenues or fund balances to cover these excesses, the City does not deem these violations to be material.

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Municipal Court Technology
Year-Ended September 30, 2011
(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services:			
Technology Improvements	$ 647	$ 672	$ 25
Investment Earnings		9	9
Total Revenues	647	681	34
Expenditures:			
General Government:			
Personal Services	60	9	51
Contractual Services		125	(125)
Commodities		91	(91)
Other Expenditures	7	16	(9)
Capital Outlay		17	(17)
Total Expenditures	67	258	(191)
Excess of Revenues Over Expenditures	580	423	(157)
Other Financing (Uses):			
Transfers Out	(1,130)	(134)	996
Total Other Financing (Uses)	(1,130)	(134)	996
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing (Uses)	(550)	289	$ 839
Fund Balances, October 1	1,768	1,768	
Add Encumbrances			
Fund Balances, September 30	$ 1,218	$ 2,057	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Tree Canopy Investment
Year-Ended September 30, 2011
(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services:			
Canopy Fee - Residential	$ 118	$ 72	$ (46)
Canopy Fee - Commercial	112	113	1
Investment Earnings	3	2	(1)
Total Revenues	233	187	(46)
Expenditures:			
Culture and Recreation:			
Commodities	515	371	144
Other Expenditures	3	3	
Total Expenditures	518	374	144
(Deficiency) of Revenues (Under) Expenditures	(285)	(187)	98
Other Financing:			
Transfers Out			
Total Other Financing			
(Deficiency) of Revenues (Under) Expenditures	(285)	(187)	$ 98
Fund Balances, October 1	499	499	
Add Encumbrances			
Fund Balances, September 30	$ 214	$ 312	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Tree Preservation Mitigation
Year-Ended September 30, 2011
(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services:			
Tree Mitigation Fee	$ 118	$ 251	$ 133
Investment Earnings	3	3	-
Total Revenues	121	254	133
Expenditures:			
Culture and Recreation:			
Personal Services	101	32	69
Contractual Services	265	252	13
Commodities	284	213	71
Other Expenditures	45	48	(3)
Capital Outlay	361	217	144
Total Expenditures	1,056	762	294
(Deficiency) of Revenues (Under) Expenditures	(935)	(508)	427
Other Financing:			
Transfers Out			
Total Other Financing			
(Deficiency) of Revenues (Under) Expenditures	(935)	(508)	$ 427
Fund Balances, October 1	1,005	1,005	
Add Encumbrances		4	
Fund Balances, September 30	$ 70	$ 501	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Permanent Fund
City Cemetaries
Year-Ended September 30, 2011
(In Thousands)

	2011		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services:			
Sales	$ 546	$ 265	$ (281)
Miscellaneous			
Investment Earnings	12	11	(1)
Total Revenues	558	276	(282)
Expenditures:			
Culture and Recreation:			
Personal Services	404	134	270
Contractual Services	18	79	(61)
Commodities	12	5	7
Other Expenditures	113	75	38
Total Expenditures	547	293	254
Excess (Deficiency) of Revenues Over (Under) Expenditures	11	(17)	(28)
Other Financing Sources (Uses):			
Transfers In	146	146	
Transfers Out	(157)		157
Total Other Financing Sources (Uses)	(11)	146	157
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing (Uses)		129	$ 129
Fund Balances, October 1	2,366	2,366	
Add Encumbrances		40	
Fund Balances, September 30	$ 2,366	$ 2,535	

Amounts are expressed in thousands

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APPENDIX E

FORM OF CO-BOND COUNSEL OPINION

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MCCALL, PARKHURST & HORTON L.L.P.
700 N. St. Mary's, Suite 1525
San Antonio, Texas 78205

ESCAMILLA, PONECK & CRUZ, LLP
700 N. St. Mary's, Suite 850
San Antonio, Texas 78205

October __, 2012

CITY OF SAN ANTONIO, TEXAS PUBLIC FACILITIES CORPORATION
IMPROVEMENT AND REFUNDING LEASE REVENUE BONDS, SERIES 2012
(CONVENTION CENTER REFINANCING AND EXPANSION PROJECT)
DATED OCTOBER 1, 2012
IN THE AGGREGATE PRINCIPAL AMOUNT OF $550,373,641.50

WE HAVE ACTED AS CO-BOND COUNSEL for the **CITY OF SAN ANTONIO, TEXAS PUBLIC 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 Agreement" 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 September 20, 2012 which authorized the issuance of the Bonds (the "***Bond Resolution***"), (ii) the *Lease Agreement Relating to the City of San Antonio, Texas Convention Center Refinancing and Expansion Project*, dated as of October 1, 2012 (the "***Lease Agreement***"), between the Issuer (as the "Lessee" under the "Primary Lease" created thereunder and as the "Sublessor" under the "Sublease" created thereunder), and the **CITY OF SAN ANTONIO, TEXAS** (the "***City***") (as the "Lessor" under the Primary Lease and as the Sublessee under the Sublease), (iii) one of the executed Bonds (T-1), (iv) the *Escrow Agreement*, dated as of October 1, 2012, between the Issuer, the City, and **U.S. BANK NATIONAL ASSOCIATION**, as escrow agent (the "***Escrow Agreement***"), (v) the *Deposit Agreement*, dated as of October 1, 2012, between the Issuer, the City, and **THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.**, as deposit agent (the "***Deposit Agreement***"), (vi) the report and mathematical verifications of **CAUSEY DEMGEN & MOORE P.C.**, certified public accountants, with respect to the adequacy of certain escrowed funds to accomplish the refunding purposes of the Bonds (the "***Verification Report***"), and (vii) the Issuer's Federal Tax Certificate of even date herewith.

WE HAVE FURTHER EXAMINED into the validity of the Bonds, bearing interest from their date of initial delivery, until maturity or redemption, at the rates per annum set forth in the *Trust Agreement Relating to the City of San Antonio, Texas Convention Center Refinancing and Expansion Project*, dated as of October 1, 2012 (the "***Trust Agreement***"), between the Issuer and **U.S. BANK NATIONAL ASSOCIATION**, 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 and the Deposit Agreement have been duly authorized, executed and delivered by the Issuer and the City and constitute binding and enforceable agreements in accordance with their respective terms and that the "***Refunded Bonds***" (as defined in the Bond Resolution) being refunded by the Bonds are outstanding under the ordinances of the City 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 Deposit Agreement and the cash and, with respect to the Escrow Agreement only, investments, including the income therefrom, held by the Escrow Agent and the Deposit Agent pursuant to the Escrow Agreement and the Deposit Agreement, respectively. 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, and upon the certifications of the Deposit Agent contained in the Deposit Agreement as to the sufficiency of the cash deposited pursuant to the Deposit Agreement, for the purpose of paying the principal of, redemption premium, if any, and interest on the Refunded Bonds.

BASED ON SUCH EXAMINATION, IT IS FURTHER OUR OPINION that the Issuer is a nonprofit public facility corporation organized and existing under the laws of the State of Texas, including particularly Chapter 303, Texas Local Government 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 Agreement) to be made by the City (as the Sublessee under the Sublease) as provided in the Trust Agreement and the Lease Agreement. 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 Agreement 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 Agreement 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 Agreement 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 **pursuant to the Sublease created under the Lease Agreement is a current expense, payable solely from funds annually appropriated for such use. The Sublease may be terminated annually by the City without penalty, except as provided in the Lease Agreement, and there can be no assurance that the City will annually appropriate Lease Payments or continue the sublease. If the Sublease is terminated under the Lease Agreement, the City will have no further obligation to make Lease Payments regardless of whether any Bonds remain outstanding. The Lease Agreement 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.

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 AGREEMENT 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 ISSUER HAS RESERVED THE RIGHT, subject to the restrictions stated in the Trust Agreement, to issue additional parity lease revenue bonds, designated as "Additional Bonds" in the Trust Agreement, which also may be secured by and payable from Lease Payments made by the City on a parity and of equal dignity in all respects with the Bonds.

THE OPINIONS EXPRESSED ABOVE ARE LIMITED with respect to the enforceability of the Bonds, the Bond Resolution, the Trust Agreement and the Lease Agreement 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 Convention Center Facilities 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 of the City and the Issuer, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed or refinance therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the 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 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.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Co-Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds 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 certificates 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.

Respectfully submitted,

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