

**OFFICIAL STATEMENT
DATED JUNE 4, 2013**

NEW ISSUE—BOOK-ENTRY-ONLY

**RATINGS: Fitch: "AA+"
Moody's: "Aa1"
S&P: "AA+"
(See "RATINGS")**

The Series 2013 Bonds, defined below, are not obligations described in Section 103(a) of the Internal Revenue Code of 1986. See "TAX MATTERS RELATING TO THE SERIES 2013 BONDS."

\$20,890,000

**CITY OF SAN ANTONIO, TEXAS,
STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORATION
CONTRACT REVENUE REFUNDING BONDS, TAXABLE SERIES 2013 (STARBRIGHT PROJECT)**

Dated: June 1, 2013

Due: August 15, as shown on the following page

Interest Accrues from Date of Initial Delivery

The City of San Antonio, Texas, Starbright Industrial Development Corporation Contract Revenue Refunding Bonds, Taxable Series 2013 (Starbright Project) (the "Series 2013 Bonds") are being issued by the City of San Antonio, Texas, Starbright Industrial Development Corporation (the "Corporation"), a non-profit industrial development corporation created by the City of San Antonio, Texas (the "City") pursuant to the provisions of the Development Corporation Act (formerly, the Development Corporation Act of 1979, Article 5190.6, Texas Civil Statutes; now codified as it relates to the Corporation at Chapter 501, as amended, Texas Local Government Code (the "Act")). The Corporation is issuing the Series 2013 Bonds for the purposes of providing proceeds to (1) refund all outstanding Corporation indebtedness, as identified in Schedule I attached hereto (the "Refunded Obligations") and (2) pay the costs of issuing the Series 2013 Bonds. See "PLAN OF FINANCING – Purpose" herein for further information.

The Series 2013 Bonds are dated June 1, 2013 with interest thereon accruing from the date of delivery to the initial purchasers thereof named below (the "Underwriters") and being payable on August 15, 2013, and on each February 15 and August 15 thereafter until stated maturity or prior redemption. Principal of the Series 2013 Bonds is payable at stated maturity or prior redemption only upon presentation and surrender of the Series 2013 Bonds at the designated corporate trust office of the Trustee (defined below). The Series 2013 Bonds are issued in fully registered form in denominations of \$5,000 principal amount or any integral multiple thereof and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2013 Bonds until DTC resigns or is discharged. The Series 2013 Bonds will be available to purchasers only in book-entry form. Purchasers of the Series 2013 Bonds will not receive certificates evidencing their beneficial ownership therein. See "BOOK-ENTRY-ONLY SYSTEM" herein.

The Series 2013 Bonds are issued pursuant to an Indenture of Trust, dated as of June 1, 2003 (the "Trust Indenture"), as supplemented by the Second Supplemental Indenture of Trust, dated as of June 1, 2013 (the "Second Supplemental Indenture" and, together with the Trust Indenture, the "Indenture") each by and between the Corporation and Wells Fargo Bank, N.A., Dallas, Texas, as trustee (the "Trustee"). As permitted by the Act, the Corporation delegated to certain authorized officials the authority to finalize the terms of sale of the Bonds, which final sales terms will be evidenced in an "Approval Certificate" relating to the Bonds. The Series 2013 Bonds are special limited obligations of the Corporation payable solely from (1) Pledged Revenues, including Pledged Contract Payments to be made to the Corporation by the City pursuant to an Economic Development Contract (the "Economic Development Contract") by and between the Corporation and the City relating to certain revenues received by the City from its electric and gas systems (the "Utility Systems"); (2) Pledged Funds (initially, the Debt Service Fund and any monies deposited therein); and (3) any and all property pledged as additional security with the Trustee by the Corporation under the Indenture (such sources, collectively, the "Trust Estate"). The City is obligated to pay the Corporation sufficient Pledged Contract Payments necessary to pay Debt Service (as defined in the Indenture) on the Series 2013 Bonds issued under the Indenture.

None of the State, the City, nor any other political corporation, subdivision, or agency of the State shall be obligated to pay principal or interest on the Series 2013 Bonds, and neither the faith and credit nor the taxing power of the State, the City, or any other political corporation, subdivision, or agency of the State is pledged to the payment of the principal of or the interest on the Series 2013 Bonds.

MATURITY AND PRICING SCHEDULE – SEE INSIDE COVER PAGE

The Series 2013 Bonds are offered for delivery when, as and if issued by the Corporation and received by the Underwriters, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of McCall, Parkhurst & Horton L.L.P. and Escamilla & Poneck, LLP, both of San Antonio, Texas, Co-Bond Counsel, as to the validity of the issuance of the Series 2013 Bonds under the Constitution and the laws of the State of Texas. Certain legal matters will be passed upon for the Underwriters by their counsel, Fulbright & Jaworski LLP of San Antonio, Texas, a member of Norton Rose Fulbright; for the Trustee by its counsel Naman Howell Smith & Lee, PLLC, Austin, Texas; and for the City and the Corporation by the City Attorney for the City. The Series 2013 Bonds are expected to be available for delivery through the facilities of DTC on or about July 2, 2013.

LOOP CAPITAL MARKETS

SAMCO CAPITAL MARKETS, INC.

MATURITY AND PRICING SCHEDULE

CUSIP No. ⁽¹⁾ Prefix: 796300

\$20,890,000
CITY OF SAN ANTONIO, TEXAS,
STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORATION
CONTRACT REVENUE REFUNDING BONDS,
TAXABLE SERIES 2013 (STARBRIGHT PROJECT)

\$13,660,000 Serial Bonds

| <u>Maturity (August 15)</u> | <u>Principal Amount (\$)</u> | <u>Interest Rate (%)</u> | <u>Initial Yield (%)</u> | <u>CUSIP No. ⁽¹⁾ Suffix</u> |
|---------------------------------|----------------------------------|------------------------------|------------------------------|--|
| 2016 | 825,000 | 1.078 | 1.078 | AU5 |
| 2017 | 935,000 | 1.537 | 1.537 | AV3 |
| 2018 | 950,000 | 1.737 | 1.737 | AW1 |
| 2019 | 965,000 | 2.036 | 2.036 | AX9 |
| 2020 | 985,000 | 2.336 | 2.336 | AY7 |
| 2021 | 1,010,000 | 2.682 | 2.682 | AZ4 |
| 2022 | 1,035,000 | 2.932 | 2.932 | BA8 |
| 2023 | 1,065,000 | 3.132 | 3.132 | BB6 |
| 2024 | 1,100,000 | 3.332 | 3.332 | BC4 |
| 2025 | 1,135,000 | 3.532 | 3.532 | BD2 |
| 2026 | 1,175,000 | 3.682 | 3.682 | BE0 |
| 2027 | 1,215,000 | 3.832 | 3.832 | BF7 |
| 2028 | 1,265,000 | 3.932 | 3.932 | BG5 |

\$7,230,000 Term Bonds

\$7,230,000 4.750% Term Bonds due August 15, 2033; Priced to Yield 4.389%⁽²⁾; CUSIP Suffix No.⁽¹⁾ BH3

Redemption: On August 15, 2023, and on any date thereafter, the Series 2013 Bonds maturing on and after August 15, 2024, are subject to optional redemption, upon direction of the City to the Corporation, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, at the redemption price of par plus accrued interest to the date fixed for redemption. The Term Bonds (defined herein) are subject to mandatory sinking fund redemption. See “THE SERIES 2013 BONDS – Redemption Provisions” herein.

⁽¹⁾ The CUSIP number is included solely for the convenience of owners of the Series 2013 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 Board, the Co-Financial Advisors, nor the Underwriters is responsible for the selection or correctness of the CUSIP number set forth herein.

⁽²⁾ Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on August 15, 2023, the first optional call date for the Bonds, at a redemption price of par plus accrued interest.

**CITY OF SAN ANTONIO, TEXAS
CITY ADMINISTRATION**

CITY COUNCIL⁽¹⁾:

| Name | Years on City Council | Term Expires | Occupation |
|--|--------------------------|--------------|------------------------|
| Julián Castro, Mayor ⁽²⁾ | 4 Years | May 31, 2015 | Attorney |
| Diego M. Bernal, District 1 ⁽²⁾ | 2 Years | May 31, 2015 | Attorney |
| Ivy R. Taylor, District 2 ⁽²⁾ | 4 Years | May 31, 2015 | College Lecturer |
| Rebecca Viagran, District 3 ⁽³⁾ | Newly Elected | May 31, 2015 | Business Owner |
| Rey Saldaña, District 4 ⁽²⁾ | 2 Years | May 31, 2015 | Adjunct Professor |
| David Medina, Jr., District 5 ⁽⁴⁾ | 4 Years | May 31, 2015 | Project Manager |
| Ray Lopez, District 6 ⁽²⁾ | 4 Years | May 31, 2015 | Retired |
| Cris Medina, District 7 ⁽²⁾ | 2 Years | May 31, 2015 | Business Owner |
| W. Reed Williams, District 8 ⁽⁵⁾ | 4 Years | May 31, 2015 | Retired |
| Elisa Chan, District 9 ⁽²⁾ | 4 Years | May 31, 2015 | Business Owner |
| Carlton Soules, District 10 ⁽²⁾ | 2 Years | May 31, 2015 | Commercial Real Estate |

- ⁽¹⁾ All members of the City Council serve as directors of the Corporation. See "THE CORPORATION AND THE CITY – The Corporation" herein.
⁽²⁾ Re-elected at the May 11, 2013 election to serve a subsequent two-year term, beginning June 1, 2013.
⁽³⁾ Elected at the May 11, 2013 election to serve a two year term, beginning June 1, 2013.
⁽⁴⁾ The holder of this seat will be determined at a runoff election to be held June 15, 2013 between David Medina, Jr. and Shirley Gonzales.
⁽⁵⁾ Successor will be determined at a runoff election to be held June 15, 2013 between Ron Nirenberg and Rolando Briones.

CITY OFFICIALS:

| Name | Position | Years with City of San Antonio | Years in Current Position |
|----------------------------------|-----------------------------------|-----------------------------------|------------------------------|
| Sheryl L. Sculley ⁽¹⁾ | City Manager | 7 Years, 7 Months | 7 Years, 7 Months |
| Erik J. Walsh | Deputy City Manager | 19 Years | 1 Year, 8 Months |
| Peter Zaroni ⁽²⁾ | Deputy City Manager | 16 Years, 2 Months | 6 Months |
| Ed Belmares | Assistant City Manager | 6 Years, 5 Months | 1 Year, 8 Months |
| David Ellison | Assistant City Manager | 1 Year, 11 Months | 1 Year, 2 Months |
| Carlos Contreras ⁽³⁾ | Assistant City Manager | 4 Years, 4 Months | 6 Months |
| Gloria Hurtado ⁽⁴⁾ | Assistant City Manager | 2 Years, 3 Months | 6 Months |
| Michael D. Bernard | City Attorney | 7 Years, 8 Months | 7 Years, 8 Months |
| Leticia M. Vacek | City Clerk | 9 Years | 9 Years |
| Ben Gorzell, Jr. | Chief Financial Officer | 22 Years, 7 Months | 2 Years, 10 Months |
| Troy Elliott | Director of Finance | 16 Years, 9 Months | 1 Year, 8 Months |
| Maria Villagomez | Director of Management and Budget | 15 Years, 8 Months | 3 Years, 8 Months |
| Majed A. Al-Ghafry | Director of Public Works | 5 Years, 4 Months | 5 Years, 4 Months |

- ⁽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⁾ Promoted to Deputy City Manager effective November 19, 2012. Prior to his promotion, Mr. Zaroni served as the City's Assistant City Manager beginning on April 7, 2010.
⁽³⁾ Promoted to Assistant City Manager effective November 19, 2012. Prior to his promotion, Mr. Contreras served as the City's Director of Intergovernmental Relations Department beginning on February 1, 2009.
⁽⁴⁾ Promoted to Assistant City Manager effective November 19, 2012. Prior to her promotion, Mrs. Hurtado served as the City's Director of Human Services Department beginning on March 14, 2011.

CONSULTANTS AND ADVISORS:

Co-Bond Counsel

McCall, Parkhurst & Horton L.L.P., San Antonio, Texas
and Escamilla & Poneck, LLP, San Antonio, Texas

Certified Public Accountant

Padgett, Stratemann & Co., L.L.P., San Antonio, Texas

Co-Financial Advisors

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

USE OF INFORMATION IN THE OFFICIAL STATEMENT

This Official Statement, which includes the cover page, Schedule, and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized by the Corporation, the City, the Board, the Co-Financial Advisors, or the Underwriters to give information or to make any representation other than those 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 any of the foregoing.

The information set forth herein has been obtained from the Corporation and the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation, promise or guarantee of the Co-Financial Advisors or the Underwriters. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation or City or other matters described herein.

THE SERIES 2013 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 FOR THE SERIES 2013 BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THE SERIES 2013 BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION FOR THE PURCHASE THEREOF.

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 TRUSTEE HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE TRUSTEE HAS NOT PARTICIPATED IN THE PREPARATION OF THIS OFFICIAL STATEMENT AND ASSUMES NO RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF ANY INFORMATION CONTAINED IN THIS DOCUMENT OR THE RELATED TRANSACTIONS AND DOCUMENTS OR FOR ANY FAILURE BY ANY PARTY TO DISCLOSE EVENTS THAT MAY HAVE OCCURRED AND MAY AFFECT THE SIGNIFICANCE OR ACCURACY OF SUCH INFORMATION.

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

NONE OF THE CORPORATION, THE CITY, THE UNDERWRITERS, NOR THE CO-FINANCIAL ADVISORS MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING DTC OR ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC.

The agreements of the Corporation and the City and others related to the Series 2013 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 Series 2013 Bonds is to be construed as constituting an agreement with the purchasers of the Series 2013 Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE SCHEDULE AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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OFFICIAL STATEMENT

\$20,890,000
CITY OF SAN ANTONIO, TEXAS,
STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORATION
CONTRACT REVENUE REFUNDING BONDS,
TAXABLE SERIES 2013 (STARBRIGHT PROJECT)

INTRODUCTION

This Official Statement provides certain information with respect to the \$20,890,000 City of San Antonio, Texas, Starbright Industrial Development Corporation Contract Revenue Refunding Bonds, Taxable Series 2013 (Starbright Project) (the "Series 2013 Bonds"). The Corporation a non-profit industrial development corporation created by the City of San Antonio, Texas (the "City") pursuant to the provisions of the Development Corporation Act (formerly, the Development Corporation Act of 1979, Article 5190.6, Texas Civil Statutes; now codified as it relates to the Corporation at Chapter 501, as amended, Texas Local Government Code (the "Act")).

Certain capitalized terms used in this Official Statement have the meaning given to them in the Indenture (defined herein) or as defined herein, except as otherwise indicated herein. See "Excerpts from the Indenture" included in APPENDIX A to this Official Statement.

This Official Statement includes a description of the Corporation, the City, the City's electric and gas systems (the "Utility Systems"), which are managed and operated by the City Public Service Board of San Antonio, Texas ("CPS Energy" or the "CPS Board"), the Series 2013 Bonds, the Indenture, an Economic Development Contract, dated as of February 27, 2003, by and between the Corporation and the City (the "Economic Development Contract"), and those limited City revenues which are pledged to secure the Series 2013 Bonds. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the Indenture and the Economic Development Contract are qualified by reference to such documents in their entirety, and all references to the Series 2013 Bonds are qualified by reference to the form of the Series 2013 Bonds and the information with respect to the Series 2013 Bonds included in the Indenture. 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., 100 West Houston Street, Suite 1400, 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 to its date, and the information contained herein is subject to change. A copy of the final Official Statement will be filed with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Corporation's, the City's and CPS Energy's undertaking to provide certain information on a continuing basis.

THE CORPORATION AND THE CITY

The Corporation

The Corporation is an industrial development corporation, created by and to act on behalf of the City pursuant to the Act and a resolution of the City Council of the City (the "City Council") approved on February 20, 2003. The Act authorizes the City to create industrial development corporations to issue bonds on behalf of the City for the specific public purpose of accomplishing certain of the City's essential governmental functions, including the promotion and development of commercial, industrial and manufacturing enterprises to promote and encourage employment and the public welfare, including (but not limited to) the acquisition of land.

Pursuant to its articles of incorporation and bylaws, the Corporation is governed by an 11-member Board of Directors (the "Board"), composed entirely by those persons who are members of the City Council and whose terms of office are fixed and run coterminously with their respective terms of office as members of the City Council. The Board directors serve without compensation except for the reimbursement of expenses.

The Corporation currently has no assets other than its rights to receive the Pledged Contract Payments (defined and described herein) from the City, which has been assigned to the Trustee for the benefit of the registered owners of the Series 2013 Bonds.

THE CORPORATION'S OBLIGATION WITH RESPECT TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE SERIES 2013 BONDS IS A SPECIAL, LIMITED, AND NON-RECOURSE OBLIGATION PAYABLE SOLELY FROM THE PLEDGED CONTRACT PAYMENTS PAYABLE BY THE CITY PURSUANT TO THE ECONOMIC DEVELOPMENT CONTRACT AND FROM OTHER ASSETS IN THE TRUST ESTATE CREATED BY THE INDENTURE. THE CORPORATION HAS NO AUTHORITY TO LEVY TAXES. THE SERIES 2013 BONDS DO NOT CONSTITUTE AN OBLIGATION, EITHER SPECIAL, GENERAL, OR MORAL, OF THE CITY, THE STATE, OR ANY OTHER POLITICAL SUBDIVISION THEREOF. THE OBLIGATIONS OF THE CITY UNDER THE ECONOMIC DEVELOPMENT CONTRACT DO NOT CONSTITUTE A PLEDGE, A LIABILITY, OR A CHARGE UPON THE FUNDS OF THE CITY, OTHER THAN THE PLEDGED CONTRACT PAYMENTS, AND DO NOT CONSTITUTE A DEBT OR GENERAL OBLIGATION OF THE STATE, THE CORPORATION, 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 OF TEXAS HAS BEEN PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2013 BONDS.

The City

The City is a home rule municipality that operates pursuant to its Home Rule Charter (the "City Charter"), adopted on October 2, 1951 and effective on January 1, 1952. 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 City Council that 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. The City serves as the county seat for Bexar County (the "County"), which has a population of 1,714,773 according to the 2010 United States Decennial 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 C attached hereto. Selected portions of the City's Comprehensive Annual Financial Report ("CAFR") for the Fiscal Year ended September 30, 2012 are attached as APPENDIX E hereto.

THE STARBRIGHT PROJECT

In early February 2003, Toyota Motor Manufacturing North America, Inc. ("Toyota") announced that it had selected a site near the City in the southwestern portion of the County to construct a new industrial plant for the purpose of manufacturing motor vehicles and automotive parts and components (the "Starbright Project"). Toyota, the City, the County, the State, and various other public and private entities entered into an agreement, known as the Project Starbright Agreement (the "Starbright Agreement"), setting forth the obligations of such various parties required to bring a Toyota automobile manufacturing facility to the County. Pursuant to the Starbright Agreement, the City acquired and conveyed to Toyota an approximately 2,643 acre tract of land for the project site and agreed to reimburse Toyota up to \$10,000,000 for site preparation costs and the construction of a training facility, with the City's portion of such training facility not to exceed \$3,000,000 (collectively, the "City Project"). On June 26, 2003, the Corporation issued the "City of San Antonio, Texas, Starbright Industrial Development Corporation Contract Revenue Bonds, Series 2003 (Taxable) (Starbright Project)" (the "Refunded Obligations") to finance the City's obligations under the Starbright Agreement to fund the City Project.

Toyota began construction of the Starbright Project in October of 2003 and, three years later, production in November of 2006. In 2010, Toyota expanded its local production by adding production of the Tacoma, which was transferred from the Fremont, California plant, creating an additional 1,000 new jobs and investing \$100 million in new personal property, inventory, and supplies. Toyota currently has an estimated San Antonio workforce of 2,900. The entire Toyota San Antonio campus, which includes several parts suppliers, employs about 6,000 workers and has an estimated annual financial impact of \$1,700,000,000 to the local economy.

The City satisfied its financial obligations relative to the City Project through the issuance of the Refunded Obligations, and it has since been successfully completed and is now operational. The only remaining City obligations are those existing under the Economic Development Contract, which serves as the substantive majority of the Trust Estate (defined herein). See "THE INDENTURE" and "THE ECONOMIC DEVELOPMENT CONTRACT" herein.

PLAN OF FINANCING

Purpose

Proceeds from the sale of the Series 2013 Bonds, together with additional funds provided by the Corporation, will be used to: (i) refund the Refunded Obligations, as identified in Schedule I attached hereto, and (ii) pay the costs of issuing the Series 2013 Bonds.

Refunded Obligations

The Refunded Obligations, and interest due thereon, are to be paid on their scheduled date of maturity and prior redemption from funds to be deposited with the Trustee. The Indenture provides that from the proceeds of the sale of the Series 2013 Bonds received from the Underwriters, together with additional funds provided by the Corporation, the Corporation will deposit with the Trustee the amount necessary to accomplish the discharge and final payment of the Refunded Obligations to stated maturity or earlier redemption, as applicable. Such funds will be held by the Trustee in a special account in the Debt Service Fund created under the Indenture known as the "Series 2003 Defeasance and Redemption Account," and will be held uninvested in cash until such funds are used to pay or redeem the Refunded Obligations. Under the Indenture, the Series 2003 Defeasance and Redemption Account is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations.

Prior to, or simultaneously with, the issuance of the Series 2013 Bonds, the Corporation will give irrevocable instructions to provide notice to the owners of the Refunded Obligations that certain Refunded Obligations will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Obligations from money held in the Series 2003 Defeasance and Redemption Account.

Causey Demgen & Moore P.C., a nationally recognized accounting firm (the "Accountants"), will verify at the time of delivery of the Series 2013 Bonds to the Underwriters the mathematical accuracy of the schedules that the funds in the Series 2003 Defeasance and Redemption Account will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. (see "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS" herein).

By the deposit of Bond proceeds and cash with the Trustee in the Series 2003 Defeasance and Redemption Account, the Corporation will have effectuated the defeasance of the Refunded Obligations pursuant to the terms of the Trust Indenture (defined herein), as supplemented by the First Supplemental Indenture of Trust, authorizing their issuance (the "First Supplemental Indenture"). It is the opinion of Co-Bond Counsel that, as a result of such defeasance, and in reliance upon the report of the Accountants, the Refunded Obligations will no longer be payable from the Trust Estate, but will be payable solely from the amounts on deposit in Series 2003 Defeasance and Redemption Account and held for such purpose by the Trustee, that the Refunded Obligations will be defeased and are not to be included in or considered to be indebtedness of the Corporation for the purpose of a limitation of indebtedness or for any other purpose, and that the First Supplemental Indenture is discharged except for the payment of debt service on the Refunded Obligations from the hereinbefore-described source.

THE SERIES 2013 BONDS

General Description of the Series 2013 Bonds

The Bonds are dated June 1, 2013. Interest on the Series 2013 Bonds will accrue from their date of initial delivery at the rates per annum set forth on the inside cover page of this Official Statement, and will be payable initially on August 15, 2013, and on each February 15 and August 15 thereafter (each an "Interest Payment Date"). The Series 2013 Bonds will mature on August 15 in the years and in the amounts set forth on the inside cover page of this Official Statement. Interest on the Series 2013 Bonds will be calculated on the basis of a 360-day year of twelve consecutive 30-day months.

The Series 2013 Bonds will be issued only as fully-registered bonds, in denominations of \$5,000 in principal or any integral multiple thereof within a stated maturity. In the event the Series 2013 Bonds are no longer held in the Book-Entry-Only System described herein, interest on the Series 2013 Bonds will be payable by check mailed on or before each Interest 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 Series 2013 Bonds are no longer held in the Book-Entry-Only System described herein, principal of the Series 2013 Bonds 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 Series 2013 Bonds are registered in the name of Cede & Co. or other nominee for The Depository Trust Company ("DTC"), payments of principal of and interest on the Series 2013 Bonds will be made as described in "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.

Authority for Issuance

The Series 2013 Bonds are being issued pursuant to the laws of the State including, particularly, Section 501.213 of the Act and an Indenture of Trust, dated as of June 1, 2003 (the "Trust Indenture"), as supplemented by the Second Supplemental Indenture of Trust, dated as of June 1, 2013 (the "Second Supplemental Indenture", and, together with the Trust Indenture, the "Indenture"), each by and between the Corporation and Wells Fargo Bank, N.A., Dallas, Texas as trustee (the "Trustee"). Execution of the Trust Indenture was approved by a resolution of the Board and an ordinance of the City Council, respectively, each approved on June 12, 2003; execution of the Second Supplemental Indenture was approved by a resolution of the Board and an ordinance of the City Council, respectively, each approved on May 9, 2013. Additionally, the City's commitment to provide the Pledged Contract Payments to the Corporation, which in turn included those payments in the Trust Estate as security for the Series 2013 Bonds, is authorized pursuant to the provisions of Chapter 380, Texas Government Code. See "THE ECONOMIC DEVELOPMENT CONTRACT – Representations and Covenants of the City - Qualification of City Project Under City's Economic Development Program." As permitted by the Act, the Corporation delegated to certain authorized officials the authority 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 Chief Financial Officer of the Corporation on June 4, 2013.

Security and Source of Payment for the Series 2013 Bonds

The Series 2013 Bonds, together with any additional bonds issued on a parity therewith pursuant to any future supplement to the Trust Indenture (collectively, the "Bonds"), are special obligations of the Corporation and are payable both as to principal and interest solely from the Trust Estate created under the Indenture. The Trust Estate consists of (1) Pledged Revenues, including the Corporation's right, title and interest in and to Pledged Contract Payments under the Economic Development Contract (see "THE ECONOMIC DEVELOPMENT CONTRACT" herein) and (2) Pledged Funds (initially, with respect to the Series 2013 Bonds, the Debt Service Fund and any monies deposited therein, and (3) any and all property pledged as additional security with the Trustee by the Corporation under the Indenture.

Under the Economic Development Contract, the City is obligated to pay to the Trustee, on behalf of the Corporation from certain revenues it receives from the Utility Systems, such sums as are required to pay (1) Debt Service on all Bonds issued under the Trust Indenture, and any supplemental indenture thereto, which shall include the payment of principal, redemption premium, if any, and interest on the Series 2013 Bonds, and (2) all other Debt Service Obligation Expenses. See "APPENDIX A – Excerpts from the Indenture."

NONE OF THE STATE, THE CITY, NOR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY PRINCIPAL OR INTEREST ON THE SERIES 2013 BONDS, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, THE CITY, OR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE SERIES 2013 BONDS.

Perfection of Interest in Security

Chapter 1208, Texas Government Code, applies to the issuance of the Series 2013 Bonds and the pledge of the Trust Estate (which includes the Pledged Contract Payments received from the City), and such pledge is, therefore, valid, effective, and perfected. Should Texas law be amended at any time while the Series 2013 Bonds are outstanding and unpaid, the result of such amendment being that the pledge of any part of the Trust Estate is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, in order to preserve to the registered owners of the Series 2013 Bonds a security interest in such pledge, the Corporation has agreed to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

Redemption Provisions

Optional Redemption. The City reserves the right, at its option, to redeem Series 2013 Bonds having stated maturities on and after August 15, 2024, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2023, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption. The Series 2013 Bonds maturing on August 15, 2033 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to stated maturity on August 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:

| <u>Term Bonds Maturing August 15, 2033</u> | |
|---|------------------------------|
| <u>Redemption Date</u> | <u>Principal Amount (\$)</u> |
| <u>(August 15)</u> | |
| 2029 | 1,315,000 |
| 2030 | 1,375,000 |
| 2031 | 1,440,000 |
| 2032 | 1,515,000 |
| 2033* | 1,585,000 |

* Stated maturity.

The principal amount of the Term Bonds required to be redeemed pursuant to the operation of such mandatory redemption requirements may be reduced, at the option of the Corporation, by the principal amount of any such Term Bonds which, prior to the date of the mailing of notice of such mandatory redemption, (i) shall have been acquired by the Corporation and delivered to the Trustee for cancellation, (ii) shall have been purchased and canceled by the Trustee at the request of the Corporation, or (iii) shall have been redeemed pursuant to the optional redemption provisions described above and not credited against a mandatory redemption requirement.

Selection of Bonds for Redemption. If less than all of the Series 2013 Bonds are to be redeemed, the City may select the maturities of Series 2013 Bonds to be redeemed. If less than all the Series 2013 Bonds of any maturity are to be redeemed, the Trustee (or DTC while the Series 2013 Bonds are in Book-Entry-Only form) shall determine by lot the Series 2013 Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Series 2013 Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Trustee on the redemption date.

Notice of Redemption

If any of the Series 2013 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 Series 2013 Bonds to the Registered Owner of each Series 2013 Bond to be redeemed in whole or in part at the address shown on the Bond Register at the close of business on a day not later than the fifth day preceding the date of mailing. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE SERIES 2013 BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY SERIES 2013 BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH SERIES 2013 BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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 Series 2013 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 Series 2013 Bonds.

Redemption Through The Depository Trust Company

The Trustee and the Corporation, so long as a Book-Entry-Only System is used for the Series 2013 Bonds, will send any notice of redemption, notice of proposed amendment to the Indenture or other notices with respect to the Series 2013 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 Series 2013 Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Series 2013 Bonds by the Corporation will reduce the outstanding principal amount of such Series 2013 Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, redemption of such Series 2013 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 Series 2013 Bonds from the Beneficial Owners. Any such selection of Series 2013 Bonds to be redeemed will not be governed by the Indenture 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 Series 2013 Bonds or the providing of notice to Direct Participants, Indirect Participants, or Beneficial Owners of the Series 2013 Bonds being called for redemption. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Transfer, Exchange and Registration

In the event the Book-Entry-Only-System should be discontinued, the Series 2013 Bonds may be transferred and exchanged on the Bond Register of the Trustee only upon presentation and surrender thereof to the Trustee and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange, and transfer. Series 2013 Bonds may be assigned by the execution of an assignment form on the respective Series 2013 Bonds or by other instrument of transfer and assignment acceptable to the Trustee. New Series 2013 Bonds will be delivered by the Trustee, in lieu of the Series 2013 Bonds being transferred or exchanged, at the corporate trust office of the Trustee, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Series 2013 Bonds issued in an exchange or transfer of Series 2013 Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Series 2013 Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Trustee. New Series 2013 Bonds registered and delivered in an exchange or transfer will be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Series 2013 Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Series 2013 Bonds.

Limitation on Transfer for Partially Redeemed Bonds

Neither the Corporation nor the Trustee will be required to transfer or exchange any Series 2013 Bond (i) during the period commencing with the close of business or any Record Date and ending with the opening of business on the following principal or interest payment date, or (ii) with respect to any Series 2013 Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Series 2013 Bond.

Record Date for Interest Payment

The record date ("Record Date") for determining the person to whom the interest on the Series 2013 Bonds is payable on any Interest Payment Date means the close of business on the last business day of the preceding month.

In the event of a non payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the 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 ("Special Payment Date", which must be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Bond appearing on the Bond Register of the Trustee at the close of business on the last business day next preceding the date of mailing of such notice.

Payment Record

None of the Corporation, the City nor CPS Energy have ever defaulted in payments on its bonded indebtedness.

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SOURCES AND USES OF FUNDS

Proceeds from the sale of the Series 2013 Bonds, together with additional funds contributed by the Corporation, are expected to be expended as follows:

Sources of Funds

| | |
|-------------------------------------|------------------------|
| Par Amount of the Series 2013 Bonds | \$20,890,000.00 |
| Reoffering Premium | 211,043.70 |
| Corporation Contribution | 1,053,918.55 |
| Total Sources of Funds | <u>\$22,154,962.25</u> |

Uses of Funds

| | |
|---|------------------------|
| Series 2013 Defeasance and Redemption | |
| Account Deposit | \$21,837,150.25 |
| Underwriters' Discount | 112,779.61 |
| Costs of Issuance and Additional Proceeds | 205,032.39 |
| Total Uses of Funds | <u>\$22,154,962.25</u> |

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Series 2013 Bonds is to be transferred and how the principal of, premium, if any, and interest on the Series 2013 Bonds are to be paid to and credited by DTC while the Series 2013 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 Series 2013 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 Series 2013 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 Series 2013 Bonds. The Series 2013 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 Series 2013 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 Series 2013 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 Series 2013 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 Series 2013 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 Series 2013 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 Series 2013 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2013 Bonds, such as defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of the Series 2013 Bonds may wish to ascertain that the nominee holding the Series 2013 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 Series 2013 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 Series 2013 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 Series 2013 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 Series 2013 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 Series 2013 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 Series 2013 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 Indenture will be given only to DTC.

DEBT SERVICE SCHEDULE

Debt Service Schedule⁽¹⁾

Table 1

| Fiscal Year End 9/30 | Principal (\$) | Interest (\$) | Total Debt Service Requirement (\$) |
|-------------------------|-------------------|-------------------|--|
| 2013 | - | 87,546 | 87,546 |
| 2014 | - | 732,940 | 732,940 |
| 2015 | - | 732,940 | 732,940 |
| 2016 | 825,000 | 732,940 | 1,557,940 |
| 2017 | 935,000 | 724,047 | 1,659,047 |
| 2018 | 950,000 | 709,676 | 1,659,676 |
| 2019 | 965,000 | 693,175 | 1,658,175 |
| 2020 | 985,000 | 673,527 | 1,658,527 |
| 2021 | 1,010,000 | 650,518 | 1,660,518 |
| 2022 | 1,035,000 | 623,429 | 1,658,429 |
| 2023 | 1,065,000 | 593,083 | 1,658,083 |
| 2024 | 1,100,000 | 559,727 | 1,659,727 |
| 2025 | 1,135,000 | 523,075 | 1,658,075 |
| 2026 | 1,175,000 | 482,987 | 1,657,987 |
| 2027 | 1,215,000 | 439,724 | 1,654,724 |
| 2028 | 1,265,000 | 393,165 | 1,658,165 |
| 2029 | 1,315,000 | 343,425 | 1,658,425 |
| 2030 | 1,375,000 | 280,963 | 1,655,963 |
| 2031 | 1,440,000 | 215,650 | 1,655,650 |
| 2032 | 1,515,000 | 147,250 | 1,662,250 |
| 2033 | 1,585,000 | 75,288 | 1,660,288 |
| | <u>20,890,000</u> | <u>10,415,075</u> | <u>31,305,075</u> |

⁽¹⁾ Figures have been rounded to the nearest dollar. Totals and actual amounts may be slightly different due to rounding.

THE INDENTURE

The following paragraphs briefly describe certain provisions of the Indenture. See "APPENDIX A – Excerpts from the Indenture" attached hereto for a more complete description of the Indenture.

Establishment of Funds

The Trust Indenture has established the following separate funds for the deposit of Pledged Revenues and the proceeds from the sale of each Series of Bonds, all of which will be held by the Trustee: (1) Acquisition and Construction Fund, (2) Debt Service Fund, (3) Debt Service Reserve Fund, to the extent created and pledged in a Supplemental Indenture, and (4) Rebate Fund (relating only to Bonds the interest on which is excludable from federal income taxation). The Trustee may establish separate accounts within all Funds. The Debt Service Fund and the Debt Service Reserve Fund, to the extent created and pledged in a Supplemental Indenture, and monies and Reserve Fund Surety Policies deposited therein, constitute the "Pledged Funds." Money on deposit in such Funds may be invested in any securities authorized for investment of Corporation funds by the laws of the State, currently the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended.

With respect to the Series 2013 Bonds, the Second Supplemental Indenture specifically provides that no account will be established in the Debt Service Reserve Fund for the benefit of the holders of the Series 2013 Bonds; accordingly, only the Debt Service Fund and the monies deposited therein will constitute Pledged Funds related to the Series 2013 Bonds.

Acquisition and Construction Fund. The Indenture establishes a Series 2013 Costs of Issuance Account within the Acquisition and Construction Fund. A portion of the proceeds from the sale of the Series 2013 Bonds will be deposited in the Series

2013 Costs of Issuance Account of the Acquisition and Construction Fund to pay costs associated with the issuance of the Series 2013 Bonds.

Debt Service Fund. The Trust Indenture establishes the Debt Service Fund from which there shall be paid on or before each Interest Payment Date or principal payment date (whether due to stated maturity or prior redemption) for any of the Bonds, the amount required to pay the principal and/or interest due on such date. In addition, the Second Supplemental Indenture establishes a Series 2003 Defeasance and Redemption Account in the Debt Service Fund into which a portion of the proceeds of the Series 2013 Bonds will be deposited in an amount sufficient to defease the Refunded Obligations on the date of delivery of the Series 2013 Bonds, as further described herein under “PLAN OF FINANCING – Refunded Obligations.”

Debt Service Reserve Fund. Pursuant to the Second Supplemental Indenture, no account is being established in the Debt Service Reserve Fund to provide additional security for the Series 2013 Bonds.

Flow of Funds

The Indenture provides that Pledged Revenues shall be used to make or provide for all payments, deposits, and transfers required therein as follows:

On or before the 30th of each month, and at such other times as shall be set forth in any Supplemental Indenture, there will be paid into the Debt Service Fund from the Pledged Revenues, amounts which, when added to other amounts in the Debt Service Fund and available for such purposes, will provide for the accumulation in approximately equal installments of the amount required to pay the Debt Service on all Bonds and Obligations including the following:

- (a) any interest to become due and payable on each Series of Outstanding Bonds on the next Interest Payment Date for such Series; and
- (b) any principal scheduled to become due and payable on each Series of Bonds within the following twelve months; and
- (c) unless otherwise provided in any Supplemental Indenture, any amounts due on Obligations; and
- (d) unless otherwise provided in any Supplemental Indenture, any amounts required to pay all related Expenses.

“Expenses” are defined in the Indenture as the ongoing fees and expenses of the Corporation relating to its Bonds, including its fees and expenses relating to: (1) the Trustee, Paying Agents, Registrars, Authenticating Agents, Securities Dealers, Securities Depositories, or other Fiduciaries; (2) financial and legal consultants; (3) insurers; (4) remarketing, indexing, or similar agreements; and (5) to the extent not included within the definition of Debt Service, Credit Agreements, Investment Liquidity Facility Agreements, or Reserve Fund Surety Policies.

After the payments and transfers set forth in the preceding paragraph, if the Debt Service Reserve Fund contains less than the Reserve Fund Requirement, there will be paid into the Debt Service Reserve Fund from Pledged Revenues the amount required, if any, by a Supplemental Indenture to attain the Reserve Fund Requirement, which transfers shall continue until the Debt Service Reserve Fund contains the Reserve Fund Requirement; provided, however, that by Supplemental Indenture, the Corporation may provide for other or greater transfers in connection with the purchase or acquisition of any Reserve Fund Surety Policy. As noted above, the Second Supplemental Indenture specifically provides that no account will be established in the Debt Service Reserve Fund for the benefit of the holders of the Series 2013 Bonds.

If on any Interest Payment Date, or on any principal payment date, or on any other date there are not sufficient Pledged Revenues to make the transfers to the Debt Service Fund or the Debt Service Reserve Fund or to pay when due interest or principal of or any other payments on any Bonds or Obligations, there may be transferred at the Corporation’s discretion, from any lawfully available source the amount which will result in the appropriate Fund having the balances required to be on deposit therein; provided that no transfer will be made from proceeds of one issue of Bonds to pay debt service on another issue of Bonds unless authorized by Supplemental Indenture. The Corporation is permitted to reimburse itself from Pledged Revenues when they are available.

Certain Covenants

The Corporation has covenanted that so long as any Bonds are outstanding, it will maintain the Economic Development Contract in full force and effect and will use reasonable diligence to require the City to perform and discharge each and all of the duties and obligations imposed upon the City by the Economic Development Contract. If the City fails to make Pledged Contract Payments as required by the Economic Development Contract and if it should appear that enforcement of the Economic Development Contract has become ineffective or will be ineffective to the extent that a default in payment of principal or interest on the Series 2013 Bonds occurs

or is threatened, the Corporation will take all necessary action to preserve and protect the rights of the Owners of the Series 2013 Bonds and to assure payment of the principal and redemption price of the Series 2013 Bonds and the interest thereon.

Amendments to Indenture

Amendments Not Requiring Consent or Notice. The Corporation may enter into Supplemental Indentures that may amend or modify the Indenture without consent or notice to the Owners, if such amendment or modification is for, among other matters, the following: (1) to authorize Bonds and other Obligations and, in connection therewith, to specify and determine the matters relative to such Bonds and other Obligations which are not contrary to or inconsistent with the Indenture, or to amend, modify, or rescind any such authorization, specification, or determination at any time prior to the first delivery of such Bonds and other Obligations; (2) to close the Indenture or any Supplemental Indenture against, or provide limitations and restrictions in addition to, the limitations and restrictions contained in the Indenture or any Supplemental Indenture on the delivery of Bonds and other Obligations or the issuance of other evidences or indebtedness; (3) to add to the covenants and agreements of the Corporation in the Indenture or any Supplemental Indenture, other covenants and agreements to be observed by the Corporation which are not contrary to or inconsistent with the Indenture or the applicable Supplemental Indentures as theretofore in effect; (4) to add to the limitations and restrictions in the Indenture or any Supplemental Indenture other limitations and restrictions to be observed by the Corporation which are not contrary to or inconsistent with the Indenture or the applicable Supplemental Indenture as theretofore in effect; (5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture or any Supplemental Indenture, of the Pledged Revenues and Pledged Funds, or to grant to Owners of Bonds additional rights or enhancements on any Bond, Note, or Credit Agreement; (6) to add or modify the provisions of the Indenture to allow for the issuance of Bonds or obligations that are junior and subordinate to Bonds and Obligations issued under the Indenture; (7) to modify any of the provisions of the Indenture or any Supplemental Indenture in any respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Outstanding Bonds and other Obligations of any Series at the date of the adoption of such Indenture or Supplemental Indenture shall cease to be Outstanding Bonds and other Obligations; and (ii) such Supplemental Indenture shall be specifically referred to in the text of such Bonds and other Obligations delivered after the date of the adoption of such Supplemental Indenture and of Bonds and other Obligations issued in exchange therefor or in place thereof; (8) to surrender any right, power or privilege reserved to or conferred upon the Corporation by the terms of the Indenture, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Corporation contained in the Indenture; (9) to add additional elements or components to the City Project as now or hereafter permitted by law; (10) to increase the Reserve Fund Requirement for the Debt Service Reserve Fund or to provide for Reserve Fund Surety Policies; (11) to alter the Indenture to comply with the requirements of a nationally recognized rating agency in order to obtain or maintain a rating on the Bonds in a long-term debt rating category or in a high-quality, short-term or commercial paper rating category or of such rating agency; (12) to increase the interest rate or rates on the Bonds of any Series; (13) to designate Paying Agents, Authenticating Agents, Registrars, and other agents for the Bonds of any Series; (14) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Indenture; (15) to modify the Indenture to maintain or preserve federal tax exemption relating to the Bonds (which does not apply to the Series 2013 Bonds); (16) to insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture as theretofore in effect; and (17) to modify any of the provisions of the Indenture or any Supplemental Indenture in any respect whatsoever, provided that such action shall not adversely affect the interest of the owners of Outstanding Bonds or other Obligations.

Amendments Requiring Consent. The Indenture provides that the terms and provisions of the Indenture may be amended upon the consent of the Owners of 51% of the aggregate principal amount of all outstanding Bonds, and, in the case that less than all of the several series of Bonds Outstanding are affected by such modification or amendment, Owners of the aggregate principal amount of any Bonds or Obligations which are affected by the amendment or modification.

Additional Obligations

The Corporation reserves the right to issue an unlimited amount of additional Bonds to complete the City Project provided that certain conditions in the Indenture are satisfied, including the following: (1) the Economic Development Contract shall provide for the increase or adjustment of Pledged Contract Payments under the Economic Development Contract so that such payments will be sufficient to: (i) pay the principal and interest on said Bonds and make all mandatory redemption or sinking fund installments as required by the Supplemental Indenture authorizing such Bonds, (ii) increase and/or maintain the balance in the Debt Service Reserve Fund to the Reserve Fund Requirement required by the Supplemental Indenture authorizing such Bonds (if applicable or required), and (iii) pay all related Expenses; (2) a certificate is executed by the City Manager or her designee to the effect that the City is not in default as to any material covenant, condition, or obligation prescribed under the Economic Development Contract, and (3) a certificate is executed by an authorized representative of the CPS Board to the effect that the CPS Board is not in default as to any material covenant, condition, or obligation prescribed by any ordinance authorizing the Utility Systems revenue bonds or other obligations payable by a lien on and pledge of the net revenues derived from the Utility Systems.

The Indenture also authorizes the Corporation to incur Obligations in addition to the Series 2013 Bonds. The term "Obligations" means any and all repayment, reimbursement or other obligations arising pursuant to any Credit Agreement issued or

incurred pursuant to the Indenture. A Credit Agreement is defined in the Indenture as any agreement between the Corporation and a third party financial institution pursuant to which such third party financial institution issues a letter of credit, municipal bond insurance policy, line of credit, standby purchase agreement, Reserve Fund Surety Policy, surety bond, or other guarantee for the purpose of enhancing the creditworthiness or liquidity of any of the Corporation's obligations pursuant to any Bonds, and shall include, to the extent permitted by applicable law, Investment Liquidity Facilities; and in consideration for which the Corporation may agree to pay certain fees and to reimburse and repay any amounts advanced under such Credit Agreement, together with interest and other stipulated costs and charges.

THE ECONOMIC DEVELOPMENT CONTRACT

The Corporation and the City have entered into the Economic Development Contract. The Economic Development Contract shall remain in effect for as long as any Bonds and other Obligations remain outstanding and any expenses remain unpaid.

Corporation's Obligations

Under the Economic Development Contract, the Corporation was obligated: to issue the Refunded Obligations to finance the cost of the City Project; to apply proceeds of the Refunded Obligations to purchase or refinance a total of approximately 2,643 acres of land (defined in the Economic Development Contract as the "Overall Tract"), and convey, or cause to be conveyed, to Toyota, the Overall Tract or so much thereof as may be required pursuant to the Starbright Agreement; with respect to any portion of the Overall Tract not required to be conveyed to Toyota by the terms of the Starbright Agreement, to hold, use, restrict or convey such land upon the direction of the City; to apply proceeds of the Refunded Obligations to reimburse Toyota for, and to pay or cause to be paid all other costs of, the City Project including without limitation, costs of a training facility (the City's portion thereof not to exceed \$3,000,000) and site preparation (not to exceed \$10,000,000) as provided in the Starbright Agreement.

The Corporation has satisfied all of its obligations under the Economic Development Contract.

City's Obligations

Unconditional Payments. The City is obligated under the Economic Development Contract to pay to the Corporation, or at the request of the Corporation, the Trustee, during the term of such Contract, as an unconditional obligation of the City (but solely from the source described in the paragraph below captioned "Source of City Payments") the Pledged Contract Payments and any other sum required by the Economic Development Contract, regardless of whether or not the City Project or Project Starbright is completed, operable, operated or retired and notwithstanding the suspension, interruption, interference, reduction or curtailment of operation of the City Project or Project Starbright. Such payments are not subject to any reduction, whether offset or otherwise, and are not conditional upon (1) performance or default by the Corporation under the Economic Development Contract or any other agreement or other obligation of the Corporation, or (2) whether or not Toyota or any other party to the Starbright Agreement shall perform, fail to perform or default in its obligations.

Debt Service Payments. So long as the Series 2013 Bonds remain outstanding and unpaid, the City will remit to the Trustee the sums necessary to pay, or accrue amounts necessary to pay, the Debt Service on the Series 2013 Bonds at the times and in the amounts as fixed and prescribed in the Indenture. Promptly after the Series 2013 Bonds (and any Series of Bonds and other Obligations) are issued, the Corporation shall furnish (or cause the Trustee to furnish) the City a schedule of payments to be made on the Series 2013 Bonds and any additional Bonds and other Obligations.

Debt Service Reserve Fund Payments. The City will also pay to the Trustee such sums, if any, as are necessary to establish, restore, and maintain an amount equal to the Reserve Fund Requirement, if any, in the Debt Service Reserve Fund created in the Trust Indenture at such times and in such amounts as provided in a Supplemental Indenture.

Expenses. The City will also pay to the Corporation (or at its request, the Trustee or other third parties to whom such amounts are due) the Expenses as they are incurred.

Source of City Payments. All money required to be paid by the City to the Corporation as described above is payable solely from those net revenues of the Utility Systems that are transferred by the CPS Board to the City in an amount not to exceed 14% of the gross revenues of the Utility Systems less the value of gas and electric services of the Utility Systems used by the City for municipal purposes, and the amounts expended for additions to the street lighting system, subject to the flow of funds and other more specific terms of the City's ordinances authorizing bonds, notes, public securities and credit agreements (the "Utility Systems Ordinances") payable from the net revenues of the Utility Systems. The Corporation and the owners of the Series 2013 Bonds shall never have the right to demand that any of these payments shall be made from any funds raised or to be raised by taxation. The City has reserved the right to pay all or any portion of amounts payable by the City under the Economic Development Contract with the proceeds of grants related to the City Project that are lawfully available for such purpose in which case such payments would be credited against amounts due by the City under the Economic Development Contract; however, no pledge or lien of any kind has been granted by the City with respect to any such grants.

Covenant Not to Sell Substantial Portion of Utility Systems. The City has agreed that it will not sell or dispose of all or a substantial portion of the Utility Systems so long as any Bonds (including the Series 2013 Bonds) or other Obligations remain outstanding unless the City provides for the full legal defeasance of all outstanding Bonds and other Obligations prior to or concurrent with such sale or disposition.

Remedies Upon Payment Default. In the event of a default by the City in the payment of any sum due and payable under the Economic Development Contract as described above which continues ten days after the Trustee gives notice of such nonpayment, the Trustee, shall be authorized to pursue any remedies authorized by applicable law.

Qualification of City Project Under City's Economic Development Program. The City has represented to the Corporation that it has taken all necessary legal action to adopt an economic development program in satisfaction of Section 380.001, Texas Local Government Code, as amended, that the City Project qualifies under the City's economic development program established under Chapter 380, Texas Local Government Code, that the Economic Development Contract has been authorized pursuant to Section 380.002(b), Texas Local Government Code, as amended, and that the City's Pledged Contract Payments under the Economic Development Contract, derived from sources described above, satisfy and comply in all respects with Section 380.002(c), Texas Local Government Code, as amended.

Amendment of Economic Development Contract

Amendment to Economic Development Contract Not Requiring Consent of Owners. The Indenture provides that the Corporation and the City may amend, change, or modify the Economic Development Contract without the consent of or notice to the Owners, if such amendment, change or modification: (1) is required by the provisions of the Economic Development Contract or the Indenture; (2) cures any ambiguity or formal defect or omission; (3) is necessary to maintain or preserve the federal tax exemption, if any, of interest on certain Bonds (the interest on which was originally issued as being excludable from federal income taxation, which does not apply to the Series 2013 Bonds) or to comply with any state and/or federal law, including, without limitation, any applicable regulation of the Securities and Exchange Commission; (4) to subject to the lien and pledge of the Indenture to additional revenues, properties or collateral; (5) grants to or confers on the Corporation additional rights, remedies, powers, or authority and the consideration given by the Corporation for such amendment, modification or change does not reduce the amount payable under the Economic Development Contract as Pledged Contract Payments, or extend the time of payment of such amounts or in any manner materially impair or adversely affect the rights of the Owners of the Bonds; (6) enables the Corporation to issue Bonds; (7) enables the Corporation to issue subordinate lien Bonds or obligations; and (8) enables the Corporation to make any change to the Economic Development Contract provided that such change does not diminish, alter or reduce the City's obligation and commitment to pay Pledged Contract Payments.

Amendment to Economic Development Contract Requiring Consent of Owners. Except for the amendments, changes, or modifications provided in the preceding paragraph, neither the Corporation nor the City may consent to any amendment, change or modification of the Economic Development Contract without publication of notice and written approval or consent of the Owners of not less than 51% in aggregate principal amount of the Bonds at the time Outstanding; provided, however, no amendment, modification or change in the Economic Development Contract may in any way reduce the City's obligation to pay Pledged Contract Payments below an amount equal to the amount necessary to: (1) pay Debt Service on the Bonds as it becomes payable; and (2) establish and maintain all of the Funds and Accounts and the balances therein as required by the Indenture.

SAN ANTONIO ELECTRIC AND GAS SYSTEMS

The City acquired its gas and electric utilities in 1942 from the American Light and Traction Company, which had been ordered by the federal government to sell properties under provisions of the Holding Company Act of 1935. The ordinances of the City (the "CPS Bond Ordinances") authorizing the issuance of obligations secured with a first lien on the net revenues of the Utility Systems (the "Parity Bonds") establish management requirements and provide that the complete management and control of the Utility Systems is vested in a Board of Trustees consisting of five citizens of the United States of America permanently residing in Bexar County, Texas, known as the "City Public Service Board of San Antonio, Texas" (referred to herein as "CPS Energy", "City Public Service" or the "CPS Board"). The Mayor of the City is a voting member of the Board, represents the City Council, and is charged with the duty and responsibility of keeping the City Council fully advised and informed at all times of any actions, deliberations, and decisions of the CPS Board and its conduct of the management of the Utility Systems.

CPS Energy currently has outstanding approximately \$4,046,890,000 in principal amount of senior lien fixed rate obligations, \$500,000,000 in principal amount of junior lien fixed rate obligations, \$393,645,000 in principal amount of junior lien variable rate obligations, \$330,000,000 in principal amount of tax exempt commercial paper, and \$25,200,000 in principal amount of inferior lien variable rate obligations in the form of short-term revolving notes. CPS Energy also anticipates issuing on or about June 20, 2013 approximately \$350,000,000 in additional junior lien fixed rate revenue obligations. The CPS bond ordinances authorizing such senior lien and junior lien fixed rate obligations provide that the gross revenues of the Utility Systems are to be deposited in CPS Energy's General Account, and further provide that such revenues are pledged and appropriated to be used in the following priority: (1) for maintenance and operating expenses of the Utility Systems, (2) for payment of the Parity Bonds and the establishment and maintenance

of a debt service reserve therefor, (3) for the payment of any obligations inferior in lien to the Parity Bonds which may be issued, including the Junior Lien Obligations and Commercial Paper Notes, (4) for an amount equal to 6% of the gross revenues of the Utility Systems to be deposited in the Repair and Replacement Account, (5) for cash payments and benefits to the City not to exceed 14% of the gross revenues of the Utility Systems, and (6) for any remaining net revenues in the General Account to be deposited in the Repair and Replacement Account. The maximum amount in cash to be transferred or credited by the CPS Board to the General Fund of the City from the net revenues of the Systems during any fiscal year shall not exceed 14% of the gross revenues of the Utility Systems less the value of gas and electric services of the Utility Systems used by the City for municipal purposes and the amounts expended during the fiscal year for additions to the street lighting system.

See APPENDIX D for additional information regarding CPS Energy and the Utility Systems.

Pursuant to the Economic Development Contract, the City has pledged certain payments it receives from CPS Energy as described in the preceding paragraph to secure the Series 2013 Bonds. The following table shows the payments the City has received from CPS Energy during the City's preceding five fiscal years:

| | Historical Revenues and Benefits Received from the City's Electric and Gas System (CPS Energy)* | | | | | Table 2 |
|---|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|----------------|
| | Fiscal Years Ended September 30 | | | | | |
| | 2008 | 2009 | 2010 | 2011 | 2012 | |
| Gross Benefits from CPS Energy: | \$293,795,634 ⁽¹⁾ | \$265,459,226 ⁽²⁾ | \$283,502,448 ⁽³⁾ | \$297,629,648 ⁽⁴⁾ | \$288,096,190 ⁽⁵⁾ | |
| Less charges for furnishing gas and electricity to City: | <u>(26,028,299)</u> | <u>(25,642,871)</u> | <u>(27,108,145)</u> | <u>(28,229,243)</u> | <u>(27,421,244)</u> | |
| Net Cash: | <u>\$267,767,335</u> ⁽¹⁾ | <u>\$239,816,355</u> ⁽²⁾ | <u>\$256,394,303</u> ⁽³⁾ | <u>\$269,400,405</u> ⁽⁴⁾ | <u>\$260,674,946</u> ⁽⁵⁾ | |

* The information shown in Table 2 lists the revenues and benefits received by the City from CPS Energy during the respective fiscal years of the City.

⁽¹⁾ Includes an additional transfer of \$9,459,706 for 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. The CIED Fund on a prospective basis was terminated on February 1, 2012 by action of the CPS Energy Board of Directors on January 30, 2012.

⁽²⁾ Includes an additional transfer of \$9,203,091 for the CIED Fund.

⁽³⁾ Includes an additional transfer of \$9,630,153 for the CIED Fund.

⁽⁴⁾ Includes an additional transfer of \$10,053,786 for the CIED Fund.

⁽⁵⁾ Includes an additional transfer of \$10,839,151 for the CIED Fund.

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 March 31, 2013, investable City funds in the approximate amount of \$1,278,123,453 were 89.10% invested in obligations of the United States, or its agencies and instrumentalities, 5.53% invested in a money market mutual fund, 3.99% invested in a local government investment pool, and 1.38% 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 100.05% 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. On March 7, 2013, the City extended the securities lending agreement that was set to expire on March 31, 2013 for the first of two optional one-year extensions. The securities lending agreement requires collateral in the form of cash and/or United States government securities equal to 102% of the loaned security's market value plus accrued interest for domestic government or agency securities loaned.

GENERAL LITIGATION AND CLAIMS

General Litigation and Claims

This section describes the litigation involving the City that does not directly involve CPS Energy or claims payable out of CPS Energy's revenues.

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, 2012, the amount of \$26,055,132 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, 2012, attached hereto as APPENDIX E. 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 its brief on the merits in October 2011 and the City filed its reply in December of 2011. On March 9, 2012, the Texas Supreme Court accepted the Petition for Review. Oral arguments were heard on September 13, 2012. On March 8, 2013, the Texas Supreme Court issued its opinion, reversing the Fourth Court's opinion and remanding the matter back to State District Court for further proceedings consistent with their opinion. The City has filed a Motion for Rehearing.

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 November 12, 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 filed their Petition for Review with the Texas Supreme Court in October 2012. On January 18, 2013, the Texas Supreme Court denied the Petition for Review. Plaintiffs have filed a Motion for Reconsideration with the Texas Supreme Court and the City has filed its response. Construction work began in January 2013.

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 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 July 15, 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 November 4, 2013.

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 September 23, 2013.

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. Damages could exceed \$250,000. This case is set for trial on July 29, 2013.

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.

Valemas v. City of San Antonio. In 2005, Plaintiff entered into a construction contract with the City for work at the City's Brackenridge Park. Plaintiff alleges that it experienced delays in the work due to actions of the City, resulting in damages to Plaintiff. Plaintiff filed suit alleging breach of contract. The City sought to have some of the claims dismissed for want of jurisdiction which was denied. The City appealed to the Fourth Court of Appeals, which upheld the denial. The City filed a petition for review with the Texas Supreme Court, which was denied. The case has been returned to the trial court, but no trial date has been set. Damages could exceed \$250,000.

L. Payne Construction v. City of San Antonio. Plaintiff was a subcontractor to Valemas, Inc. on a construction contract for work on Clark Avenue in San Antonio. Plaintiff alleges that it did not receive final payment and that it is entitled to delay damages in excess of \$500,000. Issues in this case are closely related to the issues in the Valemas case listed above and thus the City is awaiting final ruling by the Texas Supreme Court in the Valemas case before proceeding in this litigation. This case is set for trial on September 23, 2013.

Lisandro Ramirez v. City of San Antonio and Joe Castaneda. San Antonio police officers, to include Joe Castaneda, were called to a motel for a disturbance of the peace due to an apparent party in one of the rooms. Plaintiff was in the motel room. He alleges that although he was "polite and respectful," Officer Castaneda used excessive force in restraining him. Plaintiff alleges that Officer Castaneda threw him head first into a wall, causing him to suffer severe injuries to his skull. Plaintiff alleges that Officer Castaneda had prior incidents of use of excessive force that put the City on notice of his propensity to use such force. If Plaintiff is successful, his damages could exceed \$250,000. This case is set for trial on August 19, 2013.

Silverado Brothers v. AT&T, et. al. Plaintiff contracted to perform street and sidewalk work for City. In the contract, the City indicated that utility lines had been identified and marked. When construction began, it was discovered that information from AT&T as to line location was incorrect. Work was delayed while AT&T's contractor, Bay Builders, relocated lines. When work commenced, it was discovered that the lines had not been properly relocated, and work was again delayed. Plaintiff originally filed suit against AT&T and Bay Builders for \$800,000 in delay damages. Plaintiff amended its suit to include the City as a responsible party, based on representations that the lines would be properly marked. This case is currently set for trial on November 4, 2013.

LIMITATION ON BONDHOLDERS' REMEDIES

If the Corporation defaults in the payment of principal, interest, or redemption price on the Series 2013 Bonds when due, or if it fails to make payments into any fund or funds created in the Indenture, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Indenture, or if the City fails to perform its obligations under the Economic Development Contract, the registered owners may seek a writ of mandamus to compel the Corporation and the City officials to carry out their legally imposed duties with respect to the Series 2013 Bonds, if there is no other available remedy at law to compel performance of the Series 2013 Bonds, the Indenture or the Economic Development Contract and the Corporation's or the City's obligations, as applicable, are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Series 2013 Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the City for breach of the covenants included in the Economic Development Contract. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Furthermore, the City and the Corporation are eligible to seek relief from their creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9").

Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues (such as the Pledged Revenues), such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Co-Bond Counsel will note with respect to the Series 2013 Bonds that all opinions relative to the enforceability of the Series 2013 Bonds, the Indenture, and the Economic Development Contract are qualified with respect to the customary rights of debtors relative to their creditors and to general principals of equity that permit the exercise of judicial discretion.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Series 2013 Bonds has not been registered under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Series 2013 Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Series 2013 Bonds been qualified under the securities acts of any other jurisdiction. The Corporation assumes no responsibility for qualification of the Series 2013 Bonds under the securities laws of any jurisdiction in which the Series 2013 Bonds may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Series 2013 Bonds must not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

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 to the Series 2013 Bonds contract ratings of “AA+”, “Aa1”, and “AA+”, respectively. An explanation of the significance of such ratings may be obtained from Fitch, Moody’s, and S&P. The rating of the Series 2013 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 Series 2013 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 the implementation of the Budget Control Act of 2011 (including what is commonly referred to as ‘Sequestration’ thereunder), 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 Series 2013 Bonds, could be subject to a rating downgrade (as evidenced by Moody’s placement of the City’s “Aaa” ad valorem tax-backed credit rating on negative outlook because of perceived indirect linkage of its local economy to the United States government). 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 Series 2013 Bonds.

LEGAL MATTERS

General

The delivery of the Series 2013 Bonds is subject to the approving opinion of the Attorney General of the State of Texas and the opinion of McCall, Parkhurst & Horton L.L.P. and Escamilla & Poneck, LLP, both of San Antonio, Texas, Co-Bond Counsel, as to the validity of the issuance of the Series 2013 Bonds, as well as the defeasance and discharge of the Refunded Obligations, under the Constitution and laws of the State. The opinion of Co-Bond Counsel will be based upon an examination of a transcript of certain proceedings taken by the Corporation incident to the issuance and authorization of the Series 2013 Bonds. The proposed form of Co-Bond Counsel’s opinion is contained in APPENDIX F.

In their capacity as Co-Bond Counsel, McCall, Parkhurst & Horton L.L.P. and Escamilla & Poneck, LLP have reviewed the information appearing in the Official Statement under the caption “THE SERIES 2013 BONDS,” “THE ECONOMIC DEVELOPMENT CONTRACT” and “THE INDENTURE” solely to determine whether such information conforms to and fairly summarizes the provisions of the Series 2013 Bonds, the Economic Development Contract and the Indenture referred to therein. Such firms have also read and participated in the drafting of certain other portions of the Official Statement, including “PLAN OF FINANCING – Refunded Obligations,” “SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2013 BONDS,” “LIMITATION ON BONDHOLDERS’ REMEDIES,” “LEGAL INVESTMENTS IN TEXAS,” “TAX MATTERS RELATING TO THE SERIES 2013 BONDS”, and

“CONTINUING DISCLOSURE OF INFORMATION” (except for the information in the subsection “Compliance with Prior Undertakings” as to which no opinion will be expressed), and such firms are of the opinion that the information relating to the Series 2013 Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein. Such firms have not, however, independently verified any of the factual information contained in the Official Statement nor have they conducted an investigation of the affairs of the Corporation or the City for the purpose of passing upon the accuracy or completeness of the Official Statement. No person is entitled to rely upon such firms’ limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein except as set forth in the first two sentences of this paragraph. The fees of Co-Bond Counsel for their services with respect to the Series 2013 Bonds are contingent upon the delivery of the Series 2013 Bonds. Certain matters will be passed on for the City and the Corporation by the City Attorney, for the Underwriters by their counsel, Fulbright & Jaworski LLP of San Antonio, Texas, a member of Norton Rose Fulbright, and for the Trustee by its counsel, Naman Howell Smith & Lee, PLLC, Austin, Texas. The fees of Counsel to the Underwriters for their services are contingent upon the delivery of the Series 2013 Bonds.

None of Co-Bond Counsel, the City Attorney, Underwriters’ 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, the City, or CPS Energy, or the sufficiency of the security for, or the value or marketability of, the Series 2013 Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Series 2013 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 and the Co-Financial Advisors from time to time on various legal matters; however, Co-Bond Counsel does not represent the Underwriters in connection with the issuance of the Series 2013 Bonds. Underwriters’ 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 Series 2013 Bonds.

Legal Investments in Texas

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Series 2013 Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Series 2013 Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Series 2013 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 Series 2013 Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Series 2013 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 Series 2013 Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Series 2013 Bonds for such purposes. The Corporation and the City have made no review of laws in other states to determine whether the Series 2013 Bonds are legal investments for various institutions in those states.

TAX MATTERS RELATING TO THE SERIES 2013 BONDS

THE FOLLOWING DISCUSSION, WHICH WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE SALE OF THE SERIES 2013 BONDS, IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER, TO AVOID PENALTIES THAT MIGHT BE IMPOSED ON THE TAXPAYER IN CONNECTION WITH THE MATTERS DISCUSSED THEREIN. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE SERIES 2013 BONDS UNDER APPLICABLE STATE OR LOCAL LAWS, OR ANY OTHER TAX CONSEQUENCE.

Certain Federal Income Tax Considerations

General. The following discussion is a summary of certain expected material federal income tax consequences of the purchase, ownership and disposition of the Series 2013 Bonds and is based on the Internal Revenue Code of 1986, as amended (the “Code”), the regulations promulgated thereunder, published rulings and pronouncements of the Internal Revenue Service (“IRS”) and court decisions

currently in effect. There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS, has been, or is expected to be, sought on the issues discussed herein. Any subsequent changes or interpretations may apply retroactively and could affect the opinion and summary of federal income tax consequences discussed herein.

The following discussion is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on, particular holders of the Series 2013 Bonds and does not address U.S. federal gift or estate tax or the alternative minimum tax, state, local or other tax consequences. This summary does not address special classes of taxpayers (such as partnerships, or other pass-thru entities treated as a partnerships for U.S. federal income tax purposes, S corporations, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate investment trusts, grantor trusts, former citizens of the U.S., broker-dealers, traders in securities and tax-exempt organizations, taxpayers who may be subject to other personal holding company provisions of the Code) that are subject to special treatment under U.S. federal income tax laws, or persons that hold Series 2013 Bonds as a hedge against, or that are hedged against, currency risk or that are part of hedge, straddle, conversion or other integrated transaction, or persons whose functional currency is not the U.S. dollar. This summary is further limited to investors who will hold the Series 2013 Bonds as “capital assets” (generally, property held for investment) within the meaning of Section 1221 of the Code.

As used herein, the term “U.S. Holder” means a beneficial owner of a Series 2013 Bond who or which is: (1) an individual citizen or resident of the United States, (2) a corporation or partnership created or organized under the laws of the United States or any political subdivision thereof or therein, (3) an estate, the income of which is subject to U.S. federal income tax regardless of the source; or (4) a trust, if (i) a court within the U.S. is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (ii) the trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes. As used herein, the term “Non-U.S. Holder” means a beneficial owner of a Series 2013 Bond that is not a U.S. Holder.

THIS SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF THE U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF SERIES 2013 BONDS IN LIGHT OF THE HOLDER’S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE HOLDERS OF THE SERIES 2013 BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE SERIES 2013 BONDS BEFORE DETERMINING WHETHER TO PURCHASE SERIES 2013 BONDS.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE SERIES 2013 BONDS UNDER APPLICABLE STATE OR LOCAL LAWS, OR ANY OTHER TAX CONSEQUENCE. FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO NON-U.S. HOLDERS.

Certain U.S. Federal Income Tax Consequences to U.S. Holders

Periodic Interest Payments and Original Issue Discount. The Series 2013 Bonds are not obligations described in Section 103(a) of the Code. Accordingly, the stated interest paid on the Series 2013 Bonds or original issue discount, if any, accruing on the Series 2013 Bonds will be includable in “gross income” within the meaning of Section 61 of the Code of each owner thereof and be subject to federal income taxation when received or accrued, depending upon the tax accounting method applicable to such owner.

Disposition of Series 2013 Bonds. An owner will recognize gain or loss on the redemption, sale, exchange or other disposition of a Series 2013 Bond equal to the difference between the redemption or sale price (exclusive of any amount paid for accrued interest) and the owner’s tax basis in the Series 2013 Bonds. Generally, a U.S. Holder’s tax basis in the Series 2013 Bonds will be the owner’s initial cost, increased by income reported by such U.S. Holder, including original issue discount and market discount income, and reduced, but not below zero, by any amortized premium. Any gain or loss generally will be a capital gain or loss and either will be long-term or short-term depending on whether the Series 2013 Bonds has been held for more than one year.

Defeasance of the Series 2013 Bonds. Defeasance of any Series 2013 Bond may result in a reissuance thereof, for U.S. federal income tax purposes, in which event a U.S. Holder will recognize taxable gain or loss as described above.

Other Tax Consequences. Effective for tax years beginning after December 31, 2012, pursuant to the Health Care and Education Reconciliation Act of 2010, which was intended to help finance the cost of healthcare reform, certain individuals, estates or trusts may be subject to a 3.8% surtax on all or a portion of the taxable interest that is paid on the Series 2013 Bonds. PROSPECTIVE PURCHASERS OF THE SERIES 2013 BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE FOREGOING MATTERS.

Certain U.S. Federal Income Tax Consequences to Non-U.S. Holders

A Non-U.S. Holder that is not subject to U.S. federal income tax as a result of any direct or indirect connection to the U.S. in addition to its ownership of a Series 2013 Bond, will not be subject to U.S. federal income or withholding tax in respect of a Series 2013 Bond, provided that such Non-U.S. Holder complies, to the extent necessary, with identification requirements including delivery of a signed statement under penalties of perjury, certifying that such Non-U.S. Holder is not a U.S. person and providing the name and address of such Non-U.S. Holder. Absent such exemption, payments of interest, including any amounts paid or accrued in respect of accrued original issue discount, may be subject to withholding taxes, subject to reduction under any applicable tax treaty. Non-U.S. Holders are urged to consult their own tax advisors regarding the ownership, sale or other disposition of a Series 2013 Bond.

The foregoing rules will not apply to exempt a U.S. shareholder of a controlled foreign corporation from taxation on the U.S. shareholder's allocable portion of the interest income received by the controlled foreign corporation.

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Series 2013 Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under Section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

FINANCIAL INFORMATION OF THE CITY

The financial statements of the City for the year ended September 30, 2012, included in APPENDIX E to this Official Statement, have been examined by Padgett, Stratemann & Co., L.L.P., independent certified public accountants, to the extent indicated in their report thereon (which report is qualified as therein set forth) which appears in APPENDIX E.

UNDERWRITING

Loop Capital Markets, as representative of the Underwriters, has agreed, subject to certain conditions, to purchase the Series 2013 Bonds from the Corporation at a purchase price of \$20,988,264.09, which represents the par amount of the Series 2013 Bonds, plus a reoffering premium of \$211,043.70, less an Underwriters' discount of \$112,779.61, and no accrued interest. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Series 2013 Bonds if any of the Series 2013 Bonds are purchased. The Series 2013 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.

CONTINUING DISCLOSURE OF INFORMATION

In the Indenture, in the Economic Development Contract, and in a separate agreement between the Corporation and CPS Energy, the Corporation, the City and CPS Energy, respectively, have made the following agreement for the benefit of the holders and beneficial owners of the Series 2013 Bonds. The Corporation, the City, and CPS Energy are required to observe their respective agreements for so long as the Corporation and the City remain obligated to advance funds to pay the Series 2013 Bonds. Under the agreements, the Corporation, the City, and CPS Energy will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material 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 and CPS Energy must keep their fiscal records in accordance with generally accepted accounting principles, must have their 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 and CPS Energy will file annually with the MSRB certain updated financial information and operating data. The information to be updated by the City includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Table 2 and in APPENDIX E attached hereto. The information to be updated by CPS Energy includes all quantitative financial information and operating data with respect to CPS Energy of the general type included in APPENDIX D of this Official Statement under the headings “SAN ANTONIO ELECTRIC AND GAS SYSTEMS - Customer Base”; “TEN-YEAR ELECTRIC CUSTOMER STATISTICS”; “FIVE-YEAR ELECTRIC AND GAS SALES BY CUSTOMER CATEGORY”; “FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE”; “DESCRIPTION OF PHYSICAL PROPERTY - ELECTRIC SYSTEM - Generating Capability, and – Five-Year South Texas Project Capacity Factor”; “DESCRIPTION OF PHYSICAL PROPERTY – OTHER ELECTRIC AND GAS SYSTEMS STATISTICS.” The City and CPS Energy will update and provide this information within six months after the end of their Fiscal Year.

The City and CPS Energy 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 and CPS Energy 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 and CPS Energy may be required to employ from time to time pursuant to State law or regulation.

The City’s Fiscal Year ends September 30 and CPS Energy’s Fiscal Year ends January 31. Accordingly, the City and CPS Energy must each provide updated information by March 31 and July 31, respectively, in each year, unless the City or CPS Energy changes its Fiscal Year. If the City or CPS Energy changes its Fiscal Year, the City and CPS Energy, as appropriate, 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, the City, and CPS Energy 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 Series 2013 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 IRS 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 Series 2013 Bonds, or other events affecting the tax status of the Series 2013 Bonds; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of an obligated person. Neither the Series 2013 Bonds nor the Financing Documents make any provision for credit enhancement, liquidity enhancement, or a debt service reserve with respect to the Series 2013 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 Series 2013 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 Series 2013 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 Failure to Timely File. The City and CPS Energy also will notify the MSRB through EMMA, in a timely manner, of 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, the City, and CPS Energy in

accordance with its undertaking made for the Series 2013 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 (as well as City debt secured by net revenues of the Utility Systems) issued prior to the EMMA Effective Date, the City and CPS Energy remain obligated to make annual required filings, as well as notices of material events, under their 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 and CPS Energy receive notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the City and CPS Energy have determined, in reliance on guidance from the MAC, that making their continuing disclosure filings solely with the MSRB will satisfy their obligations to make filings with the SID pursuant to their continuing disclosure agreements entered into prior to the EMMA Effective Date.

Limitations and Amendments

The Corporation, the City, and CPS Energy have agreed to update information and to provide notices of certain events only as described above. The Corporation, the City, and CPS Energy have not agreed to provide other information that may be relevant or material to a complete presentation of their financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Corporation, the City, and CPS Energy 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, the City, and CPS Energy 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 Series 2013 Bonds may seek a writ of mandamus to compel the Corporation, the City, and CPS Energy to comply with their agreement.

The provisions of the continuing disclosure agreement may be amended by the Corporation, the City, and CPS Energy from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Corporation, the City, and CPS Energy, 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 Indenture that authorizes such an amendment) of the Outstanding Bonds consent to such amendment, or (b) a person that is unaffiliated with the Corporation, the City, and CPS Energy (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the Registered Owners and beneficial owners of the Series 2013 Bonds. The Corporation, the City, and CPS Energy 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 Series 2013 Bonds.

Compliance with Prior Undertakings

Except as hereinafter described, the Corporation, the City, and CPS Energy, during the past five years, have 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 Energy staff, on September 18, 2012, the City was informed by the MAC that CPS Energy did not file its annual financial information and operating data for the Refunded Obligations. CPS Energy filed on October 11, 2012 all required annual financial disclosure information to the EMMA website for the Refunded Obligations, in addition to a non-compliance notice, and will ensure that future disclosures are made in a timely manner.

CO-FINANCIAL ADVISORS

Coastal Securities, Inc. and Estrada Hinojosa & Company, Inc. (the "Co-Financial Advisors") are employed by the City in connection with the issuance of the Series 2013 Bonds and, in such capacity, have assisted the City and the Corporation in the

preparation of certain documents related thereto. The Co-Financial Advisors' fee for service rendered with respect to the sale of the Series 2013 Bonds is contingent upon the issuance and delivery of the Series 2013 Bonds.

The Co-Financial Advisors have not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the City's records and from other sources which are believed to be reliable, including financial records of the City and CPS Energy 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.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from Corporation, City, and CPS Energy records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The issuance of the Series 2013 Bonds will be subject to delivery by 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 Series 2013 Bonds of the computations contained in the provided schedules to determine that the cash deposits listed in the schedules provided by Coastal Securities, Inc. to be held in the Series 2003 Defeasance and Redemption Account will be sufficient to pay, when due, the principal and interest requirements of the Refunded Obligations. The Accountants will express no opinion on the assumptions provided to them. Such verification of accuracy of such mathematical computation will be based upon information and assumptions supplied by the City and Coastal Securities, Inc., and such verification, information and assumptions will be relied on by Co-Bond Counsel in rendering their opinion described herein.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, including, but not limited to the information under the headings "DESCRIPTION OF THE SERIES 2013 BONDS - Security and Source of Payment for the Series 2013 Bonds" and in any other information provided by the Corporation, the City, or CPS Energy that are not purely historical are forward-looking statements, including statements regarding the Corporation's, the City's, or CPS Energy'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, the City, or CPS Energy on the date hereof, and the Corporation, the City, and CPS Energy assume no obligation to update any such forward-looking statements. The Corporation's, the City's, and CPS Energy'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, the City, or CPS Energy. 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.

AUTHORIZATION OF OFFICIAL STATEMENT

This Official Statement has been approved as to form and content and the use thereof in the offering of the Series 2013 Bonds was authorized, ratified, and approved by the Board of Directors of the Corporation and the City Council of the City on the date of sale, and the Underwriters will be furnished, upon request, at the time of payment for and the delivery of the Series 2013 Bonds, a certified copy of such approval, duly executed by the proper officials of the Corporation.

The use of this Official Statement has been duly approved by the Board of Directors of the Corporation and the City Council of the City for distribution in accordance with the provisions of the securities and Exchange Commission's rule codified at 17 C.F.R., Section 240, 15c2-12.

/s/ Julián Castro

President, Board of Directors

/s/ Julián Castro

Mayor, City of San Antonio

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SCHEDULE I

TABLE OF REFUNDED OBLIGATIONS

| <u>Series</u> | <u>Maturity Date</u> | <u>Interest Rate (%)</u> | <u>Par Amount (\$)</u> | <u>Call Date</u> | <u>Call Price (%)</u> |
|---|---------------------------|--------------------------|------------------------|------------------|-----------------------|
| City of San Antonio, Texas, Starbright Industrial Development Corporation Contract Revenue Bonds, Series 2003 (Taxable) (Starbright Project) | 08/15/2013 | 3.910 | 625,000 | *** | *** |
| | 08/15/2014 | 4.010 | 650,000 | 08/15/2013 | 100 |
| | 08/15/2015 | 4.110 | 675,000 | 08/15/2013 | 100 |
| | 08/15/2016 | 4.260 | 705,000 | 08/15/2013 | 100 |
| | 08/15/2017 | 4.410 | 735,000 | 08/15/2013 | 100 |
| | 08/15/2018 | 4.510 | 770,000 | 08/15/2013 | 100 |
| | 08/15/2019 | 4.610 | 800,000 | 08/15/2013 | 100 |
| | 08/15/2020 | 4.660 | 840,000 | 08/15/2013 | 100 |
| | 08/15/2021 | 4.710 | 880,000 | 08/15/2013 | 100 |
| | 08/15/2022 | 4.760 | 920,000 | 08/15/2013 | 100 |
| | 08/15/2023 | 4.750 | 965,000 | 08/15/2013 | 100 |
| | 08/15/2024 ⁽¹⁾ | 5.110 | 1,010,000 | 08/15/2013 | 100 |
| | 08/15/2025 ⁽¹⁾ | 5.110 | 1,060,000 | 08/15/2013 | 100 |
| | 08/15/2026 ⁽¹⁾ | 5.110 | 1,115,000 | 08/15/2013 | 100 |
| | 08/15/2027 ⁽¹⁾ | 5.110 | 1,170,000 | 08/15/2013 | 100 |
| | 08/15/2028 ⁽¹⁾ | 5.110 | 1,230,000 | 08/15/2013 | 100 |
| | 08/15/2029 ⁽¹⁾ | 5.110 | 1,295,000 | 08/15/2013 | 100 |
| | 08/15/2030 ⁽¹⁾ | 5.110 | 1,360,000 | 08/15/2013 | 100 |
| | 08/15/2031 ⁽¹⁾ | 5.110 | 1,430,000 | 08/15/2013 | 100 |
| | 08/15/2032 ⁽¹⁾ | 5.110 | 1,505,000 | 08/15/2013 | 100 |
| | 08/15/2033 ⁽¹⁾ | 5.110 | <u>1,580,000</u> | 08/15/2013 | 100 |
| | | | <u>21,320,000</u> | | |

⁽¹⁾ Represents a mandatory sinking fund redemption payment of a Term Bond maturing on August 15, 2033.

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APPENDIX A
EXCERPTS FROM THE INDENTURE

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APPENDIX A

EXCERPTS FROM THE INDENTURE

The following are excerpts of certain definitions and provisions of the original Indenture and the Second Supplemental Indenture. Such excerpts do not purport to be complete and are qualified in their entirety by reference to the complete text of such documents, copies of which are available upon request from the Corporation prior to the issuance and delivery of the Series 2013 Bonds and from the Trustee after the issuance and delivery of the Series 2013 Bonds. Provisions included herein are insubstantially final form, but may change prior to closing and may thereafter change prior to delivery of the Series 2013 Bonds.

Definitions

"Account" or "Accounts" shall mean any one or more, as the case may be, of the accounts from time to time hereafter created in any of the Funds required to be maintained pursuant to Section 502 or the provisions of any Supplemental Indenture.

"Acquisition and Construction Fund" shall mean the Acquisition and Construction Fund established pursuant to Section 502 and maintained pursuant to Section 503, including any Accounts created therein.

"Aggregate Debt Service" shall mean for any Fiscal Year or other period, as of the date of calculation, the sum of the amounts of Debt Service for such Fiscal Year or other period with respect to any one or more Series of Bonds and other Obligations then outstanding.

"Authenticating Agent" shall mean an agent appointed by the Trustee to provide the services of an Authenticating Agent as provided herein.

"Authorized Officer of the Corporation" shall mean the President, Vice President, Executive Director, Treasurer, Secretary or other member of the Board or any other officer of the Corporation authorized to perform specific acts or duties bylaw or by motion, resolution, order or other manner contemplated by its by-laws duly adopted by the Board of Directors.

"Board of Directors" or "Board" shall mean the Board of Directors of the Corporation which is the governing body of the Corporation.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Corporation" shall mean the City of San Antonio, Texas, Starbright Industrial Development Corporation.

"Costs of Issuance" shall mean the items of expense payable or reimbursable directly or indirectly by the Corporation and related to the authorization, sale and issuance of Bonds, which items of expense shall include without limiting the generality of the foregoing: travel expenses; printing costs; costs of reproducing documents; computer fees and expenses; filing and recording fees; initial fees and charges of the Trustee, Registrars, Securities Depository, and any Authenticating Agents; initial fees and charges of providers of Credit Agreements, Investment Liquidity Facilities and Reserve Fund Surety Policies or other parties pursuant to remarketing, indexing or similar agreements; discounts; legal fees and charges; consulting fees and charges; auditing fees and expense; credit insurance; financial advisor's fees and charges; costs of credit ratings; insurance premiums; fees and charges for execution, transportation and safekeeping of Bonds or Obligations; expenses and fees of the Corporation and the City associated with the Bonds or Obligations and initial fees of any arbitrage consultants; and other administrative or other costs of issuing, carrying and repaying such Bonds and Obligations and investing the proceeds thereof.

"Costs" or "Costs of the City Project" shall mean all costs, fees and charges associated with, or to be reimbursed for, the acquisition, construction, and improvement of the City Project, including all losses, costs, damages, expenses and liabilities of whatsoever nature (including, but not limited to, attorneys' fees, litigation and court costs, amounts paid in settlement and amounts paid to discharge judgments) incurred by the Corporation and the Texas Department of Economic Development directly or indirectly resulting from, arising out of or related to the issuance, offering, sale,

delivery, or payment of the Bonds, and interest thereon or Obligations, for the design, construction, installation, operation, use, occupancy, maintenance, or ownership of Project Starbright which are required to be paid to the Corporation or the Department as required by Texas Department of Economic Development Rule No. 180.2(b)(7)(ii) of Title 10, Part 5, Chapter 180 of the Texas Administrative Code. Such Costs include capitalized interest and Costs of Issuance and the repayment of any Interim Notes, including interest accrued thereon.

"Counsel's Opinion" shall mean an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal bonds (who may also be bond counsel to the Corporation) selected by the Corporation.

"CPS" means the City Public Service Board of San Antonio, Texas, which exercises management and control of the City's Utility System pursuant to Chapter 1502, Texas Government Code, as amended.

"Credit Agreement" shall mean any agreement between the Corporation and a third party financial institution pursuant to which such third party financial institution issues a letter of credit, municipal bond insurance policy, line of credit, standby purchase agreement, Reserve Fund Surety Policy, surety bond, or other guarantee for the purpose of enhancing the creditworthiness or liquidity of any of the Corporation's obligations pursuant to any Bonds, and shall include, to the extent permitted by applicable law, Investment Liquidity Facilities; and in consideration for which the Corporation may agree to pay certain fees and to reimburse and repay any amounts advanced under such Credit Agreement, together with interest and other stipulated costs and charges.

"Debt Service" shall mean, with respect to any particular Fiscal Year or other twelve (12) month period and any Series of Bonds or other Obligations, an amount equal to the sum of (a) all interest payable on such Bonds during such period, except to the extent that such interest is to be paid from amounts (including any investment earnings thereon) deposited in the Debt Service Fund, Debt Service Reserve Fund, Acquisition and Construction Fund, or elsewhere for the purpose of providing capitalized interest, plus (b) that portion of the principal amount of such Bonds which are due and payable during such period; provided, however, for purposes of satisfying the requirements in Article III (with respect to the issuance of Bonds) and determining the Reserve Fund Requirement, the following rules shall apply in calculating Debt Service.

(A) Interest and principal for any Series of Bonds shall be calculated on the assumption that no Bonds of any Series Outstanding on the date of calculation will cease to be Outstanding except by reason of the scheduled payment of principal on the due date thereof.

(B) Except as provided in (C) below, future Debt Service for any Series of Bonds which bears interest at variable rates or which will at some future date bear interest at a rate or rates to be determined or which will be subject to conversion to an interest rate or interest rate mode such that rates cannot then be ascertained shall be deemed to bear interest at a rate estimated by the Financial Advisor to the Corporation as the rate that would have been borne by a Series of Bonds if (i) they were secured by the same lien on Pledged Revenues, (ii) they were issued (or remarketed as the case may be) at the date of estimation and (iii) they were to bear a fixed rate of interest to their scheduled maturity or maturities.

(C) Interest accruing on Bonds issued as capital appreciation bonds or capital appreciation notes shall be treated as principal payable at maturity of such Bonds.

(D) Interest (other than on capital appreciation bonds) shall be deemed to accrue monthly and principal also shall be deemed to accrue monthly but only during the twelve months immediately preceding any scheduled principal payment (or during such shorter periods as may be appropriate if principal payments are more frequent than every twelve months).

(E) Amounts derived from the investment of money in the Debt Service Reserve Fund during the Fiscal Year or other period of calculation shall reduce Debt Service on Bonds during such Fiscal Year or other period of calculation.

(F) Credit Agreements shall not be deemed to impose any additional Debt Service by reason of there payment or reimbursement obligations that they impose.

"Debt Service Fund" shall mean the Debt Service Fund established pursuant to Section 502 and maintained pursuant to Section 506, including any Accounts created therein.

"Debt Service Reserve Fund" shall mean the Debt Service Reserve Fund established pursuant to Section 502 and maintained pursuant to Section 507, including any Accounts created therein.

"Depository" shall mean any bank, trust company, national banking association, savings and loan association, savings bank or other banking institution or association selected by the City as a depository of moneys and securities held under the provisions of the Indenture and the Act, and may include the commercial banking department of the Trustee or any Paying Agent.

"Economic Development Contract" shall mean that certain contract entitled "Economic Development Contract" between the City and the Corporation, dated as of June 1, 2003.

"Expenses" shall mean the ongoing fees and expenses of the Corporation relating to its Bonds, including its fees and expenses relating to: (1) the Trustee, Paying Agents, Registrars, Authenticating Agents, Securities Dealers, Securities Depositories, or other Fiduciaries; (2) financial and legal consultants; (3) insurers; (4) remarketing, indexing, or similar agreements; (5) to the extent not included within the definition of Debt Service, Credit Agreements, Investment Liquidity Facility agreements, or Reserve Fund Surety Policies.

"Fiduciary" or "Fiduciaries" shall mean the Trustee or the Paying Agents, or any or all of them, as may be appropriate.

"Financial Advisor to the Corporation" shall mean a financial advisory or investment banking firm or firms of nationally recognized experience in municipal bonds selected by the Corporation which acts as the Financial Advisor to the Corporation.

"Fiscal Year" shall mean a fiscal year as established by the Corporation which is currently the 12-month period ending the last day of September, but which may be changed from time to time.

"Fund" or "Funds" shall mean any one or more, as the case may be, of the separate special funds created and established or required to be maintained pursuant to Article V.

"Indenture" shall mean the Indenture of Trust, dated as of June 1, 2003, between the Corporation and the Trustee, as from time to time supplemented and amended, including by the First Supplemental Indenture.

"Interest Payment Date" shall mean the date on which interest on the Bonds is due and payable.

"Investment Liquidity Facility" shall mean any agreement permitted by Texas law, however denominated, provided by a financial institution which contractually commits to purchase for not less than a stated price any class or amount of Investment Securities held in the Debt Service Reserve Fund or any Account therein created under the Indenture at any time such Investment Securities must be liquidated in order to make cash transfers to the Debt Service Fund.

"Investment Security" or "Investment Securities" shall mean and include any securities authorized for investment of Corporation funds by the laws of the State of Texas, currently the "Texas Public Funds Investment Act," Chapter 2256, Texas Government Code, as the same may be amended from time to time, except as may be limited under any Supplemental Indenture.

"Letter of Instructions" shall mean a written directive and authorization executed by an Authorized Officer of the Corporation.

"Obligations" shall mean any and all repayment, reimbursement or other obligations arising pursuant to any Credit Agreement issued or incurred pursuant to the Indenture. If arising in connection with Reserve Fund Surety Policies or Investment Liquidity Facilities, such obligations may be payable solely from the Debt Service Reserve Fund and the Pledged Revenues or other revenues of the Trust Estate required to be deposited therein.

"Outstanding" shall mean as of any date, Bonds theretofore or thereupon being authenticated and delivered under the Indenture except:

- (i) Bonds canceled by the Trustee or Registrar or delivered to the Trustee or Registrar for cancellation at or prior to such date;
- (ii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Indenture;
- (iii) Bonds deemed to have been paid or defeased as provided in the Indenture or in any Supplemental Indenture or as provided by law; and
- (iv) As otherwise provided in any Supplemental Indenture.

"Owner(s)" shall mean the person in whose name such Bond is registered.

"Paying Agent" shall mean the Trustee or any bank or trust company or national or state banking association designated by the Trustee to make principal payment of and interest on the Bonds of any Series, and its successor or successors, meeting the requirements of the Indenture. Different Series of Bonds may have different Paying Agents.

"Pledged Contract Payments" shall mean all amounts relating to Debt Service on Bonds, Obligations and Expenses payable by the City, all as further defined and set forth in the Economic Development Contract.

"Pledged Funds" shall mean the following:

- (a) for Bonds and Obligations, the Debt Service Fund and, to the extent created and pledged in any Supplemental Indenture, the Debt Service Reserve Fund;
- (b) all monies deposited in the Debt Service Fund and the Debt Service Reserve Fund, including any investment income derived therefrom;
- (c) any Reserve Fund Surety Policies purchased to satisfy the Reserve Requirement for Bonds and Obligations; and
- (d) for any Series of Bonds or any Obligation, such additional Funds or Accounts as shall be created and pledged by Supplemental Indenture.

"Pledged Revenues" shall mean:

- (a) Pledged Contract Payments; and
- (b) any additional revenues hereafter designated as Pledged Revenues.

"Project Site" shall have the meaning set forth in the Starbright Agreement.

"Rebate Fund" shall mean the Rebate Fund established pursuant to Section 502 and maintained pursuant to Section 508, including any Accounts created therein.

"Refunding Bonds" shall mean all Bonds, whether issued in one or more Series, issued for the purpose of refunding alike or different principal amount of Bonds, and any interest thereon, and thereafter authenticated and delivered pursuant to the Indenture or any Supplemental Indenture.

"Register" shall mean the register maintained by the Registrar for each Series of Bonds which shows ownership of Bonds in accordance with Section 308.

"Registrar" shall mean the Trustee or any agent of the Trustee designated to keep a Register or Registers of the Owners of the Bonds of any Series as provided in any Supplemental Indenture, and its successor or successors.

"Reserve Fund Requirement" shall mean, to the extent required in any Supplemental Indenture, not less than the average annual Aggregate Debt Service on the Bonds, as the case may be, nor more than the maximum annual Aggregate Debt Service in the current or any future Fiscal Year based upon calculations of Aggregate Debt Service on the Bonds, as the case maybe, for each such Fiscal Year performed as of the date of issuance of each Series, which calculations shall take into account the issuance of the Series of Bonds or Obligations being issued or incurred as of the date of calculation; provided, however, that if any Series of Bonds or Obligations will for any period of time beginning on the date of issuance be fully secured as to the payment of principal or purchase price thereof and interest thereon during such period by the pledge of funds pursuant to a written escrow with the Trustee or any Paying Agent, then the Reserve Fund Requirement with respect to such Series shall not begin to apply until such date as such Series shall no longer be fully secured pursuant to such agreement.

"Reserve Fund Surety Policy" or "Reserve Fund Surety Policies" shall mean any reserve fund surety policy or bond, letter of credit or other instrument, however denominated, provided by a financial institution, pursuant to which the Trustee may draw on such Reserve Fund Surety Policy to enable the Debt Service Reserve Fund to make a required transfer to the Debt Service Fund. Each Reserve Fund Surety Policy shall meet the requirements set forth in the applicable Supplemental Indenture and shall be payable on demand of the Trustee for the benefit of the Owners of the Bonds or other Obligations payable from such Funds.

"Securities Depository" shall mean any securities depository that (i) is a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provision of Section 17A of the Securities Exchange Act of 1934, as amended, operating and maintaining , with its participants or otherwise, a Book Entry System of record ownership of beneficial interests in the Bonds, and (ii) effects transfers of the Bonds in Book Entry Form.

"Starbright Agreement" shall mean the Project Starbright Agreement by and among the Toyota Motor Manufacturing North America, Inc., a Kentucky corporation, the State of Texas, the City of San Antonio, Texas and various other political subdivisions of the State of Texas.

"Supplemental Indenture" shall mean any indenture supplemental to or amendatory of the Indenture, adopted by the Corporation in accordance with Article X.

"Utility System" shall mean the gas and electric systems owned by the City and managed, operated, and maintained by CPS in accordance with the ordinances authorizing the issuance of the City's electric and gas revenue indebtedness.

"Trust Estate" shall have the meaning set forth in Article II of the Indenture.

EXCERPTS FROM THE INDENTURE

* * *

ARTICLE II SECURITY OF THE BONDS AND OBLIGATIONS

Section 201. Granting Clauses. To secure the payment of the principal of, redemption premium, if any, and interest on all Bonds, Obligations and Expenses due and payable whether at maturity or by prior redemption, and the performance and observance of all of the covenants and conditions herein contained, and in consideration of the premises, the acceptance by the Trustee of the trusts hereby created, the purchase and acceptance of the Bonds and Obligations by the Owners thereof, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Corporation does hereby GRANT, BARGAIN, CONVEY, ASSIGN, and PLEDGE to the Trustee and its successors in trust hereunder, subject to the provisions of this Indenture, all of the Corporation's right, title and interest in and to the following described properties and interests, direct or indirect, whether now owned or hereafter acquired:

(a) The Pledged Revenues, including all of the Corporation's right, title and interest in and to the Pledged Contract Payments;

(b) The Pledged Funds, including all moneys deposited or required to be deposited therein, and held by the Trustee as special trust funds derived from insurance proceeds, condemnation awards, payments on contractor's performance or payment bonds or other surety bonds, or any other sources; and

(c) Any and all property of every kind and nature (including without limitation, cash, obligations or securities) which may from time to time hereafter be conveyed, assigned, hypothecated, endorsed, pledged, mortgaged, granted, or delivered to or deposited with the Trustee as additional security hereunder by the Corporation, or which pursuant to any of the provisions of this Indenture may come into the possession or control of the Trustee as security hereunder, or of a receiver lawfully appointed hereunder, all of which property the Trustee is authorized to receive, hold and apply as specifically set forth in this Indenture (collectively, the "Trust Estate").

* * *

ARTICLE III AUTHORIZATION AND ISSUANCE OF BONDS AND OTHER OBLIGATIONS, GENERAL TERMS AND PROVISIONS OF THE BONDS AND OTHER OBLIGATIONS

Section 301. Authorization of Bonds and other Obligations.

(1) This Indenture authorizes the issuance of Bonds and the incurrence of Obligations of the Corporation and creates a continuing pledge of and lien on the Trust Estate, including Pledged Revenues and Pledged Funds, to secure the full and final payment of all amounts due on such Bonds and Obligations and pay Expenses. The aggregate principal amounts of the Bonds which may be executed, authenticated and delivered under this Indenture and the aggregate amounts of any other Obligations are not limited except as may be provided herein or in any Supplemental Indenture.

(2) The Bonds may, if and when authorized by the Corporation pursuant to one or more Supplemental Indentures, be issued in one or more Series, shall be designated "Contract Revenue Bonds," and the designation thereof shall include such appropriate particular designation in the title for the Bonds of any particular Series, as the Corporation may determine. Each Bond shall bear upon its face the designation so determined for the Series to which it belongs.

Section 302. Provisions for Issuance of Bonds. The Corporation has the authority to issue one or more series of Bonds provided that:

(1) All (but not less than all) of the Bonds of each Series shall be executed by the Corporation for issuance under this Indenture and delivered to the Trustee, the Registrar or the Authenticating Agent and thereupon (except as provided in any Supplemental Indenture) shall be authenticated by the Registrar or the Authenticating Agent and delivered to the Owners by the Trustee, the Registrar or the Authenticating Agent, but only upon the receipt of:

(a) Counsel's Opinion to the effect that, as of its date, (i) this Indenture and the Supplemental Indenture authorizing the Bonds of such Series have been duly authorized, executed and delivered by the Corporation, are in full force and effect and constitute legal, valid and binding special obligations of the Corporation; (ii) this Indenture and such Supplemental Indenture create the valid pledge of and lien on the Pledged Revenues and Pledged Funds which they purport to create, subject only to the provisions of this Indenture and such Supplemental Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in this Indenture and such Supplemental Indenture; and (iii) the Bonds of such Series are valid binding special obligations of the Corporation and entitled to the benefits of this Indenture and such Supplemental Indenture; provided, however, that the Counsel's Opinion may include an exception for limitations imposed by or resulting from bankruptcy, insolvency, moratorium, reorganization, or other laws affecting creditors' rights generally or matters relating to equitable principles;

(b) A Letter of Instructions as to the delivery of such Bonds signed by an Authorized Officer of the Corporation which may contain such other instructions as shall be appropriate to provide for the transfer and deposit of the proceeds of such Series of Bonds in the Funds and Accounts hereinafter provided;

(c) In the case of each Series of Bonds, a copy of the Supplemental Indenture authorizing such Bonds certified by an Authorized Officer of the Corporation, which shall describe the Bonds therein authorized and shall further specify:

(i) The authorized principal amount, designation and Series of such Bonds;

(ii) The purpose or purposes for which such Series of Bonds is being issued;

(iii) The maturity date or dates of the Bonds of such Series;

(iv) The interest rate or rates on the Bonds of such Series which may be fixed, variable or otherwise, and the manner of determining such rate or rates, and the Interest Payment Date or dates therefor;

(v) The authorized denominations of and the manner of dating, numbering and lettering the Bonds of such Series;

(vi) The Paying Agent or Agents for payment of the principal and redemption price, if any, of, and interest on, the Bonds of such Series;

(vii) The Registrar for the Bonds of such Series;

(viii) The redemption price or prices, if any, and, subject to Article IV, the redemption terms for the Bonds of such Series;

(ix) The amount and due date of each mandatory redemption or sinking fund installment, if any, for Bonds of like maturity of such Series;

(x) The increased or changed Reserve Fund Requirement as of the issuance of such Series of Bonds;

(xi) How any increase or change in the Reserve Fund Requirement will be funded, including any special provisions for a Reserve Fund Surety Policy;

(xii) The forms of the Bonds of such Series;

(xiii) The appointment of any Registrar, Authenticating Agent or other agents, if any, for such Series of Bonds; and

(xiv) Any other provisions deemed advisable by the Corporation not in conflict with the provisions of this Indenture.

(d) The opinion of the Attorney General of the State, if required by law, to the effect that the Bonds have been issued in accordance with law, or a judgment of a State district court validating the issuance of such Bonds. The re-approval of the Attorney General of the State shall not be required for any Bond or Bonds that are issued in exchange, substitution or replacement of another Bond or Bonds pursuant to the provisions of this Indenture or any Supplemental Indenture;

(e) A motion, resolution or ordinance of the City approving the issuance of the Bonds;

(f) Any required certificate of registration of the Bonds by the Comptroller of Public Accounts of the State of Texas; and

(g) To the extent required by the Act or the administrative rules promulgated thereunder, evidence of approval of such series of Bonds from the Texas Department of Economic Development or its successor agency; and

(h) Such further documents as are required by the provisions of this Indenture or any Supplemental Indenture.

(2) All Refunding Bonds of each Series shall be executed by the Corporation for issuance under this Indenture and delivered to the Trustee or Registrar and thereupon shall be authenticated by the Trustee, Registrar, Authentication Agent and delivered to the Corporation or upon its order, but only upon the receipt by the Trustee or Registrar of the following:

(a) The documents referred to in Subsection 1 of this Section;

(b) If any Bonds to be refunded are to be called for redemption, a Letter of Instructions containing irrevocable instructions to the Trustee or Registrar satisfactory to it requiring that due notice be given of redemption of the Bonds or portions thereof to be refunded on a redemption date specified in such instructions;

(c) If any Bonds are to be refunded other than by exchange and cancellation of the Bonds to be refunded, either (i) moneys in an amount sufficient to effect payment at the applicable redemption price (or the principal amount at maturity) of the Bonds to be refunded, together with accrued interest on such Bonds to the redemption (or maturity) date, which moneys shall be held by the Trustee or any Paying Agent or any one or more escrow agents, in a separate account irrevocably in trust for and assigned to the respective Owners of the Bonds to be refunded, or (ii) Investment Securities or other obligations in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications, as shall be necessary to comply with the provisions of Subsection 2 of Section 1301 and any money required pursuant to said Subsection 2, which Investment Securities or other obligations and money shall be held in trust and used only as provided in said Subsection 2; provided, however, that neither the Trustee nor the Paying Agent shall not be responsible for any calculations necessary for actions taken in connection with this Section; and

(d) If any Bonds are to be refunded, (i) a verification report of an independent nationally recognized certified public accountant reflecting such calculations necessary to show that the Investment Securities comply with Subsection 2 of Section 1301 and (ii) such further documents, opinions and moneys as are required by the provisions of Articles X or XI of this Indenture or of any Supplemental Indenture or any other provision of State or federal law.

(3) Except for Bonds issued pursuant to the First Supplemental Indenture, no additional Series of Bonds shall be issued unless the following requirements are satisfied:

(a) The Economic Development Contract shall provide for the increase or adjustment of Pledged Contract Payments under the Economic Development Contract so that such payments will be sufficient to: (1) pay the principal and interest on said Bonds and make all mandatory redemption or sinking fund installments as required by the Supplemental Indenture authorizing such Bonds, (2) increase and/or maintain the balance in the Debt Service Reserve Fund to the Reserve Fund Requirement required by the Supplemental Indenture authorizing such Bonds, and (3) pay all related Expenses.

(b) A certificate is executed by the Mayor to the effect that the City is not in default as to any material covenant, condition, or obligation prescribed under the Economic Development Contract.

(c) A certificate is executed by the authorized representative of CPS to the effect that CPS is not in default as to any material covenant, condition, or obligation prescribed by any ordinance authorizing the Utility System Revenue Bonds or other obligations payable by a lien on and pledge of net revenues derived from the Utility System.

(d) If any obligations to be issued on a parity with Bonds issued pursuant to the First Supplemental Indenture are secured by a debt service reserve fund, then such debt service reserve fund shall be fully funded upon the issuance of such parity obligations, either with cash or by a reserve fund credit instrument acceptable to the provider of the Reserve Fund Surety Policy for the Bonds issued pursuant to the First Supplemental Indenture, provided that such Reserve Fund Surety Policy is then in existence.

(e) If any amounts related to repayment of draws are then past due and owing to the provider of the Reserve Fund Surety Policy for Bonds issued pursuant to the First Supplemental Indenture, then prior written consent for the issuance of additional Bonds must be obtained from such provider of the Reserve Fund Surety Policy.

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Section 302B. Special Provisions for Credit Agreements.

(1) At any time and from time to time as provided in any Supplemental Indenture, any designated Bonds may be further secured pursuant to one or more Credit Agreements. Prior to entering into any such Credit Agreement, the Corporation, to the extent required by the Act, shall cause the proceedings authorizing the Credit Agreement and any contracts or reimbursement agreements relating to such Credit Agreement to be submitted to the Attorney General of Texas for his approval.

(2) Credit Agreements relating to Reserve Fund Surety Policies shall be payable from and secured by the Debt Service Fund and Pledged Revenues required to be deposited into such Fund.

(3) It shall be a condition to the Corporation's incurrence of any Obligation (including any reimbursement and/or repayment obligation) pursuant to a Credit Agreement that the Corporation shall deliver evidence that:

(a) the Bonds secured by such Credit Agreement were issued or incurred in compliance with the applicable requirements of Section 302, of this Indenture; and

(b) that all requirements of the Corporation's Articles of Incorporation have been satisfied.

(4) Upon request of the Trustee or such other party relating to the incurrence of an Obligation, general counsel to the Corporation or bond counsel to the Corporation shall provide an opinion stating the that conditions set forth in Section 302B(3) have been satisfied.

(5) The issuer of any Credit Agreement shall be entitled to be subrogated to the rights of the Owners of the Bonds secured by such Credit Agreement.

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**ARTICLE IV
REDEMPTION OF BONDS**

Section 401. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity pursuant to a Supplemental Indenture shall be redeemable, upon notice as provided in this Article unless a different notice provision is provided for in a Supplemental Indenture, at such times, at such redemption prices and upon such terms in addition to the terms contained in this Article as may be specified in the Supplemental Indenture authorizing such Series.

Section 402. Redemption at the Election or Direction of the Corporation. In the case of any redemption of Bonds at the election or direction of the Corporation, the Corporation shall give written notice to the Trustee, the Registrar and any Paying Agent of its election or direction so to redeem, of the redemption date, of the Series, of the principal amounts and of the redemption prices of the Bonds of each maturity of such Series to be redeemed (which Series, maturities, principal amounts and redemption prices thereof to be redeemed shall be determined by the Corporation in its sole discretion, subject to any limitations with respect thereto as are contained in Section 404 of this Indenture or any Supplemental Indenture). Such notice shall be given at least forty-five (45) days prior to the redemption date or such shorter period as shall be acceptable to the Registrar. In the event notice of redemption shall have been given as in Section 405, there shall be paid on or before the redemption date to the appropriate Paying Agents an amount which, in addition to other moneys, if any, available therefor held by the Paying Agents, will be sufficient to redeem on the

redemption date at the redemption price thereof, plus interest accrued and unpaid to the redemption date, all of the Bonds to be redeemed.

Section 403. Redemption Otherwise Than at Corporation's Election or Direction. Whenever by the terms of this Indenture or any Supplemental Indenture the Trustee or the Registrar (or the Paying Agent on behalf of Registrar) is required or authorized to redeem Bonds otherwise than at the election or direction of the Corporation, the Trustee or the Registrar (or Paying Agent on behalf of the Registrar), shall select the Bonds to be redeemed, give the notice of redemption and pay out moneys available therefor at the redemption price thereof, plus interest accrued and unpaid to the redemption date, to the appropriate Paying Agents in accordance with the terms of this Indenture and any Supplemental Indenture.

Section 404. Selection of Bonds to be Redeemed. If less than all of the Bonds of like maturity of any Series shall be called for prior redemption, the particular Bonds or portions thereof to be redeemed shall be selected by lot or other random method by the Registrar in such a manner as the Registrar may determine unless otherwise provided by the Supplemental Indenture authorizing that Series.

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**ARTICLE V
ESTABLISHMENT OF FUNDS AND APPLICATION THEREOF**

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Section 502. Establishment of Funds. The following Funds may be authorized to be established and maintained under any Supplemental Indenture:

- (1) Acquisition and Construction Fund, which may include the proceeds of Bonds previously issued by the Corporation;
- (2) Debt Service Fund;
- (3) Debt Service Reserve Fund; and
- (4) Rebate Fund (collectively, the "Funds").

All Funds and Accounts shall be held by the Trustee. The Funds shall constitute a trust fund which shall be held in trust by the Trustee for the benefit of the Owners. The Corporation reserves the right to establish additional funds and accounts for the receipt and application of grant proceeds of the Economic Development Contract other than Pledged Revenues in connection with the City Project. The Corporation may from time to time establish accounts and subaccounts within each Fund for such purposes as may be provided herein or in any Supplemental Indenture.

Section 503. Acquisition and Construction Fund.

(1) There shall be paid into the Acquisition and Construction Fund the amounts required to pay the Costs of the City Project and Costs of Issuance, in accordance with the provisions of this Indenture and any Supplemental Indenture. There may also be paid into the Acquisition and Construction Fund, at the option of the Corporation, any moneys received by the Corporation from any source unless otherwise required to be applied by this Indenture or any Supplemental Indenture.

(2) Separate, segregated accounts may be created within the Acquisition and Construction Fund and held in the manner provided in any Supplemental Indenture authorizing such accounts. Money held in such accounts shall be held separately from other moneys in the Acquisition and Construction Fund and shall be disposed of only in the manner provided in the Supplemental Indentures authorizing such accounts. Without in any way limiting the generality of the foregoing, such separate, segregated accounts and all funds, investments thereof and investment income earned thereon may be pledged (and alien and security interest therein may be granted) to secure for any period of time the payment of principal of and/or the purchase price of any or all of any such Series of Bonds issued pursuant to such

Supplemental Indenture or other Obligations incurred pursuant to such Supplemental Indenture and interest thereon to any date, all as may be more fully provided in such Supplemental Indenture.

(3) Amounts in the Acquisition and Construction Fund shall be used as provided in the Supplemental Indenture authorizing the Series of Bonds which provided money to establish the account.

(4) Amounts in the Acquisition and Construction Fund may be transferred to the Debt Service Fund and applied to the payment of interest on or principal or redemption price of the Bonds or payment of other Obligations when due, to the extent provided in a Supplemental Indenture.

Section 504. Flow of Funds. Pledged Revenues shall be used to make or provide for all payments, deposits, and transfers required by this Indenture.

(1) On or before the 30th day of each month, and at such other times as shall be set forth in any Supplemental Indenture, there shall be paid into the Debt Service Fund from the Pledged Revenues, amounts which, when added to other amounts in the Debt Service Fund and available for such purposes, will provide for the accumulation in approximately equal installments of the amount required to pay the Debt Service on all Bonds and Obligations including the following:

(a) any interest to become due and payable on each Series of Outstanding Bonds on the next Interest Payment Date for such Series; and

(b) any principal scheduled to become due and payable on any Series of Bonds within the following twelve months;

(c) unless otherwise provided in any Supplemental Indenture, any amounts due on Obligations;

(d) unless otherwise provided in any Supplemental Indenture, any amounts required to pay all related Expenses.

(2) After the payments and transfers set out in Subsection 1 above, if the Debt Service Reserve Fund contains less than the Reserve Fund Requirement, there shall be paid into the Debt Service Reserve Fund from Pledged Revenues the amount required, if any, by a Supplemental Indenture to attain the Reserve Fund Requirement, which transfers shall continue until the Debt Service Reserve Fund contains the Reserve Fund Requirement; provided, however, that by Supplemental Indenture, the Corporation may provide for other or greater transfers in connection with the purchase or acquisition of any Reserve Fund Surety Policy.

(3) After the payments and transfers in (1) and (2) above, the remaining Pledged Revenues shall be transferred to the Rebate Fund to the extent required to satisfy the Corporation's covenants contained in Section 508 of this Indenture and any similar covenants contained in any Supplemental Indenture.

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Section 506. Debt Service Fund.

(1) Unless provision for payment has been made with the Paying Agent, there shall be paid out of the Debt Service Fund on or before each Interest Payment Date for any of the Bonds, the amount required for the interest payment on such date. There shall be paid out of the Debt Service Fund on or before each principal payment date, the amount required for the principal payable on such due date on Bonds. On or before any redemption date for Bonds to be redeemed, there shall also be paid out of the Debt Service Fund the amount required for the payment of the redemption price of and interest on the Bonds then to be redeemed. On or before any other payment date set forth in any Supplemental Indenture, there shall also be paid out of the Debt Service Fund the amounts required to be paid on any Obligations on such payment date.

(2) The Trustee shall, at any time at the direction of the Corporation, apply amounts available in the Debt Service Fund, or from other Pledged Revenues, for the payment of any scheduled mandatory or sinking fund redemptions on Bonds issued as "term bonds" to pay the purchase price (including any brokerage and other charges) for any Bond

subject to such mandatory or sinking fund redemption provided that such purchase price shall not exceed the applicable mandatory redemption price of such Bond. Upon any such purchase, the purchased Bonds shall be delivered to the Trustee or Registrar for cancellation and the principal amount of such Bonds purchased shall be credited toward the next mandatory redemption or sinking fund installment.

(3) There shall also be paid out of the Debt Service Fund any amounts required to pay Expenses related to Bonds and Obligations.

(4) At such time all Bonds and Obligations are no longer outstanding, all balances remaining in the Debt Service Fund shall be paid to the City.

Section 507. Debt Service Reserve Fund.

(1) If on any Interest Payment Date, principal payment date, or any other date, after giving effect to all transfers pursuant to Sections 504 and 505, the amount in the Debt Service Fund shall be less than the amount required to make all payments of interest, principal, and any redemption price, of the Bonds then due and payable or to make any other then required payments on Obligations (to the extent authorized in any Supplemental Indenture), the Trustee shall apply amounts from the Debt Service Reserve Fund (to the extent permissible under law and authorized in any Supplemental Indenture) to the extent necessary to make such payments.

(2) When the amount in the Debt Service Reserve Fund, together with the amounts in the Debt Service Fund, is sufficient to fully pay all Outstanding Bonds and, to the extent applicable, Obligations (to the extent authorized in any Supplemental Indenture) in accordance with their terms (including principal or redemption price and interest thereon), the funds on deposit in the Debt Service Reserve Fund at the direction of the Corporation may be used to pay the principal and redemption price of and interest on all Outstanding Bonds and to pay all other Obligations.

(3) In lieu of cash or Investment Securities, the Reserve Fund Requirement for the Debt Service Reserve Fund may be satisfied in whole or in part with one or more Reserve Fund Surety Policies. Such Reserve Fund Surety Policies may be drawn upon only after all other amounts in the Debt Service Reserve Fund have been used or applied, and other amounts in the Debt Service Reserve Fund may be used to reimburse and repay issuers of Reserve Fund Surety Policies for amounts drawn thereon together with interest thereon and related costs, all as may be more fully provided by Supplemental Indenture.

(4) If the amount in the Debt Service Reserve Fund exceeds the Reserve Fund Requirement and all reimbursement and repayment obligations pursuant to any Reserve Fund Surety Policy have been satisfied, the Corporation may direct the Trustee to transfer such excess to the Debt Service Fund or to any other Fund or Account which shall reduce by such amount the amount otherwise required to be deposited therein, provided that such amount is used for the completion of the City Project or such other costs of City Projects or costs for which the Corporation may issue Bonds. If any money is ever withdrawn from the Debt Service Reserve Fund or amounts are drawn under a Reserve Fund Surety Policy for the purpose of paying the principal of or interest on the Bonds, the Corporation shall deposit into the Debt Service Reserve Fund the amounts necessary to restore the Reserve Fund Requirement (which amounts may be deposited in equal monthly payments for a period not to exceed 12 months), or such larger balance as may be required by a Supplemental Indenture.

(5) The Corporation may provide in the Supplemental Indenture that the Reserve Fund Requirement for the Debt Service Reserve Fund be funded (i) from the proceeds of Bonds, (ii) with a Reserve Fund Surety Policy, (iii) from Pledged Revenues within 12 months from the date of sale of a Series of Bonds, (iv) from any other source or (v) from any combination thereof.

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**ARTICLE VI
DEPOSITORIES OF MONEYS, SECURITY FOR DEPOSITS
AND INVESTMENT OF FUNDS**

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Section 603. Investment of Certain Funds.

(1) Moneys held in the Debt Service Fund, the Debt Service Reserve Fund and the Rebate Fund shall be invested and reinvested by the Trustee as promptly as practicable, in accordance with written instructions from the Corporation, and moneys in all other Funds shall be invested and reinvested by the Corporation, in each case to the fullest extent practicable and if permitted by the Act, in Investment Securities the proceeds of which the Corporation estimates will be received not later than such times as shall be necessary to provide moneys when needed for payments to be made from each such Fund or Account. Each instruction regarding the investment of the Funds shall constitute a representation by the Corporation that the securities into which such investment is directed are Investment Securities. Notwithstanding anything herein to the contrary, Investment Securities in all Funds and Accounts shall mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such Funds and Accounts; provided, however, that any Investment Securities for which the Corporation or Trustee shall hold an Investment Liquidity Facility shall be deemed to have a maturity equal to the period of notice of purchase to the issuer of the Investment Liquidity Facility. Investment Securities may be acquired through the Trustee or its affiliate and the Trustee or its affiliate may receive compensation in connection therewith.

(2) Interest earned or profits realized from investing any moneys (i) representing capitalized interest for Bonds deposited in the Debt Service Fund or (ii) in the Acquisition and Construction Fund may be retained in such Funds. Interest earned from the investment of any moneys in any other Fund or Account may be transferred by the Corporation or at the direction of the Corporation into the Debt Service Fund or the Rebate Fund if required by this Indenture or any Supplemental Indenture.

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**ARTICLE VII
PARTICULAR COVENANTS OF THE CORPORATION**

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Section 705. Maintenance of Economic Development Contract. So long as the Bonds or Obligations remain Outstanding and unpaid, either as to principal or interest, the Corporation will maintain the Economic Development Contract in full force and effect and will use reasonable diligence to require the City to perform and discharge each and all of the duties and obligations imposed upon the City by the Economic Development Contract. If the City fails to make Pledged Contract Payments as required by the Economic Development Contract and if it should appear that enforcement of the Economic Development Contract has become ineffective or will be ineffective to the extent that a default in payment of principal or interest on the Bonds or Obligations occurs or is threatened, the Corporation will take all necessary action to preserve and protect the rights of the Owners of the Bonds and Obligations and to assure payment of the principal and redemption price of the Bonds and Obligations and the interest thereon.

* * *

Section 707. Accounts and Reports.

(1) The Corporation shall keep proper books of records and accounts in which complete and correct entries shall be made of its transactions in accordance with Generally Accepted Accounting Principles. The Funds and Accounts established by this Indenture, such books, and all other books and papers of the Corporation, shall, to the extent permitted by law, at all times be subject to the inspection of the Owners of an aggregate of not less than 5% in principal amount of the Outstanding Bonds or their representatives duly authorized in writing. The Corporation will permit such Owners of Bonds, and their agents, auditors, attorneys and counsel, at all reasonable times, to take copies and extracts from the books of record and account, all as may be reasonably necessary for the purpose of determining performance or observance by the Corporation of the covenants, conditions and obligations contained in this Indenture.

(2) The Corporation reserves the right to create accounts and subaccounts within any Fund or Account created by this Indenture or any Supplemental Indenture when in the judgment of the Corporation the creation of such accounts or subaccounts will enable the Corporation to better administer City Project or regulate investments or limit returns on such investments. The Corporation may, but is not obligated to, create a separate bank account for each subaccount created pursuant to this Indenture.

(3) The Corporation reserves the right to employ, from time to time, any convention or method as it shall determine to be appropriate for the purpose of allocating or tracing any Pledged Revenues, or other amounts, or any proceeds or portions thereof in order to comply with applicable Federal or State laws, generally accepted accounting principles or otherwise, including without limitation for purposes of calculating any portion of revenues, debt service, operating expenses and other costs allocable to the City Project for purposes of complying with any applicable conditions to any grants made to the Corporation for the City Project; provided, however, that no such allocation or calculation shall amend, modify or otherwise adversely impair any of the liens, pledges, trusts or grants of this Indenture.

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Section 709. General. The Corporation will at all times maintain its corporate existence or assure the assumption of its obligations under this Indenture by any public body succeeding to its powers under the Act, and it will use its best efforts to maintain, preserve and renew all the rights and powers provided to it by the Act. The Corporation shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Corporation under the provisions of the Act, this Indenture and any other law or regulation applicable to the Corporation.

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ARTICLE VIII DEFAULT AND REMEDIES

Section 801. Events of Default. An Event of Default hereunder shall consist of any of the following acts or occurrences:

- (1) failure to pay when due principal or interest on any Bonds or Obligations; or
- (2) failure to deposit to the Debt Service Fund money sufficient for the payment of any principal or interest payable on any Bonds or Obligations by no later than the date when such principal or interest becomes due and payable.

For purposes of determining whether an Event of Default has occurred under this Section 801, no effect shall be given to payments made under any bond insurance policy.

* * *

Section 804. Remedies in General. If an Event of Default hereunder shall occur and be continuing, then, in addition to all of the other rights and remedies granted to the Trustee hereunder, the Trustee, subject to the provisions of this Indenture, may proceed to protect and enforce its rights and the rights of the Owners of Bonds or Obligations by suit, action or proceeding inequity or at law or otherwise, whether for the specific performance of any covenant or agreement contained in this Indenture or any Supplemental Indenture or in aid of the execution of any power granted in this Indenture or for the enforcement of any other legal, equitable or other remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce any of the rights of the Trustee or such Owners of Bonds or Obligations, including, without limitation, the right to seek a writ of mandamus issued by a court of competent jurisdiction compelling the members of the Board or other officers of the Corporation to make payment of the Pledged Revenues (but only from and to the extent of the sources provided in this Indenture or Supplemental Indenture) or to observe and perform such covenant, obligations or conditions of this Indenture or any Supplemental Indenture.

* * *

ARTICLE X
SUPPLEMENTAL INDENTURES; AMENDMENTS TO
ECONOMIC DEVELOPMENT CONTRACT

Section 1001. Supplemental Indentures. For any one or more of the following purposes and at any time or from time to time, a Supplemental Indenture of the Corporation may, without the consent of, or notice to, any of the Owners, enter into an Indenture or Supplemental Indenture for any of the following purposes:

(1) To authorize Bonds and other Obligations and, in connection therewith, to specify and determine the matters and things referred to in Article III hereof and also any other matters and things relative to such Bonds and other Obligations which are not contrary to or inconsistent with this Indenture as theretofore in effect, or to amend, modify, or rescind any such authorization, specification, or determination at any time prior to the first delivery of such Bonds and other Obligations;

(2) To close this Indenture or any Supplemental Indenture against, or provide limitations and restrictions in addition to, the limitations and restrictions contained in this Indenture or any Supplemental Indenture on the delivery of Bonds and other Obligations or the issuance of other evidences or indebtedness;

(3) To add to the covenants and agreements of the Corporation in this Indenture or any Supplemental Indenture, other covenants and agreements to be observed by the Corporation which are not contrary to or inconsistent with this Indenture or the applicable Supplemental Indentures as theretofore in effect;

(4) To add to the limitations and restrictions in this Indenture or any Supplemental Indenture other limitations and restrictions to be observed by the Corporation which are not contrary to or inconsistent with this Indenture or the applicable Supplemental Indenture as theretofore in effect;

(5) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Indenture or any Supplemental Indenture, of the Pledged Revenues and Pledged Funds, or to grant to Owners of Bonds additional rights or enhancements on any Bond or Credit Agreement;

(6) To add or modify the provisions of this Indenture to allow for the issuance of Bonds or obligations that are junior and subordinate to Bonds and Obligations issued under this Indenture;

(7) To modify any of the provisions of this Indenture or any Supplemental Indenture in any respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Outstanding Bonds and other Obligations of any Series at the date of the adoption of such Indenture or Supplemental Indenture shall cease to be Outstanding Bonds and other Obligations; and (ii) such Supplemental Indenture shall be specifically referred to in the text of such Bonds and other Obligations delivered after the date of the adoption of such Supplemental Indenture and of Bonds and other Obligations issued in exchange therefor or in place thereof;

(8) To surrender any right, power or privilege reserved to or conferred upon the Corporation by the terms of this Indenture, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Corporation contained in this Indenture;

(9) To add additional elements or components to the City Project as now or hereafter permitted by law;

(10) To increase the Reserve Fund Requirement for the Debt Service Reserve Fund or to provide for Reserve Fund Surety Policies;

(11) To alter the Indenture to comply with the requirements of a nationally recognized rating agency in order to obtain or maintain a rating on the Bonds in a long-term debt rating category or in a high-quality, short-term or commercial paper rating category or of such rating agency;

(12) To increase the interest rate or rates on the Bonds of any Series;

(13) To designate Paying Agents, Authenticating Agents, Registrars, and other agents for the Bonds of any Series;

(14) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Indenture;

(15) To modify the Indenture to maintain or preserve federal tax exemption relating to the Bonds;

(16) To insert such provisions clarifying matters or questions arising under this Indenture as are necessary or desirable and are not contrary to or inconsistent with this Indenture as theretofore in effect; and

(17) To modify any of the provisions of this Indenture or any Supplemental Indenture in any respect whatsoever, provided that such action shall not adversely affect the interest of the owners of Outstanding Bonds or other Obligations.

Section 1002. Supplemental Indentures Effective With Consent of Owners. Except for Indentures and Supplemental Indentures entered into or amended pursuant to Section 1001, the Corporation may at any time or from time to time adopt a Supplemental Indenture in accordance with and subject to the provisions of Article XI, which Supplemental Indenture shall become fully effective in accordance with its terms as provided in said Article XI.

* * *

Section 1004. Amendment to Economic Development Contract Not Requiring Consent of Owners. In addition to any supplemental economic development contracts into which the City and Corporation may enter in the future, the Corporation and the City may amend, change, or modify the Economic Development Contract without the consent of or notice to the Owners, if such amendment, change or modification: (1) is required by the provisions of the Economic Development Contract or this Indenture; (2) cures any ambiguity or formal defect or omission; (3) is necessary to maintain or preserve the federal tax exemption of interest on the Bonds and Obligations or to comply with any state and/or federal law, including, without limitation, any applicable regulation of the Securities and Exchange Commission; (4) to subject to the lien and pledge of this Indenture to additional revenues, properties or collateral; (5) grants to or confers on the Corporation additional rights, remedies, powers, or authority and the consideration given by the Corporation for such amendment, modification or change does not reduce the amount payable under the Economic Development Contract as Pledged Contract Payments, or extend the time of payment of such amounts or in any manner materially impair or adversely affect the rights of the Owners of the Bonds or Obligations; (6) enables the Corporation to issue Bonds or incur Obligations; (7) enables the Corporation to issue subordinate lien Bonds or obligations; and (8) enables such the Corporation to make any change to the Economic Development Contract provided that such change does not diminish, alter or reduce the City's obligation and commitment to pay Pledged Contract Payments.

Section 1005. Amendment to Economic Development Contract Requiring Consent of Owners. Except for the amendments, changes, or modifications provided in Section 1004, neither the Corporation nor the City shall consent to any amendment, change or modification of the Economic Development Contract without publication of notice and written approval or consent of the Owners of not less than 51% in aggregate principal amount of the Bonds at the time Outstanding given, procured and established as provided in Article XII hereof relating to the amendment of this Indenture. It is specifically provided, however, that no amendment, modification or change in the Economic Development Contract shall in any way reduce the City's obligation to pay Pledged Contract Payments below an amount equal to the amount necessary to: (1) pay Debt Service on the Bonds and Obligations as it becomes payable; and (2) establish and maintain all of the Funds and Accounts and the balances therein as required by this Indenture.

* * *

EXCERPTS FROM THE SECOND SUPPLEMENTAL INDENTURE OF TRUST

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**ARTICLE III
SOURCES OF PAYMENT; SPECIAL ACCOUNTS AND
OTHER MATTERS RELATING TO SERIES 2013 BONDS**

SECTION 301. SOURCE OF PAYMENT FOR SERIES 2013 BONDS. The Series 2013 Bonds are payable solely from, and secured by a lien on and pledge of, the Trust Estate. The Series 2013 Bonds shall not be an obligation, either special, general, moral or otherwise, of the State, the City or any political subdivisions or entities of the State. The Owners of Series 2013 Bonds shall never have the right to demand payment out of any funds raised or to be raised by taxation or to have any claim against any property or revenues of the City or the Corporation except for Pledged Revenues and Pledged Funds described in the Indenture. The Corporation does not have the power to levy or collect taxes.

SECTION 302. CONFIRMATION OF FUNDS AND ESTABLISHMENT OF SPECIAL ACCOUNTS. Pursuant to the terms of the Indenture, the existence of the following Funds is hereby confirmed:

1. Acquisition and Construction Fund; and
2. Debt Service Fund.

No Account will be established in the Debt Service Reserve Fund for the benefit of the Series 2013 Bonds.

For the purposes of defeasing and the refunding the Series 2003 Bonds and maintaining a separate accounting of amounts allocable to Series 2013 Bonds, within the Funds confirmed above, the following Accounts are hereby established:

1. *Series 2003 Defeasance and Redemption Account* in the Debt Service Fund; and
2. *Series 2013 Costs of Issuance Account* in the Acquisition and Construction Fund.

Complete books and records shall be maintained with respect to the allocable amounts attributable to the Series 2003 Bonds and the Series 2013 Bonds maintained in each such Account.

Notwithstanding anything in the Indenture to the contrary, the Series 2003 Defeasance and Redemption Account established by this Second Supplemental Indenture is solely for the benefit of the Series 2003 Bonds. The Owners of the Series 2013 Bonds shall have no claim or right to any of the funds on deposit in the Series 2003 Defeasance and Redemption Account.

SECTION 303. SERIES 2013 COSTS OF ISSUANCE ACCOUNT.

(a) The Series 2013 Costs of Issuance Account shall be maintained by the Trustee in the Acquisition and Construction Fund. The Corporation shall deposit or cause to be deposited to the credit of the Series 2013 Costs of Issuance Account proceeds of the Series 2013 Bonds in the amount set forth in Section 3.05 of this Article III. Proceeds on deposit in the Series 2013 Costs of Issuance Account shall be used to pay all Costs of Issuance related to the Series 2013 Bonds and shall be disbursed as provided in this Section.

(b) Promptly after the delivery of the Series 2013 Bonds, the Trustee, at the direction of the Corporation in accordance with subsection (c) below, shall make disbursements to pay all Costs of Issuance, all as set forth in one or more Requisition Certificates. After payment of all Costs of Issuance related to the Series 2013 Bonds, any funds remaining on deposit in the Series 2013 Costs of Issuance Account shall be transferred to the Debt Service Fund, and the Trustee shall thereafter close the Series 2013 Costs of Issuance Account.

* * *

SECTION 304. SERIES 2003 DEFEASANCE AND REDEMPTION ACCOUNT. The Series 2003 Defeasance and Redemption Account shall be maintained by the Trustee in the Debt Service Fund. On the Issuance Date, the Corporation shall deposit or cause to be deposited to the credit of the Series 2003 Defeasance and Redemption Account (i) proceeds of the Series 2013 Bonds in the amount set forth in Section 3.05 of this Article III, (ii) all funds then on deposit in the Series 2003 Acquisition and Construction Account created and maintained by the Trustee pursuant to the First Supplemental Indenture (which amount will be not less than \$49,988.55), and (iii) \$1,003,930.00 of funds on deposit in the Debt Service Fund. Funds on deposit in the Series 2003 Defeasance and Redemption Account shall be used by the Trustee to (i) pay the principal and interest coming due on the August 15, 2013 maturity of the Series 2003 Bonds, and (ii) redeem on August 15, 2013 all Series 2003 Bonds maturing on and after August 15, 2014. All funds remaining on deposit in the Series 2003 Defeasance and Redemption Account following the payment of all outstanding Series 2003 Bonds on August 15, 2013 shall be transferred to the Debt Service Fund, and the Trustee shall thereafter close the Series 2003 Defeasance and Redemption Account.

SECTION 305. APPLICATION OF NET PROCEEDS. Net proceeds of the sale of the Series 2013 Bonds (i.e., par less Underwriters' discount) shall be applied as follows:

1. To the Debt Service Fund, all accrued interest received upon the issuance and sale of the Series 2013 Bonds, if any;
2. To the Series 2013 Costs of Issuance Account within the Acquisition and Construction Fund, \$205,032.39; and
3. To the Series 2003 Defeasance and Redemption Account within the Debt Service Fund, \$20,783,231.70 (which represents the balance of the proceeds of the Series 2013 Bonds).

* * *

APPENDIX B
ECONOMIC DEVELOPMENT CONTRACT

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APPENDIX B

ECONOMIC DEVELOPMENT CONTRACT

THE STATE OF TEXAS §
 §
COUNTY OF BEXAR §

THIS ECONOMIC DEVELOPMENT CONTRACT ("Contract") is made and entered into by and between the CITY OF SAN ANTONIO, TEXAS, a municipal corporation and home-rule city which is principally situated and has its City Hall in Bexar County, Texas (hereinafter called the "City"), and the CITY OF SAN ANTONIO, TEXAS, STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORATION, an industrial development corporation created by the City and existing under art. 5190.6, Vernon's Texas Civil Statutes, as amended (hereinafter called the "Corporation").

WITNESSETH:

WHEREAS, the City has entered into the Starbright Agreement (as hereinafter defined) for the purpose of inducing Toyota (as hereinafter defined) to establish a manufacturing and assembly facility for motor vehicles and automotive parts and components known as Project Starbright (as hereinafter defined) in order to advance the public purposes of developing and diversifying the economy of the State of Texas, eliminating unemployment and under employment in the State of Texas and developing or expanding transportation or commerce in the State of Texas and for the other purposes set forth in the Starbright Agreement; and

WHEREAS, pursuant to the Starbright Agreement, the City agreed to cause certain property to be acquired and certain property to be conveyed to (or for the benefit of) Toyota and to pay or reimburse certain costs of site preparation, certain costs of a training facility and certain other costs constituting the City Project (as hereinafter defined) to be provided as set forth in the Starbright Agreement and has created the Corporation to carry out such obligations under the Starbright Agreement; and

WHEREAS, the City desires to enter into this agreement with the Corporation to set forth the respective obligations of the City and the Corporation to carry out the aforesaid agreements and obligations undertaken by the City under the Starbright Agreement.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and agreements herein contained, the parties hereto do hereby mutually agree as follows:

ARTICLE 1
Definitions

1.1 General. As used in this Contract, the following terms are intended and used herein and shall be construed to have meanings as follows:

(a) "Board of Directors" shall mean the Board of Directors of the Corporation which is the governing body of the Corporation.

(b) "Bonds" and "Obligations" shall have the meaning set forth in the Indenture and any Supplemental Indenture. For purposes of this Contract, the Bonds and Obligations may include any Interim Note issued by the Corporation.

(c) "City" is defined in the preamble of this Contract and includes its successors and assigns.

(d) "City Council" shall mean the City Council of the City which is the governing body thereof.

(e) "City Project" shall mean the fulfillment of the obligations of the City contained in the Starbright Agreement, which under this Contract are the obligations of the Corporation, including without limitation those enumerated in Sections 4, 5 and 27 of Exhibit C to the Starbright Agreement with respect to the acquisition of the Overall Tract (or so much thereof as required by the Starbright Agreement), funding certain Costs of the Training Facility and Site Preparation as required by the Starbright Agreement, and funding any or all other obligations of the City under the Starbright Agreement including costs of real estate commissions, title insurance, roll back taxes for agricultural use conversion, environmental and archeological studies and remediation and other related actions required for the City to fulfill its obligations under the Starbright Agreement.

(f) "Contract" shall mean this agreement between the Corporation and the City and any amendments to this agreement.

(g) "Corporation" is defined in the preamble of this Contract and includes any other nonprofit corporation, political subdivision or agency succeeding to the powers, rights, privileges, obligations and functions of such Corporation.

(h) "Costs" or "Costs of the City Project" shall mean all costs, fees and charges associated with, or to be reimbursed for, the acquisition, construction, and improvement of the City Project, including all losses, costs, damages, expenses and liabilities of whatsoever nature (including, but not limited to, attorneys' fees, litigation and court costs, amounts paid in settlement and amounts paid to discharge judgments) incurred by the Corporation and the Texas Department of Economic Development directly or indirectly resulting from, arising out of or related to the issuance, offering, sale, delivery, or payment of the Bonds and Obligations, and interest thereon, for the design, construction, installation, operation, use, occupancy, maintenance, or ownership of Project Starbright which are required to be paid to the Corporation or the Department as required by Texas Department of Economic Development Rule Nos. 180.2(b)(7)(i) and (ii) of Title 10, Part 5, Chapter 180 of the Texas Administrative Code. Such Costs include capitalized interest, costs which are not paid or reimbursed from proceeds of bonds and Costs of Issuance and the repayment of any Interim Notes, including interest accrued thereon.

(i) "Costs of Issuance" shall mean the items of expense payable or reimbursable directly or indirectly by the Corporation and related to the authorization, sale and issuance of Bonds or the authorization or incurrence of other Obligations, which items of expense shall include without limiting the generality of the foregoing: travel expenses; printing costs; costs of reproducing documents; computer fees and expenses; filing and recording fees; initial fees and charges of the Trustee, paying agents, registrars, securities depository, and any authenticating agents; initial fees and charges of providers of credit agreements, investment agreements, investment liquidity facilities, reserve fund surety policies or other parties pursuant to remarketing, indexing or similar agreements; discounts; legal fees and charges; consulting fees and charges; auditing fees and expense; credit insurance; financial advisor's fees and charges; costs of credit ratings; insurance premiums; fees and charges for execution, transportation and safekeeping of Bonds or other Obligations; expenses and fees of the Corporation and the City associated with the Bonds or other Obligations and initial fees of any arbitrage consultants; and other administrative or other costs of issuing, carrying and repaying such Bonds or other Obligations and investing the proceeds thereof.

(j) "CPS" means the City Public Service Board of San Antonio, Texas which exercises management and control of the City's Utility Systems pursuant to Chapter 1502, Texas Government Code, as amended.

(k) "Debt Service" shall have the meaning set forth in the Indenture and any Supplemental Indenture, and with respect to Interim Notes means amounts due and payable under any Interim Notes.

(l) "Debt Service Fund" shall mean the Debt Service Fund established in the Indenture and any Supplemental Indenture.

(m) "Debt Service Reserve Fund" shall mean the Debt Service Reserve Fund, if any, established in the Indenture and any Supplemental Indenture.

(n) "Expenses" shall mean the ongoing fees and expenses of the Corporation relating to its Bonds and other Obligations, including its fees and expenses relating to: (1) trustees, paying agents, registrars, authenticating agents, securities dealer, securities depositories, or other fiduciaries; (2) arbitrage rebate, continuing disclosure, financial and legal consultants; (3) insurers; (4) remarketing, indexing, or similar agreements; and (5) to the extent not included within the definition of "Debt Service" in the Indenture, any fees and expenses related to credit agreements, investment liquidity facilities, or reserve fund surety policies permitted by or contemplated in the Indenture.

(o) "Indenture" shall mean the Indenture of Trust and any Supplemental Indenture entered into between the Corporation and the Trustee relating to Bonds and other Obligations.

(p) "Interim Note" or "Interim Notes" shall mean any one or more promissory notes issued to borrow or finance a portion of the Costs of the City Project prior to and in anticipation of the issuance of the Bonds.

(q) "Pledged Contract Payments" shall mean all payments from the City to the Corporation provided for in Article 4 of this Contract, other than arbitrage payments described in Section 4.7.

(r) "Overall Tract" shall have the meaning assigned in the Starbright Agreement.

(s) "President" shall mean the President of the Board of the Corporation.

(t) "Project Starbright" shall have the meaning assigned in the Starbright Agreement.

(u) "Reserve Fund Requirement" shall have the meaning set forth in the Indenture and any Supplemental Indenture.

(v) "Series 2003 Bonds" shall mean the Corporation's bonds intended to be issued in 2003 in an amount not to exceed \$40,000,000 to finance the Costs of the City Project and Costs of Issuance.

(w) "Site Preparation" shall have the meaning assigned in the Starbright Agreement.

(x) "Starbright Agreement" shall mean the Starbright Agreement dated as of May 1, 2003 by and between, among others, the City and Toyota.

(y) "Supplemental Indenture" shall mean any Indenture supplemental to or amendatory of the Indenture.

(z) "Term" is defined in Section 7.1.

(aa) "Toyota" means Toyota Motor Manufacturing North America, Inc., a Kentucky corporation.

(bb) "Training Facility" shall mean the training facility referred to in Section 27 of Exhibit C to the Starbright Agreement.

(cc) "Trustee" shall mean Wells Fargo Bank Texas, N.A., with respect to all Bonds but, with respect to any Interim Notes, shall mean the named payee or payees of such Interim Notes.

(dd) "Utility Systems" shall mean the gas and electric systems owned by the City and managed, operated, and maintained by CPS in accordance with the ordinances authorizing the issuance of the City's electric and gas systems revenue indebtedness.

1.2 Other Definitions. All other capitalized terms not otherwise defined in this Contract shall have the meanings set forth in the Indenture and, if not defined in the Indenture, in the Starbright Agreement.

ARTICLE 2 Obligations of the Corporation

2.1 Agreement to Issue Bonds. The Corporation agrees to issue Bonds and incur Obligations to finance the Costs of the City Project. The Corporation shall initially issue the Series 2003 Bonds and, at the request of the City, shall issue such additional Bonds and Obligations to finance or refinance Costs of the City Project, including one or more Interim Notes.

2.2 Purchase and Sale of Overall Tract. The Corporation hereby agrees to apply proceeds of the Series 2003 Bonds (and any Interim Note) to purchase, or cause to be purchased, the Overall Tract, or so much thereof as may be required by the Starbright Agreement, and convey, or cause to be conveyed, to Toyota, in accordance with the terms of the Starbright Agreement, the Overall Tract or so much thereof as may be required pursuant to the Starbright Agreement. Such conveyance, as contemplated herein and in the Starbright Agreement, shall constitute a "sale" within the meaning of Section 23(a)(3) of Article 5190.6, Vernon's Texas Civil Statutes, as amended. With respect to any portion of the Overall Tract acquired by the Corporation but not required to be conveyed to Toyota by the terms of the Starbright Agreement, the Corporation agrees to hold, use, restrict or convey such land upon the direction of the City.

2.3 Agreement to Fund Certain Other Costs of the City Project. The Corporation hereby agrees to apply proceeds of the Series 2003 Bonds (and any Interim Note) to reimburse Toyota for and to pay or cause to be paid other Costs of the City Project, including without limitation, Costs of the Training Facility and Site Preparation, as provided in the Starbright Agreement.

ARTICLE 3 Representations and Covenants of the City

3.1 City Economic Development Program. The City represents that it has taken all necessary legal action to adopt an economic development program in satisfaction of Section 380.001, Texas Local Government Code, as amended.

3.2 Qualification of City Project Under City Economic Development Program. The City represents that the City Project qualifies under the City's economic development program established under Chapter 380, Texas Local Government Code, and this Contract is authorized pursuant to Section 380.002(b), Texas Local Government Code, as amended, and the City's Pledged Contract Payments hereunder, derived from sources hereinafter set forth, satisfy and comply in all respects with Section 380.002(c), Texas Local Government Code, as amended.

3.3 Fulfillment of City Obligations Under Starbright Agreement. The City is entering into this Contract in order to fulfill its obligations contained in the Starbright Agreement.

3.4 Covenants of the City. The Corporation and the City agree that the covenants of the City contained in this Section shall only be enforced by the Corporation and its permitted assigns to the extent necessary to enforce the payment provisions contained herein or ensure compliance with any covenant of the City made in connection with the issuance, payment and security of any Bonds or other Obligations. The City will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to effect the financing and refinancing of the City Project and to allow the Corporation to comply with reporting obligations, to assure the Corporation of the City's intention to perform hereunder and for the better assuring and confirming unto the Corporation and the Trustee of the rights and benefits provided to them herein.

3.5 Tax Covenant. If any of the Bonds are issued as tax exempt obligations, the City hereby covenants to the Corporation and the Trustee that it will not take any action or fail to take any action that would adversely affect the exclusion from gross income of interest on such Bonds.

3.6 Continuing Disclosure. The City shall provide annually to each NRMSIR and any SID, within six months after the end of its fiscal year (currently September 30) financial information and operating data with respect to the City, including (1) the annual audited financial statements of the City, and the unaudited financial statements of the City but only in the event audited financial statements are not completed within six months after the end of any of its fiscal years; and (2) all quantitative financial information and operating data with respect to the City of the general type included in the official statement relating to the Series 2003 Bonds under Table 2. Any financial statements to be provided shall be (1) prepared in accordance with the accounting principles that the City may be required to employ from time to time pursuant to state law or regulation, and (2) be audited, if the City commissions an audit of such statements. If the City changes its fiscal year, the City will notify each NRMSIR and any SID of such change (and of the date of the new fiscal year end) prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this section. The financial information and operating data to be provided pursuant to this section may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the Municipal Securities Rulemaking Board) that theretofore has been provided to each NRMSIR and any SID or filed with the Securities Exchange Commission.

ARTICLE 4

Payments by the City for Bonds and Other Obligations

4.1 Unconditional Payments to the Corporation by the City. In consideration of the Corporation's agreement to issue Bonds and other Obligations to fund Costs of the City Project, the City agrees that it will pay to the Corporation, or at the request of the Corporation, the Trustee, during the Term of this Contract, as an unconditional obligation of the City (but solely from the source prescribed in Section 4.5), the Pledged Contract Payments and any other sum required by this Article regardless of whether or not the City Project or Project Starbright is completed, operable, operated or retired and notwithstanding the suspension, interruption, interference, reduction or curtailment of operation of the City Project or Project Starbright. Such payments are not subject to any reduction, whether offset or otherwise, and are not conditional upon (i) performance or default by the Corporation under this Contract or any other agreement or other obligation of the Corporation, or (ii) whether or not Toyota or any other party to the Starbright Agreement shall perform, fail to perform or default in its obligations or shall be excused from performance by reason of force majeure, waiver or otherwise.

4.2 Debt Service on the Corporation's Bonds and Other Obligations. So long as Bonds and other Obligations issued by the Corporation remain outstanding and unpaid, the City shall remit to the Trustee at the place which such Bonds and other Obligations are payable, or upon the request of the Corporation, to the payee of Bonds and other Obligations, the respective sums necessary to pay, or accrue amounts necessary to pay, the Debt Service on the Bonds and other Obligations, at the respective times and in the respective amounts as fixed and prescribed in the Indenture and any Supplemental Indenture (or Interim Notes as applicable) under authority of which said Bonds and other Obligations are issued by the Corporation. Promptly after the Series 2003 Bonds (and any series of Bonds and other Obligations, including Interim Notes) are issued, the Corporation shall furnish (or cause the Trustee to furnish) the City a schedule of payments to be made on the Series 2003 Bonds and such other Interim Notes and any additional Bonds and other Obligations.

4.3 Debt Service Reserve Fund Payments. The City shall also pay to the Trustee such sums, if any, as are necessary to establish, restore, and maintain an amount equal to the Reserve Fund Requirement in the Debt Service Reserve Fund created in the Indenture and any Supplemental Indenture authorizing the issuance of Bonds and other Obligations, and such payments shall be made at such times and in such amounts as provided in the Indenture and any Supplemental Indenture authorizing the Bonds and other Obligations.

4.4 Expenses. The City shall also pay to the Corporation (or at its request, the Trustee or other third parties to whom such amounts are due) the Expenses as they are incurred.

4.5 Source of City Payments. All money required to be paid by the City pursuant to this Article are payable solely from those net revenues of the Utility Systems that are transferred by CPS to the City in an amount not to exceed 14% of the gross revenues of the Utility Systems less the value of gas and electric services of the Utility Systems used by the City for municipal purposes and the amounts expended for additions to the street lighting system, subject to the flow of funds and other more specific terms of the City's ordinances authorizing bonds, notes, public securities and credit agreements payable from the net revenues of the Utility Systems (collectively, "CPS Ordinances"). NEITHER THE STATE, THE CITY, NOR ANY POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE BONDS OR OBLIGATIONS OR THE INTEREST THEREON AND THAT NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, THE CITY, OR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, OR AGENCY THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON SUCH BONDS OR OBLIGATIONS. The City reserves the right to pay all or any portion of amounts payable by the City hereunder with the proceeds of grants related to the City Project that are lawfully available for such purpose in which case such payments shall be credited against amounts due hereunder by the City; however, no pledge or lien of any kind is granted by the City with respect to any such grants.

4.6 Direction to CPS

(a) In order to more efficiently provide for the payments to the Trustee set forth in Sections 4.2 and 4.3, the City's Director of Finance may direct CPS to transfer the City's payments from amounts payable by CPS to the City directly to the account of the Trustee, but solely from the sources described in Section 4.5.

(b) Attached hereto as Exhibit A is an instrument directing CPS to comply with the foregoing provision and evidencing CPS' receipt and acknowledgment thereof.

4.7 Arbitrage Profits Required to be Rebated. To the extent that the Corporation does not have lawful funds available for such purposes, the City shall also pay to the Corporation for deposit into any Rebate Fund created in the Indenture (or, at the option of the City, pay directly to the United States Treasury Department on behalf of the Corporation if the City receives the Corporation's Counsel's Opinion concurring with the amount to be paid) an amount equal to the rebate amount on gross proceeds of the Bonds and other Obligations which are issued by the Corporation with the approval of the City to provide funds for the City Project required to be rebated by the Corporation to the United States Treasury Department, if any, in order to maintain any exemption of interest on the Bonds and other Obligations from federal income taxes. The Corporation shall maintain an accounting of such arbitrage profits required to be rebated, and shall furnish to the City (a) a calculation of payments to be made by the City (prepared in a manner and by a firm acceptable to the Corporation and the City) as soon as possible, in no event less than 15 days, prior to the date such payments are required to be made by the Corporation to the United States Treasury Department and (b) such other reports as the City may reasonably from time to time (but not more often than annually) request regarding the Corporation's accounting, as of the close of the Corporation's most recent fiscal year, for amounts required to be rebated to the United States. The City's obligation to make such payments shall not be reduced except to the extent that funds are on hand and lawfully available to the Corporation to make such payments when due.

ARTICLE 5

Audits, Accounts, Records and Reports

5.1 Accounts, Records, and Accounting Reports. The Corporation covenants and agrees that it will maintain, or cause to be maintained, books, records and accounts, and the same shall be available for inspection by the City at reasonable hours and under reasonable circumstances.

5.2 Annual Audits: Rebate Calculation. After the end of each fiscal year of the Corporation (beginning with the 2003 fiscal year), the Corporation (a) if requested by the City, shall have its books, records, and accounts audited by a certified public accountant and shall submit the results of such audit to the City within one hundred thirty-five (135) days after the end of the fiscal year and (b) shall prepare a calculation of any rebate liability to the United States relating to Bonds issued by the Corporation for the City Project and shall submit such calculations to the City within ninety (90) days after the end of the fiscal year.

ARTICLE 6
Acquisition, Conveyance and Title to Overall Tract

As between the City and the Corporation, it is intended that the Corporation shall have exclusive responsibility for conveying, or causing to be conveyed, the Overall Tract (or so much thereof as required by the Starbright Agreement) to Toyota (or others) as required to satisfy the terms of the Starbright Agreement. It is the mutual intent of the parties that the City's obligations with respect to such conveyance of the Overall Tract (or so much thereof as required by the Starbright Agreement) to Toyota contained in the Starbright Agreement shall be satisfied by the Corporation without the City ever being required to hold title or to being required to enter the chain of title to the Overall Tract.

ARTICLE 7
Term Bonds and Other Obligations and Contract Termination

7.1 Term and Termination. Except as provided in Section 7.3, this Contract shall have a term (the "Term") beginning on the date hereof and continuing so long as any Bonds or Obligations remain outstanding and any Expenses remain unpaid. This Contract may be amended, supplemented, and extended by mutual agreement of the parties, but not in such manner as to impair the rights of the Owners (as defined in the Indenture) of Bonds and other Obligations issued by the Corporation and secured by a pledge of the payments to be made by the City hereunder. The City agrees that it will not terminate this Contract during its Term for any reason so long as any Bonds or other Obligations remain outstanding, except as provided in Section 7.3.

7.2 Completion: Bonds and Other Obligations. Subject to approval of the City Council, the City and the Corporation (i) agree that the Corporation shall issue additional Bonds and other Obligations as may be necessary to pay for all Costs of the City Project that cannot be funded with the Series 2003 Bonds and (ii) agree to enter into such additional supplements to this Contract as shall from time to time be needed to provide for the payment of principal, interest and redemption price on such additional Bonds and other Obligations, or refunding Bonds and other Obligations and to establish and maintain the Debt Service Reserve Fund.

7.3 Dissolution of the Corporation. The City agrees that it will not cause the Corporation to be dissolved or otherwise cease to exist as a corporate entity so long as any Bonds or other Obligations remain outstanding (i) if in the opinion of the financial advisor to the Corporation or the City the credit rating on the outstanding Bonds or other Obligations would be lowered as a result of such dissolution or (ii) without the written approval of any municipal bond insurer on any outstanding Bonds or other Obligations. In the event of a dissolution, the City will assume all assets and liabilities of the Corporation, including any Bonds and other Obligations which remain outstanding.

7.4 Sale of Utility Systems. Subject to the provisions of the CPS Ordinances, the City agrees that it will not sell or dispose of all or a substantial portion of the Utility Systems so long as any Bonds or other Obligations remain outstanding unless the City provides for the full legal defeasance of all outstanding Bonds and other Obligations prior to or concurrent with such sale or disposition.

ARTICLE 8
Remedies Upon Default

8.1 Payment Default. In the event of a default by the City in the payment of any sum due and payable under Sections 4.2 or 4.3 of this Contract which shall continue 10 days after the Trustee gives notice of such nonpayment, the Trustee shall be authorized to pursue any remedies authorized by applicable law.

8.2 No Waiver. The failure of either party to insist in any one or more instances upon performance of any of the terms, covenants or conditions of this Contract shall not be construed as a waiver or relinquishment of the future performance of any such term, covenant or condition by the other party hereto, but the obligation of such party with respect to future performance shall continue in full force and effect.

ARTICLE 9
Assignment; Financing Matters

9.1 Assignment. Neither the Corporation nor the City may assign or otherwise transfer any rights or obligations created hereby except that, notwithstanding the foregoing, the Corporation may assign to the Trustee any of its rights and interests herein as security for its Bonds and other Obligations. In connection with an assignment to the Trustee, the following shall apply:

(a) The Corporation shall deliver to the City a true copy of any assignment hereof by the Corporation and shall notify the City of the address of the Trustee to which notices may be sent.

(b) When giving notice to the Corporation with respect to any default under this Contract, the City will also serve a copy of each such notice upon the Trustee, which notice shall be served to the address of such Trustee as provided to the City pursuant to subsection (a) above.

(c) In case the Corporation shall default under any of the provisions of this Contract, the Trustee shall have the right to make good such default whether the same consists of the failure to pay money due hereunder or the failure to perform any other matter or thing which the Corporation is hereby required to do or perform, and the City shall accept such payment or performance on the part of a Trustee as though the same had been done or performed by the Corporation.

9.2 Modifications to Contract. At the request of the Corporation made in connection with the issuance of the Series 2003 Bonds, the City agrees to enter into and deliver to the Corporation amendment(s) hereto containing such modifications to this Contract as the Trustee or any prospective bond insurer or rating agency for the Series 2003 Bonds may request; provided that the modifications do not, in the aggregate, materially increase the City's obligation under this Contract.

ARTICLE 10
Addresses and Notices

10.1 Notices. Until the Corporation is otherwise notified in writing by the City, the address of the City is and shall remain as follows:

City of San Antonio
P.O. Box 839966
San Antonio, Texas 78283-3966
Attention: City Manager

with a copy to: City of San Antonio
501 Dolorosa, First Floor
San Antonio, Texas 78205
Attention: Director of Finance

Until the City is otherwise notified in writing by the Corporation, the address of the Corporation for both notice and payments is and shall remain as follows:

City of San Antonio, Texas, Starbright
Industrial Development Corporation
506 Dolorosa, First Floor
San Antonio, Texas 78205
Attention: Director of Finance

Until the City and Corporation are otherwise notified in writing by the Trustee, the address of the Trustee is and shall remain as follows:

Wells Fargo Bank Texas, N.A., Trustee
1445 Ross Avenue, 2nd Floor MAC T5303-022
Dallas, Texas 75202
Attention: Corporate Trust

All written notices required or permitted to be given under this Contract from one party to the other shall be deemed given by facsimile transmission or other electronic means or one business day after the deposit of certified or registered mail in a United States Postal Service mail box or receptacle, with proper postage affixed thereto and addressed to the respective other party at the address set forth above or at such other address as the parties respectively shall designate by written notice.

ARTICLE 11 Miscellaneous Provisions

11.1 Successors and Assigns. This Contract shall bind and benefit the respective parties and their legal successors, and, except as permitted in Article 9 above, shall not otherwise be assignable, in whole or in part, by either party without first obtaining the written consent of the other.

11.2 Benefit of Contract. This Contract shall be for the sole and exclusive benefit of the City and the Corporation and shall not be construed to confer any rights upon any third party other than the Trustee on behalf of holders and credit enhancers of Bonds and other Obligations.

11.3 Compliance with Laws. This Contract shall be subject to all present and future valid laws, orders, rules and regulations of the United States of America, the State of Texas and of any regulatory body having jurisdiction. Without limiting the foregoing, it is agreed that to the extent required by Texas Department of Economic Development Rule 180.2(b)(7)(v) of Title 10, Part 5, Chapter 180 of the Texas Administrative Code, the City has not and will not maintain that it is entitled to an exemption from Texas Sales or Use Taxes on personal property acquired in connection with Project Starbright solely by virtue of it being financed with Bonds under the Development Corporation Act of 1979, Article 5190.6, Vernon's Texas Civil Statutes, as amended; provided, however, that the foregoing provision relates solely to exemptions arising solely by virtue of financing with Bonds issued under the foregoing act, and shall not apply to any exemptions to which the City is entitled by virtue of being a home-rule city and political subdivision of the State of Texas.

11.4 Independent Contractor. Corporation is engaged as an independent contractor, and all of the services provided for herein shall be accomplished by Corporation in such capacity.

11.5 Severability. In the event any term, covenant or condition herein contained shall be held to be invalid by any court of competent jurisdiction, such invalidity shall not affect any other term, covenant or condition herein contained, provided that such invalidity does not materially prejudice either the Corporation or the City in their respective rights and obligations contained in the valid terms, covenants or conditions hereof.

11.6 Entire Agreement. This Contract merges the prior negotiations and understandings of the parties hereto and embodies the entire agreement of the parties.

11.7 Written Amendment. Unless otherwise provided herein, this Contract may be amended only by written instrument duly executed on behalf of the City and the Corporation.

11.8 Legal Authority. The City's City Attorney or his or her designee shall have the right to enforce all legal rights and obligations of the City under this Contract without further authorization. The Corporation covenants to provide to the City's City Attorney all documents and records that the City's City Attorney reasonably deems necessary to assist in determining the Corporation's compliance with this Contract, with the exception of those documents made confidential by federal or State law or regulation.

11.9 City Approval. This Contract has been duly approved by the City Council of the City and the Board of Directors of the Corporation.

[end of page]

IN WITNESS WHEREOF, the parties hereto to have signed this Contract in multiple copies, each of which shall be deemed to be an original, but all of which shall constitute but one and the same contract, as of the date of countersignature.

ATTEST:

**CITY OF SAN ANTONIO, TEXAS,
STARBRIGHT INDUSTRIAL
DEVELOPMENT CORPORATION
("Corporation")**

Corporation Secretary

By: _____
Name: _____
Title: _____
Date: _____

ATTEST/SEAL:

CITY OF SAN ANTONIO, TEXAS ("City")

Acting City Clerk

By: _____
Mayor of the City of San Antonio
Date: _____

APPROVED AS TO FORM:

Assistant City Attorney

EXHIBIT "A"

Receipt and Acknowledgment by CPS

**To: City Public Service Board of San Antonio, Texas ("CPS")
145 Navarro
San Antonio, Texas 78205**

**Re: Economic Development Contract between City of San Antonio, Texas and City of San Antonio, Texas,
Starbright Industrial Development Corporation**

Ladies and Gentlemen:

Pursuant to Section 4.6(b) of the captioned agreement, you are hereby requested to acknowledge that if pursuant to Section 4.6(a) you are requested, in writing, by the Director of Finance of the City (the "Director"), you will transfer to an account identified by the Director the specified amounts out of the CPS payment to the City then due, in accordance with schedules provided to you by the City, with such transfers being first subject to any other obligations or provisions contained in the CPS Ordinances.

Please evidence your receipt and acknowledgment of this instruction.

Very truly yours,

City Manager, City of San Antonio

RECEIPT ACKNOWLEDGED:

General Manager and CEO
City Public Service Board of San Antonio, Texas

APPENDIX C

**CITY OF SAN ANTONIO, TEXAS
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION**

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APPENDIX C

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 Decennial Census (“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 Information Technology Services Department 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 (“U.S.”).

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 Information Technology Services Department estimates Bexar County’s population to be 1,825,113 and the San Antonio-New Braunfels Metropolitan Statistical Area (“MSA”) population to be 2,291,769 in 2013. 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 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 MSA¹ for the years shown:

| Year | City of San Antonio | Bexar County | San Antonio- New Braunfels MSA ¹ |
|------|------------------------|-----------------|---|
| 1920 | 161,379 | 202,096 | 255,928 |
| 1930 | 231,542 | 292,533 | 351,048 |
| 1940 | 253,854 | 338,176 | 393,159 |
| 1950 | 408,442 | 500,460 | 556,881 |
| 1960 | 587,718 | 687,151 | 749,279 |
| 1970 | 654,153 | 830,460 | 901,220 |
| 1980 | 785,880 | 988,800 | 1,088,710 |
| 1990 | 935,933 | 1,185,394 | 1,324,749 |
| 2000 | 1,144,646 | 1,392,931 | 1,711,703 ² |
| 2010 | 1,326,539 | 1,714,773 | 2,142,508 ³ |

¹ Data for 1920-1990 has been restated from the redefined eight-county MSA to the original four-county MSA.

² 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 re-titled San Antonio-New Braunfels MSA.

³ Provided by the 2010 Decennial Census.

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

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 2012 net taxable assessed value of \$71.8 billion.

By City Charter (defined below) and State law, City Council (defined below) has the power to annex territory by passage of an ordinance following an extensive open public process. 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. There are minor exceptions to the 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 an Annexation Plan. The City Council adopted a new Annexation Policy in February 2013 and intends to create an Annexation Program in 2013 that would outline potential areas for future placement in an Annexation Plan.

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 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 including: 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 City Council member until the special election is held. Additionally, it allows City Council to fill

vacancies with 270 days or less 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, 2012 were \$288,096,190. (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, 2012 were \$11,210,108. (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 5.9% in April 2013, down from 6.0% in March 2013. The Texas unadjusted (actual) unemployment rate decreased to 6.1% in April 2013, down from 6.3% reported in March 2013. The nation’s unadjusted (actual) unemployment rate decreased to 7.1% in April 2013, down from 7.6% in March 2013.

Total nonfarm employment in the San Antonio-New Braunfels MSA for April 2013 was 887,800. Government, trade, transportation, and utilities, and education and health services represent the largest employment sectors in the San Antonio-New Braunfels MSA.

Healthcare and Bioscience Industry

The healthcare and bioscience industry is the largest industry in the San Antonio economy and has experienced robust growth since the early 1990's. 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: 2011 Economic Impact Study* commissioned by the Greater San Antonio Chamber of Commerce, the economic impact from this industry sector totaled approximately \$29.2 billion in 2011. The industry provided 156,205 jobs, or more than 18% of the City's total employment. The healthcare and bioscience industry's annual payroll in 2011 approached \$7.5 billion. The 2011 average annual wage of San Antonio workers was \$42,124, compared to \$45,567 for healthcare and bioscience employees. The healthcare and bioscience industry has added 40,240 net new jobs over the past decade, an increase of 41 percent.

Health Care. The 900-acre South Texas Medical Center (the "Medical Center") has over 50 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. A total of 4,400 students (including residents and fellows) 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 approximately 5,500 persons with a total annual operating budget of approximately \$740 million, supporting six campuses in San Antonio, Laredo, Harlingen, and Edinburg. The UT Health Science Center also 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 3% of all institutions worldwide receiving federal funding from the National Institute of Health (NIH). In FY 2012, UT Health Science Center received \$85 million in grant funding. The university's schools of medicine, nursing, dentistry, health professions, and graduate biomedical sciences have produced 28,726 graduates since inception.

The UT Health Science Center's newly-opened Medical Arts and Research Center (MARC) offers state-of-the-art patient care under UT Medicine San Antonio and its Cancer Therapy & Research Center (CTRC), and is one of only four National Cancer Institute ("NCI") designated Cancer Centers in Texas. In 2015, UT Health Science Center's Dental School, regarded as one of the top in the nation, will open its new 198,000 square foot Center for Oral Health Care & Research.

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 in two projects, expanding BAMC into one of two national DoD Regional Medical Centers and constructing 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 San Antonio. The Children's Hospital of Philadelphia ("CHOP"), along with Vanguard Health Systems ("Vanguard"), the parent company of Baptist Health System, have been chosen by leaders of the UT Health Science Center and Bexar County's University Health System to form a partnership where Vanguard would invest \$350 million to build up to a 250-bed hospital, while CHOP would provide its well renowned expertise in pediatric care. Along with Vanguard and CHOP, UT Health Science Center will bring to the partnership a network of pediatric services throughout the region from its faculties from the UT Medicine San Antonio who will offer both general and specialty care to children and adolescents. The faculty members from the school will also lead medical students, residents, and fellows in instruction and cutting-edge research.

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 industry. 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 NCI-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 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 UT Health Science Center, along with one of its medical partners, Startech Foundation, announced on January 18, 2013 the investment of \$2 million in Admittance Technologies, Inc. by the Texas Emerging Technology Fund (the "ETF"). The ETF was created by the Texas Legislature in 2005 to provide promising tech startup companies with funds for research, development, and commercialization of emerging technologies. Admittance Technologies, Inc. is a biotech firm that makes a pacemaker device that allows blood volume measurements to detect heart disease and treat patients.

As an equity investment, InCube Labs, LLC ("InCube") 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 Chairman and CEO Mir Imran announced that InCube 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, 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 ETF for three existing InCube start-up life science companies to relocate to San Antonio from San Jose, California. As of April 27, 2011, InCube had relocated three companies and begun its operations in San Antonio. As of March 31, 2013, InCube has spent \$9,568,779 in non-public funds on its activities in San Antonio toward a requirement to spend \$15 million during the 5-year term. InCube is also collaborating with UTSA and UT Health Science Center SA on research opportunities. On May 2, 2013, InCube announced the

formation of two new companies, Theracle and iBridge Medical, fulfilling a requirement to create two new companies in San Antonio prior to July 1, 2013.

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, has committed 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 ten-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 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 ten 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. As of December 31, 2012, the SAEDC has an equity interest in two UT Health Science Center startup companies.

Also through the SAEDC, the City invested \$300,000 in assisting Innovative Trauma Care, Inc. (“ITC”) to establish its first U.S.-based operations in San Antonio to market, sell, and distribute the ITClamp, which entered into an economic development agreement with ITC on August 30, 2012. The device is a wound clamp designed to control severe bleeding within seconds of application. In exchange for financial assistance, ITC has agreed to provide the City, through its SAEDC, an equity interest in the parent company’s stock. ITC will add high-paying jobs in the targeted SA2020 Bioscience and Healthcare industry, and will also bring its life-saving device to the world, from San Antonio. As of April 2013, ITC had secured approval and initiated the marketing and selling of the ITClamp in Canada and 16 countries in Europe. Approval to market and sale the ITClamp in the U.S. was received from the Federal Drug Administration in May 2013. ITC has already created 8 full-time jobs in San Antonio with plans to add more personnel as sales increase.

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.

Wilford Hall Ambulatory Surgical Center (“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 651,684 square foot Ambulatory Surgical Center is currently under construction at Lackland and is scheduled to open in 2015. It is part of the \$824 million recapitalization of the Basic Training Complex and replacement of the old Wilford Hall facility.

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 JBSA-Fort Sam Houston.

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 Tejada 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 private sector employer in the industry is United Services Automobile Association (“USAA”). On March 5, 2013, USAA announced plans to expand and add up to 1,000 jobs. The expansion is due to a more than 20 percent increase in customer base in the past three years. The company has about 9.4 million customers, comprised of military members, veterans and their families. While this sector is led by 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 considering Little Rock, Tulsa, and Raleigh, Nationwide established a new regional corporate headquarters location in San Antonio in October 2009. 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.

On March 29, 2011, San Antonio Mayor Julián Castro and Bexar County Judge Nelson Wolff joined Nationwide officials in commemorating the start of construction on the company's new 300,000 square foot sales and service operations center that, once completed, would house 800 new employees, in addition to 1,000 employees that are being consolidated from its four existing locations. Company officials also awarded \$80,000 to local charities in San Antonio at the event. The new facility was expected to be completed by December 31, 2012; however, on September 27, 2012, the City and Nationwide officials inaugurated the grand opening of this new 300,000 square foot facility which is 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. As of December 2012, Nationwide reported that it employs 1,221 employees at its Westover Hills location.

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 2012, Allstate reported that it employs an average of 335 employees at its San Antonio operations center 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 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 2012 Economic Impact Report of San Antonio's Hospitality Industry (representing 2011 data) found that the hospitality industry has an economic impact of more than \$12 billion. The estimated annual payroll for the industry is \$2.23 billion, and the industry employs more than 112,000 people.

In 2012, the City's overall level of hotel occupancy increased by 4.1%; room supply increased by 1.6%; total room nights sold increased by 5.8%; the average daily room rate decreased 1.2%; revenue per available room increased 5.4%; and overall revenue increased 7.1%.

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. San Antonio attracted 28 million visitors in 2011. Of these, 13 million were overnight leisure visitors, placing San Antonio as one of the top U.S. destinations in Texas. Recent FY 2012 accomplishments contributing to the City's success included: launched "Remember the ..." marketing and tourism campaign promoting travel to the City for leisure and business; launched the City of Yellow Roses marketing and public relations campaign promoting San Antonio as a romantic destination; hosted the 1st annual People en Español Festival which was a celebration of Hispanic culture and provided a great opportunity for national and international media exposure; reinvigorated San Antonio Vacation Experience (SAVE) with a new website and social media strategy launch – a program designed with exclusive rates on hotels, discounts, and special offers on San Antonio attractions; partnered with the State to expand San Antonio's position as a culinary destination; and generated over \$27 million in positive media value for San Antonio as a tourism and convention destination.

Conventions. San Antonio is also one of the top convention cities in the country. In FY 2012, the San Antonio Convention & Visitors Bureau ("CVB") sales staff booked nearly 850,000 room nights for current and future years. High profile meetings booked included: Risk Insurance Management Society, with 36,800 room nights for 2018; American Chemical Society with 25,600 room nights for 2021; Golf Course Superintendents with 19,800 room nights for 2018; and American Academy of Family Physicians with 19,200 room nights for 2017. The CVB continues to be proactive in attracting convention business through its management practices and marketing efforts.

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

| Calendar Year | Hotel Occupancy ¹ | Revenue per Available | | Convention Attendance ² | Convention Room Nights ² | Convention Delegate Expenditures (Millions) ^{2,3} |
|------------------|---------------------------------|-------------------------------|----------------------------------|---------------------------------------|--|---|
| | | Room (RevPAR) ¹ | Room Nights Sold ¹ | | | |
| 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 | 63.5 | 60.79 | 8,651,826 | 449,202 | 635,829 | 533.7 |

¹ Data obtained from Smith Travel Research based on hotels in the San Antonio selected zip code reports dated January 2013 and January 2012, which applies to 2012 data and 2003-2011 data, respectively.

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.

Military Industry

The growth in new missions and significant construction activities brought about by BRAC 2005, completed in September of 2011, strengthened San Antonio’s role as a leading military research, training, and education center. One of the major outcomes of BRAC 2005 was the creation of Joint Base San Antonio (“JBSA” or “Joint Base”) which is the largest joint base in the United States. JBSA consolidates all the base support functions, real property, and land for Lackland AFB, Randolph AFB, and Fort Sam Houston (including Camp Bullis) under the 502nd Air Base Wing. The Joint Base includes over 55,000 acres, supports 80,000 personnel, has a plant replacement value of \$32 billion, and an annual budget of \$800 million. Over 132,000 personnel are trained at Joint Base facilities every year.

Joint Base, and its 200 mission partners, represent a significant component of the City’s economy providing an annual economic impact, when combined with other DoD contracts and contractors, military retirees, veterans, and direct and indirect jobs, of over \$27 billion for the City. 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 other significant events brought about by BRAC 2005 is the realignment of medical facilities resulting in a major positive impact on military medicine in San Antonio, with \$3.2 billion in construction and the addition of over 10,000 jobs at the JBSA complex.

JBSA-Fort Sam Houston. 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.

Some of the major mission partner organizations on JBSA-Ft Sam Houston are U. S. Army North, U. S. Army South, the Army Installation Management Command, the Army Medical Command, the Army Medical Department and School, the Southern Regional Medical Command, Brooke Army Medical Center, the Medical Educational and Training Campus, the Center for the Intrepid which takes care of Wounded Warriors.

The potential economic impact from JBSA-Fort Sam Houston due to the BRAC 2005 expansion is estimated 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.

Various construction projects continue at JBSA-Fort Sam Houston. The new Walter's Street Gate and Entry Control Point has been completed; a new Medical Education and Training Campus Headquarters Building was completed in May 2013, a new Student Activity Center is estimated to be completed by July 2013; a new SAMMC Visitor Control Center Gate is scheduled for completion in September 2013; and the new Army-Air Force Exchange Services (AAFES) Life Style Center is scheduled for a February 2014 construction start date.

Camp Bullis (Fort Sam Houston's field training site). In addition to the academic training of all Armed Forces medics at Fort Sam Houston proper, JBSA under Fort Sam Houston's auspices, maintains a 28,000 acre field training site on the north side of San Antonio where all Armed Forces medics receive field training in a combat environment. The Camp Bullis site also is used by the JBSA-Lackland Security forces for training, it is home to the Air Force Convoy Training Course, an Army Reserve Unit, a Texas Army National Guard Unit, and the multitude of firing ranges train not only Armed Forces personnel, but various other Federal agency personnel, and local peace officers. The local Army Guard Unit from Martindale Army Airfield uses the facility for low-level helicopter flight training. In 2012, Camp Bullis provided approximately 1,000,000 person-days of training for Armed Forces medics and other personnel. Because of its geographical size, various units and missions are continually looking at Camp Bullis as a viable place to locate and train.

JBSA-Lackland AFB is home to the 37th Training Wing, situated on 9,700 acres, all within the city limits of San Antonio. According to a recent 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 is expected to 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 is currently under construction and a fourth Training Complex is also on track to be built in this comprehensive construction project to replace the older facilities by the end of FY 2017.

Projected growth also includes a 160,000 square foot expansion of the Air Force Intelligence, Surveillance, and Reconnaissance Center, a potential increase of 1,500 students at the Defense Language Institute, permanent beddown of the Transportation Security Agency's Canine Training, and an expansion of 24th Air Force (Cyber Command) with growing missions and consolidation of units.

Adjacent and contiguous to JBSA-Lackland is the Port, where the Air Force maintains a significant presence. 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 460,000 square foot facility previously closed from the 1995 Base Realignment and Closure of Kelly AFB. Approximately 7,000 Air Force and other DoD employees work at this and other facilities on the Port in this post-BRAC 2005 era.

Much of the new BRAC 2005 growth which occurred on the Port property is at Building 171. The Air Force spent \$26.5 million to renovate the building, which will house 11 missions. Seven missions and approximately 800 personnel have relocated 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.

JBSA-Randolph AFB. Randolph AFB, which is known as “the Showplace of the Air Force” because of its Spanish Colonial Revival architecture, is on the northeast side of San Antonio and houses the Air Force Education and Training Command and the Air Force Personnel Center. Other major tenant organizations include the Air Force Manpower Agency, the Air Force Recruiting Service, and the Air Force Office of Special Investigations (Region 4). The main operational mission is carried out by the 12th Flying Training Wing (the “Wing”) which equips and trains aviators and supports worldwide contingency operations. The Wing operates parallel runways on either side of the main installation facilities and conducts 24-hour-a-day flight training operations. The base added another new mission and is the training site for the Unmanned Aerial Vehicle (UAV) operators, which, in FY 2013 will train 577 students and add 85 instructors and support personnel.

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. This hospital is designed to be the most advanced in the world and is 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; however, due to Congress’ termination of the federal budget “earmark” methodology, NTI has not received further grants, but is still active in its primary mission.

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 scheduled for completion in June of 2013. 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 the summer of 2013. The City was also selected by the DoD's Office of Economic Adjustment to receive an award of \$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, DoD is the community's largest employer, supporting the employment of over 189,000 people, with an economic impact of \$27.7 billion annually. JBSA alone directly employs 92,000 and has a total economic impact of \$11.6 billion in payroll, contract expenditures, and value of jobs created. Over 55,000 military retirees reside in San Antonio and receive over \$1.5 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 FY 2015. The value of the proposed construction projects during this time period is anticipated to average between \$200 to \$300 million per year.

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 Air Lines, 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 could not expand to include the additional 322 employees SWA planned to hire. 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, the City 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 create up to 800 jobs 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 747's 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 approximately 3,000 scientists, engineers, and support personnel. SwRI's total revenue for FY 2012 was \$584 million, with net income of about \$36 million and total payroll of more than \$240 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, Department of Homeland Security, 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 January 2014.

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.

Vanguard is a Fortune 500 diversified health care services company founded in 1997 and headquartered in Nashville, Tennessee. Vanguard operates 28 hospitals in six states, including a significant footprint across Texas, and employs over 36,000. In San Antonio, Vanguard operates five Baptist hospitals and currently employs over 5,500. Vanguard considered a consolidation of their IT service center operations in San Antonio or in Nashville, Tennessee. Vanguard chose San Antonio as its new consolidated IT Service Delivery Center and agreed to create a total of 125 IT jobs.

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, located on San Antonio’s south side, have created 3,000 jobs and retained 2,900 jobs through 2012, bringing the total number of jobs supporting Toyota’s production of Tundra and Tacoma vehicles to approximately 6,000, with an annual impact of \$1.7 billion.

NBTY Manufacturing Texas, LLC (“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 the 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, the City 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 Healthcare Services LLC (“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. As of December 2012, Xenex has already created 26 jobs, and as more and more hospitals continue to use its products, Xenex business operations in San Antonio will continue expanding.

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 Wholesale Drug Company ("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, the USAA Robert F. McDermott Distinguished Chair in Engineering at UTSA, 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 beginning in 2011.

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 January 2013, CPS' renewable energy capacity totals more than 1,113.0 MW in service with another 404 MW under contract and in varying levels of project development. The Los Vientos 200.1 MW wind farm achieved commercial operation on December 31, 2012. CPS additionally has under contract a 4 MW landfill gas generation project scheduled for commercial operation in August 2013, and most recently, the agreement with OCI Solar Power for 400 MW of solar generated electricity from facilities to be built and operational by 2018. CPS has one of the most aggressive renewable energy programs in Texas with a renewable capacity under contract totaling 1,517.0 MW.

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 mid 2013. 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.
- On January 11, 2012, OCI Solar Power and Nexolon were selected by CPS to build one of the country's largest solar projects, a 400-megawatt solar power manufacturing plant in San Antonio, resulting in an investment of more than \$100 million. This solar project is the largest in the nation and will catapult Texas into the top five U.S. solar producing states. CPS reached an agreement with OCI to build the 400 megawatt solar energy project, and entered into a 25-year Power Purchase Agreement (PPA) on July 23, 2012. The PPA with CPS requires OCI to ensure the following: (1) establishment of an "anchor" facility to manufacture solar energy related products and one or more manufacturing facilities for multiple components of the solar energy value chain, such as racking systems; (2) investment of at least \$100 million for the proposed "anchor" facility; and (3) the creation of at least 800 total solar energy related jobs with an annual payroll of \$30 million. One of OCI's partners, Nexolon will initially create 404 solar manufacturing jobs toward meeting the total job requirement and both companies plan to establish their U.S. corporate headquarters in San Antonio, with OCI creating 76 corporate jobs and Nexolon creating 40 corporate jobs.

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 Group US, Inc. ("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 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 has located over 200 jobs at the IBC Centre building at 175 E. Houston Street and has agreed to 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.

As of December 31, 2012, HVHC has complied with all the outlined requirements and have reported creating a total of 402 jobs. Additionally, HVHC entered into another agreement with the City, expanding its headquarter operations by agreeing to create an additional 150 jobs for a total of 500 jobs by December 31, 2015 and retaining these jobs downtown for the remainder of the term of the grant through September 11, 2021. In turn, City Council approved an amendment to the current Parking Grant Agreement in the amount of \$360,000 payable over five years at \$72,000 per year. In September 2012, HVHC advised staff that the company was considering San Antonio and two sites in the Dallas area for the expansion of their manufacturing operations. To secure the manufacturing project for San Antonio, staff recommended City Council approve a cash grant of up to \$1,140,000 for the manufacturing project. For this grant, HVHC must locate its new manufacturing operations at 655 Richland Hills for a term of at least ten years, create up to 600 jobs, pay the living wage of \$11.08/hour to all employees, designate a minimum of 50 “high wage” jobs paying an annual salary of at least \$43,186 and invest approximately \$25 million in personal property improvements. Both of these incentives were approved by City Council on April 11, 2013.

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 Urban Core receiving a higher grant amount per housing unit than projects in other target growth areas. As of March 1, 2013, 14 project applications have been received, four of which have executed incentive agreements which will produce 257 new housing units in the Center City.

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 2013, the Port will reach an important milestone as two road construction phases begun in 2011 are completed later in the year. Starting on the Port's northwest entrance, where 36th Street intersects with Growdon Road, and stretching for almost a mile to the south until it intersects with Billy Mitchell Boulevard, the new 36th Street extension creates an enhanced route inside the Port. The 36th Street Project will improve overall access to the Port and open 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 250 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 2,400 jobs have been created with an average salary of \$48,000. More than \$300 million in real estate development has occurred on campus, with another \$170 million in projects being planned and constructed at Brooks City-Base through 2016.

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.
- Brooks City-Base is working to restore Hangar 9 and maintain its historical presence on campus.
- Spine and Pain Center of San Antonio, PLLC signed a ten-year lease agreement with BDA. 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 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.
- On June 27, 2011, the Mission Trail Baptist Hospital, located on 28 acres at Brooks City-Base, 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.

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, and was granted its first EB-5 Regional Center Designation in October 2012. Receiving Regional Center designation will benefit BDA from an influx of foreign capital, which may improve its financial operations and capital projects.
- BDA was awarded \$1.9 million from the State Energy Conservation Office ("SECO") for energy saving upgrades to eight buildings and 163 residential housing units. 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.

On December 13, 2012, City Council designated Brooks City-Base as a Reinvestment Zone in accordance with State statute for the purpose of the Nexolon project. A Reinvestment Zone designation to the Brooks City-Base site will contribute to the retention and expansion of primary employment and attract major investment in the zone. The City also provided Nexolon a tax abatement and an economic development grant incentive. In turn, Nexolon has decided to locate its solar panel manufacturing operations and its U.S. corporate headquarters at Brooks City-Base. Nexolon has also agreed to support the creation and sustainment of a renewable energy and advanced manufacturing workforce through a \$500,000 contribution to the Alamo Colleges over five years. These funds will be used by the Alamo Colleges to continue its efforts to develop a customized curriculum and training program to support the development of a renewable energy workforce.

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.

Growth Indices

San Antonio Electric and Gas Customers

| For the Month of December | <u>Electric Customers</u> | <u>Gas Customers</u> |
|------------------------------|---------------------------|----------------------|
| 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 |
| 2012 | 741,566 | 330,945 |

Source: CPS.

SAWS Average Customers per Fiscal Year

| Fiscal Year <u>Ended December 31</u> | <u>Water Customers</u> ¹ |
|---|-------------------------------------|
| 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 |
| 2012 | 362,794 |

¹ Average number billed, excluding SAWS irrigation customers.

Source: SAWS.

Construction Activity

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

| Calendar Year | Residential Single Family | | Residential Multi-Family ¹ | | Other ² | |
|------------------|------------------------------|---------------|--|-------------|--------------------|-----------------|
| | 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 | 2,001 | 330,367,267 | 29 | 4,240,304 | 5,192 | 1,876,833,267 |

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:

| | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|----------------|---------------|---------------|---------------|---------------|---------------|
| Amarillo | \$ 65,386,227 | N/A | \$ 56,863,740 | \$ 56,514,269 | N/A |
| Arlington | 88,941,229 | \$ 86,127,967 | 83,143,848 | 80,170,009 | \$ 81,851,457 |
| Austin | 158,855,261 | 144,161,036 | 137,309,212 | 131,403,989 | 147,051,782 |
| Corpus Christi | 72,581,730 | 62,721,436 | N/A | 57,311,248 | 62,076,566 |
| Dallas | 232,445,766 | 215,394,908 | 204,732,898 | 205,447,327 | 227,067,964 |
| El Paso | 74,164,329 | 72,347,296 | 68,348,227 | 64,480,623 | 67,821,673 |
| Fort Worth | 112,745,847 | 105,424,832 | 100,569,555 | 97,877,323 | 106,259,648 |
| Houston | 569,942,545 | 507,928,840 | 473,149,941 | 489,009,133 | 504,416,610 |
| Plano | 68,410,251 | 66,325,563 | 58,888,948 | N/A | 64,180,104 |
| Round Rock | N/A | 63,030,582 | 61,644,122 | 58,694,318 | 67,029,667 |
| SAN ANTONIO | 244,094,371 | 220,171,017 | 208,322,621 | 202,966,327 | 215,808,945 |

Source: State of Texas, Comptroller's Office.

Education

There are 15 independent school districts within Bexar County with a combined enrollment of 322,217 encompassing 43 high schools, 71 middle/junior high schools, 264 early education/elementary schools, 20 magnet schools, and 65 alternative schools as of October 2012. There are an additional 24 charter school districts with 72 open enrollment charter schools at all grade levels. In addition, Bexar County has 95 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 118,515 for fall 2012.

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 April 2013, as compared to the prior periods of March 2013 and April 2012, respectively.

Employment by Industry

| <u>San Antonio-New Braunfels MSA ¹</u> | <u>April 2013</u> | <u>March 2013</u> | <u>April 2012</u> |
|---|-------------------|-------------------|-------------------|
| Mining and Logging | 4,300 | 4,300 | 3,800 |
| Construction | 43,200 | 42,000 | 40,100 |
| Manufacturing | 46,200 | 46,000 | 46,700 |
| Trade, Transportation, and Utilities | 151,300 | 149,900 | 147,200 |
| Information | 20,400 | 20,300 | 20,100 |
| Financial Activities | 71,700 | 71,800 | 71,200 |
| Professional and Business Services | 108,800 | 109,400 | 106,000 |
| Education and Health Services | 135,900 | 137,000 | 134,400 |
| Leisure and Hospitality | 110,600 | 109,900 | 110,600 |
| Other Services | 33,500 | 33,400 | 32,400 |
| Government | <u>161,900</u> | <u>162,000</u> | <u>161,500</u> |
| Total Nonfarm | 887,800 | 886,000 | 874,000 |

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 April 2013, as compared to the prior periods of March 2013 and April 2012, respectively.

Unemployment Information (all estimates in thousands)

| <u>San Antonio-New Braunfels MSA ¹</u> | <u>April 2013</u> | <u>March 2013</u> | <u>April 2012</u> |
|---|-------------------|-------------------|-------------------|
| Civilian Labor Force | 1,023.8 | 1,022.4 | 1,022.3 |
| Number of Employed | 963.8 | 960.8 | 958.7 |
| Number of Unemployed | 60.0 | 61.6 | 63.6 |
| Unemployment Rate (%) | 5.9 | 6.0 | 6.2 |
| <u>Texas (Actual) ¹</u> | <u>April 2013</u> | <u>March 2013</u> | <u>April 2012</u> |
| Civilian Labor Force | 12,736.1 | 12,685.6 | 12,541.3 |
| Number of Employed | 11,955.4 | 11,885.8 | 11,721.3 |
| Number of Unemployed | 780.7 | 799.8 | 820.0 |
| Unemployment Rate (%) | 6.1 | 6.3 | 6.5 |
| <u>United States (Actual) ¹</u> | <u>April 2013</u> | <u>March 2013</u> | <u>April 2012</u> |
| Civilian Labor Force | 154,739.0 | 154,512.0 | 153,905.0 |
| Number of Employed | 143,724.0 | 142,698.0 | 141,995.0 |
| Number of Unemployed | 11,014.0 | 11,815.0 | 11,910.0 |
| Unemployment Rate (%) | 7.1 | 7.6 | 7.7 |

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 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. 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 also 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 provide community input directly to the CPS Board and CPS staff. The CAC meets monthly with the primary goal of providing recommendations on utility-related projects and programs to offer a customer perspective on community issues, assist in identifying strengths, and offer suggestions for improvement to the organization. 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 CAC from those submitting applications and resumes. The CPS Board appoints all members to the CAC. 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 was granted 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 electricity to the Floresville Electric Light & Power System, the City of Hondo, and the City of Castroville. Long-term electric supply agreements have been entered into with the Cities of Boerne and Seguin, the Central Texas Electric Cooperative ("CTEC"), and the Kerrville Public Utility Board for terms that begin in June 2013 and extend through 2021 for CTEC and 2013 for the other three entities. 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 30 incorporated communities in the CPS service 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 2013 and December 2013, 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 Railroad Commission of Texas ("RRCT") 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 RRCT, 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 RRCT. To date, no such appeal to the RRCT 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 JK Spruce 2 electric generation 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 2014.

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.

In 1999, the 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 with the PUCT, and are based on its transmission cost of service approved by the PUCT, representing CPS’ input into 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 January 2013, CPS’ renewable energy capacity totals 1,113.0 MW in service with another 404 MW under contract and in varying levels of project development. CPS additionally has under contract a 4 MW landfill gas generation project scheduled for commercial operation by August 2013, and most recently, the agreement with OCI Solar Power for 400 MW of solar generated electricity from facilities to be built and operational by 2018. CPS has one of the strongest renewable energy programs in Texas, with a renewable capacity under contract totaling 1,517.0 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. 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 19 non-nuclear electric generating units, four of which are coal-fired and 15 of which are gas-fired. 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 32.9% of the electric system’s native load for the fiscal year ending January 31, 2013.

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 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. STP is a two-unit nuclear power plant, with Unit 1 and Unit 2 having a nominal output of approximately 1,350 MW each. Participants in the STP Units 1 and 2 and their shares therein are as follows (MW capacity are approximations):

| Ownership <u>Effective February 2, 2006</u> | | |
|--|--------------------|------------|
| <u>Participants</u> | <u>Percent (%)</u> | <u>MW</u> |
| NRG Energy (“NRG”) | 44.0 | 1,188 |
| CPS | 40.0 | 1,080 |
| City of Austin-Austin Energy | <u>16.0</u> | <u>432</u> |
| | 100.0 | 2,700 |

STP is maintained and operated by a non-profit Texas corporation (“STP Nuclear Operating Company” 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. The NRC issued a revision to STPNOC’s license renewal application schedule due to a scheduling request from the Advisory Committee on Reactor Safeguards and due to continued work on one of the open items. This schedule change lists milestones associated with issuance of the Safety Evaluation Report as “to be determined”. In a separate action, a recent decision by the United States Court of Appeals for the District of Columbia vacated the NRC’s waste confidence rule update. In response, the Commission issued an order stating that final approval of licenses dependent on the waste confidence rule, such as new reactor licenses and license renewals, would not be granted until the court ruling had been addressed. Subsequently, the Commission directed NRC staff to issue a final Environmental Impact Statement and waste confidence rule by September 2014. CPS expects that STPNOC’s license renewal applications will be approved in late 2014 following resolution of the waste confidence issue. Upon approval of these applications, STP Units 1 and 2 will be licensed for a total of 60 years of operation.

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. STPNOC has started the process of planning, licensing, and building an on-site independent spent fuel storage installation (“ISFSI”, also known as “Dry Cask Storage”) with the expectation that the ISFSI will be operational towards the middle of the decade. CPS will be responsible for 40% of the cost of the project and expects to pay these costs using funds currently held in the STP Decommissioning Trust. CPS also expects that certain costs related to the Dry Cask Storage project will be reimbursable under a settlement executed with the DOE.

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 continues to evaluate 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. On April 29, 2013, as part of the NRC’s FOCD review of STP Units 3 and 4, the NRC staff issued a determination that NINA continues to be under foreign ownership, control or domination. NINA’s management believes that this initial ruling by the NRC staff was a necessary first step in order to move the process forward to an evidentiary hearing by the NRC Atomic Safety and Licensing Board and continues to remain optimistic that an evidentiary hearing will result in a determination that NINA is not under foreign ownership, control or domination. Acknowledging that these developments and plans facilitate constructive momentum to continue the project and create a pathway to obtaining more clarity for the project participants, CPS’s Management will continue to monitor NINA’s progress along the way. Accordingly, this most recent development is deemed to have no impact on CPS’s assessment of the reported value of STP Units 3 and 4.

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 82 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 7,715 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 430 miles of three-phase equivalent distribution lines, 83 miles of three-phase downtown network distribution lines, and 4,361 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground residential distribution systems.

Gas System

Transmission System. The gas transmission system consists of a network of approximately 90 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 cathodically 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 286 pressure regulating stations and approximately 5,155 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 cathodically 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.

For the fiscal year ended January 31, 2013, CPS implemented:

GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, establishes guidance for reporting service concession arrangements. CPS does not currently have any arrangements that would fall under the scope of this guidance; therefore, there was no impact to CPS’ financial statements from this implementation.

GASB Statement No. 61, The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34, modifies certain criteria used to determine whether an entity should be considered a component unit. The modifications did not cause a change in the status of any of CPS’ component units.

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and American Institute of Certified Public Accountants (“AICPA”) Pronouncements, incorporates guidance that previously could only be found in certain FASB and AICPA pronouncements issued prior to November 30, 1989. There was no impact to CPS’ financial statements as a result of the implementation of this guidance.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, establishes guidance for reporting these elements in the statement of financial position and lays out two presentation formats that may be used. It specifies that the statement of net position should report

the residual amount as net position rather than net assets. Other than a change in presentation, there was no impact to CPS' financial statements from implementation of this guidance.

Other than the aforementioned changes, no additional significant accounting principles or reporting changes were implemented in the fiscal years ending January 31, 2012 and January 31, 2013. Other accounting and reporting changes that occurred during the prior reporting year continued into the fiscal year ending January 31, 2013.

Recent Financial Transactions

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 \$655.4 million of Revenue Refunding Bonds, New Series 2012 to refund \$716.3 million of Revenue Bonds, New Series 2005 and 2006A, and Revenue Refunding Bonds, New Series 2005A.

On November 29, 2012, CPS issued \$143.6 million of Variable Rate Junior Lien Revenue Refunding Bonds, Series 2012A, 2012B, and 2012C to refund \$147.6 million of Junior Lien Revenue Bonds, Series 2004.

On June 7, 2013, CPS cash defeased \$63,475 million of New Series 2003A Bonds.

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CPS Historical Net Revenues and Coverage

| | Fiscal Years Ended January 31, (Dollars in Thousands) | | | | |
|---|---|-------------------|-------------------|-------------------|-------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 |
| Gross Revenues ¹ | \$2,191,323 | \$1,981,103 | \$2,099,240 | \$2,296,138 | \$2,207,863 |
| Maintenance & Operating Expenses ² | 1,408,35 | 1,205,189 | 1,233,286 | 1,411,334 | 1,375,027 |
| Available For Debt Service | <u>\$ 782,970</u> | <u>\$ 775,914</u> | <u>\$ 865,954</u> | <u>\$ 884,804</u> | <u>\$ 832,836</u> |
| Actual Principal and Interest Requirements: | | | | | |
| Senior Lien Obligations ^{3,4} | <u>\$ 309,855</u> | <u>\$ 332,540</u> | <u>\$ 357,054</u> | <u>\$ 363,339</u> | <u>\$ 366,474</u> |
| Junior Lien Obligations ⁵ | <u>\$ 11,190</u> | <u>\$ 6,987</u> | <u>\$ 10,774</u> | <u>\$ 22,372</u> | <u>\$ 23,256</u> |
| Actual Coverage-Senior Lien | 2.53x | 2.33x | 2.43x | 2.44x | 2.27x |
| Actual Coverage-Senior and Junior Liens | 2.44x | 2.29x | 2.35x | 2.29x | 2.14x |
| Pro Forma MADS Coverage | | | | | |
| Senior Lien Obligations ⁶ | 2.32x | 2.30x | 2.56x | 2.62x | 2.46x |
| Senior and Junior Lien Obligations ⁷ | 1.83x | 1.82x | 2.03x | 2.07x | 1.95x |

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, \$15.6 million, and \$15.6 million for the fiscal years ending 2010, 2011, 2012, and 2013 respectively, related to the direct subsidy for the Build America Bonds. Also, takes into account the effects of Sequestration.

⁵ Includes a reduction of \$2.5 million, \$10.5 million, and \$10.5 million for the fiscal years ending 2011, 2012, and 2013, 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. Also, takes into account the effects of Sequestration.

⁶ Maximum annual debt service on Senior Lien Obligations.

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.

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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 ^(c) | Total Direct Rate | | | |
|---------------------|--|------------------------|---------------------------|--------------------------|--|--------------------------|---------------------------|--------------------------|---------------------------|
| | | | | | | Water | | Sewer | |
| | | | | | | Base Rate ^(d) | Usage Rate ^(e) | Base Rate ^(f) | Usage Rate ^(g) |
| 2012 | 66,596 | 55,320 | 11,276 | 16.93% | 49,055 | \$7.31 | \$20.24 | \$9.92 | \$12.24 |
| 2011 | 70,699 | 59,133 | 11,566 | 16.36% | 49,918 | 7.10 | 18.10 | 8.73 | 10.78 |
| 2010 ^(a) | 61,272 | 52,578 | 8,694 | 14.19% | 48,152 | 7.10 | 18.10 | 8.73 | 10.78 |
| 2009 | 62,649 | 55,295 | 7,354 | 11.74% | 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 |

⁽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) Represents amounts billed to customers. Residential Class customers are billed based on water usage during a consecutive three month billing period from November through March. All other customer classes are billed for wastewater treatment based on actual water usage during each month billing period.

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

^(e) 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.

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

^(g) 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 | | | | | | | | | |
|--|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
| Water Sales ^(a): | | | | | | | | | | |
| Residential Class | 30,070 | 34,153 | 28,932 | 30,667 | 33,025 | 26,651 | 33,162 | 30,917 | 27,054 | 27,624 |
| General Class | 20,393 | 20,986 | 19,465 | 20,309 | 20,297 | 19,166 | 20,232 | 19,769 | 18,851 | 19,464 |
| Wholesale Class | 1,412 | 128 | 101 | 119 | 108 | 90 | 114 | 121 | 98 | 137 |
| Irrigation Class | 3,445 | 3,866 | 4,080 | 4,200 | 5,398 | 3,604 | 4,216 | 4,198 | 3,364 | 3,350 |
| Total Water | 55,320 | 59,133 | 52,578 | 55,295 | 58,828 | 49,511 | 57,724 | 55,005 | 49,367 | 50,575 |
| Wastewater Sales: | | | | | | | | | | |
| Residential Class | 26,572 | 27,371 | 26,746 | 29,825 | 28,148 | 27,383 | 28,859 | 25,293 | 25,421 | 24,860 |
| General Class | 20,066 | 20,134 | 20,002 | 20,338 | 20,352 | 19,634 | 21,967 | 22,262 | 21,800 | 22,249 |
| Wholesale Class | 2,417 | 2,413 | 1,404 | 1,824 | 1,847 | 2,200 | 2,444 | 1,732 | 2,371 | 2,560 |
| Total Wastewater | 49,055 | 49,918 | 48,152 | 51,987 | 50,347 | 49,217 | 53,270 | 49,287 | 49,592 | 49,669 |
| Conservation - Residential Class ^(b) | | | | | | | | | | |
| Recycled Water Sales | 3,026 | 4,106 | 2,935 | 3,469 | 3,948 | 2,432 | 4,276 | 3,613 | 2,634 | 2,636 |

⁽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.

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 642 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, 2012, SAWS provided potable water service to approximately 365,000 customer connections, which includes residential, commercial, multifamily, industrial, and wholesale accounts. To service its customers, the waterworks system utilizes 26 elevated storage tanks and 38 ground storage reservoirs, of which 12 act as both, with combined storage capacities of 209 million gallons. As of December 31, 2012, the waterworks system had in place 5,022 miles of distribution mains, ranging in size from four to 61 inches in diameter (the majority being between six and 12 inches), and 27,914 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, 2012, SAWS provided wastewater services to approximately 411,500 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 5,200 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.

The System has applied to the TCEQ to expand its Certificates of Convenience and Necessity ("CCN") or service areas for water and sewer from the existing boundaries initially to the ETJ boundary of the City. When the TCEQ grants a CCN to a water or sewer purveyor, it provides that purveyor with a monopoly for retail service. By expanding the CCN to the ETJ, developments needing retail water and sewer service within the ETJ must apply to SAWS. Service can then be provided according to System standards, avoiding small, undersized systems servicing new development. The System's CCN applications for water consisted of 12 separate applications that originally covered 64,000 acres. Two applications have been amended and one withdrawn reducing the total application area to approximately 28,300 acres. The applications for sewer consisted of eight separate applications that originally covered 407,000 acres. Three of these applications have been amended, reducing the sewer application area to approximately 276,000 acres. Of the water applications, nine have been finalized consisting of approximately 26,300 acres, which acreage is now included in the System's CCN; the remaining applications should be finalized within the next year and total 2,000 acres. Of the sewer applications, four have been finalized and added 131,600 acres to the System's CCN. The remaining five applications should be finalized within the next year and total 145,242 acres. 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 ensure areas developed in the ETJ and then annexed by the City will already have some City development regulations in place.

In March 2007, SAWS was orally notified by Region 6 of the United States Environmental Protection Agency (the "EPA") of alleged failures to comply with the Federal Water Pollution Control Act (commonly known as 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 (the "DOJ") for enforcement action. In anticipation that the parties would engage in settlement negotiations, the EPA/DOJ and SAWS entered into the first of a series of what would ultimately become 15 tolling agreements (the last of which expired by its terms on June 10, 2013) that precluded the running of any applicable statutes of limitation that might otherwise bar a claim for enforcement action by the EPA/DOJ. During this time, SAWS engaged in settlement negotiations with the EPA and the DOJ to resolve the allegations. Negotiations with the EPA/DOJ recently concluded, with the SAWS Board approving the terms of a consent decree with the DOJ at its June 4, 2013 meeting. While these negotiations were ongoing, SAWS worked to increase its level of investment in its wastewater collection system with the intent of decreasing the number of sanitary sewer overflows. Over the five year period from 2008 through 2012, SAWS' operating and capital expenditures associated with the reduction of sewer overflows averaged approximately \$60 million per year. Pursuant to the terms of the aforementioned consent decree, annual expenditures for the purposes of reducing the occurrence of sewer overflows are expected to increase by an aggregate amount of approximately \$492 million over a period of ten years. In addition, the consent decree requires SAWS to pay a civil penalty in the approximate amount of \$2.6 million. SAWS anticipates paying these increased costs from a combination of operational revenue and indebtedness secured by and payable from a lien on and pledge of net revenues of its combined utility system.

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 EPA-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 2013 is \$5,002,114, for which SAWS is reimbursed \$5,058,241 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 2012, the Edwards Aquifer supplied approximately 90% of the potable water for municipal, domestic, industrial, and commercial needs for the SAWS service area. Naturally occurring artesian springs, such as the Comal Springs and the San Marcos Springs, are fed by Edwards Aquifer water and are utilized for commercial, municipal, agricultural, and recreational purposes, while at the same time supporting ecological systems containing rare and unique aquatic life.

In August 2005, the SAWS Board unanimously approved the Water Resource Plan 2005 Update (the "2005 Update"). The 2005 Update represented a comprehensive review of the assumptions governing population and per capita consumption projections in Bexar County through 2050. The 2005 Update included an analysis of each water supply alternative available for meeting future needs and demonstrated the System's commitment to obtain additional water supplies. The projected capital cost of the water supply projects approved in the 2005 Update totaled more than \$2 billion. As a result of continuing concerns relative to the cost of the projects identified, potential changes in projects, and changes in SAWS personnel, a new Water Supply Task Force was assembled in June 2008 to review, evaluate, and update the System's Water Resource plan. This task force, completed its review in early 2009. After a comprehensive public outreach period, the SAWS Board and the City Council approved the 2009 Water Management Plan. The 2009 Water Management Plan Update was subsequently updated in 2012 to incorporate the results of the 2010 Census, the integration of the Bexar Metropolitan Water District with the System, changes in water resource projects, the results of the Edwards Aquifer Habitat Conservation Plan, and additional information on supply and demand during drought. This effort resulted in the 2012 Water Management Plan, which was approved by the SAWS Board on December 4, 2012.

Bexar Metropolitan Water District

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

History. 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 several 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 mandating 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 (a charge to which he pled guilty in 2012). 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.

Dissolution and Assumption by the City. 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 ("Senate Bill 341" or "SB 341"). SB 341 established 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, which Election was held on November 8, 2011. At this Election, 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 DOJ, which was received on January 27, 2012. The City commenced assumption procedures on January 28, 2012. SAWS, acting by and through the City, took 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 City ordinances authorizing then-outstanding Senior Lien Obligations, 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 received judicial validation of this position pursuant to declaratory judgment action filed under Chapter 1205, as amended, Texas Government Code (In re the City of San Antonio and Certain Public Securities, Cause No. D-1-GV-12-000115, 410th Judicial District Court of Travis County, Texas).

Pursuant to SB 341: (a) the term of each Director of BexarMet expired on the date the Election results were certified to the Secretary of State of the State of Texas; (b) SAWS assumed control of the operation and management of BexarMet on the date the Election results were certified to the Secretary of State of the State of Texas; (c) not later than the 90th day after the date the Election results were certified to the Secretary of State of the State of Texas, the TCEQ, in consultation with the Oversight Committee, was required to 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 pertained 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 required the approval of a state agency, the state agency was required to grant approval without additional notice or hearing; and (e) after the TCEQ transferred the property, assets, and liabilities as prescribed by this section, the TCEQ was required to 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 made prior to these dates remain available on the MAC (defined herein) website under the City's listings as its "Water System Special Project."

SB 341 stated that its intent was not to enhance or harm the position of a party that had 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.

In the five years prior to dissolution, BexarMet 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 then-existing commercial paper program; covenant defaults under its bond documentation, including failure to meet debt service coverage requirements; material litigation; and termination of an existing interest rate hedging agreement. In addition, BexarMet 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 ending April 30, 2011 and their most recent official statement are available on EMMA and through the MAC as described above.

DSP Waterworks System. The waterworks system assumed by SAWS through the District Special Project (the "District Special Project" or the "DSP") that belonged to the former BexarMet (the "DSP Waterworks System") provides water service to an area of approximately 276 square miles in Bexar, Atascosa, and Medina counties. The service area is a non-contiguous area that consists of portions of the south side of San Antonio, portions of south and west Bexar County, northern Atascosa County and eastern Medina County. The service area also includes the cities of Somerset, Castle Hills, Hill Country Village, and Hollywood Park, the Stone Oak and Timberwood Park subdivisions in northern Bexar County, and a portion of northeast San Antonio. Within the service area, there are approximately 96,700 water connections. There are approximately 88 water wells that provide water to approximately 91 ground storage facilities which have a capacity totaling approximately 37 million gallons of storage, and 21 elevated storage facilities totaling approximately 27 million gallons of storage. In addition, there are approximately 1,380 miles of transmission and distribution water lines and over 7,500 fire hydrants.

The DSP assumed ownership and operational responsibilities of the DSP Waterworks System on January 28, 2012. The former BexarMet was dissolved by order of the TCEQ on May 30, 2012. All references to the former BexarMet, including with respect to references to actions preceding these dates, are replaced with references to the DSP as a result of the foregoing. The DSP is not currently a part of the SAWS System, but SB 341 requires that the waterworks system maintained by the DSP be merged into the SAWS System, creating one consolidated system, not later than 2017. SAWS anticipates compliance with this legislative deadline.

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

| Year | Gross Revenues ^(b) | Operating Expenses ^(c) | Net Revenue Available | Revenue Bond Debt Service ^(a) | | | | Maximum Annual Debt Service Requirements | | | |
|------|-------------------------------|-----------------------------------|-----------------------|--|-------------------------|-----------|----------|--|----------|---------------------------------|-------------------------|
| | | | | Principal | Interest ^(d) | Total | Coverage | Total Debt ^(e) | Coverage | Senior Lien Debt ^(e) | Coverage ^(f) |
| 2012 | \$437,253 | \$237,576 | \$199,677 | \$44,780 | \$80,320 | \$125,100 | 1.60 | \$138,420 | 1.44 | \$122,816 | 1.63 |
| 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 |

⁽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 Airlines, Delta Air Lines, Southwest Airlines, United Airlines, 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, 2012, 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 was approved by City Council on November 15, 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:

| <u>Funding Sources</u> | <u>Projected Funding (\$)</u> |
|--|-------------------------------|
| 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:

| <u>Improvement</u> | <u>Amount (\$)</u> |
|----------------------------------|--------------------|
| 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 May 30, 2013, the City has collected \$146,143,504 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 May 30, 2013, the City has received \$9,913,653 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.

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

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

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 |
| Gross Revenues ¹ : | \$65,187,888 | \$62,180,333 | \$64,045,889 | \$83,288,806 | \$90,163,733 |
| Airline Rental Credit | <u>5,040,274</u> | <u>4,165,260</u> | <u>4,178,122</u> | <u>0</u> | <u>0</u> |
| Adjusted Gross Revenues | \$70,228,162 | \$66,345,593 | \$68,224,011 | \$83,288,806 | \$90,163,733 |
| Expenses | <u>(41,585,794)</u> | <u>(39,743,093)</u> | <u>(39,873,764)</u> | <u>(44,480,164)</u> | <u>(47,048,746)</u> |
| Net Income | <u>\$28,642,368</u> | <u>\$26,602,500</u> | <u>\$28,350,247</u> | <u>\$38,808,642</u> | <u>\$43,114,987</u> |

¹ As reported in the City’s audited financial statements.
Source: City of San Antonio, Department of Finance.

Total Domestic and International Enplaned Passengers - San Antonio 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 | 4,103,364 | 31,583 | 0.78 |

Source: City of San Antonio, Department of Aviation.

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 <u>Year</u> | <u>Total</u> | Increase/ <u>(Decrease)</u> | Percent (%) <u>Change</u> |
|-------------------------|--------------|--------------------------------|------------------------------|
| 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 | 182,031 | 45,061 | 32.90 |
| 2012 ¹ | 421,718 | 239,687 | 131.67 |

¹ The increase in total enplaned and deplaned international passengers from 2011 to 2012 is attributable to 3 new airlines operating in 2012. These airlines are AirTran, InterJet, and Viva AeroBus.

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 <u>Year</u> | <u>Total</u> | Increase/ <u>(Decrease)</u> | Percent (%) <u>Change</u> |
|-------------------------|--------------|--------------------------------|------------------------------|
| 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 | 5,707,294 | 75,091 | 1.33 |
| 2012 | 5,811,513 | 104,219 | 1.83 |

Source: City of San Antonio, Department of Aviation.

* * *

APPENDIX D

SAN ANTONIO ELECTRIC AND GAS SYSTEMS

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APPENDIX D

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 CPS bond ordinances establish management requirements and provide that the complete management and control of the Systems is vested in 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 Systems. The present members of the CPS Board are:

| <u>Name</u> | <u>Profession</u> | <u>Originally Appointed to the CPS Board</u> | <u>Present Term Expires</u> |
|-------------------------------------|--|--|-----------------------------|
| Homer Guevara, Jr., Chairman | Professor, Business & Government Northwest Vista College | March 19, 2009 | January 31, 2014 |
| Nora W. Chávez, Vice Chairman | Managing Director, Texas Public Finance Stifel Nicolaus & Company, Inc. | January 20, 2011 | January 31, 2016 |
| Derrick Howard, Trustee | Executive Director, Freeman Coliseum | February 1, 2008 | January 31, 2018 |
| Edward B. Kelley, Trustee | President & CEO, USAA Real Estate, Retired | May 19, 2011 | January 31, 2017 |
| Julián Castro, Ex-Officio Member | Mayor, City of San Antonio | June 1, 2009 | May 31, 2013 |

Derrick Howard, is serving his second term. Homer Guevara, Jr., Nora Chávez, and Edward Kelley are serving their first terms. Julián Castro assumed his CPS Board position upon becoming Mayor on June 1, 2009. He was elected for another two year term as Mayor on May 14, 2011. Edward Kelley was selected to serve for Charles Foster's remaining term (who was himself, appointed to fulfill the remaining term of Ms. Aurora Geis). On December 1, 2011, Mr. Kelley was given authorization by the City Council to serve a five year term beginning February 1, 2012. See "DESCRIPTION OF PHYSICAL PROPERTY –Electric System -Nuclear Cost Issue and CPS Internal Investigation" herein for a discussion of events affecting past members of the CPS Board.

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

The CPS Board is vested with all of the powers of the City with respect to the management and operation of the 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 CPS bond ordinances, except regarding rates, condemnation proceedings, and issuance of bonds, notes, or commercial paper. The CPS Board has full power and authority to make rules and regulations governing the furnishing of electric and gas service and full authority with reference to making extensions, improvements and additions to the Systems, and to adopt rules for the orderly handling of CPS's affairs. The CPS Board is further 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 CPS 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 provide community input directly to the CPS Board and CPS staff. The CAC meets monthly with the

primary goal of providing recommendations on utility-related projects and programs to offer a customer perspective on community issues, assist in identifying strengths and offer suggestions for improvement to the organization. Representing the various sectors of CPS's 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 CAC from those submitting applications and resumes. The CPS Board appoints all members to the CAC. Members can serve up to three two-year terms.

Administration and Operating Personnel

CPS had 3,476 employees as of January 31, 2013. The average tenure of a CPS employee is over 15 years. The vast majority of all executive and supervisory personnel have been schooled and trained in the utility industry. CPS employees have a broad range of benefits, including a defined benefit pension plan, group life insurance, hospitalization, major medical and other benefits. Generally good working conditions have produced a stable, well-qualified, highly motivated work force which, between February 1, 2012 and January 31, 2013, recorded an average turnover rate of 3.7%. There are approximately 1,612 wage scale (hourly) employees in the CPS workforce.

CPS links an employee incentive compensation plan to employee participation in controlling expenses, promoting safety, maintaining low utility bills, and enhancing customer satisfaction. The Executive Incentive Plan, established in 1997, provides links between CPS's competitiveness and each executive's compensation. Incentive plans were implemented for the entire salaried work force (including exempt and non-exempt employees) in 1998, and for the entire wage-scale (hourly) workforce in 2003.

CPS continues to enhance its Performance Management system. This system supports a process that develops and emphasizes performance against an established set of business metrics and behavioral principles and engages all employees in actively working toward key performance goals that align to organizational and business unit/area strategies and objectives. The process is designed to provide for continual monitoring and a high level of coaching and feedback to reach performance expectations, to provide meaningful developmental opportunities, to emphasize how results are achieved, and to reward and recognize contributions toward business goals. The traditional employee annual review process and cost-of-living driven pay system have been replaced with an enhanced performance assessment process, market-based salaries, and incentive awards based on CPS's overall performance. In addition, CPS is actively engaged in comprehensive workforce development and succession planning processes to promote wider development opportunity for employees to learn and grow. These processes are based on the foundational ideas that all employees are expected to develop to their maximum capabilities and that succession planning must focus on ensuring that key positions in the organization are always staffed by employees who have the capacity to keep the company operating at its highest level of productivity.

CPS's principal executives and members of the Senior Leadership Team include: Doyle N. Beneby, President & CEO; Cristopher C. Eugster, Executive Vice President & Chief Strategy & Technology Officer; Paula Y. Gold-Williams, Treasurer, Executive Vice President & Chief Financial Officer; Jelynn LeBlanc-Burley, Executive Vice President of Corporate Support Services & Chief Administrative Officer; Carolyn E. Shellman, Secretary, Executive Vice President & General Counsel; David C. Herbst, P.E., Senior Vice President of Power Generation; Frederick A. James, Senior Vice President of Energy Delivery Services; Maria D. Koudouris, Senior Vice President of Customer Service & Gas Delivery; Richard M. Peña, Senior Vice President of Energy Development; Frank Almaraz, Vice President of Corporate Development & Planning; John L. Benedict, Vice President of Business Operations; Rudy Garza, Vice President of External Affairs; Lisa Lewis, Vice President of Communications & Media Relations; Leslie Real, Vice President of Human Resources; and Zandra Pulis, Interim Director of Audit Services & Chief Ethics Officer.

Mr. Beneby joined CPS in August 2010, as President and Chief Executive Officer. A veteran of the energy industry with over 25 years of experience, Mr. Beneby has expertise in many facets of the electric & gas industry including strategic planning, generation & delivery operations and asset acquisition. Since joining CPS, Mr. Beneby has lead the transition to a lower carbon intense fleet, utilizing clean coal, natural gas and nuclear combined with targeted renewable such as wind and solar. He has also brokered partnerships with seven clean technology companies bringing thousands of jobs to the Greater San Antonio area, increasing research and development and enhancing educational investments. Mr. Beneby is a graduate of Montana Technical College, earning a Bachelor's degree in engineering and a Master's degree in Business Administration from the University of Miami.

Dr. Eugster is the Executive Vice President & Chief Strategy and Technology Officer. He leads overall corporate strategy, integrated resource planning, new products and services, research & development, and environmental oversight

at CPS driving the transformation of San Antonio into a New Energy Economy. The strategy includes significant investments in low-emission generation such as combined cycle natural gas, wind, and solar, in addition to large scale energy efficiency and demand response programs and innovative smart grid solutions. Achievements to date include the largest solar deployment in Texas, the number one wind off-taker in Texas, and a leading demand response program to significantly reduce peak load requirement. Dr. Eugster received a Ph.D. in electrical engineering from the Massachusetts Institute of Technology. Dr. Eugster holds two patents dealing with nano-transmitter design, and he has published more than 30 scientific papers.

Ms. Gold-Williams joined CPS in October 2004, and served as Controller & Assistant Treasurer, as well as Vice President & Chief Administrative Officer before being appointed Treasurer, Executive Vice President & Chief Financial Officer. Ms. Gold-Williams is responsible for the major areas of finance, accounting, and the financial operations of CPS and also serves as Treasurer of the CPS Board. Prior to joining CPS, she held several senior management positions at other companies, including serving as the Vice President of Finance for a publicly traded food service company from 2000–2004 with responsibilities over SEC reporting, debt management, financial planning and budgeting, tax and various accounting functions. From 1998 to 2000, Ms. Gold-Williams initially served as the Controller for the same publicly traded company and directly before that period she served as a Regional Controller for Time Warner Cable from 1990 – 1998. At Time Warner Cable, Ms. Gold-Williams was responsible for all accounting functions and intermittently led other functions including IT, purchasing and front counter customer service. Ms. Gold-Williams is a CPA and also holds a Master of Business Administration degree with a concentration in finance and accounting.

Ms. LeBlanc-Burley joined CPS on April 7, 2008, as Vice President & Chief Administrative Officer for Organizational Excellence & Shared Services after serving local municipal government for 24 years. She was appointed by the CPS Board to serve as Acting General Manager on November 30, 2009. Ms. LeBlanc-Burley served in this role through August 1, 2010 when she became Executive Vice President of Corporate Support Services & Chief Administrative Officer. Before leaving the City of San Antonio, she served as Deputy City Manager for Planning and Development. In her current role, Ms. LeBlanc-Burley is responsible for all aspects of Human Resources Management, Supply Chain, Facilities and Information Services. Ms. LeBlanc-Burley holds a Master's degree in urban studies from Trinity University.

Ms. Shellman joined CPS in July 2006. She previously served as Vice President, General Counsel and CPS Board Secretary for the Electric Reliability Council of Texas (“ERCOT”). Prior to that, she served as a partner in the utility sections of two separate Texas law firms. Ms. Shellman has also served as the Director for the Hearings Division of the Public Utility Commission of Texas (“PUCT”) and as a hearing officer with the PUCT. In addition to serving as CPS's General Counsel, she also serves as Chief Compliance Officer and Secretary to the CPS Board. Ms. Shellman has an undergraduate degree from Vassar College and a law degree from the University of Oklahoma.

Mr. Herbst was named the Senior Vice President of Power Generation for CPS in 2012. In this role, Mr. Herbst is responsible for power generation from CPS's fleet of fossil-fueled power plants. Mr. Herbst began his career at CPS in 1981, and prior to his current assignment he held other leadership positions, including Spruce 1 Start-up Team Engineer, Sommers/Deely Plant Manager, Leon Creek Peaking Power Project Manager, Director of Generation Reliability and Performance, and Senior Director of Generation Operations. Mr. Herbst is a licensed professional mechanical engineer in the State of Texas. He holds a Bachelor of Science degree in Mechanical Engineering from Texas A&M University.

Mr. James has been an employee of CPS since 1982 and has previously served as Superintendent of System Planning, and Director of Distribution Engineering. Mr. James was promoted to Vice President of Operations in 2004 and named Vice President of Engineering & Technical Services in 2006. In February 2011 he was promoted to Senior Vice President for Energy Delivery Services in which he oversees system operations, customer reliability, electrical engineering and technical services, system planning and asset management, construction and maintenance of the electric transmission and distribution systems. Mr. James holds a Bachelor of Science degree in Electrical Engineering from the University of Texas at El Paso.

Ms. Koudouris serves as Senior Vice President of Customer Service & Gas Delivery and oversees meter reading and field collections, customer call center and customer service centers, management of commercial accounts, and the Casa Verde SA weatherization program. She also is charged with overseeing gas operation, maintenance, construction, engineering and marketing. Ms. Koudouris has been a CPS employee since 1999 and has served in a variety of positions within Organizational Excellence & Shared Services specific to contract services and procurement. Ms. Koudouris was subsequently promoted in 2009 to create the Casa Verde SA program, which provides weatherization services to low-income families in San Antonio. Prior to joining CPS she served more than nine years in various positions for the United States Department of Agriculture and the United States Air Force. Ms. Koudouris holds a Master of Business Administration degree from the University of the Incarnate Word.

Mr. Peña serves as Senior Vice President of Energy Development and oversees all of the utility's fuels, marketing, and energy market operations as well as oversaw the construction of the Spruce 2 coal plant. He also is charged with maintaining CPS investment in the South Texas Project Nuclear Facility, Units 1 and 2. Mr. Peña joined CPS in 1983 and has held a variety of leadership positions, including Vice President of Gas Systems and Vice President of Fossil Generation, with the organization. He became Senior Vice President of Energy Development in December 2009. Mr. Peña holds a Master of Business Administration degree from Our Lady of the Lake University.

Mr. Almaraz serves as the Vice President of Corporate Development & Planning and oversees Corporate Development, Research and New Products/Programs. He also is responsible for long range electric and gas load forecasting as well as strategic analysis related to energy sources of supply for the long term. Previously, he was with Energy Future Holdings and its predecessor company TXU Corporation since 2005. While at Energy Future Holdings, Mr. Almaraz held several roles in the areas of financial planning and analysis and strategy. Prior thereto, he spent several years in the aeronautics industry with Lockheed Martin and General Electric in supply chain and operations management. Mr. Almaraz holds a Bachelor of Science degree in Industrial Distribution from Texas A&M University and a Master of Business Administration degree in Finance from the Cox School of Business at Southern Methodist University.

Mr. Benedict joined CPS in 2006 as Manager of Strategic Planning. He was named Director of Resource Planning for Energy Delivery Services, and currently serves as Vice President of Business Operations. In this role, Mr. Benedict is responsible for gap-based business planning, long-range planning and corporate budgeting. Prior to joining CPS, Mr. Benedict served thirty years in various positions of increasing responsibility with BellSouth, including Assistant Vice President of Corporate Project Management and Network Vice President of Alabama/Mississippi Operations. While at BellSouth, he was also responsible for information services marketing and new business unit development. Mr. Benedict holds a Bachelor's degree in Electrical Engineering from the University of Miami and a Master's degree in Electrical Engineering from Rensselaer Polytechnic Institute.

Mr. Garza serves as Vice President of External Affairs and oversees CPS's External Relations office. He is responsible for carrying out CPS's federal and state legislative agenda as well as primary outreach to the San Antonio City Council and surrounding suburban cities. Before coming to CPS, Mr. Garza was with the City of Corpus Christi for four years; serving as the Director of Intergovernmental Relations and promoted to Assistant City Manager. Mr. Garza earned his Bachelor of Science in Electrical Engineering from the University of Texas at Austin, and completed his Master of Business Administration at the University of North Texas in 2004.

Ms. Lewis is the Vice President of Corporate Communications & Media Relations and oversees internal and external communications, corporate responsibility, branding and social media. Ms. Lewis joined CPS's Marketing team in 2001, and has managed advertising, internal communications and public relations. Prior to joining CPS, she worked in the advertising industry with service-industry clients from healthcare to transit. Ms. Lewis is a 1992 graduate of Texas State University with a Bachelor's degree in Communications.

Mr. Real joined CPS in March, 2013, as Vice President for Human Resources. He is an innovative executive level Human Resource Professional with strong organizational, global and operational savvy, bottom line focused and skilled at aligning Human Resource strategy and programs to effectively achieve business objectives. In his current role, Mr. Real is responsible for all aspects of Human Resources, Labor & Employee Relations, Organization Change & Development and Employee Benefits. Mr. Real holds a Masters of Business Administration degree in Industrial Relations from Florida International University and a Bachelor of Business Administration degree in Human Resources from the University of Miami.

Ms. Pulis has been an employee of CPS since 2000, serving as an in-house attorney primarily focused on labor and employment matters, advising on employment policy, compliance and investigations. She also has overseen open government matters, such as open meetings and requests for information. On February 1, 2013, Ms. Pulis was named Interim Director of Audit Services and Chief Ethics Officer. In her interim role, Ms. Pulis is responsible for leading a comprehensive program of internal audits and reviews for CPS, as well as a comprehensive ethics program, and as such, has a direct reporting relationship to the Audit Committee of the CPS Board. Ms. Pulis also oversees CPS's participation in the STP Audit Group, which is responsible for conducting independent audits on behalf of the owners of STP. Ms. Pulis holds a Bachelor of Arts degree in Political Science from Texas A&M University, and a Juris Doctorate degree from The University of Houston Law Center.

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 was granted by the PUCT.

CPS is currently the exclusive provider of retail electric service within this service area, including the provision of electric service to some Federal military installations located within the service area that own their own distribution facilities. 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. On April 26, 2001, after a thorough feasibility study was conducted and reviewed, the City Council passed a resolution stating that the City did not intend to opt-in to the deregulated electric market beginning January 1, 2002, the date Texas Electric Choice became effective. Senate Bill 7 (“SB 7”), adopted by the Texas Legislature in 1999, provides that electric “opt-in” decisions are to be made by the governing body or the body vested with the power to manage and operate a municipal utility such as CPS. Given the relationship of the CPS Board and the City Council, any decision to opt-in to electric competition would be based upon the adoption of resolutions by both the CPS Board and the City Council. If CPS and the City choose to opt-in, other retail electric energy suppliers would be authorized to offer retail electric energy in the CPS service area and CPS would be authorized to offer retail electric energy in any other service areas open to retail competition in ERCOT. See “CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – ERCOT”, herein. ERCOT is the independent entity that monitors and administers the flow of electricity within the interconnected grid that operates wholly within Texas; the term “ERCOT” also refers to the area within Texas served by this interconnected grid. See “DESCRIPTION OF PHYSICAL PROPERTY – Electric System - Interconnected System” and “CUSTOMER RATES – Governmentally Imposed Fees, Taxes or Payments” herein. CPS has the option of acting in the role of the “Provider of Last Resort” (hereinafter defined) for its service area in the event it and the City choose to opt-in. See “CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Electric Utility Restructuring in Texas; Senate Bill 7” herein.

In addition to the area served at retail rates, CPS sells wholesale electricity to the Floresville Electric Light & Power System, the City of Hondo, and the City of Castroville. As of January 31, 2013, these three wholesale supply agreements have remaining terms ranging from one-half to seven years until expiration. CPS has agreements in place today that provide partial supply to Bluebonnet Electric Cooperative for a term of 5 years, beginning in June, 2011, and to City of Lampasas for a period that began in June 2011 and extends through June 2016. Long term supply agreements have been entered with Central Texas Electric Cooperative, City of Boerne, City of Seguin, and the Kerrville Public Utility CPS Board to provide supply for terms that begin as early as June 2013 and extend through 2021 for Central Texas Electric Cooperative and through 2023 for the other three entities. The requirements under the existing wholesale agreements are firm energy obligations of CPS. In addition, from time to time, CPS provides a variety of supply arrangements on a short term basis for terms ranging from one month up to one year. Also, see footnote 6 to the table appearing under the subcaption “DESCRIPTION OF PHYSICAL PROPERTY – Electric System – Generating Capability” for a brief discussion of the City’s expectation to sell power generated by the newly-acquired Rio Nogales Combined Cycle Natural Gas Plant.

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

CPS has 20-year “Franchise Agreements” with 24 incorporated communities in the San Antonio area. In addition, one community has a 10-year Franchise Agreement and five communities operate under one year automatically renewing Franchise Agreements. 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 working with the five communities with one year automatically renewing Franchise Agreements to negotiate new long term agreements. The others expire in 2017, 2021, 2023, 2024, 2029, 2030, 2031 and 2032. CPS and the City of Castroville, a current wholesale power customer, reached an agreement whereby CPS would operate and

maintain the Castroville gas system through September 30, 2012. CPS extended the contract with the City of Castroville for an additional 12 months, from October 1, 2012 through September 30, 2013. A similar two-year agreement with an option to extend for an additional year if mutually agreeable to both parties was reached with the City of Lytle to operate and maintain the Lytle natural gas system commencing January 1, 2010. In late December 2011, CPS and the City of Lytle agreed to extend the contract for operation and maintenance of the Lytle gas system for an additional 12-month period. Once again in late December 2012, CPS and the City of Lytle agreed to extend the contract for operation and maintenance of the Lytle gas system for an additional 12-month period. The City of Lytle requested that before the end of this new 12-month period that a multi-year contract be agreed upon.

Customer Base as of January 31, 2013 ⁽¹⁾

| Electric ⁽¹⁾ | | | Gas ⁽¹⁾ | | |
|---|----------------|-------------|---------------------|----------------|-------------|
| | Number | Percent | | Number | Percent |
| Residential | 652,391 | 88% | Residential | 310,085 | 93% |
| Commercial & Industrial | 67,427 | 9% | Commercial | 17,779 | 6% |
| All Night Security Lighting | 11,970 | 2% | Industrial & Public | 3,328 | 1% |
| Street Lighting, Public Authorities & Other Utilities ⁽²⁾ | 9,679 | 1% | | | |
| Total | 741,467 | 100% | Total | 331,192 | 100% |

(1) See "FIVE-YEAR ELECTRIC AND GAS SALES BY CUSTOMER CATEGORY" and "FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE" herein for information regarding consumption of energy and contribution of revenues to the Systems by the average customers for these categories as of January 31, 2013.

(2) Also includes off-system sales customers.

Retail Service Rates

Under the Texas Public Utility Regulatory Act ("PURA"), significant original jurisdiction over the rates, services, and operations of "electric utilities" is vested in the PUCT. In this context, "electric utility" means an electric investor-owned utility. Since the electric deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT's jurisdiction over electric investor-owned utility ("IOU") companies primarily encompasses only the transmission and distribution functions. PURA generally excludes municipally-owned utilities ("Municipal Utilities"), such as CPS, from PUCT jurisdiction, although the PUCT has jurisdiction over electric wholesale transmission rates. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS - Transmission Access and Rate Regulation" herein. Under the PURA, a municipal governing body or the body vested with the power to manage and operate a Municipal Utility such as CPS has exclusive jurisdiction to set rates applicable to all services provided by the Municipal Utility with the exception of electric wholesale transmission activities and rates. Unless and until the City Council and CPS Board choose to opt-in to electric retail competition, CPS retail service electric rates are subject to appellate, but not original rate regulatory jurisdiction by the PUCT in areas that CPS serves outside the City limits. To date, no such appeal to the PUCT of CPS retail electric rates has ever been filed. CPS is not subject to the annual PUCT gross receipts fee payable by electric utilities. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Electric Utility Restructuring in Texas; Senate Bill 7" herein.

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

The City has covenanted and is obligated under the CPS bond ordinances, as provided under the rate covenant, to establish and maintain rates and collect charges in an amount sufficient to pay all maintenance and operating expenses of

the Systems and to pay the debt service requirements on all revenue debt of the Systems, including the outstanding Senior Lien Obligations, any Additional Senior Lien Obligations, the currently outstanding Junior Lien Obligations, obligations arising under liquidity facilities relating to such Junior Lien Obligations, any Additional Junior Lien Obligations, the Commercial Paper Obligations and Inferior Lien Obligations, and to make all other payments prescribed in the CPS bond ordinances.

Base rate changes over the past 20 years have consisted of a 4% combined electric and gas base rate increase effective January 31, 1991; a 3.5% electric base rate adjustment effective May 19, 2005 that was more than offset by a reduction in fuel costs, resulting from the purchase of an increased interest in STP 1 and 2 (defined herein); a 12.1% gas base rate adjustment effective June 26, 2006; a 3.5% system average electric and gas base rate increase that became effective on September 1, 2008; and a 7.5% electric base rate increase and a 8.5% gas base rate increase that became effective on March 1, 2010. This most recent base rate increase is discussed in greater detail below.

On February 18, 2010, the City Council unanimously approved CPS's request for a 7.5% electric base rate increase and an 8.5% gas base rate increase, resulting in a 4.2% bill impact per customer. The 4.2% bill impact includes a reduction in fuel costs resulting from the Spruce2 plant that was placed into service on May 28, 2010. See "DESCRIPTION OF PHYSICAL PROPERTY – Electric System–Generating Station Events" herein. 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. Neither CPS debt issuances in the 2012-2013 fiscal years, nor the recent expansion of the capacity of the Commercial Paper Program from \$450,000,000 to \$600,000,000, will require or result in any immediate rate increase, as the increased debt service for these issues is included in the current rate case study. CPS anticipates seeking a rate increase in calendar year 2014.

CPS also offers a monthly contract for renewable energy service (currently this is wind-generated electricity) under the Monthly Contract for Renewable Energy Service ("Rider E15"). The rate for Rider E15 was reduced to its current level effective on September 30, 2002. 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 a period up to four years for new or added load of at least 10 megawatts ("MW"). Under certain conditions, the discount may be extended an additional three years. Customers that choose Rider E16 must also meet City employment targets and targets for purchases of goods or services from local businesses in order to qualify. CPS also has rates that permit recovery of certain miscellaneous customer charges and for extending lines to provide gas and electric service to its customers. In May 2005, the CPS Board adopted a change to its policies for both miscellaneous customer charges and line extensions, which became effective January 1, 2006, increasing charges that had not been raised since 1986. The City Council approved certain price changes in the CPS Board-approved policy; however, the City ordinances prevented recovery of increased line extension charges from developers of affordable housing and the City delayed implementation of certain miscellaneous customer charges until April 1, 2006 (fees for disconnection, reconnection and field notification).

In May 2009, the City Council passed a mechanism to fund CPS's 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's retail and wholesale rates contains an electric fuel adjustment or gas cost adjustment clause, which provides for recovery of fuel costs. The fuel cost recovery adjustments are set at the beginning of each CPS's billing cycle month. See "CUSTOMER RATES – Fuel and Gas Cost Adjustment" herein.

In June 2012, the City Council passed an ordinance authorizing the creation of Rider E19, an optional service offering of electricity generated by wind-powered turbines, solar-powered systems, or other renewable resources.

Transmission Access and Rate Regulation

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

The 1999 Texas Legislature amended the PURA95 to expressly authorize rate authority over Municipal Utilities for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method, which sets the price for transmission at the system average for ERCOT. CPS's wholesale open access transmission charges are set out in tariffs filed with the PUCT, and are based on its transmission cost of service approved by the PUCT, representing CPS's input to the calculation of the statewide postage stamp pricing method. The PUCT's rule, 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 information on recovery of ERCOT transmission fees is discussed in “CUSTOMER RATES – Governmentally Imposed Fees, Taxes or Payments” and with respect to the transition to the nodal market is discussed in “CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Wholesale Market Design Developments” herein.

CUSTOMER RATES

CPS’s electric and gas monthly rate schedules list the currently effective monthly charges payable by CPS customers. Each rate schedule briefly describes the types of service CPS renders to customers billed in accordance with that rate schedule, plus customer eligibility criteria. Customers with similar load and usage characteristics are grouped into rate classes and are billed in accordance with the same rate schedule. The different electric rate classes include rate schedules for residential, commercial, and industrial customers. There are also rate schedules for street lighting, other utilities and all night security lights. The gas rate schedules are categorized into general, commercial and industrial.

Fuel and Gas Cost Adjustment

The rates feature a fuel cost adjustment provision in the electric rates and a gas adjustment provision in the gas rates, which allow CPS to reconcile fuel and gas cost variances above or below fuel levels included in base rates. CPS’s electric rates are subject to a positive or negative monthly adjustment equal to the variance in the price of fuel above or below a base cost of \$0.01416 per kilowatt-hour (“kWh”). Similarly, CPS’s base gas rates are subject to an adjustment equal to the variance in the price of fuel above or below a base cost of \$0.220 per 100 cubic feet (“CCF”).

On May 21, 2009, the City Council approved a funding mechanism for the STEP program. The total cost of the STEP program during the 2009 to 2020 time period is estimated at \$849 million with annual costs ranging from \$12.3 million to over \$77 million. While approximately \$8 to \$9 million a year is currently recovered through existing base rates, the additional costs for the STEP program will be recovered through a STEP surcharge applied to the electric fuel adjustment. If energy use is reduced to levels predicted, the benefits of this program should exceed the implementation costs. CPS will reassess the STEP program in calendar year 2019 to determine if continuing the program beyond 2020 is a viable option based on projected annual reductions in energy consumption going forward and the costs that would be incurred to achieve such reductions. For additional information on CPS’s STEP energy efficiency and conservation program, see “ENERGY CONSERVATION AND PUBLIC SAFETY PROGRAMS” herein.

Governmentally Imposed Fees, Taxes or Payments

The rates, as previously approved by various rate ordinances adopted by the City Council, may be adjusted without further action by the City Council to reflect the increase or decrease in fees, taxes or other required payments to governmental entities or for governmental or municipal purposes which may be hereafter assessed, imposed, or otherwise required and which are payable out of or are based upon net revenues of the Systems.

In March 2000, two new governmental assessments resulting from regulatory changes in the Texas electric utility industry, including the open access wholesale transmission charges, were added to CPS’s electric billings as regulatory adjustments and are updated annually or as needed. The first assessment recovers additional ERCOT-related transmission expenditures not recovered through CPS’s current base rates. For residential CPS customer rates, this adjustment (effective January 2013) currently adds an additional \$0.00607 per kWh sold. The second assessment relates to CPS’s share of the cost to fund the staffing and operation of the Independent System Operator (“ISO”) for ERCOT, and the quarterly Electric Reliability Organization (“ERO”) fee. The PUCT retains oversight authority over ERCOT. For residential CPS customers, this charge increases bills by an additional \$0.00055 per kWh sold.

In March 2005, the RRCT began imposing a regulatory fee to cover the cost of regulation by the RRCT. The fee is based upon the number of active gas customers and is recovered from CPS gas customers through the payment of an annual fee assessed one time during the year.

TEN-YEAR ELECTRIC CUSTOMER STATISTICS ⁽¹⁾

| | Fiscal Years Ended January 31, | | | | | | | | | |
|-----------------------------------|--------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| RESIDENTIAL | | | | | | | | | | |
| Average Monthly kWh/ Customer | 1,174 | 1,159 | 1,217 | 1,247 | 1,164 | 1,187 | 1,233 | 1,177 | 1,281 | 1,187 |
| Average Monthly Bill/ Customer | \$94.06 | \$87.39 | \$99.59 | \$98.27 | \$91.98 | \$107.60 | \$107.00 | \$107.01 | \$118.48 | \$109.74 |
| Average Monthly Revenue/kWh | \$0.0801 | \$0.0754 | \$0.0818 | \$0.0788 | \$0.0790 | \$0.0906 | \$0.0868 | \$0.0909 | \$0.0925 | \$0.0924 |
| COMMERCIAL AND INDUSTRIAL | | | | | | | | | | |
| Average Monthly kWh/ Customer | 12,174 | 11,345 | 11,187 | 11,036 | 10,887 | 10,856 | 10,685 | 10,880 | 11,230 | 11,059 |
| Average Monthly Bill/ Customer | \$790.31 | \$691.48 | \$754.65 | \$710.85 | \$722.94 | \$828.72 | \$801.81 | \$835.16 | \$877.37 | \$853.02 |
| Average Monthly Revenue/kWh | \$0.0649 | \$0.0609 | \$0.0675 | \$0.0644 | \$0.0664 | \$0.0763 | \$0.0750 | \$0.0768 | \$0.0781 | \$0.0771 |
| ALL CUSTOMERS | | | | | | | | | | |
| Average Monthly kWh/ Customer | 2,440 | 2,401 | 2,471 | 2,499 | 2,392 | 2,419 | 2,427 | 2,400 | 2,536 | 2,421 |
| Average Monthly Bill/ Customer | \$173.82 | \$159.88 | \$180.27 | \$174.92 | \$170.01 | \$197.33 | \$192.98 | \$196.30 | \$211.41 | \$200.22 |
| Average Monthly Revenue/kWh | \$0.0712 | \$0.0666 | \$0.0730 | \$0.0700 | \$0.0711 | \$0.0816 | \$0.0795 | \$0.0818 | \$0.0834 | \$0.0827 |

(1) Excludes unbilled revenues and off-system sales.

**HISTORICAL RECORD OF CITY OF SAN ANTONIO GENERAL FUND
BENEFITS FROM CITY'S ELECTRIC AND GAS UTILITY SYSTEMS**

(Dollars in thousands)

| | Fiscal Years Ended January 31, | | | | | | | | | |
|--|--------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Payments To City ^(1,2,3) | \$ 206,057 | \$ 194,901 | \$ 227,178 | \$ 235,898 | \$ 247,854 | \$ 282,140 | \$ 260,636 | \$ 276,863 | \$ 286,943 | \$ 271,589 |

(1) Payments to the City, by ordinance, are not to exceed 14% of CPS Energy's gross revenue (includes wholesale revenues), and includes cash payments and refund of charges for furnishing the City electricity and gas services, and for a street light replacement program.

(2) Excludes additional payments to the City. See "CONSTRUCTION PROGRAM" herein.

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FIVE-YEAR ELECTRIC AND GAS SALES BY CUSTOMER CATEGORY

| | Fiscal Years Ended January 31, | | | | |
|------------------------------------|--------------------------------|----------------|----------------|----------------|----------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 |
| ELECTRIC SYSTEM | | | | | |
| SALES IN kWh ⁽¹⁾ | | | | | |
| Residential | 8,608,618,534 | 9,104,633,143 | 8,879,428,436 | 9,770,589,326 | 9,215,167,313 |
| Commercial & industrial | 8,479,360,921 | 8,392,016,225 | 8,589,141,705 | 8,917,797,561 | 8,912,486,465 |
| Street lighting | 91,489,154 | 91,614,934 | 94,863,245 | 87,499,975 | 91,749,898 |
| Public authorities | 2,395,159,428 | 2,394,638,258 | 2,632,249,456 | 2,772,423,401 | 2,695,444,584 |
| Other utilities | 3,526,629,066 | 3,041,256,493 | 4,904,645,286 | 6,878,959,284 | 7,722,484,054 |
| ANSL ⁽²⁾ | 23,514,275 | 23,417,810 | 24,120,370 | 21,594,065 | 20,694,930 |
| Total sales in kWh | 23,124,771,378 | 23,047,576,863 | 25,124,448,498 | 28,448,863,612 | 28,658,027,244 |
| AVERAGE NUMBER OF CUSTOMERS | | | | | |
| Residential | 604,275 | 615,496 | 628,882 | 635,489 | 646,756 |
| Commercial & industrial | 65,090 | 65,448 | 65,784 | 66,177 | 67,161 |
| Street lighting | 2,310 | 2,319 | 2,311 | 2,305 | 2,296 |
| Public authorities | 6,255 | 6,621 | 7,896 | 7,823 | 7,706 |
| Other utilities | 23 | 24 | 13 | 11 | 7 |
| ANSL ⁽²⁾ | 11,407 | 11,556 | 11,736 | 11,747 | 11,875 |
| Total customers | 689,360 | 701,464 | 716,622 | 723,552 | 735,801 |
| kWh SALES PER CUSTOMER | | | | | |
| Residential | 14,246 | 14,792 | 14,119 | 15,375 | 14,248 |
| Commercial & industrial | 130,271 | 128,224 | 130,566 | 134,757 | 132,703 |
| GAS SYSTEM | | | | | |
| SALES IN MCF ⁽¹⁾ | | | | | |
| Residential | 9,415,723 | 10,497,562 | 10,957,886 | 9,729,715 | 8,584,375 |
| Commercial | 8,916,308 | 9,330,700 | 10,002,638 | 9,991,371 | 9,495,948 |
| Industrial | 815,360 | 848,333 | 700,273 | 658,597 | 748,030 |
| Public authorities | 2,040,126 | 2,149,677 | 2,386,245 | 2,421,459 | 2,243,957 |
| Total sales in MCF | 21,187,517 | 22,826,272 | 24,047,042 | 22,801,142 | 21,072,310 |
| AVERAGE NUMBER OF CUSTOMERS | | | | | |
| Residential | 298,996 | 300,646 | 303,533 | 305,498 | 308,387 |
| Commercial | 18,164 | 18,124 | 17,976 | 17,877 | 17,794 |
| Industrial | 63 | 60 | 49 | 48 | 46 |
| Public authorities | 2,765 | 2,771 | 3,144 | 3,410 | 3,485 |
| Total customers | 319,988 | 321,601 | 324,702 | 326,833 | 329,712 |
| MCF SALES PER CUSTOMER | | | | | |
| Residential | 31 | 35 | 36 | 32 | 28 |
| Commercial | 491 | 515 | 556 | 559 | 534 |
| Industrial | 12,942 | 14,139 | 14,291 | 13,721 | 16,262 |

(1) Excludes unbilled revenues.

(2) All Night Security Lighting.

FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE ⁽¹⁾

| | Fiscal Years Ended January 31, | | | | |
|---|--------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 |
| ELECTRIC SYSTEM | | | | | |
| BILLED REVENUES | | | | | |
| Residential | \$780,252,955 | \$790,296,616 | \$800,667,349 | \$903,510,597 | \$851,722,009 |
| Commercial & industrial | 647,298,754 | 629,721,617 | 659,279,811 | 696,743,006 | 687,473,943 |
| Street lighting | 12,914,300 | 13,367,606 | 14,292,905 | 15,018,416 | 14,926,992 |
| Public authorities | 160,622,388 | 160,157,270 | 176,764,586 | 189,781,539 | 183,339,567 |
| Other utilities | 258,311,828 | 132,204,411 | 177,718,364 | 248,497,310 | 265,040,445 |
| ANSL ⁽²⁾ | 3,993,057 | 4,100,464 | 4,153,083 | 1,914,061 | 1,909,404 |
| Other | 17,023,901 | 10,774,022 | 17,717,861 | 10,788,187 | 9,507,501 |
| Total revenues | <u>1,880,417,183</u> | <u>1,740,622,006</u> | <u>1,850,593,959</u> | <u>2,066,253,116</u> | <u>2,013,919,861</u> |
| OPERATION & MAINTENANCE EXPENSE | | | | | |
| Production | 781,103,466 | 622,600,068 | 609,380,294 | 760,561,358 | 729,729,260 |
| Transmission | 16,213,504 | 44,313,394 | 44,658,891 | 47,692,233 | 43,290,957 |
| Distribution | 83,712,446 | 79,771,716 | 79,415,903 | 83,556,928 | 83,123,256 |
| Regulatory assessments | 31,256,674 | 36,032,960 | 42,962,165 | 51,825,985 | 57,431,705 |
| Customer accounts | 25,682,308 | 28,221,506 | 21,340,453 | 22,399,476 | 21,414,531 |
| Customer information | 371,983 | 333,875 | 302,456 | 499,627 | 526,418 |
| Administrative & general | 82,020,830 | 38,347,373 | 90,469,721 | 105,274,196 | 103,806,051 |
| Payroll taxes ⁽³⁾ | 4,854,833 | 4,690,119 | 1,706,548 | 1,818,489 | 1,969,999 |
| STP decommissioning expense | - | 2,219,004 | 2,219,005 | 2,219,000 | 2,219,000 |
| STP operation & maintenance expense | 177,527,723 | 183,478,195 | 188,047,317 | 205,917,601 | 208,958,892 |
| Total expenses | <u>1,202,743,767</u> | <u>1,040,008,210</u> | <u>1,080,502,753</u> | <u>1,281,764,893</u> | <u>1,252,470,069</u> |
| Operating income - electric | <u>677,673,416</u> | <u>700,613,796</u> | <u>770,091,206</u> | <u>784,488,223</u> | <u>761,449,792</u> |
| GAS SYSTEM | | | | | |
| BILLED REVENUES | | | | | |
| Residential | 128,136,627 | 117,178,502 | 122,000,246 | 107,367,204 | 90,783,100 |
| Commercial & industrial | 105,357,182 | 80,310,178 | 83,605,964 | 80,992,462 | 66,064,373 |
| Public authorities | 20,498,684 | 16,252,552 | 17,675,121 | 17,509,667 | 14,044,492 |
| Other | 1,454,758 | 1,553,615 | 1,666,894 | 1,453,551 | 1,337,646 |
| Total revenues | <u>255,447,251</u> | <u>215,294,847</u> | <u>224,948,225</u> | <u>207,322,884</u> | <u>172,229,611</u> |
| OPERATION & MAINTENANCE EXPENSE | | | | | |
| Gas purchased | 164,422,577 | 127,097,295 | 123,900,172 | 105,931,129 | 86,143,442 |
| Distribution | 17,571,652 | 16,377,773 | 14,131,668 | 15,676,776 | 15,548,863 |
| Customer accounts | 12,649,495 | 13,900,145 | 10,510,970 | 11,032,578 | 10,547,455 |
| Customer information | 123,994 | 111,292 | 100,819 | 166,542 | 175,473 |
| Administrative & general | 8,334,621 | 3,916,067 | 9,194,433 | 10,700,329 | 10,439,620 |
| Payroll taxes | 725,435 | 700,822 | 255,001 | 271,728 | 294,368 |
| Total expenses | <u>203,827,774</u> | <u>162,103,394</u> | <u>158,093,063</u> | <u>143,779,082</u> | <u>123,149,221</u> |
| Operating income - gas | <u>51,619,477</u> | <u>53,191,453</u> | <u>66,855,162</u> | <u>63,543,802</u> | <u>49,080,390</u> |
| Combined operating income - Electric and gas | 729,292,893 | 753,805,249 | 836,946,368 | 848,032,025 | 810,530,182 |
| Nonoperating income ⁽⁴⁾ | 55,458,451 | 25,185,995 | 23,696,631 | 22,561,968 | 21,714,687 |
| Net revenues, per ordinances | <u>\$784,751,344</u> | <u>\$778,991,244</u> | <u>\$860,642,999</u> | <u>\$870,593,993</u> | <u>\$832,244,869</u> |
| DEBT SERVICE | | | | | |
| Senior lien obligations - Principal and interest | 309,855,256 | 332,540,132 | 357,053,618 | 363,338,802 | 366,473,642 |
| Junior lien obligations - interest | 11,190,153 | 6,987,126 | 10,774,092 | 22,372,432 | 23,255,686 |
| Interest on commercial paper & FRRN | 8,613,289 | 1,999,500 | 1,333,395 | 967,428 | 1,676,068 |
| Total debt service | <u>\$329,658,698</u> | <u>\$341,526,758</u> | <u>\$369,161,105</u> | <u>\$386,678,662</u> | <u>\$391,405,396</u> |
| DEBT SERVICE COVERAGE | | | | | |
| Senior & junior lien obligations, commercial paper, FRRN | 2.38x | 2.28x | 2.33x | 2.25x | 2.13x |
| Senior lien obligations | 2.53x | 2.34x | 2.41x | 2.40x | 2.27x |

(1) Excludes unbilled revenue and component units (STP Decommissioning).

(2) All Night Security Lighting.

(3) Payroll taxes for FY 2011, FY 2012 and FY 2013 represent those for administrative and general only; the remaining payroll taxes are allocated to Production, Transmission and Distribution operation and maintenance expense.

(4) Excludes fair value adjustments and gain/loss from ineffective hedging transactions.

FORWARD-LOOKING STATEMENTS

The CPS Official Statement, including the Appendices hereto, contains forward-looking statements within the meaning of the federal securities laws. Such statements are based on currently available information, expectations, estimates, assumptions and projections, and management's judgment about the power utility industry and general economic conditions. Such words as "expects", "intends", "plans", "believes", "estimates", "anticipates" or variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. Actual results may vary materially from what is contained in a forward-looking statement. Factors which may cause a result different from those expected or anticipated include, among other things, new legislation, increases in suppliers' prices, particularly prices for fuel in connection with the operation of the Systems, changes in environmental compliance requirements, acquisitions, changes in customer power use patterns, natural disasters and the impact of weather on operating results.

Although CPS believes in making any such forward-looking statement, and its expectations are based on assumptions considered reasonable by CPS, any such forward-looking statement involves uncertainties and is qualified in its entirety by reference to factors both identified within the CPS Official Statement and from publicly available resources about the electric and gas businesses, regulation and regulatory authorities for that business, and the City that could cause the actual results of CPS to differ materially from those contemplated in such forward-looking statements.

Any forward-looking statement speaks only as of the date on which such statement is made, and CPS undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for CPS to predict all of such factors, nor can it assess the impact of each such factor or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

MANAGEMENT DISCUSSION

CPS follows Governmental Accounting Standards Board ("GASB") Statement No. 34, which requires the preparation of a Management's Discussion and Analysis ("MD&A") in connection with the annual financial report of CPS. Certain interim financial reports are made available periodically by CPS to the general public and are accessible at <http://www.cpsenergy.com>.

The operating results of the Systems reflect the results of past operations and are not necessarily indicative of results of operations for any future period. Future operations will be affected by factors relating to changes in rates, fuel and other operating costs, utility industry regulation and deregulation, environmental regulation, economic growth of the community, population, weather, and other matters; the nature and effect of which cannot at present be determined. See "FORWARD-LOOKING STATEMENTS" herein.

IMPLEMENTATION OF NEW ACCOUNTING POLICIES

This section of the CPS Official Statement describes various GASB pronouncements, as assessed and implemented by CPS, where applicable. Any (Note) reference relates to items in CPS's fiscal year 2013 annual report.

FY 2013 GASB pronouncement implementations:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, establishes guidance for reporting service concession arrangements. CPS does not currently have any arrangements that would fall under the scope of this guidance; therefore, there was no impact to CPS's financial statements from this implementation.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, modifies certain criteria used to determine whether an entity should be considered a component unit. The modifications did not cause a change in the status of any of CPS's component units.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants ("AICPA") pronouncements

issued prior to November 30, 1989. There was no impact to CPS's financial statements as a result of the implementation of this guidance.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, establishes guidance for reporting these elements in the statement of financial position and lays out two presentation formats that may be used. It specifies that the statement of net position should report the residual amount as net position rather than net assets. Other than a change in presentation, there was no impact to CPS's financial statements from implementation of this guidance.

FY 2012 GASB pronouncement implementation:

- 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 has been no impact from implementation of this guidance.

The following guidance issued by GASB is expected to be effective for FY 2014, or FY 2015, where indicated:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Additionally, this Statement provides reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. CPS expects that adoption of this Statement will result in the reclassification of certain items previously reported as assets or liabilities and could potentially impact certain financial ratios, such as the debt to debt and net position ratio.
- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, removes from GASB Statement No. 10 certain provisions pertaining to fund-based reporting and modifies specific guidance in GASB Statement No. 62 on accounting for (1) certain types of lease payments, (2) certain elements of purchased loan transactions, and (3) certain fees related to mortgage loans that are sold. CPS does not expect that adoption of this Statement will significantly impact its financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, amends the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts, or equivalent arrangements. This Statement enhances note disclosures and required supplementary information ("RSI") for both defined-benefit and defined-contribution pension plans. It also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in ten-year RSI schedules.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, amends the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to governmental employers that account for pensions that are provided through trusts, or equivalent arrangements. Employers are required to report the difference between the actuarial total pension liability and the pension plan's fiduciary net position as the net pension liability on the statement of net position. Previously, a liability was recognized only to the extent that contributions made to the plan were exceeded by the actuarially calculated contributions. CPS is currently assessing the significance that adoption of this Statement will have on its financial statements and may require modifications to current benefits to mitigate the impact. Adoption of this Statement is required for CPS by FY 2015.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting guidance related to government combinations and disposals of government operations. The term *government combinations* refers to a variety of transactions and may be mergers, acquisitions, or transfers of operations. This standard sets forth definitions of each of these transaction types and sets forth the specific accounting and reporting treatment to be given for each. The Statement also provides

accounting and reporting guidance for disposals of government operations that have been sold or transferred. The requirements of this Statement will be applied prospectively, beginning in the period of adoption. The effect of this guidance on CPS will be limited to its impact on recognition of potential combination and disposal transactions into which CPS may enter in the future. Adoption of this Statement is required for CPS by FY 2015.

- GASB Exposure Draft, *Accounting and Financial Reporting for Nonexchange Financial Guarantee Transactions*, issued in June 2012, proposes accounting and disclosure guidance for transactions in which a government has extended or received a financial guarantee without directly receiving equal-value consideration in exchange. This guidance would require a government that has extended or received a nonexchange financial guarantee to recognize a liability in certain circumstances involving the likelihood or actuality of payments being made on those guarantees. The final version of this Statement is currently expected to be issued in April 2013 and would require adoption by CPS in FY 2014. CPS expects no immediate impact from the implementation of this guidance, as it is currently neither the grantor nor the beneficiary of any nonexchange financial guarantees.

Other than the aforementioned changes, there were no additional significant accounting principles or reporting changes implemented in the fiscal year ending January 31, 2013. Other accounting and reporting changes that occurred during the prior reporting year continued into the fiscal year ending January 31, 2013. These accounting changes and the effects on the financial statements are described in greater detail in the MD&A and in the notes to the audited financial statements of CPS.

PENSION AND EMPLOYMENT BENEFITS

CPS provides Pension, Employment Benefits and Other Post Employment Benefits (“OPEBs”) for its employees. There are four plans which include: the Pension Plan, the Group Health Plan, the Group Life Insurance Plan, and the Disability Income Plan (the Group Health Plan, the Group Life Insurance Plan, and the Disability Income Plan, collectively referred to herein as the “Employee Benefit Plans”). All plans are reported on a calendar year basis. While all plans are separately and independently audited, CPS discloses relevant information about them in its Notes or Financial Statements. See “Basic Financial Statements – Note 9 – Employee Pension Plan and Note 10 – Other Postemployment Benefits” in CPS’s audited financial statements.

Pension Plan

The Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan and provides retirement and ancillary benefits for all CPS employees who complete a minimum period of service and/or otherwise become eligible. The benefits provided by the Pension Plan are paid from a Pension Trust Fund established by CPS that is kept separate from and in addition to the benefits employees are entitled to receive under any other CPS program and under the federal Social Security Act. This Pension Plan and the Pension Trust Fund were established by the CPS Board in accordance with applicable law and are maintained for the exclusive benefit of the eligible employees and their beneficiaries.

Employee Benefit Plans

The Employee Benefit Plans are single-employer defined benefit contributory plans that are funded by employee contributions and annual contributions from CPS as determined by the CPS Board in accordance with applicable law. The assets of the Employee Benefit Plans are stated at fair market value.

The Group Health and the Group Life Insurance plans provide benefits for employees, their spouses, and covered dependents. Additionally, most CPS employees are also eligible for these benefits upon retirement. CPS established each plan as a “risk pool” as that term is defined in the Texas Political Subdivision Employees Uniform Group Benefits Act (“Act”), Chapter 172 Texas Local Government Code. These plans are each operated at all times and in all respects as a risk pool under the Act. CPS’s Disability Income Plan, also established as a risk pool, provides income to eligible employees of CPS who become disabled.

PENSION AND OPEB LIABILITIES

Actuarial Value of Plan Assets

CPS annually retains an actuarial firm to perform actuarial valuations for the Pension Plan and each of the Employee Benefit Plans. Conducted in accordance with generally accepted actuarial principles and practices, the actuarial reports summarize the funding status of each plan for the current and prior year. The reports also provide projected funding contribution requirements for CPS's next fiscal year. The actuarial value of the assets of each of the plans represents an adjusted value determined by the actuary, in accordance with industry standards, and therefore will not equal the amounts shown in the plans' balance sheets.

Actuarial Accrued Liability

The Actuarial Accrued Liability ("AAL") is calculated on a present value basis. Significant actuarial assumptions used in the calculations include, but are not limited to, rates of mortality, rates of retirement, the estimated number of participants expected to withdraw from the program(s), expected base salary increases, overtime rates, disability rates, medical cost increases, and investment returns. The AAL includes liabilities for current retirees and active employees for benefits at retirement.

Use of Assumptions and Estimates

As set forth herein and in CPS's audited financial statements, the disclosures relating to the Pension Plan and the OPEBs are based upon certain assumptions and estimates that may vary based upon the risk factors. To the extent that these assumptions and estimates do not materialize or are inaccurate, the financial information disclosed herein and in Notes 9 and 10 of CPS's audited financial statements, including the estimates as compared to the actual values of the assets and liabilities, could change substantially and in a materially adverse manner. The actuarial values determined for benefit plan assets and liabilities include reasonable assumptions, which are estimates based on information available at the time the study was conducted. On June 30, 2006, GASB issued Technical Bulletin regarding the Medicare Part D subsidy. The Part D subsidy pertains to benefits beginning January 1, 2006. The Technical Bulletin clarified that the Medicare Part D subsidy should be excluded when reporting the AAL. The Group Health Plan AAL, as reported below, excludes any offset in costs resulting from the government subsidizing voluntary prescription drug benefits under Part D of the Social Security Act, established as part of the Medicare Prescription Drug Improvement and Modernization Act of 2003.

Pension and Employee Benefit/OPEB Funding

The following schedule outlines CPS's Pension and OPEB funding status based on Actuarial Valuation Dates of January 1, 2012, January 1, 2011 and January 1, 2010. Although CPS is not contractually required to make contributions to fund the future liabilities of the Employee Benefit Plans, it has been voluntarily doing so since 1992.

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PENSION AND EMPLOYEE BENEFIT PLANS

(\$ in millions)

| | (A) Actuarial Value of Plan Assets | | | (B) Actuarial Accrued Liability ("AAL") ⁽¹⁾ | | |
|--------------|------------------------------------|------------|------------|--|------------|------------|
| | January 1 | | | January 1 | | |
| | 2012 | 2011 | 2010 | 2012 | 2011 | 2010 |
| Pension | \$ 1,185.1 | \$ 1,146.0 | \$ 1,097.1 | \$ 1,383.4 | \$ 1,298.9 | \$ 1,243.1 |
| OPEBs: | | | | | | |
| Group Health | \$ 224.8 | \$ 218.6 | \$ 209.9 | \$ 222.9 | \$ 222.4 | \$ 219.9 |
| Group Life | 47.1 | 47.4 | 47.1 | 40.7 | 39.1 | 37.3 |
| Disability | 4.6 | 4.3 | 3.9 | 5.4 | 5.7 | 6.6 |
| Total OPEBs | \$ 276.5 | \$ 270.3 | \$ 260.9 | \$ 269.0 | \$ 267.2 | \$ 263.8 |

| | (B) - (A) Funding Status | | | (A) / (B) Funded Ratio | | |
|--------------|--------------------------|----------|----------|------------------------|--------|--------|
| | January 1 | | | January 1 | | |
| | 2012 | 2011 | 2010 | 2012 | 2011 | 2010 |
| Pension | \$ 198.3 | \$ 152.9 | \$ 146.0 | 85.7% | 88.2% | 88.3% |
| OPEBs: | | | | | | |
| Group Health | \$ (1.9) | \$ 3.8 | \$ 10.0 | 100.9% | 98.2% | 95.4% |
| Group Life | (6.4) | (8.3) | (9.8) | 115.7% | 121.3% | 126.4% |
| Disability | 0.8 | 1.4 | 2.7 | 85.3% | 75.6% | 59.4% |
| Total OPEBs | \$ (7.5) | \$ (3.1) | \$ 2.9 | 102.8% | 101.1% | 98.9% |

(1) Includes liabilities for retirees, fully eligible actives, and actives not yet fully eligible.

Note: The Group Health Plan reflects Medicare Part D Subsidy of approximately \$44.1 million for 2012, \$48.0 million for 2011 and \$44.3 million for 2010.

In July 2012, the GASB approved Statement No. 68 – *Accounting and Financial Reporting for Pensions*, which replaces Statements No. 27 and No. 50. Some of the key points in the new Statement include:

- The net pension liability, which equals the total pension liability reduced by the pension plan's net position, will be reported on the statement of net position.
- The discount rate applied to future benefits will be a blended rate. To the extent that the plan's net position is projected to fund projected benefits, the appropriate discount rate will be the expected rate of return on investments. If the plan's projected net position is insufficient to fund future benefits, the discount rate applied to the unfunded portion will be an index rate for a 20-year tax-exempt municipal bond rated "AA" or higher.
- The actuarial cost method to attribute the present value of future benefits to past and present periods will be the entry age normal method based on a level percentage of payroll.
- Going forward, the majority of the changes in the net pension liability will be recognized immediately as pension expense, while some changes will be recognized as deferred outflows / inflows and amortized to pension expense over time.

The Statement establishes an effective date for fiscal periods beginning after June 15, 2014. As a component unit of the City of San Antonio, this proposed effective date requires early implementation by CPS in FY 2015. CPS is currently assessing the potential impact to its financial statements.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

The Electric Utility Industry Generally

The electric utility industry in general has been, and in the future may be, affected by a number of factors which could impact the business affairs, financial condition and competitiveness of an electric utility, and the level of utilization of generating facilities, such as those of the Systems. One of the most significant of these factors has been the effort on national and local levels to restructure the electric utility industry from a heavily regulated monopoly to an industry in which there is open competition for power supply on both the wholesale and retail level. For a description of the competition in the electric utility industry in Texas and the response of the Systems thereto, see “Electric Utility Restructuring in Texas” herein.

Such factors include, among others, (1) effects of compliance with rapidly changing environmental, safety, licensing, regulatory, and legislative requirements; (2) changes resulting from conservation and demand-side management programs on the timing and use of electric energy; (3) changes that might result from a national energy policy; (4) increased competition from independent power producers; (5) “self-generation” by certain industrial and commercial customers; (6) issues relating to the ability to issue tax-exempt obligations; (7) severe restrictions on the ability to sell to non-governmental entities electricity from generation projects financed with outstanding tax-exempt obligations; (8) changes from previously projected future electricity requirements; (9) increases in costs; (10) shifts in the availability and relative costs of different fuels; and (11) effects of the financial difficulties confronting the power marketers. Any of these factors (as well as other factors) could have an effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways. CPS cannot predict what future effects these factors may or will have on its business operations and financial condition, but the effects could be significant. The following is a brief discussion of several factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date of this CPS Official Statement. Extensive information on the electric utility industry is available from sources in the public domain, and potential purchasers of the Bonds should obtain and review such information.

Federal Energy Policy

President Obama continues to declare that the cyber threat is one of the most serious economic and national security challenges the nation faces. Early in the 113th Congressional Session, cyber security bills have been reintroduced and hearings will begin on cyber related threats. The prospects for passage of cyber security legislation during the 113th United States Congress remains uncertain at this time. The White House released an executive order draft proposal that would seek to strengthen the nation’s defenses against cyber attacks if Congress refuses to act.

Early in the 113th United States Congress, The Coal Ash Recycling and Oversight Act of 2013 has been proposed in the House, which addresses coal combustion residuals. This legislation would ensure that coal combustion residuals (“CCR”) will be regulated as a non-hazardous waste under Resource Conservation and Recovery Act (“RCRA”) and expressly prohibits the Environmental Protection Agency (“EPA”) from finalizing its proposed CCR rule, including the management of CCR in landfills, surface impoundments and other land based structures.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) changed the way financial derivatives are regulated. The Commodity Futures Trading Commission (“CFTC”) has primary regulatory authority over energy swaps, a market in which CPS is currently active. The schedule for finalization and implementation of numerous new rules continues to face delay. CPS is working with its trade organizations to mitigate the effect of these rules. CPS will be subject to some of the new rules including swap transaction reporting and recordkeeping. As an “end user”, CPS will be exempt from clearing and margining of CPS’s positions, although the final rules on margin requirements have yet to be published. The CFTC has also exempted from the rule certain non-financial energy transactions between government and/or cooperative owned electric utilities.

The CFTC has not finalized specific rules with respect to “capital requirements”, and it is unknown when they will be finalized. If CPS were to be subject to onerous capital requirements, it could face an immediate exposure for its financial hedging portfolio. CPS expects such an imposition could impact the organization’s current hedging and wholesale power marketing programs. CPS is still working to ensure that the capital requirements for end users do not override the anticipated exemptions from clearing and margining and require collateralization of CPS’s position.

Other concerns with the Dodd-Frank Act continue to include Corporate Reporting, Public Funds Collateralization, Depository Banking issues, and Municipal Advisor rules. These impacts may be seen in various functional areas of CPS.

During the final months of the 112th United States Congress, lawmakers extended various tax credits. Prior to the August recess, the Senate Finance Committee approved a \$205 billion package on tax credit extenders that includes extensions and changes to a number of energy-related tax credits. The package extended to December 31, 2013, the tax credit for electricity produced by wind and other renewable resources. However, the Senate Finance Committee package did not include revival of the 1603 Treasury grant program that allowed developers of renewable energy projects to receive a direct federal grant in lieu of an investment tax credit for up to 30% of a project cost. The 1603 Treasury grant program expired at the end of 2011.

On September 22, 2009, the EPA finalized the nation's first greenhouse gas reporting system/monitoring regulations that will require large emitters of heat-trapping emissions to collect GHG data. While Congressional action on environmental policy has been limited during the 112th Congress, the focus has been at the administrative level at the EPA. Additional information can be found in the "ENVIRONMENTAL MATTERS" section herein.

The Energy Policy Act of 2005 ("2005 Energy Act") extended limited Federal Energy Regulatory Commission ("FERC") jurisdiction, known as "FERC-Lite", over public power entities within ERCOT, such as CPS that own transmission lines, and gave FERC authority to delegate certain transmission reliability standard-setting responsibilities to the ERO and to establish mandatory reliability standards for operation of the nation's transmission system. CPS has operated its electric system under compatible ERCOT reliability standards for many years, so CPS does not anticipate any problems with FERC's reliability standards. CPS's transmission owner ("TO") and distribution service provider ("DSP") units underwent an audit, including audit of the Critical Infrastructure Protection ("CIP") requirements by North American Electric Reliability Council ("NERC") and the Texas Regional Entity in Fall 2011. Its generation owner ("GO"), generation operator ("GOP") and qualified scheduling entity ("QSE") units underwent a regularly scheduled audit during Spring 2012. CPS entities periodically submitted certificates regarding their compliance with the NERC CIP standards. Additional information on FERC's authority over CPS can be found in "FERC Authority" herein.

The 2005 Energy Act included several provisions that could affect CPS's business and continue to be evaluated by management, including:

- repeal of existing Public Utility Holding Company Act of 1935 requirements;
- conditional termination of the mandatory federal purchase and sale requirements for co-generation and small power production;
- expansion of FERC's merger review authority;
- re-authorization of renewable energy production incentives for solar, wind, geothermal, and biomass, and authorization of new incentives for landfill gas;
- incentives for development of new commercial nuclear power plants and other non- or low-carbon emitting technologies;
- establishment of a 7.5% goal for increased renewable energy use by the federal government by 2013, and of a 20% required reduction in energy use by federal buildings by 2015; and
- increased funding for weatherization of low-income homes and state energy efficiency programs.

The 2005 Energy Act also included provisions affecting existing nuclear generating units, including:

- extension of the Price-Anderson Act to 2025 and increases in the retrospective premiums for which licensees are liable for claims resulting from a nuclear incident;
- expansion of the Nuclear Regulatory Commission ("NRC") authority to regulate decommissioning trust funds (primarily affecting funds held by former plant licensees);
- direction of the United States Department of Energy ("DOE") to take responsibility for safe disposal of high-level radioactive waste;
- procedural protections for individuals filing claims under federal whistleblower provisions;
- enhanced provisions relating to NRC oversight of the security of licensed facilities; and
- various decommissioning tax-related adjustments beneficial to federal tax-paying licensees.

Furthermore, the 2005 Energy Act amended the Public Utility Regulatory Policies Act of 1978 ("PURPA") by adding five new standards that Municipal Utilities must consider and determine whether to implement. These new standards address net metering, diversity of fuel sources, efficiency of fossil-fuel-fired generation, time-based or "smart" metering, and the interconnection of distributed generation. CPS considered the new standards and developed five modified standards that more accurately reflect local conditions and priorities. These new standards were approved by the CPS Board on June 25, 2007.

In December 2007, the President signed the Energy Independence and Security Act ("EISA") requiring utilities to consider, for adoption, rejection, or modification by December 19, 2009, the implementation of (1) integrated resource

planning; (2) rate design modifications to promote energy efficiency investments; (3) smart grid investments; and (4) smart grid information. CPS studied technologies that would allow implementation of the standards, as modified to fit its needs, and has completed the regulatory assessment as required under the EISA. Municipal Utilities, such as CPS, are designated as “non-regulated” under EISA, as well as the 2005 Energy Act, because those utilities are not regulated by state utility commissions.

FERC Authority

In 1992, pursuant to the Energy Policy Act of 1992 (“Energy Act”), the FERC required utilities under its jurisdiction to provide access to their electric transmission systems for interstate wholesale transactions on terms and at rates comparable to those available to the owning utility for its own use. Municipal Utilities are subject to FERC orders requiring provision of wholesale transmission service to other utilities, qualifying cogeneration facilities, and independent power producers. Under FERC rules promulgated subsequent to the Energy Act, FERC further expanded open access wholesale transmission by requiring public utilities operating in interstate commerce to file open access non-discriminatory transmission tariffs. Because the interconnected ERCOT grid operates outside interstate commerce and because PURA95 and SB 7, State laws discussed below, provide comparable wholesale transmission authority to the PUCT for utilities in ERCOT pursuant to which the PUCT has required open access of transmission facilities in ERCOT, the exercise of FERC authority relating to open access transmission has not been a major factor in the operation of the wholesale market in ERCOT. The 2005 Energy Act authorizes FERC to encourage and approve the voluntary formation of regional transmission organizations in order to promote fair and open access to electric transmission service and facilitate wholesale competition. See “Federal Energy Policy” herein. The ERCOT open access system is administered by an ISO conducting many of the functions that would be administered by a Regional Transmission Organization. Section 1211 of the 2005 Energy Act amended the Federal Power Act to include a new section, designated as Section 215, which directed FERC to certify an ERO and develop procedures for establishing, approving and enforcing electric reliability standards. As discussed herein under “DESCRIPTION OF PHYSICAL PROPERTY – Electric System - Interconnected System”, FERC designated NERC to serve as the ERO and to set and monitor through Regional Entities (“RE”) implementation of electric reliability standards. A separate group within the ERCOT region, the Texas Reliability Entity, was selected to serve as the RE for the ERCOT service area, and CPS has taken a number of steps to comply with the new electric reliability standards. Finally, on September 2, 2009, FERC executed a memorandum of agreement (“MOA”) with the NRC to facilitate interactions between the NRC and the FERC on matters of mutual interest pertaining to the nation’s electric power grid reliability and nuclear power plants. Matters being addressed under this MOA, which may impact developments at STP, include cyber-security requirements, reliability requirements for nuclear power plants, and grid stability issues related to nuclear plant operation. See “DESCRIPTION OF PHYSICAL PROPERTY – Electric System - Interconnected System” herein. CPS and the South Texas Project Nuclear Operating Company (“STPNOC”) will continue to monitor and evaluate FERC developments with a potential to impact the gas and electric systems; however, it is unclear what changes, if any, will be proposed as a result of the MOA.

The Public Utility Commission of Texas (PUCT)

The PUCT exercises regulatory authority over the retail and wholesale markets of Texas. The PUCT is comprised of two commissioners and a chair appointed by the Governor. The PUCT writes rules that determine the workings of the ERCOT market and has enforcement authority relating to violations of its rules and the ERCOT protocols. The PUCT also approves transmission projects that are not conducted by Municipal Utilities. The PUCT does not directly regulate rate cases of municipally-owned electric utilities, but it does have limited appeal jurisdiction related to ratepayers outside of municipal jurisdiction.

ERCOT

ERCOT is one of 10 Regional Reliability Councils in NERC. The ERCOT bulk electric system is located entirely within the State and serves approximately 23 million customers, representing approximately 85% of Texas’ electrical load. The ERCOT service region covers 75%, or 200,000 square miles, of the State and contains a total of 40,530 miles of transmission lines, including 9,249 miles at 345-kV. ERCOT only has asynchronous ties to other reliability councils and is only connected through two direct current (“DC”) ties to the eastern interconnect and three small DC ties to Mexico, providing only limited import/export capability.

In response to legislative directive, ERCOT amended its articles of incorporation to establish an ISO in 1996. Under ERCOT’s organizational structure, the ISO reports to the ERCOT CPS Board of Directors, but the PUCT has complete authority to oversee and investigate ERCOT’s finances, budget, and operations as necessary to ensure that ERCOT is accountable. ISO responsibilities include security operations of the bulk system, facilitation and efficient use of the

transmission system by all market participants, and coordination of regional transmission planning among transmission owning utilities and providers.

ERCOT's statutory functions include establishing and enforcing procedures relating to the reliability of the regional electrical network and accounting for the production and delivery of electricity among generators and all other market participants. The procedures are subject to PUCT oversight and review, and the PUCT chairman is an ex-officio member of the ERCOT Board. The PUCT may authorize ERCOT to charge a reasonable and competitively neutral rate to wholesale buyers and sellers to cover the independent organization's costs. Individual electric utilities own sections or components of the ERCOT transmission grid and are responsible for operating and maintaining their own transmission lines and equipment. The ISO coordinates the operation of the transmission grid to ensure its reliability, and ERCOT coordinates with the various transmission-owning electric utilities to make sure the transmission system will meet the needs of the electric market. The 1999-enacted SB 7 (described in greater detail below under "Electric Utility Restructuring in Texas") provides that a retail electric provider, municipally-owned utility, electric cooperative, power marketer, transmission and distribution utility ("TDU"), or Power Generation Company shall observe all scheduling, operating, planning, reliability, and settlement policies, rules, guidelines and procedures established by the ISO.

Under the PUCT's transmission open access rules, each transmission service provider in ERCOT is required to provide transmission service to transmission customers in ERCOT. As compensation for this service, each transmission service provider annually recovers, through ERCOT-wide transmission charges, its Transmission Cost of Service ("TCOS"), which is set by the PUCT. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – Transmission Access and Rate Regulation" herein.

In September 2006, the PUCT selected Potomac Economics ("Potomac"), an energy consulting firm, to serve as the independent market monitor ("IMM") for ERCOT, a function that was legislated at the request of the PUCT by the 2005 Texas Legislature. The IMM has the authority to conduct monitoring, analysis and reporting activities but has no enforcement authority. A PUCT rule provides that the IMM shall report directly to the PUCT any potential market manipulations, including market power abuse, and any violations of PUCT rules or ERCOT protocols.

The PUCT rule establishes the IMM as an office independent from ERCOT, which is not subject to the supervision of ERCOT with respect to its monitoring and investigative activities. ERCOT funds the operations of the IMM, but the budget and expenditures of the IMM are subject to PUCT supervision and oversight. The ethical standards governing the IMM director and staff are intended to prevent conflicts of interest between the IMM and a market participant or an affiliate of a market participant. The rule took effect in April 2006.

Electric Utility Restructuring in Texas

During the 1999 legislative session, the Texas Legislature enacted SB 7, providing for retail electric open competition. The enactment of SB 7 modified the PURA and required that retail and wholesale competition begin on January 1, 2002. SB 7 continues Texas electric transmission wholesale open access, which came into effect in 1997 and requires all transmission system owners to make their transmission systems available for use by others at prices and on terms comparable to each respective owner's use of its system for its own wholesale transactions. SB 7 modifications to PURA also fundamentally redefined and restructured the Texas electric industry. The following discussion of SB 7 applies primarily to ERCOT.

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

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

Texas Reliability Entity (Texas RE)

Headquartered in Austin, Texas, Texas Reliability Entity, Inc. (“Texas RE”) performs the regional entity functions described in the 2005 Energy Act, which created Section 215 of the Federal Power Act, for the ERCOT region, as mandated by the delegation agreement with the NERC. The delegation agreement was approved by FERC. Texas RE is authorized by NERC to develop, monitor, assess, and enforce compliance with NERC Reliability Standards within the geographic boundaries of the ERCOT region. In addition, Texas RE has been authorized by the PUCT and is permitted by NERC to investigate compliance with the ERCOT Protocols and Operating Guides, working with the PUCT staff regarding any potential protocol violations. Texas RE is independent of all users, owners, and operators of the bulk power system. The regional entity functions and protocol compliance were previously performed by Texas Regional Entity, a functionally independent division of ERCOT. Texas RE took over all responsibilities of Texas Regional Entity on July 1, 2010.

Entities that have Opted-in to Competition

The following discussion relates to entities that are currently in electric competition in Texas and does not apply to CPS, but could apply if CPS and the City opt-in to electric competition. Generation assets of IOUs are owned by Power Generation Companies, which must register with the PUCT and must comply with certain rules that are intended to protect consumers, but they otherwise are unregulated and may sell electricity at market prices. IOU owners of Transmission and Distribution Utilities (“TDUs”) are fully regulated by the PUCT. Retail sales activities are performed by Retail Electric Providers (“REPs”) which are the only entities authorized to sell electricity to retail customers (other than Municipal Utilities and Electric Co-ops within their service areas, or, if they have adopted retail competition, also outside their service areas). REPs must register with the PUCT, demonstrate financial capabilities, and comply with certain consumer protection requirements. REPs buy electricity from Power Generation Companies, power marketers, and/or other parties and may resell that electricity to retail customers at any location in Texas (other than within service areas of Municipal Utilities and Electric Co-ops that have not opened their service areas to retail competition). TDUs, Municipal Utilities, and Electric Co-ops that have chosen to participate in competition are obligated to deliver electricity to retail customers and are also required to transport electricity to wholesale buyers. The PUCT is required to approve the construction of TDUs’ new transmission facilities and may order the construction of new facilities in Texas in order to relieve transmission congestion. TDUs are required to provide access to both their transmission and distribution systems on a non-discriminatory basis to all eligible customers. Retail rates for the use of distribution systems of Municipal Utilities and Electric Co-ops are exclusively within the jurisdiction of these entities’ governing bodies rather than that of the PUCT.

SB 7 also provides a number of consumer protection provisions. Each service area within Texas that participates in retail competition has a designated Provider of Last Resort; those Providers of Last Resort serving in former service areas of IOUs are selected and approved by the PUCT. CPS has the option to be designated as a Provider of Last Resort for its service area if it chooses to opt-in. The Provider of Last Resort is a REP that must offer to sell electricity to any retail customer in its designated area at a standard rate approved by the PUCT. The Provider of Last Resort must also serve any customer whose REP has failed to provide service. Each Municipal Utility and Electric Co-op that opts-in to retail competition may designate itself or another qualified entity as the Provider of Last Resort for its service territory. In such cases, the respective Municipal Utility or Electric Co-op, not the PUCT, will set the electric rates for such respective Provider of Last Resort.

Under SB 7, IOUs may recover a portion of their “stranded costs” (the net book value of certain “non-economic” assets less market value and certain “above market” purchased-power costs) and “regulatory assets”, which is intended to permit recovery of the difference between the amount necessary to pay for the assets required under prior electric regulation and the amount that can be collected through market-based rates in the open competition market. SB 7 establishes the procedure to determine the amount of IOU stranded costs and regulatory assets. The PUCT has determined the stranded costs, which have been and will be collected through a non-bypassable competitive transition charge collected from the end retail electric users within the IOU’s service territory as it existed on May 1, 1999. The charge is collected primarily as an additional component to the rate for the use of the retail electric distribution system delivering electricity to such end user.

IOUs may recover a certain portion of their respective stranded costs through the issuance of bonds, with a maturity not to exceed 15 years, whereby the principal, interest and reasonable costs of issuing, servicing, and refinancing such bonds is secured by a qualified rate order of the PUCT that creates the “competitive transition charge”. Neither the State nor the PUCT may amend the qualified rate order in any manner that would impair the rights of the “securitized” bondholders.

Additional Impacts of Senate Bill 7 Deregulation

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

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

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

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

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

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

Among other provisions, SB 7 provides that nothing in that act or in any rule adopted under it may impair any contracts, covenants that may impair the tax-exempt status of municipalities or compel them to use facilities in a manner that violates any bond covenants, or obligations between municipalities and bondholders of revenue bonds issued by municipalities. The bill also improves the competitive position of Municipal Utilities by allowing local governing bodies, whether or not they implement retail choice, to adopt alternative procurement processes under which less restrictive

competitive bidding requirements can apply and to implement more liberal policies for the sale and exchange of real estate. Also, matters affecting the competitiveness of Municipal Utilities are made exempt from disclosure under the open meetings and open records acts and the right of Municipal Utilities to enter into risk management and hedging contracts for fuel and energy is clarified. See “FUEL SUPPLY”, “WHOLESALE POWER” and “ENTERPRISE RISK MANAGEMENT & SOLUTIONS” herein for discussion of the Energy Price Risk Management Program in use at CPS.

During its 82nd Legislative Session in 2011, the Texas Legislature reviewed the mission and performance of the PUCT, ERCOT, the RRCT and the Texas Commission on Environmental Quality (“TCEQ”) as required by the Texas Sunset Act. This act provides that the Sunset Commission, composed of legislators and public members, periodically evaluate a state agency to determine if the agency is still needed, and what improvements are needed to ensure that tax dollars are appropriately utilized. Based on recommendations of the Sunset Commission, the Texas Legislature ultimately decides whether an agency continues to operate into the future.

The 82nd Legislature in its review of the TCEQ, reauthorized the agency until 2023 and integrated changes to the agency such as increasing maximum penalties for violations, increasing TCEQ authority over regulatory tanks and dams, and ensuring the agency’s executive director abides by existing laws when adjusting water rights during droughts and emergencies (essentially ensuring that water dedicated for power plant generation is not curtailed).

The Sunset Advisory Commission reviewed the PUCT and the RRCT in 2010 and made recommendations to the 82nd Legislature on the agencies, including their continuance, but the bill incorporating these recommendations failed to pass. Each session, there is a “Sunset safety net” bill which simply reauthorizes agencies whose stand-alone Sunset bills are unsuccessful, and which also sets the date for another review of the agency during a future Sunset process. SB 652 continued the PUCT and the RRCT under the Sunset Act until 2013, and with regards to the PUCT, limited the Sunset Commission’s review to the appropriateness of its recommendations to the 82nd Legislature. The RRCT will receive a full review. CPS is only regulated by the RRCT with regards to pipeline safety. The 83rd Legislature, currently in session, is considering sunset legislation to extend the mission of both the PUCT and RRCT.

Wholesale Market Design Developments

On December 1, 2010, ERCOT transitioned from a zonal market design to a nodal market similar to those in Midwest Independent System Operator (“MISO”), Pennsylvania, New Jersey, Maryland Independent System Operator (“PJM”), New York Independent System Operator (“NYISO”), and the New England Independent System Operator.

In 2011, the ERCOT market saw significant weather events. The first event occurred on February 2, and continued through the week. ERCOT had between 8,000 and 12,000 MW of generation trip off-line due to extreme cold weather. As a result of lost generation, ERCOT was forced to shed firm load resulting in mandatory investigations. Regulatory authorities including NERC have conducted review of the events. Following the February 2, 2011 event, both regulatory and market design changes were implemented. The market design changes consisted of: (1) changing the reporting timeline for resource outages; (2) changing the dispatch sequence for Emergency Interruptible Load Service (“EILS”); (3) changing the Energy Emergency Alert process to allow ERCOT to facilitate ERCOT communications with Qualified Scheduling Entities during emergencies; and (4) changes to the Black Start (power restoration) processes. Regulatory actions centered around: (1) recognizing the value of effective communication and action between the PUCT, the TECQ, and the RRCT; (2) hiring a contractor to study and report on generators, preparedness for cold weather events; and (3) improving communication between ERCOT and public officials and decision makers.

The second weather event experienced in the ERCOT wholesale market was the extreme high temperatures during June, July, and August of 2011 and accompanying drought. The market experienced over 70 consecutive days with temperatures over 100 degrees Fahrenheit. During this time period ERCOT came close to shedding firm load for capacity insufficiency. Prices during the daily peaks hit \$3,000 per MWh for sustained periods. Several market design changes are under discussion to improve the market in these resource-constrained periods.

Specifically, in response to concerns about capacity reserves and the need to provide incentives for investment in new generation resources, the PUCT has initiated two rulemaking proceedings addressing resource and reserve adequacy and shortage pricing. The first proposal (in PUC Docket 40268) would amend an existing rule relating to the scarcity pricing mechanism by increasing high and low system offer caps and the peaker net margin. A second rule (in PUC Docket 37897) was adopted on July 3, 2012 allowing resources to offer energy and ancillary services in the ERCOT market at a cap of \$4,500 per megawatt-hour and \$4,500 per megawatt per hour beginning August 1, 2012 through the effective date of any amendment to the high system-wide offer cap in rulemaking proceeding 40268. Through the rulemaking comment process, the PUCT will explore whether the proposed changes are likely to have the desired effect on resource adequacy and what effect the changes will have on the financial exposure of market participants, among other issues. On June 1,

2012, the PUC and ERCOT commissioned the Brattle Group to examine the capacity shortage issue. The Brattle Report concluded that the existing market design supports about an 8% reserve margin and that the energy only approach (even if modified) supports, on average, a 10% reserve margin. In response the PUCT took action to determine: (1) what is the appropriate reserve margin; (2) is the reserve margin a target or a minimum requirement; and (3) what is the best market design to achieve the answers to (1) and (2). CPS will monitor these proceedings closely to assess the effect of the new regulations on its business. On October 25, 2012, the PUCT voted to double the cap on wholesale electricity prices over the next three years. The maximum wholesale rate will rise from \$4,500 to \$5,000 per MWh in June 2013, \$7,000 per MWh in June 2014 and \$9,000 per MWh in June 2015. The PUCT consolidated its resource adequacy activities under a new docket in the Fall of 2012 – PUCT Docket 40000. The PUCT is expected to take action on resource adequacy proposals during the fall and winter of 2013-2014.

The 82nd Legislature passed SB 1613, which modifies the competitive matters exemption in the Public Information Act for public power utilities concerning public power “competitive matters”. SB 1613 updates the existing law based on a decade of experience with competitive electricity markets. It continues to allow CPS and other MOUs to protect “competitive matters” from disclosure under the open meetings and open records laws. SB 1613 protects the consumers of MOUs because their utility can participate in wholesale electric markets without being disadvantaged.

Environmental Restrictions of Senate Bill 7 and Other Related Regulations

SB 7, enacted in 1999, contains specified emissions reduction requirements for certain older electric generating units, which would otherwise be exempt from the TCEQ permitting program by virtue of “grandfathered” status. Under SB 7, annual emissions of nitrogen oxides (“NO_x”) from such units were reduced by 50% from 1997 levels, beginning May 1, 2003. These emissions have been reported on a yearly basis, and CPS has met the requirements of its NO_x cap for the applicable units for the past compliance years. CPS has final Electric Generating Facility (“EGF”) state permits from the TCEQ for its remaining seven older electric generating gas-fired units. CPS may require future additional expenditures for emission control technology. See “ENVIRONMENTAL MATTERS – Federal Clean Air Act” and “CONSTRUCTION PROGRAM” herein for discussion of the cumulative economic effect of these requirements together with requirements under Federal Clean Air Act permits.

Although SB 7 instituted many of the changes to environmental emission controls which affect grandfathered electric generating plants, another TCEQ regulation, Chapter 117, is directed at all units in the State, including CPS’s coal plants. These regulations required a 50% reduction in NO_x emissions statewide beginning May 1, 2005, and system-wide on an annual basis. CPS has met the Chapter 117 cap for each compliance period. As a result of the Spruce2 air permitting process, CPS has committed to tighter NO_x emission limitations than what is required under Chapter 117 at the Calaveras Power Station upon the Spruce2 unit coming on line. The final Clean Air Interstate Rule (“CAIR”) has imposed even more NO_x restrictions on CPS power plants as described in “ENVIRONMENTAL MATTERS” herein. CAIR has been replaced by the Cross State Air Pollution Rule (“CSAPR”). CSAPR was made final in July 2011, and is more stringent than CAIR. Texas is included in the annual and ozone season NO_x reduction programs. The CSAPR was put on hold on December 30, 2011, until several legal challenges can be resolved; in the interim CAIR is still in effect. Changes to environmental emission controls may have the greatest effect on coal plants. See “ENVIRONMENTAL MATTERS – Federal Clean Air Act” herein. Further statutory changes and additional regulations may change existing cost assumptions for electric utilities. Such changes could have a material impact on the cost of power generated at affected electric generating units.

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

consideration in the CREZ award process. The PUCT reconsidered and awarded a CREZ line for the City of Garland to construct. CPS does not plan to renew its request for authority to construct any part of the CREZ lines. Under the statewide transmission costs allocation process, CPS will pay approximately 7% of these construction costs. Payments will not start until the lines are constructed and placed into service. This will occur over a period of years. CPS has budgeted for the payment of these costs.

The Legislature increased the State's renewable energy goal in 2005 with the enactment of SB 20. As amended by SB 20, PURA directs that the cumulative installed renewable capacity in the State must total 2,280 MW by January 1, 2007; 3,272 MW by January 1, 2009; 4,264 MW by January 1, 2011; 5,256 MW by January 1, 2013; and 5,880 MW by January 1, 2015. Further, the PUCT is directed to establish a target of 10,000 MW by January 1, 2025. The legislation includes a target of 500 MW from renewable resources other than wind power. In addition, on April 2, 2008, ERCOT filed a report with the PUCT concerning wind power and the transmission facilities that may be necessary to transfer the electric power across the State.

According to ERCOT, about 9.2% of the electricity generated in Texas during calendar year 2012 came from renewable energy resources, up from 8.5% for all of 2011. The total capacity of renewable facilities in Texas as of December 31, 2012 is approximately 10,500 MW which exceeds the 5,000 MW goal specified in the PUCT Substantive Rule 25.173 – Goal for Renewable Energy, and is above the January 1, 2025 “target” of 10,000 MW wind generation. On February 9, 2013, wind generation in ERCOT produced a new record of 9,481 MW, which represented 27.82% of the system load at that time.

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

Looking to the future, CPS plans to evolve from a company focused on providing low-cost power from traditional generation sources to a company providing competitively priced power from a variety of sustainable and lower carbon emitting sources. CPS will continue to focus on high levels of reliability to the communities it serves, while working on customer retention and loyalty.

RESPONSE TO COMPETITION

In order to prepare to operate successfully in the new competitive environment created by the enactment of SB 7, CPS developed a marketing plan that focuses on retaining the retail customers in its historic service areas and active participation in wholesale markets. Programs concentrate on not only meeting all customers' traditional needs, but also on providing products and services that provide comfort and convenience for residential customers and improve productivity and reduce costs for commercial and industrial customers. In addition, CPS continues to improve internal and external communications, promoting participation in a wide variety of community initiatives, staying actively involved with regulatory issues, and focusing on the strategies and objectives at the corporate and business unit levels which have been identified as critical to success.

As a step in diversifying its energy resource plan, CPS is aggressively pursuing renewable energy supplies. CPS is currently receiving renewable energy under several long-term contracts. CPS has two contracts for wind-generated energy from the Desert Sky Wind Project: a 20-year contract for 135 MW and a 15-year contract for 25.5 MW; a 20-year contract for 100.5 MW from the Cottonwood Creek Wind Farm; a 20-year contract for 240.8 MW from an expansion to the Cottonwood Creek Wind Farm; a 15-year contract for 76.8 MW from the Penascal Wind Farm; a 15-year contract for 130.4 MW from the Papalote Creek Wind Farm; a 20-year contract for 150 MW from the Cedro Hill Wind Farm, and a 25-year contract for 200.1 MW from the Los Vientos Wind Farm. CPS also has a 15-year contract for a landfill gas-generated energy project totaling 9.6 MW which came on-line in December 2005. CPS is growing its solar energy portfolio with a 30-year contract for the 13.9 MW Blue Wing solar energy project which entered into commercial operation in November 2010; two 25-year contracts for Valley Road 1 and 2, each 9.9 MW which became operational in May 2012 and a 25-year contract for 10.6 MW from the Somerset Solar project, which became operational in August 2012. See “DESCRIPTION OF PHYSICAL PROPERTY – Electric System – Generating Plants” herein.

As of January 2013, CPS's renewable energy capacity totals more than 1,113.0 MW in service with another 404 MW under contract and in varying levels of project construction. CPS has contracted to purchase 4 MW of landfill gas generated energy expected to be in operation by August 2013. Most recently CPS has executed agreements with OCI Solar Power for 400 MW of solar from facilities to be built and operational by 2018. See "RESPONSE TO COMPETITION – Current Economic Developments" herein.

CPS has one of the strongest renewable energy programs in Texas with a renewable capacity under contract totaling 1,517.0 MW. For discussion of the reliability of wind-powered generation, see "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY - Environmental Restrictions of Senate Bill 7 and Other Related Regulations" herein.

With respect to State and national legislative action regarding competition, CPS continues to participate actively in the legislative process to voice the interests of Municipal Utilities and play an integral part in shaping the new environment in which it will operate. CPS continues to evaluate the price components of the energy services it provides, recognizing that the price for electricity will be a paramount factor for succeeding in a deregulated environment. Cost containment initiatives coupled with additional phases of debt management strategies will continue in the years ahead.

Strategic Planning Initiatives

In 2008, CPS implemented Vision 2020, outlining CPS's 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's 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 the City.

In support of Vision 2020 and the key strategic drivers, CPS developed an enterprise-wide two-year business plan to improve its results and fulfill its core purpose. The new CPS Business Plan ("CPS Business Plan") was developed by a cross-functional team, became effective in March 2011, and has been updated annually through a collaborative process between units, with challenges made to ensure continuous improvement. The CPS Business Plan is supported by the individual business plans of each Business Unit and Business Area within CPS, and specifies how it will measure success through the definition of 71 officer level metrics and associated targets. Some targets are corporate-wide, while others are specific to the individual Business Units and Business Areas. Major initiatives and milestone action plans necessary to accomplish the corporate objectives and meet or exceed the targets are also included in each plan. Additional metrics have been added at lower levels in the business, ensuring a traceable path from individual group goals to corporate level objectives. Status reports on strategies, risks and market changes are provided to executive management on a regular basis, and the plan is updated on an annual basis to maintain a forward-looking two-year view at all times. The Enterprise Business Planning team, under the Business Operations area, oversees the business planning process to ensure consistency with the corporate vision.

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. CPS does not currently use interest rate swaps, but continues to assess them as possibilities for the future. The program also focuses on the use of unencumbered cash and available cash flow, when available, to redeem debt ahead of scheduled maturities as a means of reducing outstanding debt. The Debt Management Program is designed to lower interest costs, fund strategic initiatives and increase net cash flow. CPS has a Debt Management Policy ("Policy"), providing guidelines under which financing and debt transactions are managed. These guidelines focus 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. Under these guidelines, CPS's gross variable rate exposure cannot exceed 25% of total outstanding debt. Variable rate debt currently comprises approximately 14.1% of CPS's debt portfolio.

Current Economic Developments

CPS works independently as well as with local economic development agencies to recruit, retain and encourage the expansion of targeted businesses throughout the service territory. Strategic initiatives include the pro-active recruitment

of the following industries which have the most potential advantage to CPS: clean energy technology manufacturing, aviation, aerospace, automotive, life sciences/bio-medical, cyber-security, information technology and large-scale retail developments.

San Antonio continues to systematically grow its economy, as indicated by publications naming San Antonio as one of the nation's best performing and strongest metro areas during the recent recession (Brookings Institute, *Business Week*, *Forbes*). Additionally, Kiplinger recently pegged San Antonio as one of "8 Cities With Surprising Job Growth".

The City has solidified its position nationally as a location for companies with mission critical information technology (IT), information security and data storage requirements. Companies such as Microsoft, the Capital Group, Chevron, the 24th Air Force (Cyber Command), Lowe's Home Improvement, Valero Energy, Christus Healthcare, Frost Bank, Rackspace Managed Hosting and the Texas Cryptologic Center have IT operations in San Antonio, the seventh-largest city in the United States. All cite CPS, the nation's largest municipally owned energy company providing electric and natural gas service, as one of the primary reasons for those decisions.

The Texas Cryptologic Center ("TCC") is in the process of reaching full operational capacity in San Antonio. The TCC is projected to retain and create almost 2,000 jobs over the next few years. At full build-out, this center will result in an additional load of over 60 MW onto the CPS system. This operation has already been the catalyst for the development of a new office park surrounding the TCC site as two buildings are complete.

New business development is achieved in partnership with the San Antonio Economic Development Foundation and results in development throughout the CPS service territory. In 2012, San Antonio was successful in recruiting 26 new or expanding companies into the CPS service territory with the potential to create over 3,945 new jobs. These companies will combine to add over 10 MW of new load onto the CPS system once they are all operational. These companies represent a diverse group of professional service operations, data centers, manufacturing, IT and energy. The list of expanding and relocating companies includes Bergstrom Industries; Cyrus One; NBTY, Inc.; U.S. Silica; Maruchan, Inc.; Southwest Airlines; United Healthcare; and CGI.

CPS is also taking a more strategic, leadership role throughout the community in identifying and marketing to new energy, clean technology companies. The latest economic development activity related to CPS's commitment to renewable energy and the new energy economy is witnessed by CPS finalizing an agreement with OCI Solar Power to provide 400 MW of solar energy to CPS via solar farms that will be in place by 2018. On March 5, 2013, a ceremonial groundbreaking was held for Alamo 1, the first of several solar facilities that will provide 41 of the 400 MW of solar power.

As part of the agreement, OCI Solar Power relocated its headquarters to San Antonio, as well as Nexolon, a South Korean company. On February 20, 2013, Nexolon broke ground on a solar cell manufacturing facility in San Antonio, at Brooks City Base. Other value-chain suppliers are establishing operations in San Antonio, resulting in the creation of an estimated 800 permanent jobs with an annual payroll estimated at \$40 million. The total capital investment in the new manufacturing facilities is estimated to exceed \$100 million.

Other new energy economy companies in San Antonio continue to grow. Prior developments with these companies include the following:

- **Summit Power:** In December of 2011 a power purchase contract was executed with Summit Texas Clean Energy, LLC ("STCE"). STCE will provide CPS with 200 MW of clean-coal electricity. Utilizing integrated gasification combined cycle ("IGCC") along with 90 percent carbon captured technology; the first-of-its-kind plant will be located just outside of Odessa, Texas. The carbon captured will be used for enhanced oil recovery in the West Texas Permian Basin. Commercial operation is planned for 2016. In addition, STCE intends to bring a research and development council to San Antonio. STCE is expected to create 1,500 to 2,000 West Texas construction jobs. STCE continues to seek project financing and equity investors. STCE has all of its critical construction and off-take contracts in place to support project financing.
- **SunEdison:** Three (3) separate "revised" purchase power contracts have been signed with SunEdison to provide approximately 30 MW of renewable solar energy to CPS. As part of the revised contracts, CPS provided about 60 percent of the long-term capital for development of the project by prepaying for a portion of the anticipated electrical output. SunEdison utilized 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. Two approximate 10 MW solar

installations, the first phase of the project, became operational in May 2012. This phase is located on almost 200-acres of land owned by San Antonio Water System and home to the City's Dos Rios Wastewater Treatment Plant and Water Recycling Center. The third solar farm located in Somerset, Texas, achieved commercial operation in August 2012. SunEdison has agreed to locate an office in San Antonio, and is employing two full-time staff members, and will have up to seven in the future. In addition, scholarships totaling \$300,000 were presented to University Texas at San Antonio ("UTSA") and Alamo Community College District at the February 2012 CPS Board Meeting.

- **GreenStar™**, a manufacturer of light-emitting diodes ("LED") streetlights, relocated their headquarters in San Antonio and moved into a new manufacturing space in the Alamo Downs Business Park. GreenStar currently employs about 52 employees and continues to hire more employees. CPS is installing the LED streetlights in San Antonio and a total of 23,336 lights have been delivered to CPS to date. This project is scheduled to include 25,000 LED streetlights to be installed throughout the City over the next several years. An educational fund of \$10 per light produced in San Antonio has been established and GreenStar has thus far disbursed \$98,000 to the UTSA. On February 2, 2012, GreenStar announced that they signed a strategic alliance with Toshiba that will greatly expand GreenStar's reach and boost its local employment. Under the agreement, Toshiba's name will appear on GreenStar's products, and Toshiba will distribute the GreenStar-produced lights throughout North America. This agreement with Toshiba will call for a ramp-up in manufacturing and hiring over the next several months.
- **Consert:** In late 2011, the company relocated its corporate headquarters from North Carolina to San Antonio. They currently have 64 employees in San Antonio and are progressing towards their goal to have up to 150 jobs by 2017. In February 2013, Toshiba acquired Consert which brought it to the national spotlight. CPS executed a contract with Consert for the installation of Consert's energy management software (home area networks) into San Antonio homes and businesses with additional jobs generated through the term ending in 2017. CPS was required to make an unsecured licensing fee payment of \$4.2 million upon execution of the agreement with Consert. Using Consert software, customers set user profiles through their home computers for heating and air conditioning systems, water heaters, and pool pumps to manage their homes' energy demands. Used in conjunction with other smart grid initiatives, like advanced metering infrastructure, the program helps customers automate their energy conservation and manage their bills, while allowing the utility to conserve energy during period of high use. More than 8,000 installations of the innovative energy management devices have been completed. Consert has also become a partner with UTSA in research and development through data exchange aimed at advancing smart grid technology.
- **Cold Car USA:** The company assembles refrigerated trucks used to deliver food items direct to consumers. The company is transitioning its vehicles to electric and/or hybrid trucks, and CPS will partner with Cold Car on the installation of electric charging stations for these vehicles. Cold Car has agreed to provide CPS with research data for vehicle charging. The company will be relocating their headquarters to San Antonio and continues to actively seek a manufacturing facility site in San Antonio. Once established, up to 50 jobs are anticipated to be created. In November 2011, Cold Car USA delivered its first all electric refrigeration truck to Ft. Collins, Colorado.

The New Energy Economy is also creating funding opportunities for educational development. Since its initiative was announced in June 2011, CPS's New Energy Economy partners have contributed \$1.55 million to local education. Funding is being provided to the UTSA, KIPP Foundation, Alamo Community Colleges, Somerset and San Antonio Independent School Districts, The University of the Incarnate Word, San Antonio Youth Literacy, St. Mary's University and the U.S. Foundation for the Inspiration and Recognition of Science and Technology (FIRST) Robotics.

In addition to the new energy/renewable companies, new economic development activities are being witnessed as a direct result of the exploration associated with the Eagle Ford Shale formation located south of San Antonio. Platinum Energy ("Platinum"), an Eagle Ford Shale related company, has begun construction of a facility and associated infrastructure (rail lines) in the CPS -owned Braunig Industrial Park. CPS continuously monitors shale gas development activities and future natural gas prices to assess their impact on CPS's operations.

CONSTRUCTION PROGRAM

Comprehensive programs for planning and construction to meet current and future electric and gas systems needs are continually being reviewed and updated, and are aligned with the strategic plan. CPS utilizes computer-based mathematical models for its forecasting processes. CPS bases its near-term construction and operating needs on a five-year forecast. This short-term annual forecast is supported by a 35-year electric resource plan and is integrated in the

long-term financial plan. These assumptions are subject to substantial change and are revised as necessary to maintain CPS's competitive position.

While short-term energy demand projections have been impacted by recent economic developments and while energy efficiency and conservation are expected to reduce usage through the STEP, positive customer growth is still expected. CPS expects to see continued growth of its customer base for the electric and gas systems due to projected population growth in the San Antonio area. The current energy sales and peak demand forecast predicts annual increases in sales over the next 25 years of 1.47% and 0.83% in electric and gas sales, respectively, and an average peak demand growth rate over the next 25 years of 1.09% per year. CPS has continued to expand its electric customer extensions, with ongoing construction growth in this area. The capital projects in fiscal year 2013-14 are planned to be funded with transfers from internally generated funds, debt proceeds, and other sources.

A capital improvement plan is made for planning purposes and may identify projects that may be deferred or omitted entirely in future years. In addition, the proposed funding sources for the plan may be modified to meet changing conditions. Likewise, as conditions change, new projects may be added that are not currently identified. CPS continually monitors and updates the capital plan with estimates of expenditures necessary to meet proposed and probable new environmental regulations and regulatory standards. CPS's current \$2.657 billion, five-year capital improvement plan is forecasted from February 1, 2013 to January 31, 2018, and does not include expenditure for further development of CPS's existing 7.625% interest in STP Units 3 and 4.

Construction projects include electric transmission, electric generation, electric distribution, general properties, and gas facilities. See also "DESCRIPTION OF PHYSICAL PROPERTY – Electric System" herein. The capital program is primarily driven by the generation function and includes expenditures for various environmental and production upgrades at existing plants, and CPS's 40% share of STP Units 1 and 2. The remainder of the capital budget is for electric distribution, electric transmission, gas distribution, and shared services including the deployment of various demand side management technology initiatives.

Over the five-year period covered by the current capital plan, construction funding from debt proceeds averages approximately \$276.3 million per year, with other significant sources of funding for the plan consisting of internally generated funds.

The Community Infrastructure and Economic Development Fund ("CIED") was established by CPS Board policy on January 19, 2005, as a successor to the Overhead Conversion Fund ("OCF"). The OCF was originally instituted in 1993 by the CPS Board in response to interest by the citizens and governing bodies of the City and the suburban cities within the CPS service area to enhance the aesthetic appeal of the public areas by minimizing the visual impact of overhead electric facilities. The OCF amount, set annually, equaled 1% of the electric revenue (less uncollectibles) of the CPS electric system billed during the previous fiscal year to retail electric customers of CPS residing within the City and each of the suburban cities.

For several reasons, including the high cost of converting overhead facilities to underground, the suburban cities had difficulty spending the CIED Fund money on an annual basis. Therefore, on January 30, 2012, the CPS Board terminated the CIED Fund effective February 1, 2012. Balances remaining in the CIED Fund at January 31, 2012, can continue to be earmarked to support qualified capital projects for up to three years. All unused funds, or funds not earmarked, will be paid in full to the respective suburban cities by November 2013.

DESCRIPTION OF PHYSICAL PROPERTY

ELECTRIC SYSTEM

Generating Plants

CPS currently operates 19 non-nuclear electric generating units, four of which are coal-fired and 15 of which are gas-fired. Some of the gas-fired generating units may also burn fuel oil (diesel), which provides fuel flexibility and greater reliability. CPS also owns a 40% interest in the South Texas Project's ("STP") two existing nuclear generating Units 1 and 2. These nuclear units supplied 32.9% of the FY 2013 electric system native load. See "South Texas Project" herein.

The Deely, Spruce, and Sommers Plants are located at the Calaveras Power Station southeast of the City and share Calaveras Lake's cooling capacity. The Deely Plant and the Spruce Plant each consist of two units that are equipped to

burn coal. CPS obtains its coal from the Powder River Basin area of Wyoming. Coal units provided 48.4% of the FY 2013 electric system native load. The Sommers Plant comprises two units, which are capable of operating on either natural gas or fuel oil. CPS entered into a financial lease/leaseback transaction with an affiliate of Unicom Corporation involving CPS's Spruce1 in June 2000. Unicom Corporation has subsequently merged into Exelon Corporation. See "LEASE TRANSACTION" herein. The balance sheets and related notes in CPS's audited financial statements include items related to this transaction.

CPS owns 1,221 and leases 551 aluminum railroad cars, which are used in unit trains to haul coal from mines in Wyoming and other locations to the Deely Plant and the Spruce Plant. CPS performs car maintenance and servicing on owned railcars at its railroad car maintenance facility located at Calaveras Power Station.

The Braunig Plant is located at the Braunig Power Station, also southeast of the City. It has three steam units that can operate on either natural gas or fuel oil. The Braunig Plant also has four simple cycle combustion turbines which provide quick-start peaking energy for CPS's generation portfolio, as well as black start capability. These combustion turbine units may be fueled with either gas or diesel. The Von Rosenberg Plant, located adjacent to the Braunig Plant, uses combined cycle technology that is 25 to 30% more fuel efficient than other gas generation technologies.

The Leon Creek Power Station located in southwest Bexar County has four quick-start natural gas simple cycle combustion turbines that include black start capability. Two older gas steam units at this location, LCP3&4, have been in a "mothballed" status since March 1, 2011. They will be retired on June 4, 2013, and are not included in the "Generating Capability" table, below.

On April 9, 2012, CPS closed on the acquisition of the 750 MW (net summer rating with duct firing) Rio Nogales natural gas combined cycle power plant (the "Rio Nogales Plant"), located in Seguin, Texas. The 10-year-old plant was purchased from Tenaska Capital Management, LLC. Natural gas is supplied to the plant through a pipeline lateral that accesses the Oasis pipeline, a DCP Midstream pipeline, and a Kinder Morgan/Houston Pipe Line joint venture pipeline. Water sources for the plant consist of treated sewage effluent from the City of Seguin's wastewater treatment plant, surface water from the Guadalupe River, and ground water from the Schertz-Seguin Local Government Corporation well field in Gonzales County. All of the Rio Nogales Plant's water is supplied through an agreement with the City of Seguin. The agreement was entered into in 2001 and has a primary term of 25 years, terminating in 2027 with options to extend the agreement for up to three additional five-year terms. CPS will sell the plant capacity into the ERCOT wholesale market (including bilateral sales) during the first few years of ownership, eventually dedicating the entire capacity to CPS native load demand by approximately 2018 (corresponding with the expected reduction in generating capacity attributable to the planned mothballing of Deely 1&2). See "DESCRIPTION OF PHYSICAL PROPERTY – Electric System – New Generation/Conservation" herein.

See "Generating Capability" table for more details on CPS's generating units.

Braunig and Calaveras Lakes are CPS-owned man-made lakes that provide cooling for the majority of CPS's generating units. These lakes utilize treated sewage effluent and runoff waters to maintain operating levels. CPS was a pioneer in the use of non-potable, recycled water from treated sewage effluent for cooling purposes, thereby saving higher quality, potable ground water for other uses. Braunig Lake has additional cooling capability for future generating units.

CPS has contracted with the San Antonio Water System ("SAWS") to provide a maximum of 50,000 acre-feet of treated sewage effluent per year to CPS. CPS projects that these contract volumes, along with water available under existing water rights, will provide sufficient cooling capacity for existing and planned generation units at Braunig and Calaveras Lakes. However, low flow in the San Antonio River could create challenges in pumping make-up water from the river to keep the lakes in optimal operating conditions.

CPS owns an additional 3,000 acre-feet of Edwards Aquifer ground water to supply process water and some cooling water to other power plants in its service territory. CPS projects that this amount of water is sufficient to maintain power plant operations even in drought conditions. CPS also purchases potable water from SAWS and East Central Special Utility District through standard water delivery rates for power plant process water and miscellaneous plant needs.

CPS continues to manage water-related legal, supply, and conservation issues through participation in the Senate Bill 3 – Edwards Aquifer Recovery Implementation Program, the SAWS/San Antonio River Authority/San Antonio Mayor's Drought Management groups, and an internal CPS water planning committee. CPS has conserved water by using technologies such as once-through cooling pond (instead of cooling towers), increased power plant efficiency projects, the installation of water-efficient gas turbines (versus gas steam turbines), and new water treatment technologies. CPS is continuing to study other water conservation technologies, such as dry cooling. See "ENVIRONMENTAL MATTERS" herein.

The 200.1 MW Los Vientos Wind Farm is the most recent renewable energy project, entering into commercial operation on December 31, 2012. CPS receives energy from 1,059.1 MW of wind, 44.3 MW of solar and 9.6 MW of landfill gas generated energy. CPS recently executed agreements with OCI Solar for 400 MW of solar generated energy. The OCI contract, along with a new 4 MW landfill gas contract, brings the total renewable capacity under contract to 1,517.0 MW, thereby exceeding CPS's goal of 1,500 MW of renewable energy capacity by 2020. An estimate of 1.0 MW of solar electricity will be produced by the utility's Solartricity Producer Program. The Solartricity Producer Program is a limited pilot project that is currently closed to any new subscribers and is not included in the "Generating Capability" table below. Each Solartricity participant has a 20-year contract with CPS. See "DESCRIPTION OF PHYSICAL PROPERTY – Electric System – Generating Capability" herein.

A system peak demand of 4,911 MW was set on August 29, 2011. At the time of the 2012 peak of 4,862 MW, CPS had 87 MW of renewable capacity contributing to help meet the peak demand. Along with the 6,115 MW of fossil fuel and nuclear capacity available for native load, a total of 6,202 MW was available to meet CPS's summer peaking needs. See "DESCRIPTION OF PHYSICAL PROPERTY – Electric System – Generating Capability" herein.

Generating Station Events

Since its commercial operation in May of 2010, Spruce2 continues to realize boiler tube failures that have an adverse effect on unit reliability. CPS continues its efforts with the Original Equipment Manufacturer (OEM) to identify the root cause of the failures and to provide permanent solutions to all failures. Outages have been scheduled to replace two of the four known areas of failures in April 2013 and October 2013.

On March 23, 2012, Sommers1 experienced a generator ground fault due to a failed isolated phase bus connection, resulting in a unit trip and a 6-week forced outage to repair the damaged components. Detailed electrical testing was performed on the generator and transformers, which revealed no damage to these assets. The connection components were repaired, and the unit was returned to service on May 4, 2012.

On November 5, 2012, Deely1 was removed from service due to high vibration on the generator rotor. The rotor was removed and sent to Alstom for evaluation. Alstom indicated that the rotor had two winding shorts and recommended that the rotor be rewound. The work was approved by CPS and completed by Alstom. The generator rotor was reinstalled in February of 2013. The unit was returned to service on February 20, 2013 and is operating at full load capability and within normal vibration limits.

STP Unit 2 completed a scheduled refueling outage in the fall of 2011, returning to full power operation on November 24, 2011. On November 29, 2011, the main generator experienced a fault that resulted in a reactor trip and a forced outage to repair the main generator. Detailed electrical testing identified extensive damage that required a complete rewind of the generator stator and of the generator rotor. Several other generator components required repair or refurbishment. STP Unit 2 was returned to 100% power on April 24, 2012.

On January 4, 2013, STP Unit 2 was manually tripped due to two dropped control rods that occurred during scheduled control rod testing. The root cause was identified as a failed electrical switch. STP Unit 2 was returned to 100% power on January 8, 2013.

On January 8, 2013, approximately 2 ½ hours after reaching 100% power, STP Unit 2 experienced an automatic trip due to a Main Transformer lockout associated with an internal fault in Main Transformer 2A. The fault resulted in a fire, which was extinguished by the onsite fire brigade. Following the trip, the Main Turbine experienced a loss of lube oil due to a failed DC Emergency Oil Pump, resulting in damage to the turbine (primarily low pressure turbine blades and bearings). STP Unit 2 is currently offline as a result of this forced outage, but CPS expects that STP Unit 2 will be returned to service in time to meet 2013 summer demand.

Depending upon the time of the year and actual customer demand, unplanned outages may or may not result in a need to purchase power from other providers on the ERCOT wholesale market. While replacement power can be more expensive to CPS's customers than generation from its own facilities, CPS's existing rate structure allows the cost of replacement power to be funded through its monthly electric fuel adjustment fee. As a result, there was no material adverse effect on the finances of CPS from replacement power associated with these events.

Generating Capability ⁽¹⁾

Summer

| Plant | Unit | Fuel | Year Installed | Net Max Capability MW ⁽²⁾ | Total Capability MW ⁽³⁾ |
|--|-----------------------|---------|----------------|--------------------------------------|-------------------------------------|
| STP (40% interest) | Unit 1 | Nuclear | 1988 | 540.0 | 1,080.0 Nuclear |
| | Unit 2 | Nuclear | 1989 | 540.0 | |
| Spruce Plant | Unit 1 | Coal | 1992 | 555.0 | 2,180.0 Coal |
| | Unit 2 | Coal | 2010 | 785.0 | |
| Deely Plant | Unit 1 | Coal | 1977 | 420.0 | 2,180.0 Coal |
| | Unit 2 | Coal | 1978 | 420.0 | |
| Von Rosenberg Plant | Unit 1 | Gas | 2000 | 490.0 | 2,180.0 Coal |
| Sommers Plant | Unit 1 | Gas/Oil | 1972 | 420.0 | |
| Braunig Plant | Unit 2 | Gas/Oil | 1974 | 410.0 | 2,180.0 Coal |
| | Unit 1 | Gas/Oil | 1966 | 220.0 | |
| | Unit 2 | Gas/Oil | 1968 | 235.0 | |
| | Unit 3 | Gas/Oil | 1970 | 412.0 | |
| | CT-5 ⁽⁵⁾ | Gas/Oil | 2010 | 46.0 | |
| | CT-6 ⁽⁵⁾ | Gas/Oil | 2010 | 46.0 | |
| | CT-7 ⁽⁵⁾ | Gas Oil | 2010 | 46.0 | |
| | CT-8 ⁽⁵⁾ | Gas/Oil | 2010 | 46.0 | |
| Leon Creek Plant | Unit 3 ⁽⁴⁾ | Gas | 1953 | 0.0 | 2,180.0 Coal |
| | Unit 4 ⁽⁴⁾ | Gas | 1959 | 0.0 | |
| | CT 1 ⁽⁵⁾ | Gas | 2004 | 46.0 | |
| | CT 2 ⁽⁵⁾ | Gas | 2004 | 46.0 | |
| | CT 3 ⁽⁵⁾ | Gas | 2004 | 46.0 | |
| | CT 4 ⁽⁵⁾ | Gas | 2004 | 46.0 | |
| Rio Nogales Plant ⁽⁶⁾ | Unit 1 | Gas | 2002 | 750.0 | <u>3,305.0</u> Gas/Oil |
| Total Capability Owned by CPS | | | | | <u>6,565.0</u> |
| Renewable Purchased Power Nameplate Capability: | | | | | |
| Desert Sky Wind Farm | Wind | 2002 | 160.5 | | |
| Cottonwood Creek Wind Farm | Wind | 2005 | 100.5 | | |
| Sweetwater 4 | Wind | 2007 | 240.8 | | |
| Penascal | Wind | 2009 | 76.8 | | |
| Papalote Creek | Wind | 2009 | 130.4 | | |
| Cedro Hill | Wind | 2010 | 150.0 | | |
| Los Vientos | Wind | 2012 | 200.1 | | 1,059.1 Wind |
| Covel Gardens | Landfill Gas | 2005 | 9.6 | | 9.6 Landfill Gas |
| Blue Wing | Solar PV | 2010 | 13.9 | | |
| Valley Road 1 | Solar PV | 2012 | 9.9 | | |
| Valley Road 2 | Solar PV | 2012 | 9.9 | | |
| Somerset | Solar PV | 2012 | 10.6 | | <u>44.3</u> Solar PV ⁽⁷⁾ |
| Total Renewable Nameplate Capability | | | | | <u>1,113.0</u> |
| Total Capability including Wind, Landfill Gas, and Solar | | | | | <u>7,678.0</u> |

(1) As of January 31, 2013.

(2) Summer net max capability reflects net summer rating for CPS owned plants.

(3) For gas/oil fueled units, the capabilities shown are the gas ratings.

(4) Leon Creek 3 and 4 are currently in mothball status, and will be retired on June 4, 2013.

(5) "CT" means "Combustion Turbine".

(6) The Rio Nogales Plant was purchased on April 9, 2012. All or a portion of the Rio Nogales Plant capacity is expected to be sold into the wholesale market during the first few years of ownership, eventually dedicating the entire capacity to CPS native load demand by approximately 2018. See "DESCRIPTION OF PHYSICAL PROPERTY – Electric System – Generating Plants" herein.

(7) Solar PV capacity is reported on an alternating current or AC basis.

New Generation / Conservation

One of CPS’s strongest aspects of operational and financial effectiveness has been the benefit it has derived from its diverse and low-cost generation portfolio, which is comprised of coal, nuclear, gas, wind, solar, landfill gas and 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; financial investment requirements; annual asset operation and maintenance costs; environmental impacts; and other factors.

CPS continues to monitor proposed regulatory changes that could raise the costs of operating plants, such as those that have been proposed for units that use carbon-based fuels. To work towards mitigating this carbon based regulatory risk, CPS management announced the planned mothballing of its two oldest non-scrubbed coal units, Deely 1&2 at the end of 2018 (and whose native load will be substantially replaced with the Rio Nogales Plant output; see footnote 6 to the table appearing under “DESCRIPTION OF PHYSICAL PROPERTY – Electric System – Generating Capability”). CPS management is pursuing a multifaceted strategy with the goal of maintaining a well balanced portfolio, in addition to analyzing traditional generation sources and aggressively growing its renewable energy portfolio as described in the “Generating Capability” table and the “Generating Plants” section, and expanding its efforts towards community-wide energy efficiency and conservation. These mitigation efforts are also referred to as the “5th Fuel” and are very important to CPS’s 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. See “CUSTOMER RATES – Fuel and Gas Cost Adjustment” herein. Additionally, CPS management has explored and continues to cooperatively develop opportunities with the 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. For additional information on CPS’s energy efficiency and conservation program, see “ENERGY CONSERVATION AND PUBLIC SAFETY PROGRAMS” herein.

CPS annually conducts an assessment of generation resource options to meet its expected future electric requirements. This assessment includes updates to fuel prices, wholesale electric market forecasts and its electric peak demand forecast which incorporates 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.

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

South Texas Project

STP is a two-unit nuclear power plant with Unit 1 and Unit 2 (or Units 1 and 2) having a nominal output of approximately 1,350 MW each. STP is located on a 12,220 acre site in Matagorda County, Texas, near the Texas Gulf Coast, approximately 200 miles from San Antonio. CPS currently owns 40% of these units. Participant Ownership (“Participants”) in STP Units 1 and 2 and their shares therein are as follows:

| Ownership Effective February 2, 2006 ⁽¹⁾ | | |
|--|-------|------------------|
| Participants | % | MW (approximate) |
| NRG Energy (“NRG”) | 44.0 | 1,188 |
| CPS | 40.0 | 1,080 |
| City of Austin-Austin Energy | 16.0 | 432 |
| Total | 100.0 | 2,700 |

(1) In 2006, Texas Genco, holder of a 44% interest in STP, was acquired by NRG Energy, Inc. NRG Energy Inc. holds its interest in STP Units 1 and 2 in NRG South Texas LP.

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 the STPNOC, with each owner appointing one member to serve with the STPNOC’s chief executive officer. On October 15, 2012, Dennis Koehl assumed the roles of STPNOC’s Chief Executive Officer and Chief Nuclear Officer. All costs and output continue to be shared in proportion to ownership interests.

STP Units 1 and 2 each has a 40-year NRC license that expires in 2027 and 2028, respectively. In October 2010, STPNOC filed an application to the NRC to extend the operating licenses of STP Units 1 and 2 to 2047 and 2048, respectively. The NRC issued a revision to STPNOC’s license renewal application schedule due to a scheduling request from the Advisory Committee on Reactor Safeguards and due to continued work on one of the open items. This schedule change lists milestones associated with issuance of the Safety Evaluation Report as “to be determined.” In a separate action, a recent decision by the United States Court of Appeals for the District of Columbia vacated the NRC’s waste confidence rule update. In response, the Commission issued an order stating that final approval of licenses dependent on the waste confidence rule, such as new reactor licenses and license renewals, would not be granted until the court ruling had been addressed. Subsequently, the Commission directed NRC staff to issue a final Environmental Impact Statement and waste confidence rule by September 2014. CPS expects that STPNOC’s license renewal applications will be approved in late 2014. Upon approval of these applications, STP Units 1 and 2 will be licensed for a total of 60 years of operation.

During the twelve-months ended January 31, 2013, the STP Units 1 and 2 operated at approximately 95.7% and 75.1% of net capacities, respectively. Unit 1 completed a scheduled refueling outage in the fall of 2012. On August 20, 2010, a human performance error during performance of a surveillance on critical protective equipment resulted in an automatic trip of Unit 1. Unit 1 returned to full power operation on August 23, 2010. On March 29, 2012, Unit 1 encountered a control rod misalignment during performance of a routine surveillance test. To comply with the Technical Specification requirements for this condition, reactor power was reduced to approximately 73%. Reactor power was subsequently reduced to less than 40% to recover the control rod. Unit 1 resumed full power operation on March 31, 2012.

Unit 2 completed a scheduled refueling outage in the fall of 2011, returning to full power operation on November 24, 2011. On November 29, 2011, the Main Generator experienced a fault that resulted in a reactor trip. Unit 2 was in a forced outage to repair the Main Generator (see the “Generating Station Events” section for additional information on the Unit 2 outage) and was returned to 100% power April 24, 2012. CPS expects that nearly all of the cost to repair the Main Generator, with the exception of the policy deductible and some other costs that will not be recoverable, but will be covered by an insurance claim filed with Nuclear Electric Insurance Limited (“NEIL”). During the operational cycle that ended with the fall 2011 refueling outage, Unit 2 experienced an issue with the Unit Auxiliary Transformer. Degradation of the oil in the Load Tap Changer required the transformer to be taken offline for repair. On August 14, 2011, the Main Generator was taken offline to remove the Unit Auxiliary Transformer from service to allow required maintenance to be performed. Unit 2 was returned to full power on August 16, 2011. Following repair of the Unit Auxiliary Transformer, the Main Generator was taken offline on August 19, 2011 to return the transformer to service. Unit 2 then returned to full power operation on August 22, 2011. Prior to the transformer issue, Unit 2 experienced an automatic shutdown on November 3, 2010 due to a circuit breaker malfunction. An unrelated mechanical issue kept Unit 2 offline for an additional period of time. Unit 2 resumed full power operation on November 27, 2010.

On January 4, 2013, STP Unit 2 was manually tripped due to two dropped control rods that occurred during scheduled control rod testing. The root cause was identified as a failed electrical switch. STP Unit 2 was returned to 100% power on January 8, 2013. On January 8, 2013, approximately 2 ½ hours after reaching 100% power, STP Unit 2 experienced an automatic trip due to a Main Transformer lockout associated with an internal fault in Main Transformer 2A (see the “Generating Station Events” section for additional information on this Unit 2 outage). Unit 2 remains offline to complete repairs to the Main Turbine. CPS expects that nearly all of the cost to replace the damaged main transformer and to repair the Main Turbine will be covered by an insurance claim filed with NEIL. With the exception of the policy deductible and some other costs that will not be recoverable under the insurance claim, the balance of the transformer replacement cost and the Main Turbine repair cost is expected to be covered under the NEIL policy.

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Five-Year South Texas Project Capacity Factor ⁽¹⁾

Calendar Years Ended December 31,

| | <u>2009⁽²⁾</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013⁽³⁾</u> |
|--------|---------------------------|-------------|-------------|-------------|---------------------------|
| Unit 1 | 92.1% | 103.6% | 96.8% | 95.8% | 95.7% |
| Unit 2 | 103.3% | 89.8% | 89.7% | 73.9% | 75.1% |
| Total | 97.7% | 96.7% | 93.3% | 84.9% | 85.4% |

(1) Capacity Factor bases on nameplate rating of 1250.6 MW per unit.

(2) Greater than 100% due to plant upgrades.

(3) Twelve months ended January 31, 2013.

Recent operational highlights for STP include the following: In October 2012, STP Unit 1 was shut down for a scheduled refueling outage, establishing a record for an STP unit by running for 530 consecutive days. In 2011, for the eighth year in a row, STP led the nation and finished second worldwide in nuclear generation from a two-unit site. In 2011 total generation, Unit 1 ranked #2 of 104 reactors in the United States and #6 of 437 reactors worldwide; Unit 2 ranked #4 in the United States and #18 in the world. In 2011, STP's annual production cost ranked fifth nationally, and its three-year production cost ranked sixth nationally. In October 2009, Unit 1 completed a breaker-to-breaker production run by operating continuously between refueling outages which are scheduled 18 months apart. STP set an industry record by completing this fifth consecutive breaker-to-breaker run. In August 2009, STP received a Utility Achievement Award from the American Nuclear Society for demonstrating sustained outstanding performance. In 2010, STP was named as one of twelve companies to *EHS Today's* list of America's Safest Companies, becoming the first nuclear facility to receive this award.

On March 11, 2011, a magnitude-9.0 earthquake struck off of the north-eastern coast of Japan. This earthquake triggered a tsunami that devastated portions of Japan. The Fukushima Daiichi nuclear power plant site was one of the areas struck by the earthquake and tsunami. This event resulted in core damage to Units 1, 2, and 3 at that plant. The nuclear industry response to the events at Fukushima continues to evolve. The NRC formulated a Near-Term Task Force to conduct a review of the NRC's processes and regulations in light of the events at Fukushima. The Near-Term Task Force's 90-day report confirmed the safety of United States nuclear power plants and included twelve recommendations to the Commissioners. In October 2011, the Commissioners directed NRC staff to implement seven of the recommendations that were identified as those that should be implemented without unnecessary delay. In addition, the Commissioners have directed the staff to identify the schedule and resource needs associated with those 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 12, 2012, the NRC issued three Orders and one Request for Information letter. These actions represented the first regulatory activity initiated as a result of the lessons learned from the events at Fukushima. The Orders outline actions that must be taken and also provide a compliance deadline. License holders must complete the actions within two refueling outages or by December 31, 2016 (whichever comes first). The Request for Information letter requires specific responses from license holders. To date, STPNOC has submitted the requested information in a timely manner to comply with all deadlines that have come due. As a co-owner of STP, CPS anticipates that additional cost may be incurred in the future to comply with any regulatory changes that are implemented from task force recommendations. CPS continues to work with STPNOC to identify cost estimates for any exposures related to the industry response to Fukushima. These cost estimates are expected to become more firm pending upcoming actions to be taken by the NRC.

The NRC evaluates plant performance by analyzing two distinct inputs: inspection findings from the NRC's inspection program and performance indicators that are reported by the licensee. Inspection findings and performance indicators are given a color designation based on their safety significance. The current plant assessment for STP can be found at a summary level at http://www.nrc.gov/NRR/OVERSIGHT/ASSESS/pim_summary.html, or by writing to United States Nuclear Regulatory Commission, Public Document Room, O-1F-13, Washington, D.C. 20555.

The NRC rules require that each holder of a nuclear plant operating license submit to the NRC a decommissioning plan, which contains, among other things, a cost estimate for decommissioning such plant and either a funding plan or a guaranty method for covering decommissioning costs for such plant. Participants in STP have filed a decommissioning plan for the STP in compliance with these rules, which includes representations by each Participant that it has established

a trust into which it annually pays, throughout the life of the STP, amounts which, when accumulated with investment income, are projected to provide the funds required by the rules to pay its respective portion of such costs.

CPS maintains decommissioning funds for its 28% interest in STP separate from decommissioning funds associated with its 12% STP interest (“former AEP TCC interest”) to meet its decommissioning obligations for its entire 40% interest in STP. See Note 14 to CPS’s audited financial statements in CPS’s audited financial statements. Excluding securities lending cash collateral, as of December 31, 2012, and December 31, 2011, CPS had accumulated approximately \$340.7 million and \$308.7 million, respectively, 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 dated December 31, 2012, the 28% Trust funds allocated to decommissioning costs totaled \$218.7 million, which exceeded the calculated financial assistance amount of \$168.7 million. With respect to decommissioning funds for the former AEP TCC interest, the acquisition by CPS and Texas Genco of AEP TCC’s interest in STP includes, proportionately, the responsibility for decontamination and decommissioning, but also resulted in the transfer of decommissioning funds held in trust by AEP TCC. Under PUCT Substantive Rule 25.303, AEP TCC will continue to collect decommissioning fees from its historical retail customers, which are paid into new trust accounts applicable to the new shares of STP acquired by CPS and Texas Genco. These fees are subject to review and adjustment by the PUCT at its initiative or at the request of an interested person including CPS or Texas Genco. As of December 31, 2012, and December 31, 2011, excluding securities lending cash collateral, the CPS balance in the Decommissioning Master Trust Related to the South Texas Project Interest Acquired from AEP Texas Central Company, “Master Trust (TCC Funded)”, was \$19.4 million and \$106.1 million, respectively. Total funds for this trust are also allocated to decommissioning costs, spent fuel management and site restoration. As of December 31, 2012, the date of the most recent financial assurance calculation, the balance in the Master Trust allocated to decommissioning costs for CPS’s 12% interest in STP totaled \$75.8 million, which exceeded the estimated NRC requirement of \$72.3 million. See “INVESTMENTS – STP Decommissioning Funds” and “Master Trust (TCC Funded)” herein for information concerning the value of investments in the decommissioning trusts. Actual decommissioning costs could vary substantially from the estimate of such costs depending on future regulatory requirements, the method used for decommissioning, and other factors, and the amounts in the decommissioning trusts may or may not be adequate to pay these costs.

Used Nuclear Fuel Management

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

According to the filings in one recent suit brought against the DOE, at least 66 cases have been filed in the Court of Federal Claims against the DOE related to its failure to meet its obligations under the NWP by the existing owners or operators of nuclear facilities seeking damages related to ongoing used nuclear fuel storage costs. On August 31, 2000, in *Maine Yankee Atomic Power Company, et. al. v. US*, the United States Court of Appeals for the Federal Circuit affirmed that the DOE has breached its obligations to commercial nuclear power plant owners for failing to live up to its obligations to dispose of used nuclear fuel. Subsequent to that decision, the DOE has settled with certain commercial nuclear power plant owners and agreed to provide funds to pay for storage costs while the DOE continues to develop a permanent high-level waste repository. In early February 2013, STPNOC, on behalf of the owners of STP, entered into a similar settlement with the DOE. Under the terms of the settlement, the DOE will reimburse STP for certain costs that will be incurred in continuing onsite storage of all of its used nuclear fuel. As with similar settlements throughout the nuclear industry, the settlement will expire at the end of calendar year 2013. STPNOC and its outside counsel are working to determine the likelihood, timing, and expected duration of an extension to the settlement.

Until the DOE is able to fulfill its responsibilities under the NWP, the NWP has provisions directing the NRC to create procedures to provide for interim storage of used nuclear fuel at the site of a commercial nuclear reactor. Pursuant to STPNOC analysis of recent NRC guidance, STPNOC has started the process of planning, licensing, and building an on-site independent spent fuel storage installation (“ISFSI” also known as “Dry Cask Storage”) with an expectation that the ISFSI will be operational towards the middle of the decade. CPS will be responsible for 40% of the cost of this project and expects to pay these costs using funds currently held in the STP Decommissioning Trust. See “INVESTMENTS” herein. CPS also expects that certain costs related to the Dry Cask Storage project will be reimbursable under the settlement executed with DOE.

Additional Nuclear Generation Opportunities

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

The first possible nuclear project was scoped as the development of two additional reactors at the current STP site. These new units have been referred to preliminarily as STP Units 3 and 4. The second possible nuclear project would be a new two-unit facility tentatively located in Victoria County, which is also located in South Texas. Either or both projects, if fully developed by CPS, would have delivered a portion of its power for use by CPS customers in the ERCOT market.

In June 2009, CPS management provided the CPS Board its formal assessment and recommendations concerning these options compared to other possible new generation types. Management also provided its first public estimate of the cost of the first possible project at \$13 billion, inclusive of financing costs. Reports of higher cost estimates, however, resulted in reconsideration of the advisability of participating in the STP Units 3 and 4 Project and, ultimately, in CPS's decision to limit participation in further development of STP Units 3 and 4. In a settlement negotiated with NRG and the other participants in the development of STP Units 3 and 4, CPS received a 7.625% ownership interest in the combined STP Units 3 and 4. CPS will not be liable for any STP Units 3 and 4 Project development costs incurred after January 31, 2010. However, once the new units reach commercial operation, CPS will be responsible for its 7.625% share of ongoing costs to operate and to maintain the units. CPS will also receive two \$40 million installment payments upon award of a DOE loan guarantee to Nuclear Innovation North America LLC ("NINA"), a NRG/Toshiba joint venture. NINA also agreed to make a contribution of \$10.0 million over a four-year period to the Residential Energy Assistance Partnership, which provides emergency bill payment assistance to low-income customers in San Antonio and Bexar County. See "DESCRIPTION OF PHYSICAL PROPERTY – Electric System – Nuclear Cost Issue and CPS Internal Investigation" herein. A detailed timeline of events concerning this matter and the settlement of the STP Units 3 and 4 lawsuit is provided in the following pages:

- Regarding the STP Units 3 and 4 Project, in June 2007, STPNOC signed a technical services agreement with Toshiba Corporation ("Toshiba"), a major Japanese manufacturer of heavy electrical equipment and developer of advanced boiling water reactors ("ABWR") in Japan. Under this agreement, Toshiba agreed to perform early engineering and procurement work for STP Units 3 and 4 ("Project"). STPNOC had already made a reservation for the Unit 3 reactor pressure vessel forgings. Rights and obligations in the agreements with GE-Hitachi Nuclear Company ("GE-H"), Toshiba and other vendors for long-lead equipment and services were shared with CPS under the terms of the NRG-CPS Supplemental Agreement.
- On September 20, 2007, NRG and CPS signed the South Texas Project Supplemental Agreement ("Supplemental Agreement") under which CPS elected to participate in the preliminary development of two new nuclear units at the STP nuclear power station site, STP Units 3 and 4, pursuant to the terms of the current participation agreement among the STP owners. At such time, CPS could have owned up to 50% of the Project. The Supplemental Agreement provided for CPS to reimburse NRG for its pro rata share, based on its ownership percentage, of initial project costs incurred and to pay its pro rata share of future development costs. The Boards of CPS and NRG subsequently approved the Supplemental Agreement which was effective on October 29, 2007. The Supplemental Agreement also provides CPS and NRG with preferred rights of first refusal in the event of certain types of transfers of either NRG's or CPS's interests in STP.
- On September 24, 2007, CPS, subsidiaries of NRG, and the STPNOC filed a combined construction and operating license application ("COLA") with the NRC to build and operate the Project. The COLA for the Project was the first complete application for new commercial reactors to be filed with the NRC in nearly thirty years. The COLA proposed use of the ABWR technology, which has been proven in four operating units in Japan. The total projected rated capacity of STP Units 3 and 4 was expected to be about 2,700 MW. On November 29, 2007, the NRC announced that it had accepted the COLA for review.

In order to develop the COLA and to provide on-going licensing support, STPNOC had previously entered into an interim services agreement with General Electric Company ("GE"). Subsequent to entering into that agreement, GE entered into a joint venture in which it transferred its nuclear business to GE-H. GE assigned its responsibilities under the interim services agreement to GE-H. Despite its obligations in the interim services agreement, GE-H suspended licensing support for the COLA soon after it was filed with the NRC.

- Subsequently, CPS and NRG determined that they would continue the Project with Toshiba. Project development continued under a technical services agreement with Toshiba's United States subsidiary, Toshiba International Corporation, while the parties negotiated a definitive engineering, procurement and construction ("EPC") contract.
- On September 24, 2008, STPNOC submitted a revised COLA to the NRC reflecting CPS and NRG's intention to develop STP Units 3 and 4 with Toshiba. The COLA revision also reflected the establishment of a new NRG-Toshiba Corporation partnership, called NINA, which is 88% owned by NRG and 12% owned by Toshiba Corporation. In addition to STP Units 3 and 4, NINA had plans to develop up to two additional two-unit ABWR projects in the United States. NINA placed its ownership interest in STP Unit 3 into a wholly-owned subsidiary, NINA Texas 3, LLC, and its interest in STP Unit 4 into a wholly-owned subsidiary, NINA Texas 4, LLC. In addition, Toshiba established a United States subsidiary to develop ABWRs, called Toshiba America Nuclear Energy ("TANE"). The updated COLA reflected the relationships among the developers, CPS and NINA and the new NINA, TANE, NINA Texas 3, LLC and NINA Texas 4, LLC entities.
- On September 29, 2008, CPS filed with the DOE a Phase I application for a loan guarantee related to the development of the Project. Following the DOE's evaluation of all Phase I applications, the DOE ranked the Project third out of 14 nuclear loan guarantee project applications that were submitted. On December 19, 2008, CPS filed with the DOE a Phase II loan guarantee application. In a letter dated February 9, 2009, the DOE informed CPS that the Project was one of five nuclear projects for which the DOE is conducting due diligence as part of its process for potentially offering loan guarantees. Subsequently, the DOE narrowed the list of nuclear project candidates for the DOE loan guarantees to four projects, including the Project. Under current legislation, should the DOE ultimately approve an applicant's filing, such a loan guarantee could be used to guarantee financing up to 80% of the debt for the applicable project. The DOE's ability to issue guarantees is limited by appropriations. As part of the settlement with NINA, CPS withdrew its DOE loan guarantee application.
- 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 the used nuclear fuel from the proposed STP Units 3 and 4.
- On February 24, 2009, STPNOC, as agent for CPS and NINA, executed an EPC Agreement with TANE that provided terms and conditions under which STP Units 3 and 4 would be designed and constructed. The EPC Agreement had terms and conditions comparable to those for fossil-fired generating plants and had limits of liability and other provisions that are scaled to a project of this size. Toshiba provided parent company guarantees for TANE's performance.
- Following notice published on February 21, 2009, three individuals and three groups joined to file one Petition to Intervene with the NRC opposing the STP Units 3 and 4 COLA. This initial petition, filed on April 21, 2009, contained 28 contentions. Interveners subsequently filed seven additional contentions. As a result of NRC Atomic Safety and Licensing Board ("ASLB") decisions, most of the contentions were dismissed. However, two of the original contentions were admitted for further consideration. In addition, interveners filed a contention related to foreign ownership following NRG's announcement in April 2011 that it planned to write-down its full investment in the STP Units 3 and 4 Project. Subsequently, the ASLB agreed to admit the contention of foreign ownership for further consideration. In August 2011, interveners filed a contention related to the NRC's Fukushima Near-Term Task Force report issued in July 2011. In separate actions, the ASLB subsequently dismissed both of the two original contentions and determined the contention on the Fukushima Near-Term Task Force report to be inadmissible, leaving the foreign ownership contention as the only admitted contention. In February 2013, the ASLB issued an order establishing the "trigger date" for the evidentiary hearing related to the foreign ownership contention as the earlier of April 30, 2013, or the date on which the NRC makes public its foreign ownership, control, and domination ("FOCD") review.
- On August 31, 2009, the CPS Board approved increasing the Project development budget for STP Units 3 and 4 to \$376 million (from \$276 million).
- On October 13, 2009, the CPS Board approved selection of STP Units 3 and 4 as the next baseload generation resource and, in support thereof, approved a request to ask the City to approve \$400 million in bonds to support the Project at the City Council's October 29, 2009 meeting.
- On October 27, 2009, amid reports CPS had knowledge that costs of the Project might be significantly higher than previously reported, the City Council's vote on the bonds was postponed. The CPS Board undertook action to investigate the Project cost issue. The results of this investigation were reported to the CPS Board in late 2009 and are described below in the "Nuclear Cost Issue and CPS Internal Investigation" section.

- While the Project's cost issue was being investigated, CPS explored all its options regarding participation in or withdrawal from the Project. On December 6, 2009, CPS filed a petition in Bexar County district court to clarify the roles and obligations of CPS and NINA and to define the rights of both parties should either decide to withdraw from the Project. A discussion of the resulting litigation is described below under "Nuclear Cost Issue and CPS Internal Investigation".
- On May 10, 2010, NRG announced that NINA had reached an agreement with Tokyo Electric Power Company (TEPCO) to partner in the STP Units 3 and 4 Project. TEPCO will invest \$155 million for a 10% share of NINA Investments Holdings' interest in STP Units 3 and 4. This investment will give TEPCO a 9.2375% interest in STP Units 3 and 4. TEPCO's initial investment is conditional upon receipt of a conditional commitment for a DOE loan guarantee for the Project. The investment also includes a \$30 million option payment that enables TEPCO to purchase an additional 10% share of NINA Investment Holdings for approximately \$125 million within one year. If TEPCO were to exercise its option, its interest in STP Units 3 and 4 would be approximately 18%. TEPCO would also be responsible for up to 20% (if the option were exercised) of the capital cost of the Project going forward. In the wake of the events in Japan, 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.
- During the presentation of second quarter earnings results held on August 2, 2010, NRG announced a reduction in spending on the Project. NRG announced that accrued Project costs would be reduced from the current level of approximately \$30 million per month to approximately \$20 million per month. NRG also announced that its commitment to Project spending would be reduced to \$1.5 million per month. NRG reported that Toshiba had agreed to provide interim funding to cover the NRG gap. The parties worked together to adjust the near-term Project activities to maintain the overall Project schedule. NRG stated that they were confident the STP Units 3 and 4 Project would be awarded a DOE loan guarantee. However, timing for the loan guarantee was not certain.
- On March 21, 2011, following the earthquake and tsunami that damaged the Fukushima Daiichi nuclear power plant site, NINA announced a reduction in scope on the Project to allow time for the NRC to evaluate lessons learned from the events at Fukushima. The scope reduction limited ongoing Project work to the NRC licensing effort and to activities aimed at securing a DOE loan guarantee. The scope reduction also triggered a significant reduction in Project workforce.
- On April 19, 2011, NRG announced that it planned to write down its entire investment in the Project 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 the Project in a timely fashion. NRG also announced that it will not invest any additional capital into the Project but will continue 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. In light of the reduction in scope of the Project and uncertainty regarding timelines and long-term milestone commitments, CPS's management continues to evaluate whether it should fully or partially write-down its investment in STP Units 3 and 4. At this time, CPS has made an assessment that its investment in the Project 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 the Project 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's 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 the project and the impact to its financial position.
- On November 1, 2011, the NRC approved an amendment to the Advanced Boiling Water Reactor (ABWR) design certification to address the effects of the impact of a large commercial aircraft. The amendment was originally submitted by STPNOC in June 2009 to ensure compliance with the NRC's 2009 aircraft impact assessment rule.
- On December 13, 2011, NRC staff issued a letter stating that NINA's COLA does not meet the requirements of 10 CFR 50.38 (Ineligibility of Certain Applicants). This section of federal regulation basically 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 90 percent ownership in NINA with a corresponding 85 percent ownership interest in STP Units 3 and 4. On December 31, 2011, in response to the NRC letter dated December 13, interveners filed a motion for summary disposition of the STP Units 3 and 4 COLA due to the FOCD issue. Subsequently, on February 7, 2012, the ASLB denied this motion for summary disposition, noting an evidentiary hearing would be the more appropriate method of analyzing the facts related to this issue. On February 1, 2012, 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.

- On January 30, 2013, the NRC issued a letter to NINA providing an updated review schedule for the STP Units 3 and 4 COLA. The revised schedule includes a target date of April 30, 2015, for the release of the final Safety Evaluation Report (“SER”). As such, CPS expects that the STP Units 3 and 4 COLA could be approved in the late 2015 timeframe.

As briefly mentioned above, in addition to the STP Units 3 and 4 Project, CPS has also explored another nuclear project with Exelon. In December 2007, CPS and Exelon signed an agreement granting CPS an option to participate in a possible joint investment in a nuclear-powered electric generation facility in southeast Texas (“Exelon Project”). Preliminary plans indicated that the Exelon Project would be located in Victoria County and would involve the development of two GE-H Economic Simplified Boiling Water Reactors (“ESBWR”), nominally rated at 1,520 megawatts each. Under this agreement, CPS has the option to acquire between a 25% and a 40% ownership in the Exelon Project. On September 3, 2008, Exelon filed a COLA with the NRC to build and operate Victoria County Station Units 1 and 2. On October 30, 2008, the NRC docketed the COLA for a detailed review. Subsequently, Exelon determined that it was unable to reach commercial terms with GE-H. Exelon announced on November 24, 2008, that they intended to select another technology, other than the ESBWR, for the Exelon Project. On December 18, 2008, the NRC placed on hold the review of Exelon’s COLA. On March 27, 2009, Exelon announced that it had selected Hitachi’s ABWR design for the Exelon Project and that it planned to revise the COLA and its DOE Loan Guarantee application accordingly. The Exelon Project failed to qualify for the initial round of DOE loan guarantees. Exelon filed an Early Site Permit application with the NRC for the Victoria County location. On August 28, 2012, Exelon announced that they had notified the NRC that they intended to withdraw the Early Site Permit application, effectively ending development of the Exelon Project. CPS wrote-off its \$2.7 million investment in the Exelon Project, during the third quarter of Fiscal Year of 2013.

Nuclear Cost Issue and CPS Internal Investigation

Following the postponement of the City Council’s vote on October 27, 2009 regarding the Project Costs, the CPS Board undertook an investigation to determine whether CPS management had knowledge of an increase in a preliminary cost estimate for STP Units 3 and 4 and why that information was not communicated to the CPS Board. Specifically, the CPS Board asked the CPS Chief Audit & Ethics Officer to investigate and answer the following questions: (1) Who knew what information, by when, and who did they inform?; (2) Was there malicious intent to withhold information?; (3) Was there a failure to exercise prudent judgment and/or a failure to communicate in a timely manner?; and (4) Did the individuals understand their roles and accountabilities?

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

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

- Shortly after the CPS Board initiated its investigation, two senior CPS staff members involved in the Project were placed on administrative leave pending results of the investigation.
- On November 26, 2009, Interim General Manager Steve Bartley resigned; a severance agreement was reached with Mr. Bartley.
- On November 30, 2009, the CPS Board adopted a resolution accepting the findings and results of the investigation, and reinstating the two senior staff members who had been placed on administrative leave.
- Also on November 30, 2009, Jelynn LeBlanc-Burley was named Acting General Manager (a role in which she served until August 1, 2010), and the CPS Board accelerated its search for a new CEO to replace Milton Lee upon his previously-announced retirement in 2010.
- On December 15, 2009, Deputy General Counsel Robert Temple resigned; a severance agreement was reached with Mr. Temple.
- During the course of the public controversy surrounding the investigation, the Mayor and certain City Council members called for the resignation of CPS Board Chair Aurora Geis and long-time trustee Stephen Hennigan. Ms. Aurora Geis resigned effective January 14, 2010, and Mr. Charles E. Foster, a retired AT&T executive, was selected to replace her on the CPS Board.
- On January 22, 2010, Mr. Charles E. Foster was elected Chairman of the CPS Board.
- Mr. Hennigan continued to serve on the CPS Board until the end of his term in January 2011.

While the Project's cost controversy was being investigated, CPS explored all its options regarding participation in or withdrawal from the Project. One of the steps it took to clarify its rights under the existing project agreements, including the EPC Agreement, was to seek judicial clarification regarding the consequences of unilaterally withdrawing. The resulting lawsuits were dismissed, subject to final execution of documents reflecting a settlement reached between CPS and NINA (which were signed on March 1, 2010).

This litigation involved the following causes of action:

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

Only CPS's declaratory judgment action was pursued in court. The court found that CPS would not forfeit its interest upon withdrawal but would continue to be a tenant in common even if it ceased funding development of the Project. However, with both sides still interested in a business solution for all remaining matters, a settlement was pursued. CPS and NINA/NRG reached a business agreement to resolve their differences in the Project. By the terms agreed upon with NINA, CPS received a 7.625% ownership interest in the Project, an interest expected to entitle CPS to approximately 200 MW of power, depending on the output of the units, once they reached commercial operation. Based on the latest load

forecast, CPS does not anticipate needing this power or any additional base load generation until 2024. This interest in the Project would satisfy almost 40% of that need and would contribute to meeting whatever carbon requirements may be imposed by federal legislation.

CPS currently owns a percentage of the common facilities related to its ownership in STP Units 1 and 2, which will also be used by STP Units 3 and 4 when they become operational. One component of the STP Units 3 and 4 settlement was the transfer of a percentage of the ownership in the common facilities from CPS to NINA. Tax-exempt debt was used to acquire and construct these common facilities, and a portion of that debt is still outstanding. The IRS private business use regulations prevent state and local governments from transferring the benefits of tax-exempt financing to private business interests. On May 11, 2010, CPS used a combination of cash and taxable debt from its Flexible Rate Revolving Note Program to defease \$25,745,000 in principal amount of the allocable portion of the debt (being both outstanding Senior Lien Obligations and Junior Lien Obligations) associated with the common facilities of STP Units 3 and 4, that are now owned by NINA.

Qualified Scheduling Entity

CPS operates as an ERCOT Level 4 Qualified Scheduling Entity (“QSE”) representing all of CPS’s assets and load. The communication with ERCOT and the CPS power plants is monitored and dispatched 24 hours per day/365 days a year. Functions are provided from the Energy Market Center housed within the main office. Backup facilities have also been created. QSE functions include load forecasting, day ahead and real time scheduling of load, generation and bilateral transactions, generator unit commitment and dispatch, communications, invoicing and settlement.

The QSE operates in all aspects of the ERCOT Nodal Market, including submitting bids and offers in the Day Ahead Market, operating generation and load in the Real Time Market, participating in Congestion Revenue Rights auctions, and offering Ancillary Services into the grid.

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 to provide the necessary flexibility in the movement of bulk power.

Interconnected System

The electric system is integrated with more than 100 other utilities, municipalities, independent power producers, power marketers, and co-operatives in Texas to form ERCOT, which covers a large portion of Texas. The ERCOT system is operated entirely within the State and is connected to other reliability councils and Mexico through asynchronous connections, providing only limited import/export capability. CPS and the nine utilities below are the major transmission entities in ERCOT:

- | | |
|--|----------------------------------|
| American Electric Power Service Corporation | Austin Energy |
| Brazos Electric Power Co-op | CenterPoint Energy |
| City of Brownsville Public Utilities Board | LCRA Transmission Services Corp. |
| South Texas Electric Co-op/Medina Electric Co-op | Texas Municipal Power Agency |
| ONCOR Electric Delivery | |

The transmission facilities of CPS, the nine above entities, and those of other transmission facility owners have been integrated into a single control area, which is operated by ERCOT acting as the ISO. ERCOT operates the transmission grid through each of the transmission-owning entities that maintain direct control and maintenance of their respective portions of the transmission infrastructure.

Pursuant to the PUCT’s open access transmission rule, discussed under “SAN ANTONIO ELECTRIC AND GAS SYSTEMS – Transmission Access and Rate Regulation” herein, ERCOT members and other wholesale market participants jointly established, by a filing with the PUCT in 1996, the ERCOT organization as an ISO and an integrated electronic transmission information network. ERCOT’s responsibilities were augmented in 1999 under SB 7 for the retail competitive market and include alternate dispute resolution procedures, coordination of the scheduling of ERCOT generation and transmission, directing the re-dispatch of ERCOT generation and transmission transactions for economic purposes, preserving system reliability, and administering the electronic transmission information network. ERCOT also manages commercial operations of the wholesale power market as well as acts as a single clearinghouse for retail

customer switches and metering information. ERCOT does not purchase or sell bulk electricity. Beginning July 31, 2001, ERCOT began operating the interconnected system as a single control area, in contrast to the multiple control areas historically in place, as part of the transition to the retail competitive market, which was fully implemented on January 1, 2002. As a participant as a generation entity, load serving entity, and transmission owner in the ERCOT wholesale market, CPS is obligated to comply with all rules established by ERCOT as reflected in its protocols, planning guides, and operating guides, which are subject to change from time to time and subject to oversight and review by the PUCT. ERCOT's costs of converting to a single control area and of administering system operations for the competitive retail market are recovered through an administrative fee assessed to system participants, including CPS, allocated on a load-ratio share basis. CPS recovers the fee through the billing adjustment discussed above under "CUSTOMER RATES – Governmentally Imposed Fees, Taxes or Payments".

CPS is also complying with the NERC's reliability standards, including the new Critical Infrastructure Protection standards. CPS must comply with these standards as a Transmission Planner, Transmission Owner, Transmission Operator, Distribution Provider, Load Serving Entity, Generation Owner and Generation Operator. CPS is continually monitoring proposed new reliability standards and the potential of violations related to the new standards, but does not anticipate any violations of known standards to date that would have a material financial impact.

Distribution System

The distribution system is supplied by 82 substations strategically located on the high voltage 138 kV transmission system. The central business district of the City is served by nine underground networks, each consisting of four primary feeders operated at 13.8 kV, transformers equipped with network protectors, and both a 4-wire 120/208 volt secondary grid system and a 4-wire 277/480 volt secondary spot system. This system is well-designed for both service and reliability.

Approximately 7,715 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 430 miles of three-phase equivalent distribution lines, 83 miles of three-phase downtown network distribution lines, and 4,361 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground residential distribution systems. At January 31, 2013, the number of street lights in service was 81,631. The vast majority of the lights are high-pressure, sodium vapor units.

GAS SYSTEM

Transmission System

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

CPS is ahead of schedule for required assessments of the gas transmission system using most recently available technology and maintains a more conservative leak survey and patrol schedule interval than is required by regulation.

Distribution System

The gas distribution system consists of 286 pressure regulating stations and approximately 5,155 miles of mains. The system consists of 2 to 30-inch steel mains and 1-1/4 to 8-inch high-density polyethylene (plastic). The distribution system operates at pressures between 9 psig and 274 psig. All steel mains are coated and cathodically protected to mitigate corrosion. Critical areas of the distribution system are also remotely monitored by SCADA and designated critical pressure regulating stations and isolation valves are also remotely controlled by SCADA.

CPS has been methodical in its assessment and renewal of distribution infrastructure utilizing a risk-based leak survey approach to identify both mains and services that are in highest need of replacement and has an annual budget for on-going system renewal.

Rule Relating to Replacement of Gas Distribution Facilities

On August 1, 2011, CPS implemented its plans in compliance with RRCT § 8.209 Distribution Facilities Replacement Rule, 16 TAC Chapter 8 - Pipeline Safety Regulations and the Federal Distribution Integrity Management Program (DIMP) rules. CPS has utilized a risk-based approach to facility replacement for a number of years, and it has been successful in significantly reducing system leak rates and mains and services as well as lost and unaccounted for gas. These new plans will strengthen CPS’s renewal processes and support the continued safe operation of the Gas System.

OTHER ELECTRIC AND GAS SYSTEMS STATISTICS ⁽¹⁾

| | Electric System | | | Gas System | |
|-----------------------|---------------------|------------------------------|---|----------------------|------------------------|
| | Transmission System | Overhead Distribution System | Underground Distr. System & Network | Gas Supply Pipe Line | Distribution System |
| Substations | 15 ⁽³⁾ | 82 | | | |
| Miles of Lines | 1,511 | 7,715 | 4,791 ⁽⁴⁾ 83 ⁽⁵⁾ | | |
| Kilovolts | 138/345 | 13.2/34.5 | 13.2/34.5 | | |
| Miles of Main | | | | 90 | 5,155 |
| Main Sizes (inches) | | | | 4 - 30 | 1 1/4 - 30 |
| Main Pressures (psig) | | | | 135 – 1,118 | 9 – 274 ⁽²⁾ |

- (1) As of January 31, 2013.
- (2) Maximum allowable operating pressure.
- (3) Includes switchyards.
- (4) Underground single phase, includes 430 miles three-phase commercial, industrial lines.
- (5) Downtown Network three-phase.

GENERAL PROPERTIES

Operation Control System

The Energy Management Center (“EMC”) is the facility where system operators use SCADA systems to monitor and control the CPS electric transmission and distribution systems and the CPS gas supply pressure and distribution systems. All substations, power plants and major gas regulating points are continually monitored and displayed on one-line diagrams on video screens. Abnormalities register an alarm, and the system operator can reset certain circuit breakers and valves as required, maintaining delivery of gas or electric service. In addition to the control capability, the system gathers data that are recorded on a computer for various reporting needs. The operation and control function located at the Jones Avenue facility, upgraded and expanded in 1999, serves as the secondary/back-up control center to ensure continued reliability of utility service to CPS’s customers in the event of the loss of the EMC.

Support Facilities

Core business operations are supported by various support facilities used for maintenance of such items as meters, transformers, communication equipment, vehicles, railroad cars and heavy construction equipment. These maintenance facilities, together with warehouses, administrative offices, customer service centers and storage areas, are strategically located throughout the service area to minimize driving time to work locations.

General Offices and Customer Service Centers

The Main Office Complex comprised of the Main Office and Navarro Buildings, makes up CPS’s General Offices, and is located at the intersection of Navarro and Villita Streets in downtown San Antonio. Executive, administrative, financial, information technology and engineering functions are located at the complex. The Main Office Building includes eleven floors of office space with attached structured parking and adjacent surface level parking. The Navarro Office Building provides five floors for office space, is connected to the Main Office Complex by an enclosed elevated walkway, and includes a seven floor parking garage.

CPS’s customer service center staff provides information concerning customer accounts and processes customer payments. Customer service centers and authorized pay agents are located geographically in all sectors of the service area. These centers are convenient to the customers’ homes and in locations readily accessible to freeways. The Northside Customer Service Center serves as a walk-in center, customer call center, and additional general office space

for personnel. The facility is an environmentally friendly facility.

CPS owns approximately eight acres of land and a newly-constructed shell building in northwest San Antonio to serve as the site of a new data control center and other customer and support staff functions center.

Construction Centers and Service Centers

CPS owns four construction centers, accommodating electric and gas construction, repair and maintenance services, support personnel for administration, planning, training, warehousing functions and garage facilities. The Salado Street Central Garage Service Center serves as the primary central garage for heavy equipment and vehicle repair and maintenance functions, with separate buildings housing a central printing shop, safety and health functions, billing operations, remittance processing, and warehousing. On January 24, 2012, CPS purchased a 43,000 square-foot building located adjacent to the Salado Campus to serve as additional warehouse space.

CPS owns the Green Mountain facility that houses the System Measurement & Technology, New Service Delivery business units, and all the electric metering operations equipment, test and calibration labs and warehousing functions. This facility serves as the inventory and asset management point for electric metering and the deployment point for the Advanced Metering Infrastructure (“AMI”) Program. Local builders and developers also visit the Green Mountain facility to coordinate new construction services with the support personnel in New Service Delivery.

On February 1, 2013, CPS purchased approximately eleven acres of land from the San Antonio Water System which formerly served as the headquarters for Bexar Metropolitan Water District. It has been determined that the property will serve as an excellent site for the centralization of underground construction staff and equipment from three separate sites and could potentially serve as a site for a future substation.

Villita Assembly Building

The Villita Assembly Building is located in downtown San Antonio at 401 Villita Street near the CPS Main Office Complex. The main floor of the building has a capacity to accommodate 1,800 people in an auditorium type seating, or 900 for a dinner function. The building is leased out to individuals and to corporate, civic, community, and non-profit organizations for weddings, quinceaneras, banquets, meetings and social events. Villita Assembly Building is also used for large CPS internal meetings and events.

Vehicles and Work Equipment

CPS operates and maintains a fleet of automobiles, trucks, and heavy construction equipment. The garage facilities, located at CPS’s service and construction centers, are staffed with trained mechanics that provide a majority of the maintenance performed on the vehicles and equipment. Major maintenance on heavy construction equipment is performed at the Salado Street Central Garage Service Center.

SUMMARY OF INSURANCE PROGRAMS

CPS maintains property and liability insurance programs that combine self-insurance with commercial insurance policies to cover major financial risks. The property insurance program provides \$6.8 billion of replacement value for property and boiler, machinery loss coverage including comprehensive automobile coverage, fire damage coverage for construction equipment, and valuable papers coverage. The deductible for the property insurance policy is \$5.0 million per occurrence with a secondary deductible of \$1.0 million per occurrence applicable to non-power plant property locations. The liability insurance program includes (1) excess liability coverage with a \$100.0 million policy limit at a \$3.0 million self-insured retention, and (2) excess workers compensation coverage with a \$35.0 million policy limit at a \$3.0 million self-insured retention. Other property and liability insurance coverages include employment practices liability, fiduciary liability, employee travel, event insurance and commercial crime. CPS also maintains insurance reserves, which as of January 31, 2013, totaled \$19.4 million to cover losses under the self-insurance portion of the insurance program.

CPS and the other participants in STP Units 1 and 2 maintain NRC-required nuclear liability, worker liability, and property insurance, each of which includes provisions for retrospective assessments depending on occurrences at STP Units 1 and 2 and other commercial nuclear plants. CPS is liable for 40% of the premiums and any retrospective assessments with respect to STP Units 1 and 2 insurance, and for costs of decontamination and repairs or replacement of damaged property in excess of policy limits; however, under PUCT regulations, AEP TCC’s historical customers bear the risk associated with decommissioning that portion of STP Units 1 and 2 previously owned by AEP TCC.

ENVIRONMENTAL MATTERS

CPS operations have the potential to affect the environment in a variety of ways, but primarily through discharges to air, land and water. To minimize environmental impact, CPS constructs and operates its facilities according to, and, in certain areas, in excess of, the standards established for the utility industry by Federal, State, and local laws and regulations. CPS's commitment to the environment is evidenced by its official environmental policy, which places the responsibility for regulatory compliance on all CPS employees, regardless of job function or title. A full-time Environmental Department consisting of educated and trained professionals oversees the enforcement of this policy. Since 1996, environmental operating procedures ("EOPs") have been developed to provide guidance to CPS employees as to how to perform their jobs in a way that protects the environment.

Federal Clean Air Act

Congress enacted the Clean Air Act Amendments of 1990 ("Clean Air Act Amendments") with the intent of improving ambient air quality throughout the United States. All of CPS's generating sites in Bexar County have been issued Federal Operating (Title V) permits and Federal Acid Rain (Title IV) permits under the Clean Air Act by the TCEQ.

CPS received a Plantwide Applicability Limit ("PAL") permit from the TCEQ for the Calaveras Power Station. This PAL permit sets a cap on emissions at the site based on past emissions. This is a voluntary permit submitted by CPS to provide flexibility to better manage facility-wide emissions. The PAL permit allows CPS to have limited flexibility in maintaining its generating units at the Calaveras Power Station while enhancing environmental protection. CPS's PAL permit includes a commitment to maintain emission reductions already achieved.

On September 8, 2009, the EPA proposed to disapprove key aspects of the Texas clean-air permitting program that do not meet federal Clean Air Act requirements followed by other states. Final decisions about changing the program will be made under an expedited schedule agreed to under a settlement with Texas businesses. The EPA intends to work with the State and interested parties to quickly identify and adopt changes.

Sulfur Dioxide ("SO₂"): One objective of the Clean Air Act Amendments is to reduce emissions of sulfur dioxide ("SO₂"), a gaseous emission formed during the combustion of coal by coal-burning power plants. Although the Spruce1, Deely1, and Deely2 units and older gas units are the only units that receive allowances, all the CPS generating units are subject to the Clean Air Act Amendments' Acid Rain program SO₂ emission allowance system, however all new units also have to comply with the program even though no new allowances are provided for them. An allowance is an authorization to emit one ton of SO₂ during or after a specified year. Under the emission allowance system, each affected generating facility is issued annual allowances based upon a variety of factors. No utility may emit more tons of SO₂ in a year than is authorized by its total allowances. Allowances issued to one generating facility may be used by a utility to offset the emissions of another generating facility. Allowances not needed by the recipient utility for its current emissions may be banked for future use, or they may be sold or otherwise transferred. CPS upgraded the Spruce1 scrubber in early 2009 prior to the Spruce2 unit coming on line because of a commitment made in the Spruce2 air permitting process, which required Spruce1 to reduce SO₂ emissions by the amount expected to be emitted by Spruce2.

In addition to the Acid Rain program, the EPA wrote the Clean Air Interstate Rule ("CAIR") that would further reduce SO₂ by reducing the value of the Acid Rain program allowances. On July 11, 2008, the District of Columbia Court of Appeals vacated the CAIR in its entirety. In late December 2008, D.C. Circuit Court of Appeals granted the EPA's petition to remand CAIR to the Agency to be "fixed" rather than be vacated. The EPA finalized a rule to replace CAIR in July of 2011. The new rule is the Cross State Air Pollution Rule ("CSAPR"), which required a 50% reduction in SO₂ starting January 2012. CPS planned to meet the reductions by utilizing ultra low sulfur coal and by reduced dispatch of the Deely units. The courts denied an EPA petition to keep CSAPR in place in January 2013, so CAIR remains in place. With the use of ultra sulfur coal on Deely, CPS has enough SO₂ allowances to meet the CAIR requirements. The EPA is writing a new replacement rule for CAIR and CSAPR that is expected to be proposed in 2014.

Nitrogen Oxides ("NO_x"): In addition to SB 7 regulations that require NO_x reductions at CPS's formerly grandfathered gas units, the TCEQ implemented additional rules. Chapter 117 regulations require all fossil fuel power plants to achieve a NO_x emission level cap. For coal units this cap is based on a NO_x emission rate of 0.165 lb/MMBtu (pounds per million British thermal units) by mid-2005; for gas units this cap is based on a NO_x emissions rate of 0.14 lb/MMBtu. However, CPS management chose to comply with a system cap rather than the emission specifications. CPS has met the system cap for the past compliance years. The revised CAIR reduced the NO_x emission rate to less than 0.15 lb/MMBtu

in the first phase and will be accomplished via statewide allocations that are required to be met in 2009 with further reductions by 2015. The CAIR rule is a cap and trade rule which means that specific units are not required to meet any particular emission limit, only that they have adequate NO_x allowances for the amount they actually emit. CPS made further reductions in NO_x by installing SCR technology on Deely2 in 2011, and is evaluating adding the same technology to Spruce1.

As stated earlier, the EPA, in July 2011, finalized CSAPR for the purpose of replacing CAIR. The proposal included Texas in an Ozone Season only NO_x program and an Annual NO_x program. Ozone season includes the summer months of May - September. Since CPS has been installing NO_x reduction technologies since 1997, the targets for CSAPR can be met with current equipment, (but such compliance does not provide reserve margins for future regulations). CSAPR was supposed to be effective on January 1, 2012; however the D.C. Circuit Court put the rule on hold, and on August 21, 2012, the Court vacated CSPAR and required EPA to continue administering CAIR pending the promulgation of a valid replacement. In January 2013, the courts denied a petition to keep CSAPR in place, so CAIR remains as the requirement for NO_x.

Mercury: In early 2004, the EPA published a proposed rule to reduce mercury to a level of 21 X 10⁻⁶ lb/MWh (pounds per megawatt hour) from new units (about 2.0 lb/trillion Btu) and CPS agreed to this level for the new Spruce2 unit. The final rule published in May 2005, called the Clean Air Mercury Rule, established mercury emission limits on new and existing units and set up a cap and trade system starting in January 1, 2010. The final rule had a less stringent mercury limit for new units; however, CPS agreed to the previously proposed level and the final Spruce2 unit permit has a mercury limit (2.0 X 10⁻⁵ lb/MWh), which is currently being met. The EPA's goal was that emissions of mercury from power plants be reduced by 70% from 1999 levels which will result in a 15 ton cap nation-wide in 2018. The final rule also required continuous mercury monitoring to be installed and operational by January 1, 2009.

On February 8, 2008, the Washington D.C. Circuit court decided to vacate the Clean Air Mercury Rule. Since the procurement and installation of continuous mercury monitors was already in process, CPS decided to complete the installation. The EPA proposed a rule in March 2011 for all Hazardous Air Pollutants (HAPs) including mercury, commonly referred to as the Mercury and Air Toxics Standards (MATS) rule. The limits are very stringent and all 4 coal units will need mercury specific reduction technologies added in order to comply. The rule allows 3 years for compliance from the final rule date. The rule was finalized on December 16, 2011. The rule also included limits for hazardous air pollutants such as non-mercury metals (measured as particulate matter and acid gases (measured as hydrochloric acid or sulfur dioxide). The rule requires continuous monitoring of mercury, particulate matter and acid gases by March 2015 and CPS is making plans to comply. Since the coal units already have technologies to control particulate matter and acid gases, the only additional technology required is mercury reduction technology. CPS is currently adding activated carbon injection (a mercury reduction technology) to Spruce1 and Spruce2 and is making plans to add the technology to Deely 1 & 2.

Ozone (“O₃”): On March 12, 2008, the EPA revised national ambient air quality standards (“NAAQS”) for ground-level ozone (the primary component for smog). This revision was part of a required review process mandated by the Clean Air Act, as amended in 1990. Prior to the revision, an area met the ground-level ozone standards if the three-year average of the annual fourth-highest daily maximum eight hour average at every ozone monitor (the “eight-hour ozone standard”) was less than or equal to 0.08 parts per million (ppm). Because ozone is measured out to three decimal places, the standard effectively became 0.084 as a result of rounding. For years 2005 – 2007, during which the old standard applied, San Antonio maintained average ozone readings of 0.082 ppm and therefore, has been compliant with historic EPA ground-level ozone standards.

The EPA's March 2008 revision changed the NAAQS such that an area's eight-hour ozone standard must not exceed 0.075 ppm rather than the previous 0.084. Thus in 2007, under the new standard, the City would not have complied with the federal requirements regarding ground-level ozone. Since 2007, however, San Antonio's unofficial eight-hour ozone average has been falling. According to the TCEQ, the three-year average in 2008 was 0.078 ppm and 2009, 2010 and 2011 have been just under the limit at 0.074 ppm.

The Clean Air Act requires the EPA to designate areas as “attainment” (meeting the standards), “nonattainment” (not meeting the standards), or “unclassifiable” (insufficient data to classify). As a result of the revisions to the NAAQS, states were required to make recommendations to the EPA no later than March 12, 2009 for areas to be classified attainment, nonattainment, or unclassifiable. Texas Governor Rick Perry submitted a list of 27 counties in Texas, including Bexar County that should be designated as nonattainment. Even if the 2008 data, as recorded above, is certified by the EPA, San Antonio would still be classified as an area of nonattainment under the revised NAAQS. The final designations were put on hold while the EPA worked on revising the standard even further downward, so Bexar County was never designated as non-attainment.

On January 6, 2010, the EPA formally proposed a regulation that would lower the primary NAAQS for ozone to a level within a range of 0.060 to 0.070 ppm. The EPA postponed issuing a final rule revising the ozone NAAQS standards from August 31, 2010 to October 2010. At the end of 2010, the EPA postponed the final rule until July 2011. On September 2, 2011, President Obama requested that the EPA withdraw their draft of the NAAQS revision; as a result, the Ozone NAAQS will not be revised until 2013. On September 22, 2011, the EPA issued a memorandum stating it would designate areas as non-attainment under the 2008 ozone standard of 75 ppm. Bexar County was not on the list of designated counties; therefore, it is likely that a ozone non-attainment designation for Bexar County will not occur until after the standard is revised again in 2013. Even though Bexar County monitors have recorded values exceeding the 2008 standard in the summer of 2012, since the designations under the 2008 standard have already been made by the EPA, the area will still not likely be designated officially as non-attainment until after the standard is revised in 2013. Under the Clean Air Act, the EPA has two years from the time it revises the NAAQS to complete the designation process. Therefore, if the EPA revises the standard in 2013, final designations for all areas will be issued no later than 2015, unless there is insufficient information to make such designations. If the EPA intends to issue a designation that deviates from a state's recommendation, it must notify the state at least 120 days prior to promulgating the final designations. Following the issuance of final designations, states are required to submit State Implementation Plans ("SIPs") outlining how they will reduce pollution to meet the new standards. These SIPs will be due to the EPA by a date that it will establish under separate rule, but in no case will that date be later than three years after the EPA's final designations (e.g., 2018 if the EPA makes its designations in 2015.) In conjunction with the revised NAAQS, the EPA has proposed separate rules to address monitoring the new standard. Generally, the proposal from the EPA would require a greater number of EPA-approved monitors in both urban and non-urban areas and longer ozone monitoring seasons in many states. For Texas specifically, the proposal calls for year-round monitoring throughout the state.

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

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

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

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

Carbon Dioxide ("CO₂"): The United States Supreme Court has rendered its first major decision in the climate change arena. In *Massachusetts v. EPA*, 549 U.S. 497 (2007), the Supreme Court held that CO₂ and other greenhouse gases from motor vehicles are "air pollutants" and are subject to regulation under the Clean Air Act. There have also been several bills introduced in Congress that propose to regulate greenhouse gases ("GHGs") through a cap and trade and/or quasi-

carbon tax program. In July 2008, the EPA issued an Advance Notice of Proposed Rulemaking (“ANPR”) outlining issues and options associated with regulating GHG under the Clean Air Act.

In a noteworthy Clean Air Act decision, in the wake of *Massachusetts v. EPA*, the Environmental Appeals Board (“EAB”) avoided the key question of whether CO₂ is currently “subject to regulation” under the Clean Air Act. In *the Matter of Deseret Power Electric Cooperative*, EAB App. No. PSD 07-03 (November 13, 2008) it appears that the decision is carefully designed to leave open for the Obama Administration the question of whether CO₂ will be regulated under a key EPA permitting program. EAB sided with the EPA, agreeing that EPA is not required to treat CO₂ as “subject to regulation” for purposes of the Prevention of Significant Deterioration (“PSD”) permitting program. However, EAB found that EPA could exercise its discretion to treat CO₂ as “subject to regulation,” and thus require permit limits for CO₂ based on the best available control technology (“BACT”). Based upon guidance from the Bush Administration, EPA made it clear that, for both legal and policy reasons, it did not want to treat CO₂ as “subject to regulation” under the Clean Air Act. This position was confirmed in a memorandum dated December 18, 2008, from Stephen L. Johnson, the Administrator of the EPA, establishing that CO₂ is not “subject to regulation” under the Clean Air Act. The EAB found, however, that the Deseret permitting record was not adequate to support this position. It then remanded the permit back to the EPA with instructions that will make it difficult for the EPA to respond to the remand until the Obama Administration takes a position. In doing so, the EAB has created significant uncertainty for anyone planning to construct virtually any type of commercial building or industrial facility (such as a new power plant). As CPS is not currently seeking a new PSD permit for any of its facilities, CPS is not currently affected by this decision.

In April 2009, the EPA proposed a public health endangerment finding under Section 202. An endangerment finding under Section 202, or any other similar section, is the necessary prerequisite to mandatory regulation. In most instances, once an endangerment finding is made, the Clean Air Act requires the EPA to regulate the subject pollutant. That mandatory duty to regulate, combined with the cascading effect of a single endangerment finding, means that the EPA may face a burden of needing a regulatory regime in place for all emission sources at the time it starts to regulate the first source. Accordingly, the creation of GHG emission standards for new motor vehicles could trigger a duty for the EPA to regulate GHG emissions from stationary sources under other Clean Air Act (“CAA”) sections, such as the development of NAAQS, New Source Performance Standards (“NSPS”), the Prevention of Significant Deterioration (“PSD”) program, Title V, and National Emission Standards for Hazardous Air Pollutants (“NESHAP”). As previously stated, Senators John Kerry (D-MA) and Joseph Lieberman (I-CT), on May 12, 2010, released the comprehensive climate change and clean energy bill, titled the “American Power Act”. The bill included similar targets to ACES to reduce economy-wide GHG emissions from 2005 levels.

CPS is monitoring and evaluating proposed legislation, and continues to document its climate change activities, particularly its GHG emissions. CPS has included a potential carbon dioxide cost in its assumptions as it evaluates alternatives for meeting the growing demand for electricity in the CPS service territory. In conjunction with the Alamo Area Council of Governments, the City coordinated the development of a regional GHG emission inventory and entity-specific emission inventories for the SAWS, Bexar County, CPS and itself. The baseline year chosen for the inventory is 2005. CPS now tracks an annual GHG inventory and is working with the City and its Mission Verde plan, which addresses a wide range of issues affecting the community.

On September 22, 2009, the EPA finalized the nation’s first greenhouse gas reporting system and monitoring regulations. On January 1, 2010, the EPA, for the first time, required large emitters of heat-trapping emissions to begin collecting GHG data, under a new reporting system. This new program will cover approximately 85 percent of the nation’s GHG emissions and apply to roughly 10,000 facilities. The EPA’s new reporting system will provide a better understanding of where GHGs are coming from and will guide the development of policies and programs to reduce emissions. Fossil fuel and industrial GHG suppliers, motor vehicle and engine manufacturers, and facilities that emit 25,000 metric tons or more of CO₂ equivalents per year will be required to report GHG emissions data to the EPA annually. The first annual reports for the largest emitting facilities, which include CPS plants, were submitted to the EPA in 2011. On December 1, 2010, the EPA finalized a rule to include the reporting of GHG from large sources of fluorinated GHG, which includes SF₆; annual reporting to the EPA began in 2012.

On September 30, 2009, using the power and authority of the Clean Air Act, the EPA proposed a rule requiring new or modified power plants and other large stationary CO₂ emitters to have the BACT installed. The new rule would apply to industrial facilities that emit at least 25,000 tons of GHGs each year. That clashes with a Clean Air Act provision calling for regulation of facilities that emit over 250 tons per year. The GHGs covered include CO₂, methane, nitrous oxide, hydro-fluorocarbons, fluorocarbons and sulfur hexafluoride. EPA estimated 400 new sources and modifications would be subject to review each year for GHG emissions and, in total, 14,000 sites would have to get permits under the proposal. The administration has not done any calculations on how much emissions the law would cut or the costs to industry. BACT would be decided somewhat on a case-by-case basis, with EPA staff doing technical work to see what the best options are. The most promising technology for fossil generation is carbon capture and storage, but that is at least a

decade away from commercial viability. BACT would change over time. Permitting delays and increased Title V permit fees are projected.

The EPA issued a final endangerment finding on December 7, 2009, that GHGs pose a danger to human health and the environment, clearing the way for a Clean Air Act regulation limiting CO₂ emissions from power plants, vehicles and other major sources. Power plants and other large stationary sources of CO₂ are now required to use BACT to reduce emissions when they modify or construct plants. The next time CPS constructs or modifies a plant, its permits will have to include CO₂ limits, and it will have to meet those limits using the traditional BACT process (the Rio Nogales Plant acquired with proceeds of the Taxable New Series 2012 Senior Lien Obligations on April 9, 2012 did not result in the application of these limitations to such facility). Currently, there is no commercially available technology to reduce CO₂ emissions. The EPA may push for BACT determinations for coal and gas fired generation (new and existing fleet) to meet 50-80% reduction in CO₂ through carbon capture and sequestration (“CCS”). Possibly as an alternative to reducing CO₂ emissions through a removal technology, offsets could be purchased to meet the limits. On December 2009, the EPA denied the petitions to reconsider the Endangerment and Cause or Contribute Findings for Greenhouse Gases under Section 202(a) of the Clean Air Act.

In March 2012, the EPA proposed New Source Performance Standards (“NSPS”) for coal units and natural gas combined cycle units, so any new units will have a CO₂ limit to meet. Based on the NSPS, the EPA is also in the process of creating limits for existing units. It is still too soon to know what the existing standard will be and what the compliance measures will need to be taken.

Federal Clean Water Act

The National Pollutant Discharge Elimination System (“NPDES”) program is administered by the EPA under the federal Clean Water Act. The NPDES program provides the framework for monitoring and regulating the discharge of pollutants to surface waters of the United States. In 1998 the EPA delegated NPDES authority to the State through the TCEQ and the RRCT. With the exemption of discharges resulting from exploration, development, and production of oil and gas over which the RRCT has authority, the TCEQ administers the Texas Pollutant Discharge Elimination System (“TPDES”) in Texas to control discharges of pollutants to state water or “waters of the United States”. CPS has historically operated all of its generating facilities with no significant compliance issues. Discharges resulting from hydrostatic testing of gas pipelines meet RRCT requirements.

CPS currently has individual TPDES permits for the discharge of industrial waste water to Braunig and Calaveras Lakes and into Leon Creek for the Leon Creek Power station. The focus of these permits is to reduce discharge of industrial waste and other constituents that could impair water quality in the San Antonio River basin. Under 40 CFR Part 423, the EPA has developed a list of water quality standards that apply to power plant operations. Additionally, the TCEQ has broad powers under the Texas Water Code to adopt rules and procedures equally or more stringent than federal standards, and to issue permits to control the quality of discharges into or adjacent to water in the State. These standards and requirements are incorporated in each individual permit as permit conditions that must be met or satisfied by the permittee.

New Effluent Standards: EPA is currently looking at revising the categorical water quality (effluent) standards for the Steam Electric Power Generating facilities. Effluent standards for the steam electric category were last revised in 1982. EPA completed a multi-year study of the electric power industry and concluded that power plant discharges had changed significantly over time and that regulation had not kept up with changes in industry, in particular, waste water discharges resulting from air pollution controls installed at coal-fired power plants. EPA conducted an Information Collection Request (“ICR”) from over 750 power plant owners to provide information regarding power plant effluent, available treatment technologies, and the impact on industry of changes in water quality standards. CPS participated in this ICR by completing questionnaires about operations at Calaveras Lake. EPA plans for a proposed rulemaking in April 2013 and final action in April 2014.

Clean Water Act Section 316 (b): The power plants at Braunig and Calaveras Lakes use the lakes as the source for once-through cooling water. Section 316 (b) of the Clean Water Act requires that adverse environmental impacts by cooling water intake structures on aquatic species be minimized. Numerous lawsuits from both environmental and industry groups have resulted in the previously issued regulations being suspended and remanded; the EPA published the proposed rule for existing facilities in April 2011. This rule will affect those facilities with a design intake flow greater than 2 MGD, that are point sources (have a NPDES permit), and that use at least 25% of diverted water for cooling purposes. Both Braunig and Calaveras plants will be affected by this proposed rule. Although the EPA did not impose cooling towers as best technology available (BTA) for existing facilities and allowed some flexibility for permitting authorities to determine BTA based on site-specific conditions, cost-benefit analysis, and best professional judgment, the

proposed regulations did not allow credit for exclusion (fish not getting into impingement area), have established a numeric standard for impingement that will be difficult to meet, will require numerous studies to establish site-specific conditions, and create burdensome implementation requirements. CPS submitted comments on the proposed rule to the EPA. The final rule has been postponed until July 2013.

CPS has completed studies of fish impingement at each of its cooling lakes, indicating that the design, location, and technology of the cooling water intake structures at Braunig and Calaveras do not adversely impact aquatic fish population (the number of fish impinged is very low compared to fish biomass in the reservoir). However, biologists have indicated that impingement mortality rates are high for fish that are impinged at Braunig and Calaveras Cooling Water Intake Structure (“CWIS”) (mostly threadfin shad – a forage species), and no technology may be able to meet the performance standards under the proposed rule. Additional studies will be required to establish the mortality rates for impingement, and if required, entrainment at Braunig and Calaveras. Feasibility and deployment studies will also be required to demonstrate the efficacy of applicable technologies that may be required to reduce impingement and entrainment at the Braunig and Calaveras facilities. CPS will be working with the TCEQ and the EPA to determine what if any additional measures will need to be taken to assure compliance with Section 316 (b).

Water Resources Planning

The Texas Legislature Senate Bill (“SB3”), which was adopted in 2007, requires the TCEQ to adopt by rule appropriate environmental flow standards for each river basin and bay system in the state, to manage the States’ water resources and availability of water supply. CPS participated in this environmental flow process for the Guadalupe and San Antonio (“GSA”) River basins, bays and estuaries. The process culminated in environmental flow recommendations to the TCEQ for adoption and implementation. These recommendations will impact future appropriations of state water. CPS has existing surface water rights from the San Antonio River for Braunig and Calaveras Lakes. The TCEQ finalized the new environmental flow regulations for the GSA river basins in 2012. Although the current basin and bay stakeholder committee flow recommendations will not affect existing permit holders per SB 3 mandate, future legislative actions may change the current protection for existing surface water permits. CPS is also involved in the Edwards Aquifer Recovery Implementation Program (“EARIP”) which is another stakeholder process tasked to develop a plan to protect federally protected species at Comal and San Marcos Springs while managing pumping from the Edwards Aquifer, the primary source of drinking water in the San Antonio metropolitan area and surrounding counties. The EARIP participants developed a Habitat Conservation Plan (“HCP”) which was approved by the United States Fish and Wildlife Department, for managing the aquifer and protecting the endangered species at Comal and San Marcos Springs. Successful implementation of the HCP will ensure a stable water supply for the San Antonio region, protect the endangered species, and minimize the risk of federal intervention (court litigation) regarding use of the aquifer. The cost of the proposed program is \$10 million in start-up cost and \$20 million annually. The majority of this cost will be borne by the municipal and industrial pumpers of the aquifer with an increase in their aquifer management fees. As a pumper, CPS’s aquifer management fee will increase about 300% from \$39 acre-foot to \$116 acre-foot. CPS owns 3,096 acre-feet of Edwards Aquifer pumping rights. In addition, as a “downstream beneficiary” of this plan, CPS will also contribute \$100,000 annually to the program.

CPS completed the development of a Strategic Water Resources Plan and a Drought Contingency Plan. As part of its strategic planning, in 2011 CPS renewed its waste water contract with SAWS for an additional 10,000 acre-feet of treated effluent for re-use at Braunig and Calaveras Lake for a total contract volume of 50,000 acre-ft until 2060.

Water Conservation

CPS recognized the importance of preserving the Edwards Aquifer water resource and began planning to reduce consumption of Edwards Aquifer water for power plant cooling shortly after the drought of record in the 1950’s. CPS built Braunig and Calaveras Lakes to utilize treated sewage effluent and runoff waters to maintain operating levels at these man-made cooling lakes. CPS has conserved billions of gallons of Edwards Aquifer water. For these water conservation efforts, the Association of Environmental Professionals selected CPS as one of eight 2001 recipients of the National Environmental Excellence Award. As part of CPS’s sustainability efforts, on March 30, 2009, the CPS Board approved a resolution supporting a mutually beneficial cooperative relationship between CPS and SAWS that promotes conservation of both energy and water. To address future water requirements, CPS has shifted generation capacity to less water intensive technologies and added renewables to its energy mix. Approximately 1,500 MW of generating capacity is expected to come from renewables by 2020. By using this strategy, an estimated 13,000 acre-feet of water has been saved from 2002 through 2010. Additionally, recognizing energy saved is water saved, CPS has implemented demand reduction and conservation programs for its customers to derive a 771 MW savings by year 2020, an energy savings which translate to savings in water consumption. Additional information on CPS’s sustainability programs can be found in “ENERGY CONSERVATION AND PUBLIC SAFETY PROGRAMS” herein.

Other Environmental Issues

By the early 1990s, CPS completed a program aimed at removing from its system all electrical equipment accessible to the public that was known to contain polychlorinated biphenyls (“PCBs”) in concentrations of 500 ppm or greater, as required by the Federal Toxic Substances Control Act. In addition, all oil-filled equipment is tested at the time of servicing as part of an ongoing program at CPS for voluntarily eliminating electrical equipment containing mineral oil with any level of PCBs. Since 1996, in connection with capital improvements being made to many of its substation sites, CPS has identified and remediated areas found to be contaminated by pollutants, such as PCBs. The TCEQ allows the disposal at a local landfill of soil and debris contaminated with 1-49 ppm of PCBs from electrical equipment spills, in lieu of distant disposal sites, resulting in considerable cost savings.

The EPA published an Advance Notice of Proposed Rulemaking (“ANPRM”) in the Federal Register, seeking both comments and data regarding EPA’s intent to curtail and/or eliminate numerous existing provisions of the PCB regulations found at 40 CFR Part 761 (Title 40 of the Code of Federal Regulations Part 761), specifically regarding use, handling, reuse, and storage. The EPA is soliciting information and data relating to PCB inventories, testing data, PCB management accomplishments, servicing practices, failure rates, weather-related incidents, removal and replacement costs, non-liquid PCBs et al. The proposed rule has been delayed until late 2013.

CPS also operates its own Class 1 non-hazardous waste landfill, which is registered with the TCEQ, an initiative that reduces disposal costs and CPS’s reliance upon off-site disposal facilities. Since 1990, CPS has significantly reduced the amount of hazardous waste (defined under the Federal Resource Conservation and Recovery Act) generated by its operations. CPS also has an extensive recycling program which includes electronics, wood, paper, cardboard, metals, plastic bottles, aluminum cans, used oil, coal-combustion by-products, concrete and asphalt.

The EPA is considering a proposal to regulate coal ash generated during the combustion of coal to produce electricity (referred to as coal combustion byproducts or “CCBs”) and classify it as a hazardous waste. Listing CCBs as hazardous waste could have dramatic adverse logistical and cost consequences to utility companies due to the increases in costs associated with managing and disposing of CCBs. CPS’s CCBs have been analyzed and test non-hazardous for the following constituents: mercury, selenium, chromium, cadmium, silver, arsenic, barium and lead. For the past several years, CPS has recycled 100% of its CCBs.

CPS completed the decommissioning and remediation of the Mission Road Power Plant. CPS has retired Tuttle Power Plant located at 9911 Perrin Beitel Road in northeast San Antonio. This plant consists of four gas-fired steam electric generation plants which began commercial operation in the 1950s. The units will require decommissioning in the future, and an environmental assessment will be required.

With continued dry conditions, CPS has been carefully monitoring the flow in the San Antonio River and the Calaveras and Braunig Lake water levels. CPS, working with the United States Geological Survey, installed a flow meter upstream of CPS’s river pumps to improve lake management operations.

On March 11, 2013, the Federal District Court issued its ruling in *The Aransas Project (TAP) v. Bryan Shaw, et al.* The primary issue in the case is whether the TCEQ’s water management practices in the San Antonio and Guadalupe River basins violated the Endangered Species Act by not providing sufficient fresh water inflows to support the endangered Whooping Cranes and their habitat. In its opinion, the court ordered the TCEQ to (1) stop issuing new water permits in both river basins, (2) obtain a United States Fish and Wildlife Service Incidental Take Permit, and (3) design, implement, and fund Habitat Conservation Plan (HCP) that protects the Crane’s habitat. Although the ruling does not appear to directly affect CPS’s water rights, it is possible that the HCP could ultimately impact CPS’s existing water rights especially during low flow periods.

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OSHA Hazard Communication Standard

In March 2012, OSHA adopted the new Globally Harmonized System-Hazard Communication Standard, where the proposal required all labels and Safety Data Sheets (SDSs) for chemicals and products to be in compliance with the new standardized requirements in three years after publication (or August 2014). The final rule requires manufacturers and importers to modify labels and SDSs by June 1, 2015, and gives distributors an additional six months, until December 1, 2015, to sell stock labeled 269 under the current standard. In addition, employers are given another six months, until June 1, 2016, to update their training and their hazard communication program with any new hazard information received because of the final rule. Employers have until December 1, 2013, to complete employee training. CPS will have to acquire new SDSs so they are available to all employees and CPS will be working with all applicable business units on the new hazard communication program requirements.

Recent Events

On May 11, 2011, CPS received a Notice of Enforcement (NOE) with a penalty of \$96,000 from the TCEQ for a 12-month rolling total sulfur dioxide (SO₂) exceedance of 804 tons of the 27,248/tons/yr limit for the Calaveras Power Station Plantwide Applicability (PAL) permit that occurred in October 2008. Immediate corrective actions were taken at that time; Deely2 was shut down, Deely1 ran at half capacity, and Spruce1 scrubbing was increased. Permit compliance was reattained in November 2008. A root cause analysis determined that several factors combined caused the increase, including an upward trend in coal sulfur content and increased generation at the Calaveras Power Station.

CPS submitted data to the TCEQ to show that all New Source Review (NSR), health-based permit limits were met at all times. Ambient air quality monitoring data also showed no exceedance of the 1-hour, 3-hour, 24-hour or annual NAAQS for SO₂. Permit Special Condition No. 1 establishes a threshold for evaluating whether modifications to the units covered under the permit require federal NSR permitting under the PSD program. The PAL exceedance was not attributable to any modification. CPS received a settlement letter and Agreed Order in late December 2011, in which CPS agreed to a supplemental environmental project ("SEP") in the amount of \$19,200. The signed Agreed Order and payment was made in June 2012.

Ward Transformer Superfund Site

CPS has been named as a Potentially Responsible Party ("PRP") at the Ward Transformer Superfund Site ("Ward Site") in Raleigh, North Carolina. The EPA is directing remediation efforts under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") to address PCB contamination at the Ward Site stemming from Ward Transformer Company's ("Ward's") transformer repair activities at the Ward Site. Documents relating to CPS's past transactions with Ward suggest that Ward purchased six used three-phase padmount transformers from CPS in 1978, which Ward then rebuilt and sold as refurbished units. CPS is one of nearly 200 entities identified as having sent electrical equipment to Ward for repair or resale; however, based on CPS's limited commercial history with Ward, CPS believes that, at most, it should be treated as a *de minimis* contributor to the contamination.

The EPA has divided the Ward Site into separate phases investigation and removal activities on the Ward Transformer property itself ("On-site") and similar activities at areas around the Ward Transformer property ("Off-site"). Five companies are currently performing and funding remediation activities at the On-site property ("Performing Parties"). The Performing Parties developed a draft allocation formula to proportionately allocate the remediation expenses they have incurred to the other parties who sent transformers to Ward. The Performing Parties have indicated that they anticipate incurring at least \$65 million in cleanup costs for the removal activities. According to the draft allocation, which has been challenged, CPS's share is well under one percent. The Performing Parties offered buyout options to the other parties, which CPS accepted. On July 7, 2009, CPS entered into a Settlement Agreement with the Performing Parties and agreed to pay \$359,296. The Settlement Agreement ended CPS's involvement with the Performing Parties for any removal activities On-site, unless additional documents are discovered indicating that CPS sent additional equipment to the Ward Site.

Separate from the activities with the Performing Parties, CPS was one of 60 entities who received a Special Notice Letter ("SNL") from the EPA. The SNL demanded that the recipients provide the EPA with a Good Faith Offer agreeing to reimburse the EPA for its costs and implement the investigation and remediation of the Off-site property. In January 2009, CPS and over 20 other SNL recipients sent the EPA a joint response to the SNL. Negotiations with the EPA concerning the Off-site property are ongoing. CPS has retained legal counsel to assist it in this matter. CPS responded to a CERCLA Section 104(e) Request for Information for the Ward Transformer Superfund Site, Raleigh, North Carolina from the EPA in May 2010. On May 5, 2010, CPS submitted a response to the EPA's Request for Information Pursuant to Section 104 of CERCLA and Section 3007 of RCRA for the Ward Transformer Superfund Site.

ENERGY CONSERVATION AND PUBLIC SAFETY PROGRAMS

Energy Conservation

CPS programs and activities to assist customers in understanding energy and ways to reduce electric and gas usage include:

- Comprehensive suite of energy efficiency programs offering rebates and incentives for residential, commercial and industrial customers;
- maintaining a special contact number where customers can obtain conservation and other energy-related information;
- conducting comprehensive residential and commercial energy audits and commercial retrocommissioning;
- providing a free comprehensive weatherization and energy efficiency program for low-income customers;
- providing commercial load curtailment programs;
- scheduling consumer information exhibits at high-traffic locations such as area shopping malls, trade shows, and other special events;
- conducting utility-related presentations for schools, community service organizations, and business and professional groups; and
- making available a residential self-energy audit facility on the CPS website.

In connection with CPS's development of a Strategic Energy Plan that includes energy efficiency as well as generation, CPS has committed to an aggressive, long-term energy efficiency and conservation plan, referred to as STEP. The City Council has partnered with CPS by enacting a building code ordinance to encourage energy efficiency and conservation, and authorizes the funding of the CPS conservation and sustainability Save for Tomorrow Energy Plan ("STEP") program. The STEP program is a demand management program designed to encourage customers to improve the energy efficiency of their homes, buildings and processes, thereby saving electricity and reducing system demand (peak and non-peak). The goal of the program is to save 771 megawatts (MW) of demand between 2009 and 2020. The 771 MW is equivalent to the amount of energy produced by a large power plant on an annual basis. To put this into perspective, the CPS Spruce 1 power plant generates 575 MW and the newest Spruce 2 generates 750 MW of electricity. Cumulatively, the STEP program has saved approximately 300.7 MW since it was implemented.

CPS has plans to evaluate and modify program offerings annually to target the most effective methods for energy reduction. To facilitate program development, CPS has hired a leading consulting firm. It is estimated that the programs will cost approximately \$849 million through 2020 and CPS worked with the City to establish a fair and equitable funding mechanism to support these goals. See "CUSTOMER RATES – Fuel and Gas Cost Adjustment" herein.

On January 20, 2009, the CPS Board approved a new Sustainable Energy Policy Statement. Centralized power plants, including utility scale solar, and the traditional electric utility business model are needed now to bridge the gap to the future. In the future, more electricity will come from distributed renewable resources and stored energy, which is distributed on a "smart grid," to customers empowered with the information to better control their own energy cost and consumption. CPS offers residential and commercial customer solar rebates.

On May 21, 2009, the City Council approved a funding mechanism for the STEP program. See "CUSTOMER RATES – Fuel and Gas Cost Adjustment" herein.

On June 8, 2010 CPS 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 to invest up to \$50 million over 10 years in the institute. The first two years' investment will be \$3.5 million, 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 CPS Board.

Public Safety Programs

CPS's Public Safety Awareness ("PSA") program provides natural gas safety messaging, in accordance with the RRCT's RP1162 guidance, to public officials, emergency officials, excavators and the general public within Bexar and surrounding counties. In addition to formal presentations to the audiences referred to, PSA is in constant face-to-face contact with excavators in the area to disseminate messaging regarding Texas' 811 Call Before You Dig program.

FUEL SUPPLY

CPS has a diversified generation fuel supply that includes coal, natural gas, nuclear, and fuel oil. CPS purchases natural gas for electric generation and local distribution through its natural gas system on a consolidated basis. Master enabling agreements with natural gas suppliers are reviewed on an ongoing basis to ensure adequate natural gas supplies exist to meet current and future requirements. While coal, natural gas, and nuclear fuel represent the base fuel supply for power generation, certain CPS power plants also have the capability to burn petroleum coke to supplement coal while others can burn fuel oil (diesel) as an alternate fuel or to supplement natural gas. This dual fuel capability provides greater operational flexibility. Fuel oil can be used for generation, when needed, at the Sommers Plants, Braunig Plants and in the Braunig Peaking Plants.

Coal is CPS's base energy option, providing 43% of its net annual generation in Fiscal Year 2013. CPS's units are designed to use Wyoming Powder River Basin ("PRB") coal. PRB coal is clean, abundant and economical and it is part of CPS's long-range energy plan. CPS has committed to burn PRB coal with lower sulfur content in its unscrubbed Deely units. Coal is secured through contracts providing both fixed and variable prices that reflect current market conditions. Delivery of PRB coal to CPS occurs on the Union Pacific ("UP") railroad with BNSF Railway having access rights to CPS's coal yard at Calaveras Power Station. Given the current market, CPS has favorable contracts with UP for terms and pricing. While CPS will take every reasonable step to assure the continuity of its coal supply, CPS cannot predict whether any future coal shipment delays or curtailments could have a material adverse effect on the availability of its coal-fired generating stations.

Nuclear is CPS's other base energy option, providing about 25% of its net annual generation in Fiscal Year 2013. Nuclear fuel procurement for STP is managed by the STPNOC staff with oversight and guidance provided by the Participants. STP fuel supply requires uranium oxide, conversion of uranium oxide to uranium hexafluoride, enrichment of fissile uranium 235 isotope from 0.7% to about 4.5%, design and fabrication of fuel assemblies along with disposal of spent fuel assemblies. Uranium supply is typically provided by primary producers, either through long-term contracts or through favorable short-term and/or spot market purchases. Uranium conversion services are obtained under contracts with primary producers of several years duration, covering STP's current operating license term. Enrichment requirements are contracted with Urenco USA through STP's current operating license term. Fabrication requirements are contracted with Westinghouse through STP's current operating license term. See "DESCRIPTION OF PHYSICAL PROPERTY – Electric System – Used Nuclear Fuel Management" herein.

CPS also owns and operates natural gas transmission facilities, consisting of two larger systems and some short segments connected to power plants. The North Gate Pipeline and the South Gate Pipeline are the two larger systems. The North Gate Pipeline is a 24-inch steel pipeline, which extends 17.2 miles from southern Comal County into northern Bexar County, Texas. Natural gas can be supplied to the pipeline through Energy Transfer's 36-inch Oasis Pipeline and Enterprise Texas Pipeline's ("Enterprise") 30-inch West Texas Pipeline.

The South Gate Pipeline comprises 60.3 miles of 24 and 30-inch steel pipeline, of which 46.9 miles of 30-inch pipeline extends south into Karnes County. A major delivery station in Karnes County connects to the joint venture pipeline owned by Kinder Morgan and Energy Transfer. CPS also operates numerous taps throughout the system connecting to Enterprise, on the North Gate and South Gate Pipelines, and directly into the supply pressure and distribution systems. CPS utilizes its diverse natural gas supply portfolio and interconnects with these pipelines to meet its power plant and distribution requirements.

CPS manages the combined natural gas supply requirements of the power plants and distribution systems through a diversified portfolio of firm and interruptible services with a variety of suppliers. Most of the major natural gas delivery stations are owned by CPS and remotely monitored by the CPS control center, assuring reliable operation. In accordance with the CPS Fuels Management Procedures Policy, designated CPS staff may enter into natural gas supply transactions using master enabling agreements, which incorporate standard commercial terms. CPS has approximately 80 master enabling contracts with natural gas suppliers under which CPS may purchase natural gas requirements. CPS manages firm transportation and storage contracts with various services providers to meet local distribution and generation requirements and to serve the Rio Nogales Plant, with limited ability to share services between CPS facilities.

Periods of prolonged cold weather, during which natural gas supply may fall short of demand, may necessitate the curtailment of gas use for boiler fuel. The Natural Gas Policy Act subjects intrastate gas, including gas intended for boiler fuel uses, to Presidential emergency purchase authority and emergency allocation authority to assist in meeting interstate natural gas requirements for high priority uses. CPS's gas supply has not experienced a regulatory curtailment since 1983. Nevertheless, CPS's gas supply is subject to the ability of its gas suppliers to make available sufficient

quantities of supply, as well as fluctuations in market prices.

CPS maintains fuel oil (diesel) supplies at certain dual-fuel capable generating units. At these plants CPS maintains fuel oil inventory and fuel oil receipt capability by truck. Inventory and receipt capability at these plants assures continued operation during natural gas supply disruptions or price events.

The Energy Price Risk Management Policy was implemented in 2002 to reduce the effects of energy price volatility consistent with this policy. At times, financial derivative instruments are utilized to hedge natural gas prices. See “WHOLESALE POWER” and “ENTERPRISE RISK MANAGEMENT” herein.

On June 21, 2007, CPS entered into a prepaid natural gas transaction with SA Energy Acquisition Public Facility Corporation (“SAEA” or “PFC”), a non-profit public facility corporation previously created by the City pursuant to Chapter 303, as amended, Texas Local Government Code. This transaction enabled CPS to purchase a 20-year supply of natural gas to cover approximately 20,000 MMBtu per day. This gas is dedicated for use in CPS’s gas distribution system and CPS’s obligation in this transaction is limited to a take-and-pay gas purchase agreement, obligating CPS to pay a monthly index-based price less a fixed discount for delivered gas. The PFC prepaid for this gas by issuing \$644,260,000 of tax-exempt fixed rate bonds and used the proceeds to make the payment to the natural gas supplier. This prepaid gas transaction was described in its own official statement relating to such bonds issued by the PFC in which the transaction and related risks were fully disclosed. On February 25, 2013, SAEA executed certain amendments to the Prepaid Natural Gas Sales Agreement entered into with J. Aron & Company (“J. Aron”) in 2007 and other related documents with respect to the 2007 prepayment transaction with J. Aron. Under the resolution and the amendments, Goldman, Sachs & Co. surrendered for cancellation \$111,060,000 of the SAEA Gas Supply Revenue Bonds, Series 2007 which are owned by J. Aron, Goldman, Sachs & Co., or affiliates. In exchange, SAEA agreed to reduce future required natural gas delivery volumes from 104.6 million MMBtu to 81.3 million MMBtu, reflecting a reduction in required volumes to be delivered that corresponds to the par value of the bonds that were surrendered.

Multiple PFC debt credit rating changes resulted as a direct consequence of Goldman Sachs Group, parent of the natural gas supplier J. Aron, having their credit ratings lowered by each rating agency. The PFC debt credit ratings were lowered in December 2008 and January 2009 by Fitch Ratings (“Fitch”), Moody’s Investors Service, Inc. (“Moody’s”), and Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”). On December 17, 2008, Moody’s lowered the PFC debt credit ratings from “Aa3” to “A1” and on December 19, 2008 S&P lowered the PFC debt credit ratings from “AA-” to “A”. On December 30, 2008, the authorized representatives of the PFC posted a material event notice through the MAC (defined herein), as required by Rule 15c2-12 of the United States Securities and Exchange Commission (“SEC”), disclosing these two credit rating changes. Subsequently, on January 28, 2009, Fitch lowered the PFC debt credit ratings from “AA-” to “A+” and the authorized representatives of the PFC posted a second material event notice through the MAC on February 4, 2009. On February 4, 2009, Moody’s lowered the PFC debt credit ratings to “A2” as a result of the lowering of DEPFA Bank’s credit ratings. The downgrade, was discovered by CPS during the course of independent due diligence (no notification thereof by Moody’s), and was the subject of a material event notice filed with EMMA on November 29, 2010.

The ratings assigned to DEPFA Bank (PFC invests funds at DEPFA Bank to pay its debt service) were lowered by Fitch on October 8, 2010 and by Moody’s on October 1, 2010, to “BBB+/F-2”, and “Baa3/P-3”, respectively, and Moody’s put the PFC debt credit rating on watch for a possible future downgrade. After efforts to work with DEPFA Bank to satisfy Moody’s criteria did not succeed, on June 1, 2011 Moody’s downgraded the PFC debt credit rating from “A2” to “Baa3”. A material event notice was filed on June 7, 2011, with the MSRB through EMMA. On November 29, 2011, S&P lowered Goldman Sachs Group to “A-” from “A”, and on December 8, 2011, S&P downgraded the PFC debt credit rating to “A-” from “A”, with a negative outlook. A material event notice was filed on December 14, 2011 with the MSRB through EMMA. On December 15, 2011, Fitch lowered Goldman Sachs Group’s credit rating to “A” from “A+”, with a stable outlook. Following this rating action, on December 19, 2011, Fitch downgraded the PFC debt credit rating to “A” from “A+”, with a stable outlook. A material event notice was filed on December 30, 2011 with the MSRB through EMMA. As a result, the PFC debt credit ratings are currently rated by Fitch, Moody’s and S&P at “A”, “Baa3”, and “A-”, respectively. The lowering of the PFC debt credit ratings does not change the day-to-day operations of the PFC and has no impact on CPS’s credit ratings. CPS continues to purchase and receive natural gas at the discounted price. However, if a party providing funds (or gas to be sold to produce funds) used to pay the PFC’s debt were to default, the PFC’s debt could be accelerated and its gas supply agreement could be terminated, thereby eliminating future fuel expense savings passed through to CPS customers.

LEASE TRANSACTION

The City is a party to a transaction, entered into in June 2000, involving its Spruce1 unit, pursuant to which such facility is subject to a variety of contractual arrangements, including a lease agreement (“Lease”), with CPS as lessee. This Lease transaction was complex, involved voluminous documentation and numerous parties, and the discussion herein is provided primarily for the purpose of providing information concerning the current potential financial impact on CPS from this Lease transaction as disclosed in the following paragraph. For certain financial disclosure about the Lease transaction, please see CPS’s audited financial statements. The term of the Lease expires in March 2032. As security for its obligations under the Lease, CPS obtained (a) a payment undertaking agreement guaranteed by American International Group, Inc. which is additionally secured by a pool of United States government securities (“AIG Collateral”) and (b) a financial guaranty issued by Financial Security Assurance Inc., now known as Assured Guaranty Municipal Corp. (“AGM”). The Lease transaction documents require that, in the event the senior unsecured credit rating of AGM falls below “AA-” from S&P or “Aa3” from Moody’s, CPS is required to replace the financial guaranty with a similar collateral instrument issued by a provider having such minimum (or in the case of certain providers, higher) ratings. AGM is currently rated “AA-” (stable outlook) and “Aa3” (on review for possible downgrade) by S&P and Moody’s, respectively. CPS, working with its financial advisors, is evaluating various options to potentially unwind this transaction and/or find a replacement surety provider in the event of a further downgrade of AGM.

On January 17, 2013, Moody’s Investors Service, Inc. downgraded the Insurance Financial Strength rating of AGM to “A2” from “Aa3.” CPS is currently evaluating its options to address requirements under the payment-undertaking agreement as a result of the downgrade.

Additional information on AGM is made publically available by AGM. Given current financial market conditions, in the event such a AGM credit downgrade occurs, it could be difficult for CPS to substitute another collateral provider with the required minimum credit ratings. If CPS were able to identify a suitable provider, a significant premium could be payable. Failure to replace this provider as required could ultimately constitute an event of default under the Lease and permit the lessor to terminate the transaction and demand that CPS make a termination payment, which may only partially be covered by the AIG Collateral. See discussions under the caption “POTENTIAL EXCISE TAX ADVERSELY AFFECTING THE CITY AND CPS” and under the subcaption “INVESTMENTS - Additional Provisions”.

POTENTIAL EXCISE TAX ADVERSELY AFFECTING THE CITY AND CPS

The Tax Increase Prevention and Reconciliation Act of 2005, enacted on May 17, 2006, added section 4965 (“Section 4965”) to the Internal Revenue Code, which imposes an excise tax with respect to “prohibited tax shelter transactions” on certain “tax-exempt entities”, including a state or political subdivision thereof, such as the City that is a “party to a prohibited tax shelter transaction”. CPS, acting for the benefit of the City, entered into a series of leasing transactions (“Transactions”) in 2000, which may be considered prohibited tax shelter transactions. As a result of guidance issued by the Internal Revenue Service in 2007, CPS has determined that Code rules currently do not retroactively apply to the Transactions. CPS and its advisors will continue to analyze any additional regulations and any future guidance to ensure that the Transactions remain exempt from any new tax liability.

WHOLESALE POWER

Beginning in 1997, CPS initiated an active program to optimize its excess generation capacity in the wholesale power market, which includes both power purchases and power sales when such can be reasonably expected to reduce cost or generate revenue for the system. As a part of managing the generation portfolio, CPS may also purchase power if there is an unanticipated deficit in capacity, to maintain reserve margins, to enhance reliability for the electric system, or when economically prudent to reduce overall costs of its obligations in the ERCOT market

Trained, experienced staff in CPS’s Energy Market Operations division, who report to the CPS Senior Vice President for Energy Supply and Market Operations, conduct wholesale power transactions in accordance with established procedures. CPS is a Qualified Scheduling Entity (“QSE”) with ERCOT which allows CPS to manage both load and generation in the ERCOT real-time and day-ahead markets. The QSE function is also managed by the Energy Market Operations division. In 2011, the Energy Marketing & Wholesale Oversight Committee, comprised of executive leadership, was established to provide comprehensive review and oversight of proposed wholesale transactions to ensure alignment with CPS strategies, including evaluation of risks associated with the transactions. CPS conducts wholesale power transactions only with approved counterparties with which CPS has established master enabling agreements for such transactions. The enabling agreements outline the general payment and delivery terms and conditions of such sales and purchases, and provide for written transaction confirmations to be exchanged between CPS and its counterparts for each transaction.

ENTERPRISE RISK MANAGEMENT & SOLUTIONS

In June 1998, CPS established a Risk Management Department under the direction of the Executive Vice President and Chief Financial Officer. The department's initial focus was on establishing an insurance program to address CPS's internal risks as well as exposures created by third parties, such as vendors and contractors.

In 2002, as part of its risk management and fuel and electricity purchasing policies, CPS obtained the ability to utilize certain financial derivative instruments, such as energy-based futures, options and swap contracts to hedge or mitigate price volatility associated with fuel and energy sales and purchases. The hedge program is operated in accordance with a written policy approved annually by the CPS Board. A program oversight committee composed of CPS corporate officers and senior executives approves operating policies and corporate hedging strategies.

As part of its continued expansion, the Risk Management Department began working closely with the Wholesale Energy Markets staff to provide credit risk assessments and on-going monitoring of existing and potential counterparties. Capabilities in this area continue to expand. In April 2006, a Chief Risk Officer was brought on board to formalize an enterprise-wide approach to monitor CPS's financial and non-financial risk management efforts. The department was renamed Enterprise Risk Management & Solutions ("ERMS"). ERMS continuously monitors all counterparties and credit related exposure on a daily basis.

The Dodd-Frank Act was signed into law on July 21, 2010. Title VII of the Dodd-Frank Act, known as the "Wall Street Transparency and Accountability Act of 2010," substantially modified portions of the Commodity Exchange Act with respect to swaps and swap transactions. The law is designed to reduce risk, establish new business conduct rules, increase transparency, and promote market integrity within the financial system. The Dodd-Frank Act gives both the Commodity Futures Trading Commission ("CFTC") and the SEC statutory authority to directly regulate the "Over the Counter" (or OTC) derivatives market, including many of the commodities that are currently being utilized by CPS to hedge price risk in accordance with its own policies and procedures. The CFTC and SEC are in the process of proposing new rules pursuant to this new legislation, but continue to delay the deadline for finalization and implementation of many key rules. Development of the legislation has progressed in recent months, but certain key elements pertinent to CPS's situation remain unresolved. Consequently, the overall impact on CPS remains uncertain. CPS is currently working with counterparties to assure that representations and elections are in place in accordance with CFTC deadlines.

INVESTMENTS

Operating Funds

CPS invests its operating funds as authorized by its bond and commercial paper ordinances and by federal and Texas law including, but not limited to, the Public Funds Investment Act, as amended, Chapter 2256, Texas Government Code ("Investment Act"), Chapter 272, as amended, Texas Local Government Code, and in accordance with written investment policies approved by the CPS Board. These ordinances, laws and CPS's investment policies are subject to change.

Under current Texas law and the investment policies approved by the CPS Board, CPS may invest its funds in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations, having a stated final maturity of 10 years or less, directly issued and guaranteed 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 Texas or the United States or their agencies and instrumentalities including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated not less than "A" or its equivalent; (6) a certificate of deposit or share certificate issued by a depository institution or a broker that has its main office or branch in the State of Texas, which is fully secured and/or federally insured; (7) securities lending programs that are 100-102% collateralized; (8) fully collateralized repurchase agreements; (9) certain bankers' acceptances; (10) commercial paper rated not less than "A-1" or "P-1" or equivalent by at least two nationally recognized credit rating agencies and that have a stated maturity of 270 days or fewer from the date of issuance; (11) no-load money market mutual funds that have a dollar weighted average stated 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; (12) certain no-load mutual funds that are rated at least "AAA" or its equivalent; (13) certain guaranteed investment contracts that are funded by bond proceeds if authorized in the order, ordinance, or resolution authorizing the issuance of the bonds; (14) investment pools that stabilize at a \$1 net asset value to the extent reasonably possible and are rated no lower than "AAA" or "AAA-m" or equivalent and meet all other requirements as stipulated in

Section 2256.016 of the Investment Act; (15) in connection with a transaction authorized by Section 272.004 of the Local Government Code, one or more of the investments, securities, guarantees, and/or insurance contracts or other contracts and agreements described in Section 452.108(d) of the Texas Transportation Code, including, but not limited to the following: payment agreements, financial guarantees or insurance contracts with counterparties having either a corporate credit or debt rating in any form, a claims-paying ability, or a rating for financial strength of “AA” or better and (16) for the General Account only, hedging instruments authorized by Section 2256.0201 of the Texas Government Code and in accordance with CPS’s Energy Price Risk Management Policy for the purpose of managing risks of financial uncertainty or loss associated with adverse volatility in the pricing of CPS’s energy and fuel assets, to include energy based futures contracts, option contracts, swap contracts, insurance contracts, and structured contracts composed of combinations of hedging instruments.

CPS is specifically prohibited from investing its funds 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 collateral and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity date 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 change in the market index.

The weighted term to maturity of investments at January 31, 2013, was 1.85 years for CPS’s funds. CPS’s funds, as of January 31, 2013, were invested entirely in Government Agency Obligations held in book-entry form by the Federal Reserve, collateralized mortgage obligations directly issued by and guaranteed by a Federal agency, money market mutual funds, commercial paper, high quality municipal bonds, brokered CDs and money market deposit funds. The market value of the investments held as of January 31, 2013 totaled approximately \$749 million. Based on market value, 27% of the portfolio was invested in United States Government Agency Obligations, 53% in money market mutual funds, 6% in obligations whose principal and interest are backed by Federal agencies, 8% in high-quality municipal bonds and 5% in high quality commercial paper, and less than 1% in brokered CDs (fully FDIC insured). CPS determines the market value of such investments by reference to Bloomberg’s financial terminal, published quotations and other comparable information. No CPS funds are invested currently in reverse repurchase agreements or derivative securities, securities whose rate of return is determined by reference to some other instrument, index, or commodity, except for certain natural gas options held under the Energy Price Risk Management Policy. See “WHOLESALE POWER”, “ENTERPRISE RISK MANAGEMENT & SOLUTIONS” and “FUEL SUPPLY” herein.

STP Decommissioning Funds

CPS invests in two specific decommissioning trusts, the STP Decommissioning Trust and the Master Trust (TCC Funded), in accordance with its decommissioning investment policy and as authorized by Texas law, the NRC and, where applicable, the PUCT. The STP Decommissioning Trust is the sinking fund created by CPS for the sole purpose of financing the decommissioning expenses for its original (28%) interest in STP. CPS obtained the Master Trust (TCC Funded) after it purchased from AEP Texas Central Company its additional 12% interest in STP. As part of the acquisition of the additional interest in STP, CPS obtained a proportionate amount of the nuclear decommissioning trust fund originally created by TCC. Responsibility for continuous funding of the Master Trust (TCC Funded) will remain the responsibility of TCC customers through final decommissioning of STP. At acquisition by CPS of the additional interest in STP from TCC, the funds were transferred to CPS by TCC and placed into the Master Trust (TCC Funded), which is entirely separate from the existing decommissioning trust fund held in the STP Decommissioning Trust created and maintained by CPS for its original interest in STP. See “DESCRIPTION OF PHYSICAL PROPERTY – Electric System - South Texas Project” herein for further discussion of CPS’s acquisition of a 12% interest in STP from TCC. CPS’s investments in the STP Decommissioning Trust and in the Master Trust (TCC Funded) are held by an independent trustee and are invested pursuant to a separate investment policy adopted by the CPS Board and to the provisions of the trust agreements of each trust.

Effective September 1, 2005, the Investment Act was amended to allow a Texas municipality which owns a municipal electric utility to invest its decommissioning trust funds in any investment authorized by Subtitle B, Title 9 of the Texas Property Code. The broad investment authority found in the Texas Property Code includes, but is not limited to, the power to invest in equities.

STP Decommissioning Trust

Under the Texas Property Code, other applicable law and the South Texas Project Decommissioning Trust Investment Policy (“STP Investment Policy”) approved by the CPS Board, the STP Decommissioning Trust may be invested as follows: (1) funds may be invested in investments permissible by law under the guidance and regulations issued by the

NRC and under the Texas Property Code; (2) the STP Decommissioning Trust's investments should be diversified such that (a) no more than 5% of the securities held may be issued by one entity, with the exception of the federal government, its agencies and instrumentalities, and (b) the portfolio shall contain at least 20 different issues of securities with municipal securities and real estate investment trusts diversified as to geographic region; (3) derivative securities are limited to those whose purpose is to enhance returns of the STP Decommissioning Trust without a corresponding increase in risk of the portfolio; (4) securities lending transactions must be collateralized at 100-102%; (5) fixed income securities may not be rated below "BBB-" and "BBB-" by S&P and Fitch, respectively, or "Baa3" by Moody's, at the time of purchase, and the overall fixed income portfolio must be rated no less than "A" by S&P, Fitch and Moody's; (6) equity securities are permissible investments (a) limited to a cap of (i) 60% when the weighted average remaining life of the decommissioning liability exceeds 5 years, (ii) 30% when the weighted average remaining life of decommissioning liability ranges between 5 years and 2.5 years and during all years in which expenditures for decommissioning the nuclear units occur, and (iii) 0% when the weighted average remaining life of the decommissioning liability is less than 2.5 years, and (b) when the equities are of a type not considered to be speculative; (7) no load commingled funds of the United States, including Investments in Funds of Hedge Funds and Investments in commingled Real Estate Limited Partnerships or Funds; and (8) commingled funds that include United States equity-indexed funds, actively managed United States equity funds, balanced funds, bond funds, real estate investment trusts, and international funds are permissible investments, if the commingled funds are consistent with the goals stated in the STP Investment Policy. Commingled funds (a) may be focused on specific market sectors or concentrated in a few holdings only as necessary to balance the trust's overall investment portfolio mix, and (b) may contain some below investment grade bonds; but the overall portfolio of debt instruments shall have a quality level, measured quarterly, not below an "A" rating by S&P, Fitch and Moody's, respectively.

The STP Decommissioning Trust is specifically prohibited (1) from investing in derivatives if being used to increase the value of the portfolio by any amount greater than the value of the underlying securities; (2) from the use of leverage (borrowing) to purchase securities or the purchase of securities on margin; (3) from investing in corporate or municipal debt securities that have a bond rating below investment grade (below "BBB-" by S&P and Fitch or "Baa3" by Moody's) at the time that the securities are purchased and the appropriateness of continuing to hold a particular debt security must be reexamined if the debt rating of the company in question falls below investment grade after the debt security has been purchased; and (4) from investing in equity securities that are considered speculative (e.g., stocks of companies with limited operating history or that have low "safety" rankings from ratings agencies).

Investments in the STP Decommissioning Trust consisted of fixed income securities, equity securities and cash equivalents as of December 31, 2012. As of December 31, 2012, the total market value of all investments was approximately \$337 million and was comprised of fixed income securities totaling approximately \$191 million, equity securities (domestic and international) having a market value of approximately \$131 million and the remaining \$15 million being invested in cash and cash equivalents. Based upon market values, 44% of fixed income securities were invested in United States Government and Government Agency obligations, 47% were invested in corporate bonds and municipal bonds, 8% were invested in foreign bonds, and 1% was invested in cash & cash equivalents.

Master Trust (TCC Funded)

Under applicable law, including NRC and PUCT regulations, and the STP Investment Policy, the Master Trust (TCC Funded), may be invested in (1) a way that, once the portfolio of securities (including commingled funds) held in the Trust contains securities with an aggregate value in excess of \$20 million, the funds are diversified so that (a) no more than 5% of the Investment Manager's portfolio of securities held are issued by one entity, with the exception of the federal government, its agencies and instrumentalities, and (b) the portfolio shall contain at least 20 different issues of securities with municipal securities and real estate investments diversified as to geographic region; (2) derivative securities limited to those whose purpose is to enhance returns of the trust without a corresponding increase in risk of the portfolio; (3) securities lending transactions when collateralized at 100-102%; (4) fixed income securities not rated below "BBB-" or "BBB-" by S&P and Fitch Ratings, respectively, or "Baa3" by Moody's, at the time of purchase; (5) equity securities, (a) limited to a cap of (i) 60% when the weighted average remaining life of the decommissioning liability exceeds 5 years, (ii) 30% when the weighted average remaining life ranges between 5 years and 2.5 years and during all years in which expenditures for decommissioning the nuclear units occur, and (iii) 0% when the weighted average remaining life of the decommissioning liability is less than 2.5 years, and (b) with at least 70% of the aggregate market value of the equity portfolio, including the individual securities in commingled funds, having a quality ranking from a major rating service and the overall portfolio of ranked equities with a weighted average quality rating equivalent to the composite rating of the S&P 500 index assuming equal weighting of each ranked security in the index; and (6) commingled funds that include United States equity-indexed funds, actively managed United States equity funds, balanced funds, bond funds, real estate investment trusts, and international funds that (a) are consistent with the goals stated in the investment policy, (b) are focused on specific market sectors or concentrated in a few holdings only if used

as necessary to balance the trust's overall investment portfolio mix, and (c) may contain some below investment grade bonds; however, the overall portfolio of debt instruments shall have a quality level, measured quarterly, not below a "AA" rating by S&P or "Aa2" by Moody's.

The Master Trust (TCC Funded) is specifically prohibited (1) from investing in derivatives if being used to increase the value of the portfolio by any amount greater than the value of the underlying securities; (2) from the use of leverage (borrowing) to purchase securities or the purchase of securities on margin; (3) from investing in corporate or municipal debt securities that have a bond rating below investment grade (below "BBB-" or "BBB-" by S&P and Fitch Ratings, respectively, or "Baa3" by Moody's) at the time that the securities are purchased and the appropriateness of continuing to hold a particular debt security must be reexamined if the debt rating of the company in question falls below investment grade at some time after the debt security has been purchased; (4) from investing in equity securities where the issuer has a capitalization of less than \$100 million; and (5) from investing in securities issued by the electric utility collecting the funds or any of its affiliates; however, investments may include commingled funds that contain securities issued by the electric utility if the securities of the utility constitute no more than 5% of the fair market value of the assets of such commingled funds at the time of the investment.

As of December 31, 2012, CPS's investments in the Master Trust (TCC Funded) consisted of fixed income securities, equity securities (domestic and international) and cash equivalents with a total market value of approximately \$118 million and was comprised of fixed income securities totaling approximately \$65 million, equity securities having a market value of approximately \$45 million and the remaining \$8 million being invested in cash and cash equivalents. Based upon market values, 73% of fixed income securities were invested in United States Government and Government Agency obligations and 24% were invested in corporate and municipal bonds and the remaining 3% was invested in cash & cash equivalents.

Investment Policies

Under the Investment Act, CPS is required to invest its funds in accordance with written investment policies that (1) primarily emphasize safety of principal and liquidity; (2) address investment diversification, yield, maturity, and the quality and capability of investment management; (3) include a list of authorized investments for CPS funds and the maximum allowable stated maturity of any individual investment; (4) state the maximum average dollar-weighted maturity allowed for pool fund groups; (5) contain the methods to monitor the market price of investments acquired with public funds; (6) require the settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis; and (7) monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Section 2256.021 of the Investment Act. All CPS funds must be invested consistent with formally adopted written investment strategies that specifically address each fund's investment. Each strategy describes its objectives concerning (1) suitability of investment type; (2) preservation and safety of principal; (3) liquidity; (4) marketability of each investment; (5) diversification of the portfolio; and (6) yield.

Under the Investment Act, CPS investments under all investment policies 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".

Consistent with the requirements of the NRC, Texas Property Code, the Investment Act, and as applicable, the PUCT, the STP Decommissioning Trust, and the Master Trust (TCC Funded) will be invested consistent with the following goals: (1) the funds will be invested with a goal of earning a reasonable return commensurate with the need to preserve the value of the assets; (2) the portfolio of securities will be diversified to the extent reasonably feasible given the size of the trust; (3) asset allocation and the acceptable risk level of the portfolio will take into account market conditions, the time horizon remaining before the commencement and completion of decommissioning, and the funding status of the trust; (4) while maintaining an acceptable risk level, the investment emphasis when the remaining life of the liability exceeds five years will be to maximize net long-term earnings and the investment emphasis in the remaining investment period of the trust will be on current income and asset preservation; and (5) in selecting investments, the impact of the investment on the portfolio's volatility and expected return net of fees will be considered.

Additional Provisions

Under the Investment Act for the Operating Funds, STP Decommissioning Trust and the Master Trust (TCC Funded), CPS must: (1) review annually and, if desired, change its adopted written investment policies and strategies; (2) designate investment officers to be responsible for investment of its funds consistent with the investment policies of CPS; (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 CPS Board; (4) require the qualified representative of firms seeking to sell securities to CPS to (a) receive and review the CPS investment policies; (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions not authorized by the CPS investment policies; and (c) deliver a written statement attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the CPS investment policies; (6) provide specific investment training for CPS's investment officers; and (7) review, revise, and adopt on an annual basis a list of qualified brokers that are authorized to engage in investment transactions with CPS.

For the STP Decommissioning Trust and the Master Trust (TCC Funded), CPS is prohibited from being engaged as investment manager for the funds or from giving day-to-day management direction of the funds' investments. Therefore, the use of one or more professional investment managers is necessary to assure that the trusts are managed in a manner so that the funds are secure and earn a reasonable return. CPS has the following duties concerning the use of one or more investment managers: (1) a duty to determine whether the investment manager's fee schedule for investment management services is reasonable, when compared to other such managers; (2) a duty to investigate and determine whether the past performance of the investment manager in managing investments has been reasonable; (3) a duty to investigate and determine whether the financial stability and strength of the investment manager is adequate for purposes of liability; (4) a duty to investigate and determine whether the investment manager has complied with the investment management agreement; and (5) a duty to investigate any other factors which may bear on whether the investment manager is suitable.

Some of the proceeds of the financial lease/leaseback transaction with a subsidiary of Unicom Corporation involving CPS's Spruce1 are invested, as security for certain CPS undertakings in connection with the transaction, in a collateralized payment undertaking agreement among (1) CPS; (2) Spruce Equity Holdings, L.P., a Delaware limited partnership; (3) Spruce Holdings Trust, a Delaware business trust; and (4) a subsidiary of American International Group, Inc. Unicom Corporation, subsequent to this transaction, has merged into Exelon. See "LEASE TRANSACTION" and "POTENTIAL EXCISE TAX ADVERSELY AFFECTING THE CITY AND CPS" herein.

APPENDIX E

**SELECTED PORTIONS OF THE CITY'S COMPREHENSIVE
ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR
ENDED SEPTEMBER 30, 2012**

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CITY OF SAN ANTONIO

P O BOX 839966
SAN ANTONIO, TEXAS 78283-3966

February 28, 2013

To the Honorable Mayor, City Council and City Manager:

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, 2012. These financial statements were prepared by the City's Finance Department and audited by the public accounting firm of Padgett Stratemann & Co., 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.

CITY PROFILE

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; revenue payments from the City's municipally-owned utilities; grants; user fees; bond proceeds; tax increment financing; and other sources.

The City has twenty-nine legally separate entities that are considered part of the City's operations and therefore included in its annual financial statements. Seventeen of these entities are blended component units of the City, while the other twelve entities are discretely presented. Based on the size and significance of four component units (City Public Service Energy, San Antonio Water Systems, Fire and Police Pension Fund and Fire and Police Retiree Healthcare Fund), the City has additionally included excerpts of these entities' footnotes within the CAFR. For additional details on each of these twenty-nine entities and the basis for their respective presentation in our financial report, please refer to the Financial Section, entitled, Summary of Significant Accounting Policies.

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 Mayor and City Council set policy direction and the City Manager implements those policies in an efficient and effective manner. The City Manager serves at the pleasure of the City Council.

AN EQUAL OPPORTUNITY EMPLOYER

CITY PROFILE (Continued)

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, 2012, 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 1,359,758 citizens and is ranked as the seventh most populated city in the country.

Major employers in and around the San Antonio area include the Department of Defense through Joint Base San Antonio (Lackland, Fort Sam & Randolph), United Services Automobile Association, H.E. Butt Grocery Stores, City of San Antonio, Northside, North East and San Antonio Independent School Districts, Methodist Health Care System, Baptist Health Systems and University of Texas Health Science.

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 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 indicators tell the story of a resilient 2012 for San Antonio exemplifying the comparative stability of the local economy as it outperformed comparable cities impacted by the national recession. 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'. According to the quarterly research performed by the Brookings Institution, San Antonio is ranked 26 out of 100 largest metropolitan areas (metros) in its overall recovery performance since the Great Recession of 2008.

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 December 2012 report, which examined data throughout the 3rd quarter of calendar year 2012, showed San Antonio in the top 20 (strongest performers) in increased output (ranked 19th).

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

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 3rd quarter of 2012, San Antonio ranked 29th among the top 100 metros with a change of 4.1%.

San Antonio's seasonally adjusted unemployment rate for the 3rd quarter of calendar year 2012 was 6.4%, compared to the national rate of 7.8%. All metros experienced a rise in unemployment rates through the onset of the recession. However, San Antonio's unemployment rate continues to remain lower than the national rate since the Great Recession.

In addition to employment and unemployment data, 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 3rd quarter of 2012, San Antonio ranked 19th with an increase of 10.3%.

The national housing bubble that occurred in 2008 had little impact on San Antonio's housing market. In fact, the San Antonio housing market finished the 2012 year strong with a total of 19,940 homes sold, a 10% increase from the number of homes sold in 2011, according to the December 2012 Multiple Listing Service report by the San Antonio Board of REALTORS® (SABOR). The average sales price for December 2012 for single-family residential homes registered at \$192,789 (a 4% increase from December 2011), while the month's median price was \$160,200 (a 5% increase from December 2011).

San Antonio's resilient economy was fueled by several targeted industry projects in fiscal year 2012. The City utilized a combination of tax abatements, grant and loan agreements, equity investments, impact fee waivers, and nominations for State project designations that assisted in enticing businesses to move to or remain in San Antonio. In an effort to revitalize downtown and Central City neighborhoods and support economic development opportunities across the City, \$4 million was provided in economic development incentive funds to retain, expand and attract job creating businesses in fiscal year 2012. The City additionally budgeted \$3 million to support economic development projects and stimulate development targeted towards neighborhoods in the downtown area.

MAJOR INITIATIVES

In May 2012, voters overwhelmingly approved the largest bond program in San Antonio history for \$596 million. The 2012-2017 Bond Program Project includes 140 projects including streets, bridges, sidewalks, drainage and flood control, parks, recreation and open space, library, museum and cultural arts facilities, and public safety facilities. This bond program complements the 2007 voter approved \$550 million Bond Program, providing over \$1 billion in investments to the City's capital infrastructure.

In September 2012, the City Council approved a \$304 million contract to design and build an expansion to the Henry B. Gonzalez Convention Center, the largest single city construction project in history. The expansion will take the City's convention center from the 23rd largest to the eighth largest in the country. The expansion project is set to be completed by 2016.

Through the City's SA2020 goals, the City Council established the San Antonio Early Childhood Education Municipal Development Corporation (Pre-K 4 SA) to utilize revenue generated by an increased 1/8th-cent sales tax approved by local voters in November 2012, and state and federal dollars, for the purpose of early childhood development and education services to be implemented through full-day pre-kindergarten (Pre-K) classes for eligible four-year-olds in San Antonio. The sales tax will go into effect on April 1, 2013.

MAJOR INITIATIVES (Continued)

The program aims to improve the educational trajectory of 22,400 four-year-old children over eight years while benefitting thousands more by training area school teachers, teacher's aides, community Pre-K providers and education leaders.

The goals of Pre-K 4 SA include improving quality and quantity of Pre-K childhood education for four-year-olds citywide; achievement gaps reduced by at least 25% in Language, 33% in Math, and 90% in literacy when compared to kindergarten students who did not attend Pre-K 4 SA; by 3rd grade, students participating in the program should have closed the achievement gap by at least 10% on the STAAR reading and math assessments; 20% to 40% reduction in special education placement and grade retention; and to provide robust professional development for Pre-K through third-grade educators.

There will be a total of four Education Excellence Centers (Centers) strategically located in easily accessible locations in San Antonio—two Centers will open in the first program year (August 2013) and two additional Centers will open in the program's 2nd year (August 2014). Each Center will initially serve 350 students annually and build up to full annual enrollment of 500 children while maintaining a student to teacher ratio of two (2) teaching professionals per twenty (20) children, far lower than what is commonly found in most Pre-K classrooms throughout the City. Children in the Centers will benefit from master teachers and a curriculum to be developed on established best practices in early childhood education.

In addition to directly educating 2,000 four-year-old children per year, the Centers also will provide Professional Development and training to teachers, teacher aides, community Pre-K providers and education leaders throughout San Antonio. This professional development will include both summer in-service training and the opportunity to shadow master teachers in the Center classrooms during the school year. These programming opportunities are intended to increase the quality of Pre-K education throughout the City and to maintain the expected gains the children achieve by supporting teachers and educators from Pre-K through third grade.

Workshops will also be offered to provide parents and community providers training and advice on how to best help the children in their care. Additionally, the Centers will schedule fairs and other events to make available existing social service programs.

FINANCIAL INFORMATION

The management of the City is responsible for establishing a system of internal controls that are designed to provide reasonable assurance that assets are protected from loss, theft, or misuse. The City's accounting system supports the internal controls and procedures, which provide reliable financial records for preparing financial statements in conformity with U.S. generally accepted accounting principles. The internal control structure provides reasonable assurance that the City's assets are safeguarded as well as the reliability of financial records for preparing financial statements. The concept of reasonable assurance first recognizes that the cost of a control should not exceed the benefits likely to be derived. Secondly, the evaluation of costs and benefits require estimates and judgments by management.

Budgetary compliance is a significant tool for managing and controlling governmental activities, as well as ensuring conformance with the City's budgetary limits and specifications. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Levels of budgetary control, that is the levels at which expenditures cannot legally exceed appropriated amounts, are established by 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 report detailing budget and actual balances with variances that are generated

FINANCIAL INFORMATION (Continued)

and reviewed by the Office of Management and Budget, Finance and the City Manager's Office. Each quarter, the Office of Management and Budget and Finance meet with department representatives to assess departments' expenditures based on actual to date and projected expenditures for the remainder of the fiscal year. These projected expenditures are compared against the legally adopted budget for analysis and recommendations to the City Manager's Office, and finally presented to City Council. During the mid-year budget assessments, an additional step is added to the review process related to formal adjustment recommendations to Council for adoption to modify the original budget. At fiscal year-end, as part of the annual review and close-out process, City Council will be provided information and recommendations to again 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. Part of the recommendations presented to City Council for fiscal year 2012 included results from efficiency initiatives that the City incorporated into its budget proposal. The Office of Management and Budget Innovation and Reform team completed major City-wide efficiency initiatives in fiscal year 2011 that were able to be incorporated into fiscal year 2012's budget. The efficiency initiatives focused on operational efficiencies; technology improvements; department consolidations; facility consolidations; and shared services. These initiatives resulted in a total estimated net cost savings of \$6.9 million across all funds in fiscal year 2012 (\$6.3 million of those savings in the General Fund). Over the past five years the City has implemented approximately \$67 million in General Fund reductions and reduced over 1,000 civilian positions with no layoffs, while adding 471 uniform positions. The City continues its commitment to efficient and prioritized service delivery by leveraging operational improvements and investments in technology; and will continue to utilize the Innovation and Reform team to perform efficiency initiatives across the City to assist in finding new areas of improvements to leverage.

The annual budget serves as the foundation for the City of San Antonio's financial planning and control. The development of the City's Annual Budget begins in May, when all departments of the City are required to submit potential reductions and additional appropriation requests to the Office of Management and Budget. During this period, the Office of Management and Budget reviews Department's base budget, potential reductions and additional appropriation requests with each department and Executive Leadership Team member to develop budget recommendations for the City Manager's consideration. After obtaining the priorities of the community and City Council and conducting reviews of department's budget with the City Manager, the City Manager presents the proposed budget to the City Council for review in early August.

FINANCIAL INFORMATION (Continued)

During City Council review, several budget work sessions are held to review the proposed service program details included in the proposed budget. Additionally, the City is required to hold at least one public hearing on the proposed budget during the period of its consideration. City Council must adopt a final budget each year no later than September 27. The appropriated budget is prepared by fund (General Fund) and department (e.g., Fire Department).

The legal level of budgetary control is approved by City Council at the individual fund and departmental level. Expenditures by department and major category (personnel, non-personnel, and capital outlay) are further defined in the budget document. The City Manager may revise the approved department expenditure allotments during the fiscal year but in no event shall the aggregate departmental expenditure allotment exceed the appropriation available to the department unless approved by City Council.

The City Council may at any time transfer any unencumbered appropriation balance or any portion thereof within a department office or agency to another upon written recommendation by the City Manager.

As a means of managing the City's financial standing, the City established and maintains a budgeted financial reserve within the General Fund. The financial reserve provides budgetary flexibility for unexpected events, financial emergencies, and the usual fluctuation in revenue-expenditure patterns. Over the course of the past ten years, the City has increased its financial reserves from 3.85% of total appropriations to 9.0% of total appropriations since fiscal year 2009, with 2012's financial reserve amount totaling \$85.3 million. The use of these funds are authorized only after an analysis has been prepared by the City Manager and presented to the City Council that outlines the cost associated with the use of the financial reserve fund.

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.

AWARDS

In 2012, San Antonio was named an All-American City by the National Civic League. The City of San Antonio maintains a strong financial position with a "AAA" general obligation bond rating for the third year in a row from all three major rating agencies. The Milken Institute has ranked San Antonio No. 1 on its Best-Performing Cities List.

The Kauffman Foundation recognized San Antonio with an A+ rating for small business and *Forbes* named San Antonio one of the happiest cities for young professionals.

The City's 2012 Community Survey findings by the Office of Customer Service/311 call center, ranked the 311 call center as number one in customer satisfaction in comparison to cities of a comparable size.

San Antonio was named a "Top 50 city for cyclists" by *Bicycling Magazine*, thanks to the efforts by the Office of Sustainability which strives to improve air quality.

AWARDS (Continued)

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. This is the third year, the City has received this award.

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 2012 Operating and Capital Budget for the 29th consecutive year.

The Office of Management and Budget additionally received a Performance Measurement Certificate of Excellence Award and was recognized for superior performance management efforts with a Certificate of Excellence from the International City/County Management Association (ICMA). San Antonio is one of 26 jurisdictions receiving this highest level of recognition this year. According to the ICMA, "Jurisdictions meeting the qualifications have demonstrated leadership in continuous improvement and community engagement, and they serve as examples for other governments to follow."

An Achievement of Excellence in Procurement (AEP) award was given to the Purchasing Division for the 15th consecutive year in recognition of organizational excellence in public procurement.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

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, 2011. This was the 36th 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.

INDEPENDENT AUDITS

State statutes and the City's Charter require that an annual audit by an independent certified public accountant be conducted. The City selected the accounting firm Padgett Stratemann & Co., LLP. In addition to meeting the requirements set forth in State statutes and the City's Charter, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996, OMB Circular A-133, *Audit of State and Local Government and Nonprofit Organizations* and *State of Texas Single Audit Circular*. The Independent Auditors' Report on the basic financial statements, Management's 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. This report can be viewed on the City's webpage, under Budget & Financial information.

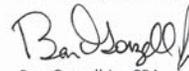
ACKNOWLEDGEMENTS

The preparation of this report could not have been accomplished without the dedicated services of the entire staff of the Controller's Office of the Finance Department. Other departments and offices of the City have also contributed directly or indirectly to the preparation of this report: Financial Management; the Office of Management and Budget; and other financial staff throughout the City. I would like to express my appreciation to all who assisted in this effort.

We acknowledge the thorough, professional, and timely manner in which our independent auditor, Padgett Stratemann & Co., LLP conducted the audit.

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, 2011

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.



Christopher P. Morrell

President

Jeffrey R. Emer

Executive Director

City of San Antonio Mayor and City Council



Julián Castro
Mayor



W. Reed Williams
District 8



Elisa Chan
District 9



Carlton Soules
District 10



Cris Medina
District 7



Diego M. Bernal
District 1



Ray Lopez
District 6



Ivy R. Taylor
District 2



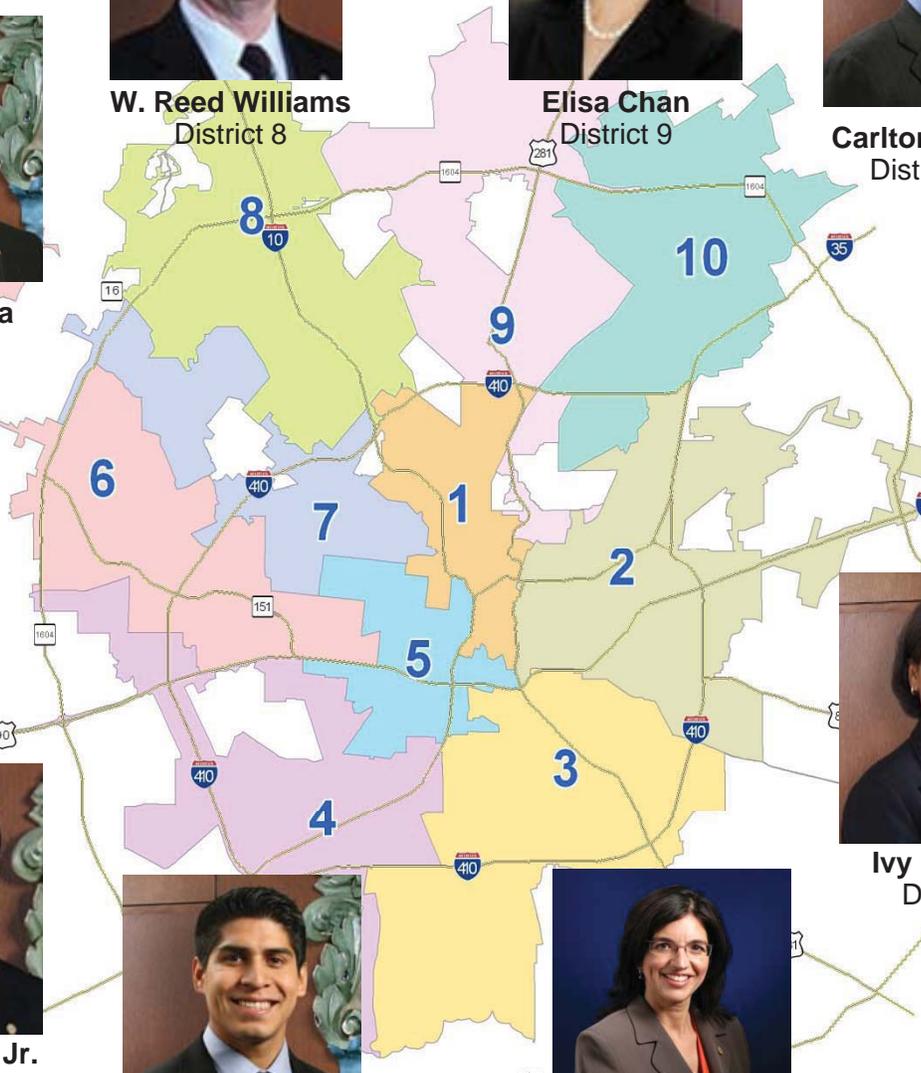
David Medina, Jr.
District 5

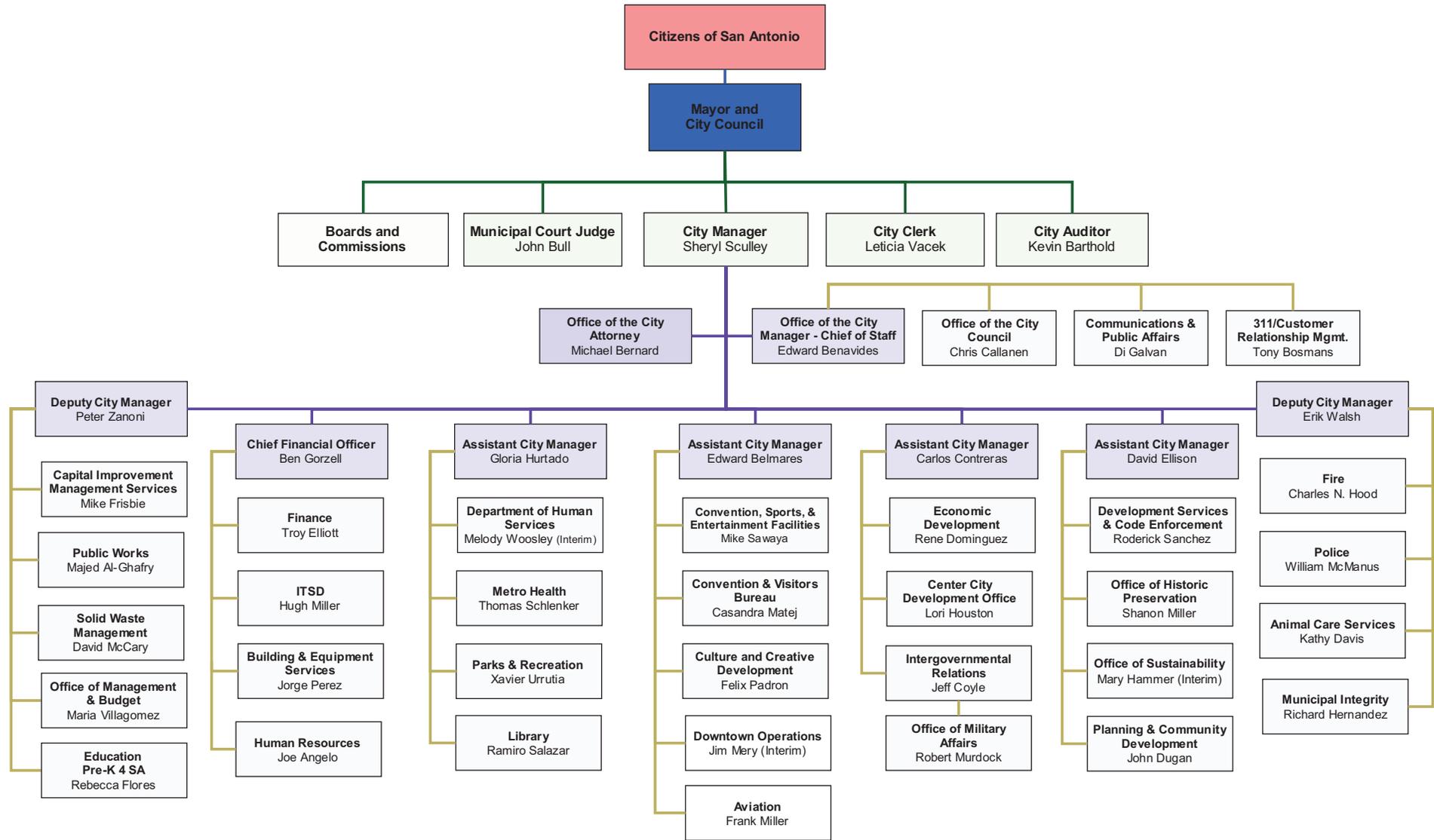


Rey Saldaña
District 4



Leticia Ozuna
District 3





CITY OF SAN ANTONIO, TEXAS

Comprehensive Annual Financial Report

Year-Ended September 30, 2012





Financial Section

CITY OF SAN ANTONIO, TEXAS

Comprehensive Annual Financial Report

Year-Ended September 30, 2012



Independent Auditors' Report

Independent Auditors' Report

To 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, 2012, 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 Housing Trust Finance Corporation, HemisFair Park Area Redevelopment Corporation, and the San Antonio Housing Trust Public Facility Corporation, blended component units, which represent 74%, 81%, and 35%, respectively, of the assets, net assets/fund balances, and revenues/additions, of the aggregate remaining fund information. We also did not audit CPS Energy, SA Energy Acquisition Public Facility Corporation, and the San Antonio Housing Trust Foundation, Inc., discretely presented component units, which represent 69%, 62%, and 81%, respectively, of the assets, net assets, and revenues, of the discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of San Antonio Housing Trust Finance Corporation, San Antonio Housing Trust Public Facility Corporation, SA Energy Acquisition Public Facility Corporation, and the San Antonio Housing Trust Foundation, Inc. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

SAN ANTONIO

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In our opinion, based on our audit and the report of the other auditors, the financial statements referred to previously 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 as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18 to the financial statements, the City restated beginning net assets to correct their net obligation for post-employment benefits other than pension.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedule – General Fund, and Schedule of Funding Progress, on pages 1 to 12, 188, and 189 to 192, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Supplementary Budget and Actual Schedules for Legally Adopted Funds, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Budget and Actual Schedules for Legally Adopted Funds are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Padgett, Stratemann & Co., L.L.P.

Certified Public Accountants

February 28, 2013

**Management's
Discussion and
Analysis
(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, 2012. 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 \$2,894,998 (net assets). Of this amount, \$87,061 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$940,683, an increase of \$11,323 compared to the fiscal year 2011 fund balance. Of this amount, \$11,035 is nonspendable and \$929,648 is spendable. Of the total spendable fund balance, \$666,533 is restricted in use, \$124,239 has been committed, \$16,473 is assigned and \$122,403 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 \$158,532 or 17.9% of the total General Fund expenditures.
- Other nonmajor governmental funds had a negative unassigned fund balance totaling \$36,129 as of the end of the current fiscal year. 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, and 2007 General Obligation Bonds 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 and Solid Waste Management Fund, which are considered to be major funds. 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, 2012.

| Net Assets Year-Ended September 30, 2012 (With Comparative Totals for September 30, 2011) | | | | | | |
|---|-------------------------|------------------|--------------------------|------------|--------------------------|------------------|
| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
| | 2012 | 2011 (Restated)* | 2012 | 2011 | 2012 | 2011 (Restated)* |
| Current and Other Assets | \$ 1,341,472 | \$ 1,361,888 | \$ 239,858 | \$ 243,483 | \$ 1,581,330 | \$ 1,605,371 |
| Capital Assets | 3,900,533 | 3,806,667 | 634,961 | 646,095 | 4,535,494 | 4,452,762 |
| Total Assets | 5,242,005 | 5,168,555 | 874,819 | 889,578 | 6,116,824 | 6,058,133 |
| Current and Other Liabilities | 496,901 | 312,553 | 56,314 | 32,331 | 553,215 | 344,884 |
| Long-term Liabilities | 2,235,447 | 2,302,579 | 433,164 | 478,287 | 2,668,611 | 2,780,866 |
| Total Liabilities | 2,732,348 | 2,615,132 | 489,478 | 510,618 | 3,221,826 | 3,125,750 |
| Net Assets: | | | | | | |
| Investments in Capital Assets, | | | | | | |
| Net of Related Debt | 2,328,289 | 2,364,212 | 270,500 | 273,108 | 2,598,789 | 2,637,320 |
| Restricted | 104,158 | 126,142 | 104,990 | 90,532 | 209,148 | 216,674 |
| Unrestricted | 77,210 | 63,069 | 9,851 | 15,320 | 87,061 | 78,389 |
| Total Net Assets | \$ 2,509,657 | \$ 2,553,423 | \$ 385,341 | \$ 378,960 | \$ 2,894,998 | \$ 2,932,383 |

* Amounts have been restated - see Note 18 Prior Period Restatements for more information.

For the year-ended September 30, 2012, total assets exceeded liabilities by \$2,894,998. The largest portion of the City's net assets, \$2,598,789 (89.8%) 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, \$209,148 (7.2%) represents resources that are subject to external restrictions on how they may be used. The remaining \$87,061 (3.0%) represents unrestricted net assets, which can be used to meet the government's ongoing obligations to citizens and creditors.

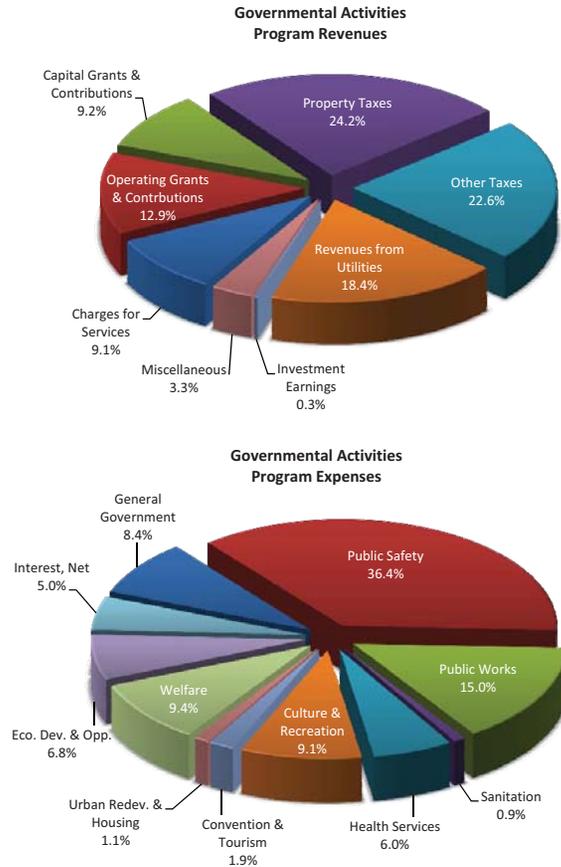
The following schedule provides a detail of the changes to the City's net assets:

| Changes in Net Assets Year-Ended September 30, 2012 (With Comparative Totals for September 30, 2011) | | | | | | |
|--|-------------------------|------------------|--------------------------|------------|--------------------------|------------------|
| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
| | 2012 | 2011 (Restated)* | 2012 | 2011 | 2012 | 2011 (Restated)* |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 149,205 | \$ 151,344 | \$ 212,066 | \$ 205,396 | \$ 361,271 | \$ 356,740 |
| Operating Grants and Contributions | 211,290 | 267,524 | | | 211,290 | 267,524 |
| Capital Grants and Contributions | 149,713 | 137,892 | 34,765 | 40,237 | 184,478 | 178,129 |
| General Revenues: | | | | | | |
| Property Taxes | 395,944 | 396,847 | | | 395,944 | 396,847 |
| Other Taxes | 370,243 | 343,804 | | | 370,243 | 343,804 |
| Revenues from Utilities | 299,693 | 308,838 | | | 299,693 | 308,838 |
| Investment Earnings | 5,005 | 6,184 | 827 | 772 | 5,832 | 6,956 |
| Miscellaneous | 53,990 | 40,217 | 1,585 | 450 | 55,575 | 40,667 |
| Total Revenues | 1,635,083 | 1,652,650 | 249,243 | 246,855 | 1,884,326 | 1,899,505 |
| Expenses: | | | | | | |
| Primary Government: | | | | | | |
| Governmental Activities: | | | | | | |
| General Government | 140,761 | 103,617 | | | 140,761 | 103,617 |
| Public Safety | 613,975 | 607,532 | | | 613,975 | 607,532 |
| Public Works | 252,804 | 239,195 | | | 252,804 | 239,195 |
| Sanitation | 14,382 | 20,015 | | | 14,382 | 20,015 |
| Health Services | 101,293 | 101,995 | | | 101,293 | 101,995 |
| Culture and Recreation | 153,642 | 147,591 | | | 153,642 | 147,591 |
| Convention and Tourism | 31,892 | 28,735 | | | 31,892 | 28,735 |
| Urban Redevelopment and Housing | 13,252 | 13,570 | | | 13,252 | 13,570 |
| Welfare | 157,678 | 185,600 | | | 157,678 | 185,600 |
| Economic Development and Opportunity | 115,253 | 90,258 | | | 115,253 | 90,258 |
| Interest on Long-Term Debt, Net | 85,073 | 87,792 | | | 85,073 | 87,792 |
| Business-Type Activities: | | | | | | |
| Airport System | | | 118,560 | 105,708 | 118,560 | 105,708 |
| Solid Waste Management | | | 89,405 | 82,128 | 89,405 | 82,128 |
| Development Services | | | 23,327 | 20,195 | 23,327 | 20,195 |
| Market Square | | | 2,297 | 2,215 | 2,297 | 2,215 |
| Parking System | | | 8,117 | 8,703 | 8,117 | 8,703 |
| Total Expenses | 1,680,005 | 1,625,900 | 241,706 | 218,949 | 1,921,711 | 1,844,849 |
| Change in Net Assets | | | | | | |
| Before Transfers | (44,922) | 26,750 | 7,537 | 27,906 | (37,385) | 54,656 |
| Transfers | 1,156 | 1,404 | (1,156) | (1,404) | | |
| Net Change in Net Assets | (43,766) | 28,154 | 6,381 | 26,502 | (37,385) | 54,656 |
| Beginning, Net Assets (restated) | 2,553,423 | 2,525,269 | 378,960 | 352,458 | 2,932,383 | 2,877,727 |
| Ending, Net Assets | \$ 2,509,657 | \$ 2,553,423 | \$ 385,341 | \$ 378,960 | \$ 2,894,998 | \$ 2,932,383 |

* Amounts have been restated - see Note 18 Prior Period Restatements for more information.

The City's total revenues were \$1,884,326 for fiscal year-ended September 30, 2012. Revenues from governmental activities totaled \$1,635,083 and revenues from business-type activities totaled \$249,243. General revenues represented 59.8% of the City's total revenue, while program revenues provided 40.2% of revenue received in fiscal year 2012. Expenses for the City totaled \$1,921,711. Governmental activity expenses totaled \$1,680,005, or 87.4% of total expenses and business-type expenses totaled \$241,706 or 12.6%.

Governmental Activities



Governmental Activities decreased the City's net assets by \$43,766. The reason for the change is as follows:

- Grants and Contributions revenues decreased by \$44,413 due to a decrease in funding in the amount \$18,043 from the American Recovery Reinvestment Act (ARRA) for welfare, sanitation, and health services. Categorical Grant-In-Aid funding also decreased by \$24,233 due to Federal cutbacks.
- Other Taxes increased by \$26,439 due to an improvement in the local economy from the prior year. This improvement came from growth in the South Texas oil and gas industry catalyzed by the Eagle Ford Shale and an increase in tourism and convention business causing Sales and Use Taxes and Hotel Occupancy Taxes to increase by \$23,108 and \$4,969, respectively, from the prior year.
- CPS Energy revenues decreased by \$9,534 due to more moderate weather in 2012 than that experienced in 2011. This decrease was partially offset by a \$389 increase in SAWS revenues, as the 2011 drought continued into 2012.
- Miscellaneous Revenues increased by \$13,773 due to the sale of capital assets in the Other Internal Services funds in the amount of \$3,516. The City also received \$4,508 more in donated capital assets primarily driven by the donation of land.
- General Government expenses increased by \$37,144 primarily due to \$13,951 in expensed assets that did not meet the threshold to be capitalized and an \$11,692 increase in the General Fund driven principally by cost of living adjustments and higher accrued sick leave.
- The increase in Public Safety expenses of \$13,609 from the prior fiscal year is driven primarily by changes to the Fire and Police collective bargaining agreements, which increased wages 2% and 3%, respectively.
- Public Works and Convention and Tourism expenses increased by \$13,609 and \$3,157, respectively, as part of the City's continued diligence and review of construction in progress (CIP) for non capitalized activities.
- Expenses for Sanitation decreased by \$5,633 as a result of a \$7,946 reduction in the Weatherization Assistance Program expenditures due to expiration of the grant. This decrease was partially offset by a \$2,711 increase in the Retrofit Ramp Up Program expenditures.
- Culture and Recreation expenses increased by \$6,051 from fiscal year 2011 due to a \$2,274 increase in the General Fund driven principally by cost of living adjustments and \$3,958 due to increased OPEB liability.
- Welfare decreased \$27,922 from fiscal year 2011 due to an overall decrease in grant activity. Categorical Grant In-Aid decreased by \$15,572 due to overall cutbacks at the Federal level, which reduced current year expenditures. The reduction was further driven by a \$10,446 decrease in ARRA expenses as a result of three grants at or near expiration.
- Economic Development and Opportunity expenses increased \$24,995 due to lower spending in 2011 in anticipation of HUD 108's loan expiration. The loan was subsequently extended through December 2013 with dollars being reprogrammed to be spent through the first quarter of fiscal year 2014.

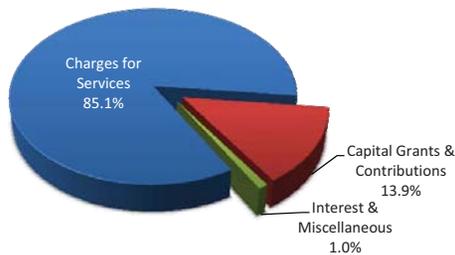
Business-Type Activities

Program revenues for the City's Business-Type Activities totaled \$246,831, which is \$1,198 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 \$241,706 compared to prior year's expenses of \$218,949.

**Business-Type Activities
Expenses and Revenues**



**Business-Type Activities
Revenues by Source**



Business-Type Activities increased the City's net assets by \$6,381 primarily because of the following:

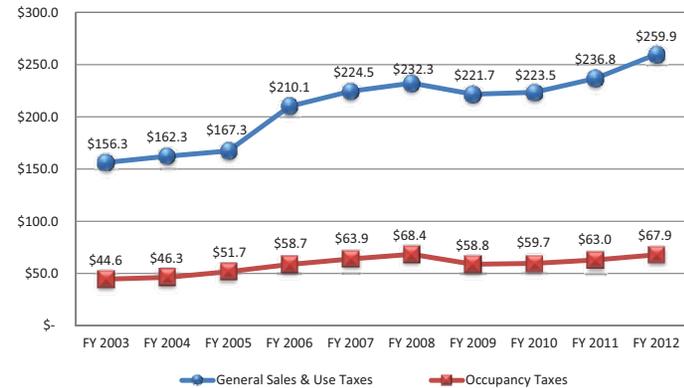
- Charges for Services increased by \$6,670 primarily due to an increase in customer accounts at Solid Waste, which generated \$3,266 more revenues in fiscal year 2012. Airport revenues also increased \$1,494 in the current year as a result of increased international traffic and higher parking revenues. Development Services experienced increases in commercial and residential activity that contributed to \$1,763 more revenues in 2012.
- Capital Grants and Contributions decreased \$5,472 due to less awards received at Aviation in fiscal year 2012.
- Airport System expenses increased by \$12,852 primarily due to impairment of project costs associated with Terminal C and Aviation Master Plans.
- Solid Waste expenses increased by \$7,277 due to personnel expenditures driven by an additional 55 authorized full time employees in fiscal year 2012. The Solid Waste department also added resources to increase the number of curbside bulky collection from once a year to twice a year in fiscal year 2012 and incurred the cost to develop drop off centers to reduce illegal dumping.
- Development Services expenses were higher in fiscal year 2012 by \$3,132 driven principally by cost of living adjustments and one time improvements in fiscal year 2012 for an economic development plan for City South and an electronic plan scanner.

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 \$25,536, which is primarily attributable to: (1) a \$18,725 increase in sales and use tax revenues in the General Fund, (2) a \$3,704 increase in sales and use tax revenues in the Nonmajor Governmental Funds, and (3) a \$4,969 increase in occupancy taxes in the Nonmajor Governmental Funds. 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.

Revenues From Taxes (\$ in millions)



The total fund balance of the General Fund at year-end was \$216,513, a decrease of \$16,179 from the total fund balance of \$232,692 in fiscal year 2011. The total spendable General Fund balance for fiscal year 2012 is \$210,713, which represents \$1,003 in restricted, \$47,035 in committed, \$4,143 in assigned and \$158,532 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 \$86,360, a decrease of \$7,209 from the total fund balance of \$93,569 in fiscal year 2011. The entire fund balance is reserved for payment of debt service.

The Categorical Grant-In Aid Fund has a fund balance of \$1,008, an increase of \$5,217 from the total deficit fund balance of \$4,209, which is a result of more extensive monitoring of our grants and funding of prior years' grant deficits through budgeted operating resources.

The total fund balance of the 2007 General Obligation Bonds at year-end was \$206,011, a decrease of \$11,764 from the total fund balance of \$217,775 in fiscal year 2011. This stems from capital expenditures associated with the \$550,000 bond approved by voters in fiscal year 2007.

General Fund Budgetary Highlights

| Variances in Budget Appropriations (Budgetary Basis) General Fund | | | |
|---|--------------------|-------------------|-------------------|
| | Original Budget | Final Budget | Actual Results |
| General Government | \$ 100,378 | \$ 94,625 | \$ 96,609 |
| Public Safety | 542,110 | 543,672 | 540,123 |
| Public Works | 39,761 | 43,937 | 43,711 |
| Health Services | 76,311 | 77,476 | 78,718 |
| Sanitation | 3,314 | 3,251 | 3,311 |
| Culture and Recreation | 82,303 | 84,205 | 83,644 |
| Welfare | 42,822 | 44,837 | 41,857 |
| Economic Development and Opportunity | 4,486 | 14,353 | 16,142 |
| Transfers to Other Funds | 76,184 | 64,636 | 62,662 |
| Total | \$ 967,669 | \$ 970,992 | \$ 966,777 |

Changes in original budget appropriations to the final amended budget appropriations resulted in a net \$3,323 increase in appropriations. This increase can be summarized by the following:

- General Government had a \$5,753 decrease, which is attributable to indirect cost reimbursements from other funds causing a \$9,871 decrease; budget carryforwards causing a \$3,615 increase; and ordinance and analyst adjustments accounting for an increase of \$503.
- Public Safety contributed \$1,562 to the overall increase, which was comprised of an increase of \$2,234 in prior year budget carryforwards and \$672 in ordinance and budget adjustments decreases.
- Of the \$4,176 increase in Public Works, \$3,818 consisted of budget carryforwards while the remaining \$358 increase consisted of budget adjustments.
- Health Services had an increase of \$1,165 from the original budget, which was due to \$284 added for prior year budget carryforwards and \$881 in budget adjustments during fiscal year 2012.
- Of the \$1,902 increase in Culture and Recreation, \$2,509 was added for budget carryforwards, while the remaining \$607 decrease consisted of budget adjustments.
- Of the \$2,015 increase in Welfare, \$521 came from budget carryforwards while the remaining \$1,494 increase consisted of budget adjustments.
- Economic Development and Opportunity had a \$9,867 increase, \$2,862 was a result of budget carryforwards and the remaining \$7,005 was from budget adjustments.
- The \$11,548 decrease in Transfers to Other Funds consisted of \$15,594 increase from budget carryforwards and a decrease of \$27,142 from budget adjustments.

Final budgeted appropriations for the General Fund were \$970,992, while actual expenditures on a budgetary basis were \$966,777, creating a positive variance of \$4,215. Significant variances are as follows:

- General Government exceeded budget due to a \$2,000 purchase in the Special Reserve fund for the Red Berry Mansion.
- Public Safety had a \$3,549 positive variance largely due to position vacancies during the fiscal year.
- Welfare had a positive variance of \$2,980 largely due to vacancies and Contribution to Outside Agencies not spent.

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, 2012 amounts to \$4,535,494 (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 \$82,732, which comprises a \$93,866 increase in governmental activities and an \$11,134 decrease in business-type activities.

| Capital Assets Year-Ended September 30, 2012 (With Comparative Totals for September 30, 2011) | | | | | | |
|---|----------------------------|---------------------|-----------------------------|-------------------|-----------------------------|---------------------|
| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Land | \$ 1,383,564 | \$ 1,371,289 | \$ 14,599 | \$ 14,385 | \$ 1,398,163 | \$ 1,385,674 |
| Construction in Progress | 286,671 | 537,568 | 31,489 | 55,905 | 318,160 | 593,473 |
| Non-Depreciable Intangible Assets | 82,740 | 81,961 | | | 82,740 | 81,961 |
| Other Non-Depreciable Assets | 2,741 | 575 | | | 2,741 | 575 |
| Depreciable Intangible Assets | 2,802 | 2,711 | | | 2,802 | 2,711 |
| Buildings | 529,913 | 434,600 | 281,116 | 291,449 | 811,029 | 726,049 |
| Improvements | 449,769 | 359,593 | 283,226 | 262,642 | 732,995 | 622,235 |
| Infrastructure | 960,210 | 847,588 | | | 960,210 | 847,588 |
| Machinery and Equipment | 202,123 | 170,782 | 24,531 | 21,714 | 226,654 | 192,496 |
| Total | \$ 3,900,533 | \$ 3,806,667 | \$ 634,961 | \$ 646,095 | \$ 4,535,494 | \$ 4,452,762 |

During fiscal year 2012, the City transferred \$501,917 of construction in progress to non-depreciable and depreciable asset classes for completed capital projects which were mainly comprised of city-wide streets and drainage projects, improvements to the San Antonio Riverwalk, terminal improvements at the San Antonio International Airport, improvements to the City’s convention and sports facilities, a new Public Safety Headquarters building, four new fire stations, and improvements to the City’s information technology systems, including Public Safety communications and reporting.

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

| Change in Capital Assets September 30, 2012 | | | |
|--|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Beginning Balance | \$ 6,092,675 | \$ 882,445 | \$ 6,975,120 |
| Additions | 294,816 | 35,416 | 330,232 |
| Deletions | (51,127) | (13,714) | (64,841) |
| Accumulated Depreciation | (2,435,831) | (269,186) | (2,705,017) |
| Ending Balance | \$ 3,900,533 | \$ 634,961 | \$ 4,535,494 |

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 \$2,349,589 in bonds, certificates, and tax notes outstanding, an increase of 1.8% 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.

| Outstanding Debt Year-Ended September 30, 2012 (With Comparative Totals for September 30, 2011) | | | |
|---|-------------------------|---------------------|--|
| | Governmental Activities | | |
| | 2012 | 2011 | |
| Bonds Payable: | | | |
| Tax-Exempt General Obligation Bonds | \$ 810,275 | \$ 708,055 | |
| Taxable General Obligation Bonds | 191,550 | 191,550 | |
| Tax-Exempt Certificates of Obligation | 332,685 | 356,870 | |
| Tax Notes | 32,015 | 27,450 | |
| Revenue Bonds | 564,371 | 575,115 | |
| Capital Appreciation Bonds (CAB) | 20,923 | 23,239 | |
| Total | \$ 1,951,819 | \$ 1,882,279 | |
| Business-Type Activities | | | |
| | 2012 | 2011 | |
| | | | |
| Bonds Payable: | | | |
| Tax-Exempt General Obligation Bonds | \$ 1,270 | \$ 1,310 | |
| Taxable General Obligation Bonds | 14,900 | 16,075 | |
| Tax-Exempt Certificates of Obligation | 1,935 | 2,035 | |
| Revenue Bonds | 379,665 | 406,300 | |
| Total | \$ 397,770 | \$ 425,720 | |

Governmental Activities

In March 2012, the City issued \$33,410 in General Improvement Refunding Bonds, Series 2012 to refund certain outstanding obligations of the City and to pay the costs of issuance.

In August 2012, the City issued additional indebtedness for a total of \$185,575. This was composed of \$148,600 in tax-exempt general obligation bonds, \$19,340 in tax-exempt certificates of obligation, and \$17,635 in tax notes.

The General Obligation Bonds, Series 2012 were issued to finance improvements to streets, bridges, and sidewalks, drainage improvements and flood control, parks, recreation, and athletics, library, museum, and cultural arts facilities, and public safety facilities.

The Combination Tax and Revenue Certificates of Obligation, Series 2012 were issued for the purpose of providing funds for the payment of contractual obligations to be incurred for making permanent public improvements and for other public purposes, to include constructing, improving, renovating, demolishing, and equipping municipal facilities, public safety facilities, cultural, recreation, and park facilities, drainage facilities, sidewalks, bridges, and streets, and other expenses necessary, incidental, or related to the foregoing.

The Tax Notes, Series 2012 were issued to provide funding to acquire property interests for the Edwards Aquifer Protection Venue Program with the intent of protecting water quality and quantity in the Edwards Aquifer.

Business-Type Activities

In May 2012, the City issued \$70,135 in Airport System Revenue Improvement and Refunding Bonds, Series 2012 (2012 GARBs) and \$25,790 in Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement and Refunding Bonds, Series 2012 (2012 PFC Bonds).

The 2012 GARBs were issued for the purpose of refunding a portion of the City's outstanding indebtedness originally issued to finance Airport System improvements and for paying the costs of issuance.

The 2012 PFC Bonds were issued to refund the remaining portion of the 2002 PFC Bonds and to pay the costs of issuance.

Standard & Poor's, Moody's, and Fitch's underlying rating for City obligations during fiscal year 2012 were as follows:

| Bond Ratings September 30, 2012 | | | |
|--|---|---------|-------|
| | Standard & Poor's | Moody's | Fitch |
| | General Obligation/Certificates of Obligation/Tax Notes | AAA | Aaa |
| Hotel Occupancy Tax Bonds (Prior Lien) ¹ | AA- | Aa2 | AA- |
| Hotel Occupancy Tax Bonds (Subordinate Lien - Long Term) | A+ | Aa3 | A+ |
| Hotel Occupancy Tax Bonds (Variable Rate - Short Term) | A+ | Aa3 | A+ |
| Airport System | A+ | A1 | A+ |
| Airport PFC | A- | A2 | A |
| Municipal Drainage Utility System Revenue Bonds | AA+ | Aa2 | AA |

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 2012 was \$82,656,577, which provides a debt ceiling of \$8,265,658.

Currently Known Facts

On October 11, 2012, a new component unit of the City, TPFC issued \$550,374 in Public Facilities Corporation Improvement and Refunding Lease Revenue Bonds, Series 2012 (Convention Center Refinancing and Expansion Project). The Bonds were issued for the purpose of providing proceeds to (i) refund all outstanding City indebtedness issued to finance or refinance the Existing Convention Center, (ii) finance the City's acquisition, construction, and equipping of the Convention Center Expansion Project, (iii) pay capitalized interest on the current interest bonds, and (iv) pay the cost of issuing the Bonds. The Bonds have maturities ranging from 2017 to 2042, with interest rates ranging from 3.0% to 5.1%. Coinciding with TPFC's Bond issuance, the City entered into a long term lease agreement with TPFC to pay the principal and interest associated with TPFC's debt.

On November 6, 2012 San Antonio residents approved the 1/8 cent sales tax increase that will support the Pre-K 4 SA initiative. The Pre-K 4 SA Initiative would utilize revenue generated by a 1/8 cent sales tax and other state and federal dollars to provide high quality, full-day Pre-K for eligible four-year-olds in San Antonio. The sales tax increase will take effect on April 1, 2013 and last for the next eight years. With the approval of this 1/8 cent sales tax, the City has reached its maximum sales tax limit of 8.25% as authorized by state law.

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, 2012



Basic Financial Statements

Statement of Net Assets

As of September 30, 2012

(In Thousands)

| | PRIMARY GOVERNMENT | | | COMPONENT UNITS |
|---|----------------------------|-----------------------------|---------------------|---------------------|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | |
| Assets: | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | \$ 33,789 | \$ 3,201 | \$ 36,990 | \$ 286,715 |
| Securities Lending Collateral | 12,683 | 1,456 | 14,139 | |
| Investments | 301,979 | 34,352 | 336,331 | 205,486 |
| Receivables, Net | 112,617 | 11,509 | 124,126 | 262,232 |
| Materials and Supplies, at Cost | 7,177 | 823 | 8,000 | 184,517 |
| Internal Balances | 5,095 | (5,095) | | |
| Due From Other Governmental Agencies | 11,802 | | 11,802 | 5,702 |
| Deposits | 213 | | 213 | |
| Prepaid Expenses | 1,617 | 6 | 1,623 | 103,298 |
| Other Assets | | | | 848 |
| Restricted Assets: | | | | |
| Cash and Cash Equivalents | 138,266 | 35,858 | 174,124 | 158,720 |
| Securities Lending Collateral | 21,345 | 5,664 | 27,009 | |
| Investments | 560,798 | 140,137 | 700,935 | 1,310,225 |
| Receivables, Net | 89,795 | 2,688 | 92,483 | 51,646 |
| Materials and Supplies, at Cost | 1,209 | | 1,209 | |
| Deferred Charges | | | | 3,474 |
| Deposits | 1 | | 1 | |
| Prepaid Expenses | 175 | | 175 | 3,215 |
| Due From Other Governmental Agencies | 8,140 | | 8,140 | |
| Total Current Assets | <u>1,306,701</u> | <u>230,599</u> | <u>1,537,300</u> | <u>2,576,078</u> |
| Noncurrent Assets: | | | | |
| Capital Assets: | | | | |
| Non Depreciable | 1,755,716 | 46,088 | 1,801,804 | 1,600,063 |
| Depreciable, Net | 2,144,817 | 588,873 | 2,733,690 | 9,500,384 |
| Assets Held for Resale | | | | 382 |
| Receivables, Net | | | | 10,900 |
| Prepaid Expenses | | | | 872,219 |
| Net OPEB Asset and Pension Asset | | | | 22,450 |
| Other Noncurrent Assets | | | | 78,247 |
| Deferred Outflows Derivative Instrument | | | | 38,436 |
| Unamortized Bond Issuance Costs | 34,771 | 9,259 | 44,030 | 17,680 |
| Total Noncurrent Assets | <u>3,935,304</u> | <u>644,220</u> | <u>4,579,524</u> | <u>12,140,761</u> |
| Total Assets | <u>5,242,005</u> | <u>874,819</u> | <u>6,116,824</u> | <u>14,716,839</u> |
| Liabilities: | | | | |
| Current Liabilities: | | | | |
| Accounts Payable and Current Liabilities | 108,794 | 6,425 | 115,219 | 342,207 |
| Accrued Interest | 19 | 18 | 37 | |
| Securities Lending Obligation | 12,683 | 1,456 | 14,139 | |
| Unearned Revenue | 15,199 | 275 | 15,474 | 8,130 |
| Due To Other Governmental Agencies | | 4 | 4 | 1,796 |
| Restricted Liabilities: | | | | |
| Accounts Payable and Current Liabilities | 61,060 | 6,505 | 67,565 | 44,468 |
| Accrued Interest | 15,611 | 5,007 | 20,618 | 29,480 |
| Securities Lending Obligation | 21,345 | 5,664 | 27,009 | |
| Unearned Revenue | 62,349 | | 62,349 | |
| Due To Other Governmental Agencies | 2,229 | | 2,229 | |
| Current Portion of Long-term Obligations | 197,612 | 30,960 | 228,572 | 334,478 |
| Total Current Liabilities | <u>496,901</u> | <u>56,314</u> | <u>553,215</u> | <u>760,559</u> |
| Noncurrent Liabilities: | | | | |
| Noncurrent Portion of Long-term Obligations | 2,235,447 | 433,164 | 2,668,611 | 8,559,008 |
| Total Noncurrent Liabilities | <u>2,235,447</u> | <u>433,164</u> | <u>2,668,611</u> | <u>8,559,008</u> |
| Total Liabilities | <u>2,732,348</u> | <u>489,478</u> | <u>3,221,826</u> | <u>9,319,567</u> |
| Net Assets: | | | | |
| Invested in Capital Assets, Net of Related Debt | 2,328,289 | 270,500 | 2,598,789 | 4,296,707 |
| Restricted for: | | | | |
| Debt Service | 80,245 | 26,116 | 106,361 | 35,775 |
| Capital Projects | 6,631 | 78,874 | 85,505 | 538,758 |
| Operating and Other Reserves | | | | 93,586 |
| Perpetual Care: Expendable | 11,115 | | 11,115 | |
| Perpetual Care: Nonexpendable | 6,167 | | 6,167 | |
| Unrestricted | 77,210 | 9,851 | 87,061 | 432,446 |
| Total Net Assets | <u>\$ 2,509,657</u> | <u>\$ 385,341</u> | <u>\$ 2,894,998</u> | <u>\$ 5,397,272</u> |

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

Statement of Activities

Year-Ended September 30, 2012

(In Thousands)

| FUNCTION/PROGRAM ACTIVITIES | EXPENSES | PROGRAM REVENUES | | | NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS | | | COMPONENT UNITS |
|--|---------------------|-------------------------|--|--|--|-----------------------------|---------------------|---------------------|
| | | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS | PRIMARY GOVERNMENT | | | |
| | | | | | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | |
| Primary Government: | | | | | | | | |
| Governmental Activities: | | | | | | | | |
| General Government | \$ 140,761 | \$ 22,245 | \$ 6,060 | \$ 1,658 | \$ (110,798) | \$ - | \$ (110,798) | |
| Public Safety | 613,975 | 12,190 | 15,141 | 3,274 | (583,370) | | (583,370) | |
| Public Works | 252,804 | 43,164 | 15,112 | 34,117 | (160,411) | | (160,411) | |
| Sanitation | 14,382 | 509 | 11,089 | | (2,784) | | (2,784) | |
| Health Services | 101,293 | 30,940 | 22,618 | 232 | (47,503) | | (47,503) | |
| Culture and Recreation | 153,642 | 34,483 | 5,891 | 3,502 | (109,766) | | (109,766) | |
| Convention and Tourism | 31,892 | | 6,945 | | (24,947) | | (24,947) | |
| Urban Redevelopment and Housing | 13,252 | 634 | 8,686 | 183 | (3,749) | | (3,749) | |
| Welfare | 157,678 | 15 | 113,160 | 89 | (44,414) | | (44,414) | |
| Economic Development and Opportunity | 115,253 | 5,025 | 6,588 | 106,658 | 3,018 | | 3,018 | |
| Amortization of Bond Related Costs | (4,615) | | | | 4,615 | | 4,615 | |
| Interest on Long-Term Debt | 89,688 | | | | (89,688) | | (89,688) | |
| Total Governmental Activities | 1,680,005 | 149,205 | 211,290 | 149,713 | (1,169,797) | | (1,169,797) | |
| Business-Type Activities: | | | | | | | | |
| Airport System | 118,560 | 84,395 | | 34,686 | | 521 | 521 | |
| Solid Waste Management | 89,405 | 93,333 | | 5 | | 3,933 | 3,933 | |
| Development Services | 23,327 | 23,392 | | | | 65 | 65 | |
| Market Square | 2,297 | 2,316 | | 74 | | 93 | 93 | |
| Parking System | 8,117 | 8,630 | | | | 513 | 513 | |
| Total Business-Type Activities | 241,706 | 212,066 | | 34,765 | | 5,125 | 5,125 | |
| Total Primary Government | \$ 1,921,711 | \$ 361,271 | \$ 211,290 | \$ 184,478 | (1,169,797) | 5,125 | (1,164,672) | |
| Discretely Presented Component Units: | | | | | | | | |
| CPS Energy | \$ 2,295,340 | \$ 2,258,396 | \$ - | \$ 25,588 | | | | \$ (11,356) |
| San Antonio Water System | 400,923 | 417,869 | | 60,253 | | | | 77,199 |
| Brooks Development Authority | 19,185 | 7,004 | | 2,867 | | | | (9,314) |
| City South Management Authority | 350 | | | | | | | (350) |
| Main Plaza Conservancy | 597 | 36 | 484 | | | | | (77) |
| Municipal Golf Association - San Antonio | 8,729 | 9,429 | | 218 | | | | 918 |
| Port Authority of San Antonio | 40,864 | 41,174 | | | | | | 310 |
| SA Energy Acquisition Corporation | 53,979 | 53,052 | | | | | | (927) |
| OUR SA | 177 | 14 | | | | | | (163) |
| San Antonio Housing Trust Foundation, Inc. | 558 | 955 | | | | | | 397 |
| Total Component Units | \$ 2,820,702 | \$ 2,787,929 | \$ 484 | \$ 88,926 | | | | 56,637 |
| General Revenues: | | | | | | | | |
| Taxes: | | | | | | | | |
| Property | | | | | 395,944 | | 395,944 | |
| General Sales and Use | | | | | 259,927 | | 259,927 | |
| Selective Sales and Use | | | | | 5,200 | | 5,200 | |
| Gross Receipts Business | | | | | 33,625 | | 33,625 | |
| Occupancy | | | | | 67,937 | | 67,937 | |
| Penalties and Interest on Delinquent Taxes | | | | | 3,554 | | 3,554 | |
| Revenues from Utilities | | | | | 299,693 | | 299,693 | |
| Investment Earnings | | | | | 5,005 | 827 | 5,832 | 57,868 |
| Miscellaneous | | | | | 53,990 | 1,585 | 55,575 | 1,380 |
| Adjustment for STP Pension Cost | | | | | | | | (17,056) |
| Transfers, net | | | | | 1,156 | (1,156) | | |
| Total General Revenues and Transfers | | | | | 1,126,031 | 1,256 | 1,127,287 | 42,192 |
| Change in Net Assets | | | | | | | | |
| Net Assets - Beginning of Fiscal Year (restated) | | | | | 2,553,423 | 378,960 | 2,932,383 | 5,298,443 |
| Net Assets - End of Fiscal Year | | | | | \$ 2,509,657 | \$ 385,341 | \$ 2,894,998 | \$ 5,397,272 |

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

Balance Sheet
Governmental Funds
As of September 30, 2012

(In Thousands)

| | MAJOR FUNDS | | | | | TOTAL GOVERNMENTAL FUNDS |
|--|-------------------|------------------|--------------------------------|-------------------------------------|-----------------------------------|--------------------------------|
| | GENERAL | DEBT SERVICE | CATEGORICAL GRANT-IN AID | 2007 GENERAL OBLIGATION BONDS | NONMAJOR GOVERNMENTAL FUNDS | |
| Assets: | | | | | | |
| Cash and Cash Equivalents | \$ 10,825 | \$ - | \$ - | \$ - | \$ 12,456 | \$ 23,281 |
| Securities Lending Collateral | 4,436 | | | | 3,618 | 8,054 |
| Investments | 108,142 | | | | 84,277 | 192,419 |
| Receivables, Net | 103,720 | | | | 7,554 | 111,274 |
| Materials and Supplies, at Cost | 5,324 | | | | 134 | 5,458 |
| Deposits | | | | | 75 | 75 |
| Prepaid Expenditures | 476 | | | | | 476 |
| Due from: | | | | | | |
| Other Funds | 40,407 | | | | 2,302 | 42,709 |
| Other Governmental Agencies, Net | 2,941 | | | | 8,228 | 11,169 |
| Restricted Assets: | | | | | | |
| Cash and Cash Equivalents | 132 | 49,889 | 1,472 | 17,544 | 69,229 | 138,266 |
| Securities Lending Collateral | 47 | | 144 | 7,767 | 13,387 | 21,345 |
| Investments | 1,108 | 40,160 | 3,274 | 182,199 | 334,057 | 560,798 |
| Receivables, Net | 2 | 7,330 | 22,155 | 228 | 60,080 | 89,795 |
| Materials and Supplies, at Cost | | | 530 | | 679 | 1,209 |
| Deposits | | | | | 1 | 1 |
| Prepaid Expenditures | | | 134 | | 41 | 175 |
| Due from: | | | | | | |
| Other Funds | | 214 | 695 | 6,040 | 9,216 | 16,165 |
| Other Governmental Agencies, Net | | | | | 8,140 | 8,140 |
| Total Assets | \$ 277,560 | \$ 97,593 | \$ 28,404 | \$ 213,778 | \$ 613,474 | \$ 1,230,809 |
| Liabilities and Fund Balances: | | | | | | |
| Liabilities: | | | | | | |
| Vouchers Payable | \$ 10,977 | \$ - | \$ - | \$ - | \$ 2,946 | \$ 13,923 |
| Accounts Payable - Other | 7,594 | | | | 4,052 | 11,646 |
| Accrued Payroll | 5,831 | | | | 468 | 6,299 |
| Accrued Leave Payable | 7,685 | | | | 198 | 7,883 |
| Deferred Revenue | 19,219 | | | | 7,585 | 26,804 |
| Securities Lending Obligation | 4,436 | | | | 3,618 | 8,054 |
| Due To: | | | | | | |
| Other Funds | 5,258 | | | | 61 | 5,319 |
| Restricted Liabilities: | | | | | | |
| Vouchers Payable | | | 3,333 | | 26,392 | 29,725 |
| Accounts Payable - Other | | 390 | 2,740 | | 25,057 | 28,187 |
| Accrued Payroll | | | 334 | | 385 | 719 |
| Accrued Leave Payable | | | | | 92 | 92 |
| Deferred Revenue | | 6,633 | 2,842 | | 57,780 | 67,255 |
| Securities Lending Obligation | 47 | | 144 | 7,767 | 13,387 | 21,345 |
| Amounts Held in Trust | | | | | 2,429 | 2,429 |
| Due to: | | | | | | |
| Other Funds | | 4,210 | 17,942 | | 36,065 | 58,217 |
| Other Governmental Agencies | | | 61 | | 2,168 | 2,229 |
| Total Liabilities | 61,047 | 11,233 | 27,396 | 7,767 | 182,683 | 290,126 |
| Fund Balances: | | | | | | |
| Nonspendable | 5,800 | | 664 | | 4,571 | 11,035 |
| Restricted | 1,003 | 86,360 | 344 | 206,011 | 372,815 | 666,533 |
| Committed | 47,035 | | | | 77,204 | 124,239 |
| Assigned | 4,143 | | | | 12,330 | 16,473 |
| Unassigned | 158,532 | | | | (36,129) | 122,403 |
| Total Fund Balances | 216,513 | 86,360 | 1,008 | 206,011 | 430,791 | 940,683 |
| Total Liabilities and Fund Balances | \$ 277,560 | \$ 97,593 | \$ 28,404 | \$ 213,778 | \$ 613,474 | \$ 1,230,809 |

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

CITY OF SAN ANTONIO, TEXAS

Reconciliation of the Balance Sheet to the Statement of Net Assets

Governmental Funds

As of September 30, 2012

(In Thousands)

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Fund Balances - Total Governmental Funds \$ 940,683

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

| | | |
|--|--------------------|------------------|
| Governmental Capital Assets: | | |
| Land | 1,383,564 | |
| Other Non-Depreciable Assets | 2,741 | |
| Construction In Progress | 286,671 | |
| Non-Depreciable Intangible Assets | 82,740 | |
| Depreciable Intangible Assets | 3,627 | |
| Buildings | 844,807 | |
| Improvements | 604,034 | |
| Infrastructure | 2,646,757 | |
| Machinery and Equipment | 288,428 | |
| Less: Accumulated Depreciation | <u>(2,317,149)</u> | |
| Total Governmental Capital Assets | | 3,826,220 |

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 | 29,560 | |
| Unearned revenues previously recorded as income in the fund financial statements | <u>(13,041)</u> | |
| Net revenues recognized | | 16,519 |

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. 883

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. 106,711

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 | (1,951,819) | |
| Unamortized Discount/(Premium) on Bonds, Net | (91,602) | |
| Deferred Amount on Refunding | 21,492 | |
| Capital Lease Liability | (9,200) | |
| Notes Payable | (46,631) | |
| Unamortized Bond Issuance Costs | 34,771 | |
| Net OPEB Obligation | (129,213) | |
| Accrued Interest Payable | (15,611) | |
| Pollution Remediation Payable | (1,533) | |
| Compensated Absences | <u>(192,013)</u> | |
| | | <u>(2,381,359)</u> |

Net Assets of Governmental Activities \$ 2,509,657

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

CITY OF SAN ANTONIO, TEXAS

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year-Ended September 30, 2012

(In Thousands)

| | MAJOR FUNDS | | | | | |
|--|-------------------|------------------|--------------------------|-------------------------------|-----------------------------|--------------------------|
| | GENERAL | DEBT SERVICE | CATEGORICAL GRANT-IN AID | 2007 GENERAL OBLIGATION BONDS | NONMAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
| Revenues: | | | | | | |
| Taxes: | | | | | | |
| Property | \$ 242,971 | \$ 145,053 | \$ - | \$ - | \$ 8,636 | \$ 396,660 |
| General Sales and Use | 219,649 | | | | 40,278 | 259,927 |
| Selective Sales and Use | 5,200 | | | | | 5,200 |
| Gross Receipts Business | 30,735 | | | | 2,890 | 33,625 |
| Occupancy | | | | | 67,937 | 67,937 |
| Penalties and Interest on Delinquent Taxes | 2,124 | 1,268 | | | 162 | 3,554 |
| Licenses and Permits | 8,469 | | | | | 8,469 |
| Intergovernmental | | | 147,327 | | 89,706 | 245,030 |
| Revenues from Utilities | 299,306 | | | | | 299,306 |
| Charges for Services | 47,960 | | | | 74,269 | 122,229 |
| Fines and Forfeits | 14,401 | | | | 406 | 14,807 |
| Miscellaneous | 18,044 | 3,825 | 369 | | 21,751 | 43,989 |
| Investment Earnings | 1,306 | 101 | 29 | 782 | 2,136 | 4,354 |
| Contributions | | | 12,433 | | 110,587 | 123,020 |
| Total Revenues | <u>898,162</u> | <u>150,247</u> | <u>160,158</u> | <u>782</u> | <u>418,758</u> | <u>1,628,107</u> |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General Government | 87,998 | 2,072 | 351 | 166 | 14,704 | 105,291 |
| Public Safety | 538,313 | | 11,634 | | 21,274 | 571,221 |
| Public Works | 39,744 | | 13,407 | | 35,546 | 88,697 |
| Health Services | 78,135 | | 17,604 | | 4,322 | 100,061 |
| Sanitation | 3,311 | | 198 | | 11,081 | 14,590 |
| Welfare | 40,152 | | 114,572 | | 1,381 | 156,105 |
| Culture and Recreation | 82,740 | | 1,327 | | 48,529 | 132,596 |
| Convention and Tourism | | | | | 20,158 | 20,158 |
| Urban Redevelopment and Housing | | | 941 | | 14,961 | 15,902 |
| Economic Development and Opportunity | 15,185 | | 6 | | 99,736 | 114,927 |
| Capital Outlay | | | | | 301,381 | 301,381 |
| Debt Service: | | | | | | |
| Principal Retirement | | 111,145 | | | 6,120 | 117,265 |
| Interest | | 69,469 | | | 17,858 | 87,327 |
| Issuance Costs | | 320 | | 645 | 767 | 1,732 |
| Total Expenditures | <u>885,578</u> | <u>183,006</u> | <u>160,040</u> | <u>811</u> | <u>597,818</u> | <u>1,827,253</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>12,584</u> | <u>(32,759)</u> | <u>118</u> | <u>(29)</u> | <u>(179,060)</u> | <u>(199,146)</u> |
| Other Financing Sources (Uses): | | | | | | |
| Issuance of Long-Term Debt | | 33,410 | | 85,803 | 99,772 | 218,985 |
| Payments to Refunded Bond Escrow Agent | | (37,892) | | | | (37,892) |
| Premium/(Discount) on Long-Term Debt | | 4,846 | | 13,504 | 12,267 | 30,617 |
| Transfers In | 18,877 | 25,186 | 7,519 | | 317,004 | 368,586 |
| Transfers Out | <u>(47,640)</u> | | <u>(2,420)</u> | <u>(111,042)</u> | <u>(208,725)</u> | <u>(369,827)</u> |
| Total Other Financing Sources (Uses) | <u>(28,763)</u> | <u>25,550</u> | <u>5,099</u> | <u>(11,735)</u> | <u>220,318</u> | <u>210,469</u> |
| Net Change in Fund Balances | <u>(16,179)</u> | <u>(7,209)</u> | <u>5,217</u> | <u>(11,764)</u> | <u>41,258</u> | <u>11,323</u> |
| Fund Balances, October 1 (restated) | 232,692 | 93,569 | (4,209) | 217,775 | 389,533 | 929,360 |
| Fund Balances, September 30 | <u>\$ 216,513</u> | <u>\$ 86,360</u> | <u>\$ 1,008</u> | <u>\$ 206,011</u> | <u>\$ 430,791</u> | <u>\$ 940,683</u> |

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

CITY OF SAN ANTONIO, TEXAS

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year-Ended September 30, 2012

(In Thousands)

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in Fund Balances - Total Governmental Funds \$ 11,323

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 | 263,513 | |
| Pollution Remediation Capitalization | 1,597 | |
| Donated capital assets | 4,508 | |
| Less: Current Year Depreciation | (146,965) | |
| Less: Current Year Deletions | <u>(35,152)</u> | 87,501 |

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (25)

The issuance of long-term debt (e.g. bonds, notes and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued. This amount is the net effect of these differences in the treatment of long-term debt and related items.

| | | |
|--|----------------|----------|
| Bond, Note and Loan Amounts Issued (Premium)/Discount on Long-term Debt | (218,985) | |
| Bond Issuance Costs | (30,617) | |
| Payments to Escrow Agent | 1,732 | |
| Amortization of Bond Premiums/Discounts, Deferred Charges, and Cost of Issuance, Net | 37,892 | |
| Principal Payments | 4,615 | |
| | <u>117,265</u> | (88,098) |

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 | (2,362) | |
| Compensated Absences | (10,657) | |
| Net OPEB Obligation | (31,533) | |
| Pollution Remediation | 328 | |
| Principal Amounts on Leases and Notes | 1,619 | |
| | | (42,605) |

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. (11,862)

Change in Net Assets of Governmental Activities \$ (43,766)

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

CITY OF SAN ANTONIO, TEXAS

Statement of Net Assets

Proprietary Funds

As of September 30, 2012

(In Thousands)

| | BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS | | | GOVERNMENTAL ACTIVITIES | |
|--|--|------------------------------|---------------------------------|----------------------------|------------------------------|
| | AIRPORT SYSTEM | SOLID WASTE MANAGEMENT | NONMAJOR ENTERPRISE FUNDS | TOTAL | INTERNAL SERVICE FUNDS |
| Assets: | | | | | |
| Current Assets: | | | | | |
| Unrestricted Assets: | | | | | |
| Cash and Cash Equivalents | \$ 1,528 | \$ 491 | \$ 1,182 | \$ 3,201 | \$ 10,508 |
| Securities Lending Collateral | 716 | 214 | 526 | 1,456 | 4,629 |
| Investments | 16,958 | 5,149 | 12,245 | 34,352 | 109,560 |
| Receivables, Net | 3,839 | 7,458 | 212 | 11,509 | 460 |
| Materials and Supplies, at Cost | 767 | | 56 | 823 | 1,719 |
| Deposits | | | | | 138 |
| Prepaid Expenses | 6 | | | 6 | 1,141 |
| Due From: | | | | | |
| Other Funds | 617 | 24 | 67 | 708 | 8,989 |
| Other Governmental Agencies, Net | | | | | 633 |
| Total Unrestricted Assets | <u>24,431</u> | <u>13,336</u> | <u>14,288</u> | <u>52,055</u> | <u>137,777</u> |
| Restricted Assets: | | | | | |
| Debt Service Accounts: | | | | | |
| Cash and Cash Equivalents | 17,897 | 65 | 1,182 | 19,144 | |
| Securities Lending Collateral | | | | 205 | |
| Investments | 6,769 | 26 | 5,102 | 11,897 | |
| Receivables, Net | 1 | | 7 | 8 | |
| Construction Accounts: | | | | | |
| Cash and Cash Equivalents | 6,492 | 2,715 | 22 | 9,229 | |
| Securities Lending Collateral | 2,083 | 53 | | 2,136 | |
| Investments | 49,235 | 1,230 | | 50,465 | |
| Receivables, Net | 78 | | | 78 | |
| Due From Other Funds | | | 101 | 101 | |
| Improvement and Contingency Accounts: | | | | | |
| Cash and Cash Equivalents | 6,039 | 865 | | 374 | 7,278 |
| Securities Lending Collateral | 2,684 | 384 | | 164 | 3,232 |
| Investments | 62,770 | 9,027 | 3,898 | 75,695 | |
| Receivables, Net | 2,583 | 12 | 7 | 2,602 | |
| Other Restricted Assets: | | | | | |
| Cash and Cash Equivalents | 1 | 206 | | 207 | |
| Securities Lending Collateral | | 91 | | 91 | |
| Investments | | 2,080 | | 2,080 | |
| Total Restricted Assets | <u>156,632</u> | <u>16,754</u> | <u>11,062</u> | <u>184,448</u> | |
| Total Current Assets | <u>181,063</u> | <u>30,090</u> | <u>25,350</u> | <u>236,503</u> | <u>137,777</u> |
| Noncurrent Assets: | | | | | |
| Capital Assets: | | | | | |
| Land | 5,322 | 1,107 | 8,170 | 14,599 | |
| Buildings | 359,346 | 1,291 | 25,926 | 386,563 | 178 |
| Improvements | 396,830 | 9,210 | 11,893 | 417,933 | 244 |
| Machinery and Equipment | 15,192 | 35,700 | 2,671 | 53,563 | 192,323 |
| Depreciable Intangible | | | | | 250 |
| Construction in Progress | 27,810 | 1,786 | 1,893 | 31,489 | |
| Total Capital Assets | <u>804,500</u> | <u>49,094</u> | <u>50,553</u> | <u>904,147</u> | <u>192,995</u> |
| Less: Accumulated Depreciation | <u>235,838</u> | <u>17,409</u> | <u>15,939</u> | <u>269,186</u> | <u>118,682</u> |
| Net Capital Assets | <u>568,662</u> | <u>31,685</u> | <u>34,614</u> | <u>634,961</u> | <u>74,313</u> |
| Unamortized Bond Issuance Costs | 8,999 | 20 | 240 | 9,259 | |
| Total Noncurrent Assets | <u>577,661</u> | <u>31,705</u> | <u>34,854</u> | <u>644,220</u> | <u>74,313</u> |
| Total Assets | <u>\$ 758,724</u> | <u>\$ 61,795</u> | <u>\$ 60,204</u> | <u>\$ 880,723</u> | <u>\$ 212,090</u> |

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

CITY OF SAN ANTONIO, TEXAS

Statement of Net Assets
Proprietary Funds
As of September 30, 2012
(In Thousands)

| | BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS | | | | GOVERNMENTAL ACTIVITIES |
|--|--|------------------------------|---------------------------------|-------------------|------------------------------|
| | AIRPORT SYSTEM | SOLID WASTE MANAGEMENT | NONMAJOR ENTERPRISE FUNDS | TOTAL | INTERNAL SERVICE FUNDS |
| Liabilities: | | | | | |
| Current Liabilities: | | | | | |
| Payable from Current Unrestricted Assets: | | | | | |
| Vouchers Payable | \$ 1,144 | \$ 694 | \$ 219 | \$ 2,057 | \$ 4,723 |
| Accounts Payable-Other | 908 | 769 | 1,445 | 3,122 | 3,068 |
| Claims Payable | | | | | 68,249 |
| Accrued Payroll | 469 | 462 | 315 | 1,246 | 886 |
| Accrued Interest | 18 | | | 18 | 19 |
| Current Portion of Accrued Leave Payable | 1,646 | 1,312 | 839 | 3,797 | 2,483 |
| Securities Lending Obligation | 716 | 214 | | 526 | 4,629 |
| Unearned Revenue | 202 | | 73 | 275 | 8 |
| Current Portion of Capital Lease Liability | 170 | 5,037 | | 5,207 | 1,269 |
| Current Portion of Accrued Landfill Postclosure Costs Due To: | | 129 | | 129 | |
| Other Funds | | 151 | 60 | 211 | 4,824 |
| Other Governmental Agencies | | | 4 | 4 | |
| Total Payable from Current Unrestricted Assets | 5,273 | 8,768 | 3,481 | 17,522 | 90,158 |
| Payable from Restricted Assets: | | | | | |
| Vouchers Payable | 5,451 | 1,011 | 21 | 6,483 | |
| Accrued Bond Interest | 4,755 | 113 | 139 | 5,007 | |
| Securities Lending Obligation | 4,767 | | 369 | 5,664 | |
| Current Portion of Bonds and Certificates | 18,115 | 145 | 1,300 | 19,560 | |
| Due to Other Funds | | | 101 | 101 | |
| Current Portion of Unamortized Premium/(Discount) | 3,323 | 20 | 10 | 3,353 | |
| Current Portion of Deferred Amount on Refunding | (906) | (2) | (178) | (1,086) | |
| Other Payables | | | 22 | 22 | |
| Total Payable from Restricted Assets | 35,505 | 1,815 | 1,784 | 39,104 | |
| Total Current Liabilities | 40,778 | 10,583 | 5,265 | 56,626 | 90,158 |
| Noncurrent Liabilities: | | | | | |
| Bonds and Certificates (net of current portion) | 361,550 | 3,060 | 13,600 | 378,210 | |
| Unamortized Premium/(Discount) (net of current portion) | 12,495 | 119 | 59 | 12,673 | |
| Deferred Amount on Refunding (net of current portion) | (3,281) | (35) | (1,336) | (4,652) | |
| Accrued Leave Payable (net of current portion) | 781 | 332 | | 1,113 | 396 |
| Capital Lease Liability (net of current portion) | 2,918 | 13,187 | | 16,105 | 3,724 |
| Net OPEB and Pension Obligation | 9,128 | 10,907 | 6,725 | 26,760 | 16,693 |
| Pollution Remediation | 1,040 | | | 1,040 | |
| Accrued Landfill Postclosure Costs (net of current portion) | | 1,915 | | 1,915 | |
| Total Noncurrent Liabilities | 384,631 | 29,485 | 19,048 | 433,164 | 20,813 |
| Total Liabilities | 425,409 | 40,068 | 24,313 | 489,790 | 110,971 |
| Net Assets: | | | | | |
| Invested in Capital Assets, Net of Related Debt | 228,291 | 21,050 | 21,159 | 270,500 | 69,320 |
| Restricted: | | | | | |
| Debt Service | 19,911 | 53 | 6,152 | 26,116 | |
| Capital Projects | 65,944 | 8,651 | 4,279 | 78,874 | |
| Unrestricted | 19,169 | (8,027) | 4,301 | 15,443 | 31,799 |
| Total Net Assets | \$ 333,315 | \$ 21,727 | \$ 35,891 | \$ 390,933 | \$ 101,119 |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. | | | | (5,592) | |
| Net assets of business-type activities | | | | \$ 385,341 | |

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

CITY OF SAN ANTONIO, TEXAS

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year-Ended September 30, 2012
(In Thousands)

| | BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS | | | | GOVERNMENTAL ACTIVITIES |
|---|--|------------------------------|---------------------------------|-----------------|------------------------------|
| | AIRPORT SYSTEM | SOLID WASTE MANAGEMENT | NONMAJOR ENTERPRISE FUNDS | TOTAL | INTERNAL SERVICE FUNDS |
| Operating Revenues: | | | | | |
| Charges for Services | \$ 84,395 | \$ 93,333 | \$ 34,338 | \$ 212,066 | \$ 254,961 |
| Total Operating Revenues | 84,395 | 93,333 | 34,338 | 212,066 | 254,961 |
| Operating Expenses: | | | | | |
| Personal Services | 30,037 | 32,123 | 20,617 | 82,777 | 57,878 |
| Contractual Services | 8,654 | 26,774 | 2,847 | 38,275 | 40,947 |
| Commodities | 2,196 | 5,833 | 586 | 8,615 | 4,533 |
| Materials | | | | | 26,967 |
| Claims | | | | | 112,787 |
| Other | 7,095 | 17,581 | 6,110 | 30,786 | 16,920 |
| Depreciation | 27,462 | 3,841 | 1,556 | 32,859 | 17,915 |
| Total Operating Expenses | 75,444 | 86,152 | 31,716 | 193,312 | 277,947 |
| Operating Income (Loss) | 8,951 | 7,181 | 2,622 | 18,754 | (22,986) |
| Nonoperating Revenues (Expenses): | | | | | |
| Investment Earnings | 639 | 90 | 98 | 827 | 633 |
| Other Nonoperating Revenue | 21,285 | 1,372 | 213 | 22,870 | 1,921 |
| Gain on Sale of Capital Assets | 23 | 5 | | 28 | 3,488 |
| Interest and Debt Expense | (18,461) | | (854) | (19,983) | |
| Other Nonoperating Expense | (23,896) | (1,268) | (351) | (25,515) | (211) |
| Total Nonoperating Revenues (Expenses) | (20,410) | (469) | (894) | (21,773) | 5,831 |
| Change in Net Assets Before Contributions and Transfers | (11,459) | 6,712 | 1,728 | (3,019) | (17,155) |
| Capital Contributions | 13,378 | | 74 | 13,452 | |
| Transfers In (Out): | | | | | |
| Transfers In | | 255 | 4,593 | 4,848 | 8,047 |
| Transfers Out | (199) | (2,097) | (3,708) | (6,004) | (5,650) |
| Total Transfers In (Out) | (199) | (1,842) | 885 | (1,156) | 2,397 |
| Change in Net Assets | 1,720 | 4,870 | 2,687 | 9,277 | (14,758) |
| Net Assets - October 1 | 331,595 | 16,857 | 33,204 | | 115,877 |
| Net Assets - September 30 | \$ 333,315 | \$ 21,727 | \$ 35,891 | | \$ 101,119 |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | | (2,896) | |
| Change in Net Assets of Business-Type Activities | | | | \$ 6,381 | |

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

CITY OF SAN ANTONIO, TEXAS

Statement of Cash Flows
Proprietary Funds
Year-Ended September 30, 2012
(In Thousands)

| | BUSINESS-TYPE ACTIVITIES | | | TOTALS | GOVERNMENTAL |
|---|--------------------------|------------------------|---------------------------|------------------|------------------------|
| | AIRPORT SYSTEM | SOLID WASTE MANAGEMENT | NONMAJOR ENTERPRISE FUNDS | | INTERNAL SERVICE FUNDS |
| Cash Flows from Operating Activities: | | | | | |
| Cash Received from Customers | \$ 81,593 | \$ 93,760 | \$ 34,448 | \$ 209,801 | \$ 256,378 |
| Cash Payments to Suppliers for Goods and Services | (18,413) | (51,526) | (8,922) | (78,861) | (196,190) |
| Cash Payments to Employees for Service | (27,643) | (28,627) | (19,230) | (75,500) | (54,054) |
| Net Cash Provided by Operating Activities | 35,537 | 13,607 | 6,296 | 55,440 | 6,134 |
| Cash Flows from Noncapital Financing Activities: | | | | | |
| Transfers In from Other Funds | | 255 | 4,593 | 4,848 | 8,047 |
| Transfers Out to Other Funds | (199) | (2,097) | (3,708) | (6,004) | (5,650) |
| Due to Other Funds | (464) | (1,166) | (10) | (1,640) | 927 |
| Due from Other Funds | (610) | 5,248 | 544 | 5,182 | (5,458) |
| Cash Received from Other Nonoperating Revenues | 21,285 | 1,372 | 189 | 22,846 | 1,813 |
| Net Cash Provided by (Used for) Noncapital Financing Activities | 20,012 | 3,612 | 1,608 | 25,232 | (321) |
| Cash Flows from Capital and Related Financing Activities: | | | | | |
| Contributed Capital | 13,378 | | | 13,378 | |
| Acquisitions and Construction of Capital Assets | (30,131) | (5,346) | (1,870) | (37,347) | (19,672) |
| Principal Payments on Long-Term Debt | (26,759) | (140) | (1,175) | (28,074) | |
| Interest and Fees Paid on Long-Term Debt | (18,642) | (581) | (862) | (20,085) | |
| Interest Paid on Notes and Leases | (285) | (119) | | (404) | 18 |
| Principal Payments on Notes and Leases | | (5,218) | | (5,218) | (1,135) |
| Proceeds from Sale of Assets | 29 | 11 | | 40 | 4,582 |
| Net Cash (Used for) Capital and Related Financing Activities | (62,410) | (11,393) | (3,907) | (77,710) | (16,207) |
| Cash Flows from Investing Activities: | | | | | |
| Purchases of Investment Securities | (187,591) | (19,525) | (25,099) | (232,215) | (121,258) |
| Maturity of Investment Securities | 194,665 | 16,544 | 21,870 | 233,079 | 132,000 |
| Purchases of Investments for Securities Lending | (1,023) | (22) | (293) | (1,338) | (1,543) |
| Proceeds from Cash Collected for Securities Lending Cash Collateral | 1,023 | 22 | 293 | 1,338 | 1,543 |
| Investments Earnings | 556 | 96 | 87 | 739 | 571 |
| Net Cash Provided by (Used for) Investing Activities | 7,630 | (2,885) | (3,142) | 1,603 | 11,313 |
| Net Increase in Cash and Cash Equivalents | 769 | 2,941 | 855 | 4,565 | 919 |
| Cash and Cash Equivalents, October 1 | 31,188 | 1,401 | 1,905 | 34,494 | 9,589 |
| Cash and Cash Equivalents, September 30 | \$ 31,957 | \$ 4,342 | \$ 2,760 | \$ 39,059 | \$ 10,508 |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | | | | | |
| Operating Income (Loss) | \$ 8,951 | \$ 7,181 | \$ 2,622 | \$ 18,754 | \$ (22,986) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities: | | | | | |
| Depreciation | 27,462 | 3,841 | 1,556 | 32,859 | 17,915 |
| Changes in Assets and Liabilities: | | | | | |
| (Increase) Decrease in Accounts Receivable | (1,332) | 427 | 139 | (766) | 1,951 |
| (Increase) in Due from Other Governmental Agencies | | | (2) | (2) | (519) |
| (Increase) Decrease in Materials and Supplies | (121) | | 4 | (117) | (53) |
| (Increase) in Prepaid Expenses | (6) | | | (6) | (165) |
| Increase (Decrease) in Vouchers Payable | 359 | (790) | 202 | (229) | (85) |
| Increase in Claims Payable | | | | | 9,382 |
| Increase (Decrease) in Accounts Payable - Other | (700) | (547) | 417 | (830) | (2,405) |
| Increase in Accrued Payroll | 84 | 64 | 34 | 182 | 34 |
| Increase in Accrued Leave Payable | 301 | 128 | 29 | 458 | 165 |
| Increase in Net OPEB and Pension Obligation | 2,009 | 3,304 | 1,324 | 6,637 | 3,626 |
| (Decrease) in Pollution Remediation Liability | | (1) | | (1) | |
| (Decrease) in Unearned Revenue | (1,470) | | (29) | (1,499) | (15) |
| (Decrease) in Due to Other Governmental Agencies | | | | | (711) |
| Net Cash Provided by Operating Activities | \$ 35,537 | \$ 13,607 | \$ 6,296 | \$ 55,440 | \$ 6,134 |
| Noncash Investing, Capital and Financing Activities | | | | | |
| Acquisitions and Construction of Capital Assets from Debt Proceeds and Leases | \$ - | \$ 5,514 | \$ - | \$ - | \$ - |
| Contributed Capital | | | 74 | 74 | |

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

CITY OF SAN ANTONIO, TEXAS

Statement of Fiduciary Net Assets/Balance Sheet
Fiduciary Funds
As of September 30, 2012
(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 | \$ 151,237 | \$ 24 | \$ 8,274 |
| Security Lending Collateral Investments: | 116,323 | | 86 |
| Common Stock | 932,738 | | |
| U.S. Government Securities | 66,026 | | 2,029 |
| Corporate Bonds | 355,235 | | |
| Mutual Funds | 54,550 | | |
| Hedge Funds | 183,353 | | |
| Real Estate | 301,208 | | |
| Alternative | 367,646 | | |
| Receivables: | | | |
| Accounts | 76,445 | | 89 |
| Accrued Interest | 4,579 | | 6 |
| Accrued Revenue | 21 | | |
| Total Current Assets | 2,609,361 | 24 | 10,484 |
| Capital Assets: | | | |
| Machinery and Equipment | 457 | | |
| Buildings | 1,468 | | |
| Total Capital Assets | 1,925 | | |
| Less: Accumulated Depreciation | 597 | | |
| Net Capital Assets | 1,328 | | |
| Total Assets | \$ 2,610,689 | \$ 24 | \$ 10,484 |
| Liabilities: | | | |
| Vouchers Payable | \$ 3,573 | \$ - | \$ 24 |
| Accounts Payable - Other | 24,102 | | 10,374 |
| Claims Payable | 2,561 | | |
| Accrued Payroll | 195 | | |
| Securities Lending Obligation | 116,323 | | 86 |
| Total Liabilities | 146,754 | | 10,484 |
| Net Assets: | | | |
| Net Held in Trust for Pension, OPEB Benefits and Other Purposes | \$ 2,463,935 | \$ 24 | |

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

CITY OF SAN ANTONIO, TEXAS

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year-Ended September 30, 2012

(In Thousands)

| | FIRE AND POLICE PENSION AND HEALTH CARE FUNDS | PRIVATE PURPOSE TRUST FUND - SAN ANTONIO LITERACY PROGRAM |
|---|---|---|
| Additions: | | |
| Contributions: | | |
| Employer | \$ 94,898 | \$ - |
| Employee | 47,436 | |
| Other Contributions | 747 | |
| Total Contributions | 143,081 | |
| Investment Earnings: | | |
| Net Increase in Fair Value of Investments | 249,490 | |
| Real Estate Income, Net | 7,892 | |
| Interest and Dividends | 40,551 | |
| Securities Lending | 386 | |
| Other Income | 274 | |
| Total Investment Earnings | 298,593 | |
| Less: Investment Expenses | | |
| Investment Management Fees and Custodian Fees | (11,051) | |
| Less: Securities Lending Expenses | | |
| Borrower Rebates and Lending Fees | (50) | |
| Net Investment Earnings | 287,492 | |
| Total Additions | 430,573 | |
| Deductions: | | |
| Benefits | 129,890 | |
| Refunds of Contributions | 697 | |
| Administrative Expense | 4,777 | |
| Total Deductions | 135,364 | |
| Change in Net Assets | 295,209 | |
| Net Assets - October 1 | 2,168,726 | 24 |
| Net Assets - September 30 | \$ 2,463,935 | \$ 24 |

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

CITY OF SAN ANTONIO, TEXAS

Statement of Net Assets
Discretely Presented Component Units
As of September 30, 2012

(In Thousands)

| | CPS ENERGY | SAN ANTONIO WATER SYSTEM | NONMAJOR COMPONENT UNITS | TOTAL |
|--|---------------------|--------------------------|--------------------------|----------------------|
| Assets: | | | | |
| Current Assets: | | | | |
| Unrestricted Assets: | | | | |
| Cash and Cash Equivalents | \$ 148,746 | \$ 118,636 | \$ 19,333 | \$ 286,715 |
| Investments | 135,640 | 69,413 | 433 | 205,486 |
| Receivables, Net: | | | | |
| Notes | | | 15,852 | 15,852 |
| Accounts | 197,041 | 46,356 | 529 | 243,926 |
| Accrued Interest | 300 | 1,333 | 821 | 2,454 |
| Materials and Supplies, at Cost | 178,747 | 5,576 | 194 | 184,517 |
| Due from Other Governmental Agencies | | | 5,702 | 5,702 |
| Prepaid Expenses | 66,592 | 2,408 | 34,298 | 103,298 |
| Other Assets | | | 848 | 848 |
| Total Unrestricted Assets | 727,066 | 243,722 | 78,010 | 1,048,798 |
| Restricted Assets: | | | | |
| Debt Service Accounts: | | | | |
| Cash and Cash Equivalents | 518 | 11,698 | 14,908 | 27,124 |
| Investments | | 36,035 | 11,073 | 47,108 |
| Receivables - Accrued Interest | 3 | | 96 | 99 |
| Capital Projects Accounts: | | | | |
| Cash and Cash Equivalents | 60,970 | 41,619 | | 102,589 |
| Investments | 56,425 | 141,445 | | 197,870 |
| Receivables - Accrued Interest | 640 | | | 640 |
| Ordinance Accounts: | | | | |
| Investments | 530,830 | | | 530,830 |
| Receivables - Accrued Interest | 1,892 | | | 1,892 |
| Other Restricted Accounts: | | | | |
| Cash and Cash Equivalents | 22,371 | 364 | 6,272 | 29,007 |
| Investments | 424,866 | 109,551 | | 534,417 |
| Receivables | | | 49,015 | 49,015 |
| Deferred Charges | | | 3,474 | 3,474 |
| Prepaid Expenses | 3,215 | | | 3,215 |
| Total Restricted Assets | 1,101,730 | 340,712 | 84,838 | 1,527,280 |
| Total Current Assets | 1,828,796 | 584,434 | 162,848 | 2,576,078 |
| Noncurrent Assets: | | | | |
| Capital Assets: | | | | |
| Land | 131,566 | 93,331 | 40,063 | 264,960 |
| Intangible Assets | | 205,533 | | 205,533 |
| Infrastructure | | | 83,654 | 83,654 |
| Buildings | | | 234,231 | 234,231 |
| Utility Plant in Service | 10,705,109 | 3,843,415 | | 14,548,524 |
| Machinery and Equipment | | 158,439 | 18,228 | 176,667 |
| Construction in Progress | 595,994 | 522,438 | 9,791 | 1,128,223 |
| Water Rights and Other Depreciable Intangible Assets | | 1,347 | | 1,347 |
| Nuclear Fuel | 701,735 | | | 701,735 |
| Total Capital Assets | 12,134,404 | 4,824,503 | 385,967 | 17,344,874 |
| Less: Accumulated Depreciation | 4,859,007 | 1,271,438 | 113,982 | 6,244,427 |
| Assets Held for Resale | | | 382 | 382 |
| Net Capital Assets | 7,275,397 | 3,553,065 | 272,367 | 11,100,829 |
| Other Noncurrent Assets: | | | | |
| Receivables | | 7,985 | 2,915 | 10,900 |
| Prepaid Expenses | 377,654 | | 494,565 | 872,219 |
| Net OPEB and Pension Asset | 22,450 | | | 22,450 |
| Other Noncurrent Assets | 75,975 | | 2,272 | 78,247 |
| Deferred Outflows Derivative Instrument | 16,184 | 18,380 | 3,872 | 38,436 |
| Unamortized Bond Issuance Costs | | 17,680 | | 17,680 |
| Total Noncurrent Assets | 7,767,660 | 3,597,110 | 775,991 | 12,140,761 |
| Total Assets | \$ 9,596,456 | \$ 4,181,544 | \$ 938,839 | \$ 14,716,839 |

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

Statement of Net Assets
Discretely Presented Component Units
As of September 30, 2012

(In Thousands)

| | <u>CPS ENERGY</u> | <u>SAN ANTONIO WATER SYSTEM</u> | <u>NONMAJOR COMPONENT UNITS</u> | <u>TOTAL</u> |
|--|-----------------------|---|---|---------------------|
| Liabilities: | | | | |
| Current Liabilities: | | | | |
| Payable from Current Unrestricted Assets: | | | | |
| Accounts Payable and Other Current Liabilities | \$ 298,248 | \$ 36,626 | \$ 7,333 | \$ 342,207 |
| Unearned Revenue | | | 8,130 | 8,130 |
| Due to Other Governmental Agencies | | | 1,796 | 1,796 |
| Current Portion of Long-term Lease/Notes Payable | | | 5,372 | 5,372 |
| Current Portion of Deferred Lease/Leaseback | 22,561 | | | 22,561 |
| Current Portion of Other Payables | 28,779 | 10,565 | 881 | 40,225 |
| Total Payable from Current Unrestricted Assets | <u>349,588</u> | <u>47,191</u> | <u>23,512</u> | <u>420,291</u> |
| Payable from Restricted Assets: | | | | |
| Accounts Payable and Other Current Liabilities | | 44,468 | | 44,468 |
| Accrued Bond and Certificate Interest | | 12,871 | 16,609 | 29,480 |
| Current Portion of Bonds and Certificates | 195,375 | 44,780 | 23,325 | 263,480 |
| Current Portion of Commercial Paper | | 2,840 | | 2,840 |
| Total Payable from Restricted Assets | <u>195,375</u> | <u>104,959</u> | <u>39,934</u> | <u>340,268</u> |
| Total Current Liabilities | <u>544,963</u> | <u>152,150</u> | <u>63,446</u> | <u>760,559</u> |
| Noncurrent Liabilities: | | | | |
| Bonds and Certificates (Net of Current Portion) | 4,484,440 | 1,849,450 | 610,992 | 6,944,882 |
| Commercial Paper (Net of Current Portion) | 130,000 | 212,090 | | 342,090 |
| Unamortized Premium/(Discount) on Bonds and Certificates | 106,527 | 30,238 | (178) | 136,587 |
| Deferred Amount on Refunding | (32,688) | (33,148) | | (65,836) |
| Long-Term Lease/Notes Payable (Net of Current Portion) | | | 43,365 | 43,365 |
| Deferred Lease/Leaseback (Net of Current Portion) | 430,530 | | | 430,530 |
| Net Pension and OPEB Obligation | | 81,234 | | 81,234 |
| Other Payables (Net of Current Portion) | 613,469 | 27,090 | 5,597 | 646,156 |
| Total Noncurrent Liabilities | <u>5,732,278</u> | <u>2,166,954</u> | <u>659,776</u> | <u>8,559,008</u> |
| Total Liabilities | <u>6,277,241</u> | <u>2,319,104</u> | <u>723,222</u> | <u>9,319,567</u> |
| Net Assets: | | | | |
| Invested in Capital Assets, Net of Related Debt | 2,515,218 | 1,599,612 | 181,877 | 4,296,707 |
| Restricted for: | | | | |
| Debt Service | | 34,862 | 913 | 35,775 |
| Employee Benefit Plans | | | | |
| Capital Projects | 536,756 | | 2,002 | 538,758 |
| Operating and Other Reserves | | 89,923 | 3,663 | 93,586 |
| Unrestricted | 267,241 | 138,043 | 27,162 | 432,446 |
| Total Net Assets | <u>\$ 3,319,215</u> | <u>\$ 1,862,440</u> | <u>\$ 215,617</u> | <u>\$ 5,397,272</u> |

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

Statement of Activities
Discretely Presented Component Units
Year-Ended September 30, 2012
(In Thousands)

| | EXPENSES | PROGRAM REVENUES | | | NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS | | | TOTALS |
|--------------------------|---------------------|----------------------|--|----------------------------------|--|--------------------------|--------------------------|---------------------|
| | | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS | CPS ENERGY | SAN ANTONIO WATER SYSTEM | NONMAJOR COMPONENT UNITS | |
| CPS Energy | \$ 2,295,340 | \$ 2,258,396 | \$ - | \$ 25,588 | \$ (11,356) | \$ - | \$ - | \$ (11,356) |
| San Antonio Water System | 400,923 | 417,869 | | 60,253 | | 77,199 | | 77,199 |
| Nonmajor Component Units | 124,439 | 111,664 | 484 | 3,085 | | | (9,206) | (9,206) |
| Total | <u>\$ 2,820,702</u> | <u>\$ 2,787,929</u> | <u>\$ 484</u> | <u>\$ 88,926</u> | <u>(11,356)</u> | <u>77,199</u> | <u>(9,206)</u> | <u>56,637</u> |
| | | | General Revenues: | | | | | |
| | | | Investment Earnings | | 49,686 | 6,180 | 2,002 | 57,868 |
| | | | Miscellaneous | | | | 1,380 | 1,380 |
| | | | Adjustment for STP Pension Cost | | (17,056) | | | (17,056) |
| | | | Total General Revenues | | <u>32,630</u> | <u>6,180</u> | <u>3,382</u> | <u>42,192</u> |
| | | | Change in Net Assets | | <u>21,274</u> | <u>83,379</u> | <u>(5,824)</u> | <u>98,829</u> |
| | | | Net Assets - Beginning of Fiscal Year | | <u>3,297,941</u> | <u>1,779,061</u> | <u>221,441</u> | <u>5,298,443</u> |
| | | | Net Assets - End of Fiscal Year | | <u>\$ 3,319,215</u> | <u>\$ 1,862,440</u> | <u>\$ 215,617</u> | <u>\$ 5,397,272</u> |

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

Comprehensive Annual Financial Report

Table of Notes to Financial Statements

Year-Ended September 30, 2012

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Note 1 Summary of Significant Accounting Policies

The financial statements of the City of San Antonio (the City) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted body for establishing governmental accounting and financial reporting standards. The following is a summary of significant accounting policies of the City.

Reporting Entity

In the evaluation of how to define the City for financial reporting purposes, management considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14*. The underlying concept of the financial reporting entity is that elected officials are "accountable" to their constituents for their actions. One of the objectives of this concept is to provide users of governmental financial statements with a basis for assessing the accountability of those elected officials.

The financial reporting entity consists of: (a) the primary government (in these financial statements the primary government is the City), (b) component units, which are legally separate organizations for which the City is financially accountable or the services rendered by the component unit 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, 2012, 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:

| | |
|---|--|
| <p>Convention Center Hotel Finance Corporation P.O. Box 839966 San Antonio, TX 78283-3966 Contact: Margaret Villegas Telephone No. (210) 207-5734</p> | <p>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.</p> |
| <p>Empowerment Zone Development Corporation P.O. Box 839966 San Antonio, TX 78283-3966 Contact: Rene Dominguez Telephone No. (210) 207-8080</p> | <p>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. This is a dormant entity with no activity or balance in fiscal year 2012. There are no financial statements to incorporate.</p> |
| <p>San Antonio Early Childhood Education Municipal Development Corporation P.O. Box 839966 San Antonio, TX 78283-3966 Contact: Rebecca Flores Telephone No. (210) 207-8239</p> | <p>The San Antonio Early Childhood Education Municipal Development Corporation (PreK4SA) was established in fiscal year 2012 in accordance with state laws for the purpose of, and to act on behalf of the City to develop and run authorized programs for early childhood education services. PreK4SA is governed by a board of trustees appointed by the City Council of San Antonio. PreK4SA had minimal activity through September 30, 2012, as such an audit is not deemed necessary.</p> |

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

San Antonio Fire and Police Pension Fund
11603 W. Coker Loop, Ste 201
San Antonio, TX 78216
Contact: Warren Schott
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.

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 post-employment 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 San Antonio Fire and Police Retiree Health Care Fund (Health Fund), was created to provide these post-employment 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 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.

Notes to Financial Statements

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 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: Tracey Ramsey
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.

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

**HemisFair Park Area
Redevelopment Corporation**
c/o City of San Antonio
434 S. Alamo Street
San Antonio, TX 78205
Contact: Omar Gonzalez
Telephone No. (210) 560-5733

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.

**San Antonio Education
Facilities Corporation**
100 W. Houston St., 19th Floor
San Antonio, TX 78205
Contact: Rene Dominguez
Telephone No. (210) 207-8080

The San Antonio Education Facilities Corporation (EFC), formerly the City of San Antonio Higher Education Authority 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. The Code authorizes EFC to issue revenue bonds, for which the City is not obligated in any manner to finance qualified projects that meet the purpose of the Code. The EFC is governed by a board of directors, which is comprised of the City Council of San Antonio.

**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.

**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.

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

**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.

**Texas Public Facilities
Corporation**
P.O. Box 839966
San Antonio, TX 78283-3966
Contact: Margaret Villegas
Telephone No. (210) 207-5734

Texas Public Facilities Corporation (TPFC) was established in fiscal year 2012 in accordance with state laws for the purpose of, and to act on behalf of the City, to effectuate the buyout of the City's existing Hotel Revenue Bonds and funding for the expansion of the City's Convention Center through issuance of 2012 Lease Revenue Bonds. The TPFC is governed by a board of directors, which is comprised of the City Council of San Antonio. As TPFC had minimal activity through September 30, an audit is not deemed necessary.

The blended component units with different fiscal year-ends from the City are the Foundation with a fiscal year-end of December 31st, and PreK4SA with a fiscal year-end of June 30th.

It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to the Pension Fund and Health Fund would be misleading. Therefore, relevant disclosures have been included in the City's financial statements.

The City noted that WDC did not complete audits of their fiscal year 2012 activities in time for the City to include in its financial statements. It is management's belief that the exclusion of this component unit's statements does not materially misrepresent the City's financial statements. WDC was not reported in fiscal year 2011 either so a restatement is not needed.

The City additionally noted that the Foundation has an audit performed biennially, with the latest done in 2011. Since the Foundation's review was not available in time for fiscal year 2012, fiscal year 2011 numbers are reported. It is management's belief that the exclusion of the component unit's fiscal year 2012 numbers does not materially misrepresent the City's financial statements.

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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.

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|---|---|
| <p>Brooks Development Authority 1 B.D.A. Crossing, Ste 100 Brooks City-Base, TX 78235-5355 Contact: Roland Lozano Telephone No. (210) 678-3306</p> | <p>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.</p> |
| <p>City South Management Authority c/o City of San Antonio 1400 S. Flores San Antonio, TX 78204 Contact: Christopher Looney Telephone No. (210) 207-5889</p> | <p>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.</p> |
| <p>CPS Energy P.O. Box 1771 San Antonio, TX 78296-1771 Contact: Gary W. Gold Telephone No. (210) 353-2523</p> | <p>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.</p> |

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Note 1 Summary of Significant Accounting Policies (Continued)**Discretely Presented Component Units (Continued)**

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| <p>Main Plaza Conservancy 111 Soledad, Ste 825 San Antonio, TX 78205 Contact: Jane Pauley-Flores Telephone No. (210) 225-9800</p> | <p>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.</p> |
| <p>Municipal Golf Association – San Antonio 2315 Avenue B San Antonio, TX 78215 Contact: James E. Roschek Telephone No. (210) 268-5110</p> | <p>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.</p> |
| <p>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: Lori Houston Telephone No. (210) 207-6357</p> | <p>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 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.</p> |
| <p>SA Energy Acquisition Public Facility Corporation P.O. Box 1771 San Antonio, TX 78296-1771 Contact: Gary W. Gold Telephone No. (210) 353-2523</p> | <p>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.</p> |

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

The Port Authority of San Antonio dba Port San Antonio (the Port) is a special district and political subdivision of the State of Texas that was originally established in 1996 as a local development authority under the Development Corp Act of 1979 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 at will by the City Council of San Antonio. The Port is authorized to issue bonds which the City is not obligated in any manner, to finance projects as permitted by state laws.

**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.

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.

Note 1 Summary of Significant Accounting Policies (Continued)**Discretely Presented Component Units (Continued)**

**San Antonio Water System
District Special Project**
P.O. Box 2449
San Antonio, TX 78298-2449
Contact: Doug Evanson
Telephone No. (210) 233-3803

On November 8, 2011, voters in the Bexar Metropolitan Water District (BexarMet) voted to dissolve the utility and transfer responsibility to the San Antonio Water System. As authorized by Senate Bill 341 by the Texas Legislature and approved by the City Council of San Antonio, the San Antonio Water System District Special Project (DSP) will operate as a component unit of the City during the transition of BexarMet's operations into SAWS for a period lasting up to five years. The 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. Given the timeframe of DSP's creation, financial statements did not exist for inclusion in the fiscal year 2012 CAFR.

**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 2012.

Discretely presented component units with different fiscal year-ends from the City are CPS Energy and SAEPFC with fiscal year-ends of January 31st and SAWS and DSP with fiscal year-ends 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, where done, 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 Housing Authority of the City of San Antonio (SAHA) and a majority of the board of directors for Keep San Antonio Beautiful, Inc. However, the City's accountability for these entities does not extend beyond making appointments to their boards and the coordination and approval of strategic plans for SAHA.

Note 1 Summary of Significant Accounting Policies (Continued)**Basic Financial Statements - GASB Statement No. 34**

Government-Wide and Fund Financial Statements – The basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements report information on all 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. Discretely Presented 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.

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 separately presented 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 (with non-cash in-kind contributions from external agencies for federal 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 are within five areas: streets and pedestrian, drainage improvements, parks and recreation, library and public health.

The following is a brief description of the major enterprise funds that are separately presented 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, while financing for the Airport System's capital is primarily funded by City issued revenue bonds (repaid with user fees), grants and facility charges assessed to users.
- Solid Waste Management accounts for the operation and maintenance of the City's solid waste and environmental management programs. Financing for Solid Waste Management is provided by user fees, while financing for the Solid Waste Management's capital is primarily funded by City issued bonds and master leases repaid with 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 Retiree Health Fund, which account for resources for pension and retiree 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. 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 resources 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 whose resources may only be spent to purchase, build or use 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. Grant revenues are recognized when reimbursable expenditures are made, all other eligibility requirements imposed by the provider have been met and the City receives reimbursement within 60 days of the fiscal year-end. 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, post-employment 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 Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The City has the option to apply FASB Statements after November 30, 1989 but has chosen not to apply those statements.

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 2012 were recorded net of expenses.

CPS Energy accounts for decommissioning by recognizing a liability and expense for a pro rata share of projected decommissioning costs as determined by the most recent cost study. A new cost study is performed every five years, and in years subsequent to the latest study, estimated annual decommissioning expense and an increase in the liability is calculated by applying the effects of inflation and the ratio of years of plant usage to total plant life.

Additionally, due to requirements under the Code of Federal Regulations governing nuclear decommissioning trust funds, guidance under FASB 71, *Accounting for the Effects of Certain Types of Regulation*, has been followed. Under this guidance, the zero fund net assets approach is applied in accounting for the Decommissioning Trusts. In accordance with FASB 71, the cumulative effect of activity in the Trusts has been recorded as a regulatory liability reported on the balance sheet as STP decommissioning costs refundable 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 STP decommissioning net costs recoverable. This amount would be receivable from customers.

To reflect funding methodology, the Allowance for Funds Used During Construction (AFUDC) rate includes 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. The investment rate is reviewed quarterly to determine if any adjustments are necessary. Alternate AFUDC rates are applied to projects costing more than \$100,000, reflecting 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 for a number of programs 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. Grant funding received by CPS Energy is subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

Note 1 Summary of Significant Accounting Policies (Continued)**Measurement Focus and Basis of Accounting (Continued)****San Antonio Water System (SAWS)**

SAWS revenues are recorded as services are provided. 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.

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 2012, the City implemented the following GASB Statements:

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other post-employment benefit (OPEB) plans (that is, agent employers). The City does not employ the alternative measurement method, and its OPEB measurements are completed within the minimum frequency required; therefore, the implementation of this GASB Statement did not impact the City.

GASB Statement No. 64, *Derivative Instruments; Applications of Hedge Accounting Termination Provisions – an amendment of GASB Statement 53*, is to clarify whether an effective hedging relationship continues after the replacement of swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establishes when the effective hedging relationship continues and hedge accounting should continue to be applied. The City does not currently participate in hedge activities; however its major component units, CPS Energy & SAWS may. The impact of implementing this Statement would be through their financial statements and required note disclosures.

Future GASB Statement Implementations

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.

Note 1 Summary of Significant Accounting Policies (Continued)**Future GASB Statement Implementations (Continued)**

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, 2012. The City will implement this Statement in fiscal year 2013.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4, *Elements of Financial Statements*. The Statement also provides other financial reporting guidance related to the impact of the financial statement element changes to include charges in the determination of the major fund calculations and limiting the use of the term “deferred” in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The City will implement this Statement in fiscal year 2014.

Note 1 Summary of Significant Accounting Policies (Continued)**Future GASB Statement Implementations (Continued)**

GASB Statement No. 66, *Technical Corrections—2012 (an amendment of GASB Statements No. 10 and No. 62)*, improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments, (2) investments of purchased loan or group of loans, and (3) service fees related to mortgage loans. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The City will implement this Statement in fiscal year 2014.

GASB Statement No. 67, *Financial Reporting for Pension Plans (an amendment of GASB Statement No. 25)* will improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide post-employment benefits other than pensions. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. The City will implement this Statement in fiscal year 2014.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)* will improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement. This Statement is effective for financial statements for fiscal years beginning after June 15, 2014. The City will implement this Statement in fiscal year 2015.

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Future GASB Statement Implementations (Continued)

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, this Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement is effective for financial statements for fiscal years beginning after December 15, 2013. The City will implement this Statement in fiscal year 2015.

The City has not fully determined the effects that implementation of Statements No. 60 through 63 and No. 65 through 69 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. Fair Market value of the City's investments is determined by quoted market prices. As of September 30, 2012, 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 for governmental funds and as expenses for proprietary funds when used.

Notes to Financial Statements

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 |

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 that is 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.

CPS Energy's utility plant is stated at the cost of construction, including expenses for contracted services; direct equipment, material and labor; indirect costs, including general engineering, labor, equipment and material overheads; and AFUDC, or capitalized interest. AFUDC is applied to projects estimated to require 30 days or more to complete.

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation (Continued)

CPS Energy (Continued)

Proceeds from customers to partially fund construction expenses are reported as contributed capital in the Statement 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*. The amount reported for contributed capital was \$25,588 for January 31, 2012, including donated assets of \$4,402. The portion of these balances that represent contributions received from customers as payments for utility extensions and services was \$21,103 at January 31, 2012.

Except for nuclear fuel, which is amortized over units of production, CPS Energy computes depreciation using the straight-line method over the estimated service lives of the depreciable property according to asset type. Total depreciation as a percent of total depreciable assets, excluding nuclear fuel, was 3.3% for fiscal year 2012.

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 |

Beginning February 1, 2011, CPS Energy changed its capitalization thresholds for all categories of computer software. Thresholds contained in CPS Energy's capitalization policy for fiscal year 2012 were as follows:

| Assets | Capitalization Threshold |
|---|-----------------------------|
| Land, Land Improvements and Certain Easements | Capitalize All |
| Buildings and Building Improvements | \$ 10 |
| Computer Software: | |
| Purchased | 50 |
| Internally Developed | 50 |
| Enhancements/Upgrades | 50 |
| Computer Hardware | 3 |
| All Other Assets | 3 |

Notes to Financial Statements

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. Also 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.

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, 2012, the City has excess workers' compensation coverage through FM Global. 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 post-employment 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 post-employment 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) 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 or City management.
- 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 expenditure is incurred for purposes for which more than one of the classification of fund balance is available. See Note 15 Fund Balance Classifications.

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 2012, general government expenditures were reduced by \$9,871, resulting in increased expenditures/expenses in other governmental functions and in business-type activities in the amounts of \$7,669 and \$2,202, 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the City, CPS Energy, and SAWS to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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.

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Notes to Financial Statements

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, 2012, 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 \$1,367,194 per year based on the net taxable valuation of \$70,681,199 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, 2012, there are 24 existing TIRZ with a total taxable captured value of \$1,165,789. For fiscal year 2012, this total taxable captured value produced \$6,516 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 initial terms ranging from 13 years to 30 years which are anticipated to expire starting in fiscal year 2013 through fiscal year 2033. It is estimated that the City will contribute approximately \$472,461 in tax increment revenues in aggregate over the life of these TIRZ projects.

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Notes to Financial Statements

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 | \$ 36,990 | \$ 143,456 | \$ 7,781 | \$ 148,746 | \$ 118,636 |
| Security Lending Collateral Investments | 14,139 | 114,207 | 2,116 | | |
| | <u>336,331</u> | <u>2,030,123</u> | <u>230,633</u> | <u>135,640</u> | <u>69,413</u> |
| Total Unrestricted | <u>387,460</u> | <u>2,287,786</u> | <u>240,530</u> | <u>284,386</u> | <u>188,049</u> |
| Restricted: | | | | | |
| Cash and Cash Equivalents | 182,422 | | | 83,859 | 53,681 |
| Security Lending Collateral Investments | 27,095 | | | | |
| | <u>702,964</u> | | | <u>1,012,121</u> | <u>287,031</u> |
| Total Restricted | <u>912,481</u> | | | <u>1,095,980</u> | <u>340,712</u> |
| Total Cash and Cash Equivalents, Securities Lending Collateral and Investments | <u>\$ 1,299,941</u> | <u>\$ 2,287,786</u> | <u>\$ 240,530</u> | <u>\$ 1,380,366</u> | <u>\$ 528,761</u> |

¹ Private Purpose Trust and Agency Funds, City South Management Authority 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 \$8,298, Security Lending Collateral of \$86, and Investments of \$2,029. 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, 2012.

⁴ For the fiscal year ended December 31, 2011.

| 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 | \$ 68,479 | \$ 222 | \$ 4,843 | \$ 26,301 | \$ 114,818 |
| Investments with Original Maturities of Less than Ninety Days | 148,782 | 143,234 | 2,938 | 206,206 | 57,469 |
| Cash with Other Financial Agents | 1,933 | | | | |
| Petty Cash Funds | 100 | | | 98 | |
| Cash on Hand | 118 | | | | 30 |
| Total Cash and Cash Equivalents | <u>\$ 219,412</u> | <u>\$ 143,456</u> | <u>\$ 7,781</u> | <u>\$ 232,605</u> | <u>\$ 172,317</u> |

Notes to Financial Statements

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, Money Market Mutual Funds, and Governmental Investment Pool | \$ 1,184,286 | \$ 143,234 | \$ 2,938 | \$ 1,081,775 | \$ 413,913 |
| Repurchase Agreements | 1,227 | | | | |
| Fixed Income Securities ¹ | 2,564 | | | | |
| Corporate Bonds | | 355,235 | | 63,007 | |
| Foreign Bonds | | | | 9,534 | |
| Government & Agency Notes | | 66,026 | | | |
| Common Stock | | 908,163 | 18,182 | 199,651 | |
| Mutual Funds | | | 54,550 | | |
| Real Estate | | 257,428 | 43,780 | | |
| Hedge Funds | | 174,760 | 8,593 | | |
| International Equities - Common Stock | | | 6,393 | | |
| Alternative Investment | | 268,511 | 99,135 | | |
| Total Investments | <u>1,188,077</u> | <u>2,173,357</u> | <u>233,571</u> | <u>1,353,967</u> | <u>413,913</u> |
| Less: Investments with Original Maturities of Less than Ninety Days included in Cash and Cash Equivalents | (148,782) | (143,234) | (2,938) | (206,206) | (57,469) |
| Total | <u>\$ 1,039,295</u> | <u>\$ 2,030,123</u> | <u>\$ 230,633</u> | <u>\$ 1,147,761</u> | <u>\$ 356,444</u> |

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, repurchase agreements, money market mutual funds and government investment pools. 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, 2012.

Notes to Financial Statements

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City)

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 \$370 for the year-ended September 30, 2012.

On July 2012, the City began participating in TexPool, a government investment pool. The TexPool investments consist exclusively of United States government securities, its agencies or instrumentalities, repurchase agreements collateralized by United States government securities, its agencies or instrumentalities, and AAA-rated no-load money market mutual funds. The Comptroller of Public Accounts is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company (the "Trust Company"), which is authorized to operate TexPool. Federated Investors, Inc. manages the assets under an agreement with the Comptroller, acting on behalf of the Trust Company. Although TexPool is not registered with the Security and Exchange Commission as an investment company, the City believes TexPool operates as a Rule 2a-7-like pool, as described in GASB Statement No. 59, *Financial Instruments Omnibus*. As such, TexPool uses amortized cost to report net assets and share prices, since that amount approximates fair value.

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 ¹ Amount | Fair ¹ Value | Allocation ² | Rating ³ | WAM |
| U.S. Government Agency Securities | \$ 870,147 | \$ 870,195 | 73.2% | AA+/A-1+ | .59 years |
| U.S. Treasuries | 169,704 | 170,026 | 14.2% | N/A | .45 years |
| Money Market Mutual Fund | 108,976 | 108,976 | 9.2% | AAAm | 1 day |
| Government Investment Pool | 35,089 | 35,089 | 3.1% | AAAm | 1 day |
| Fixed Income Securities ⁴ | 2,564 | 2,564 | 0.2% | | |
| Repurchase Agreement | 1,227 | 1,227 | 0.1% | N/A | 1 day |
| Total City Investments | <u>\$ 1,187,707</u> | <u>\$ 1,188,077</u> | <u>100.0%</u> | | |

¹ The Carrying Amount and Fair Value include blended component unit investments for SIDC, TMFC, CCHFC, and the Foundation, which total \$24,831.

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.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)**Primary Government (City) (Continued)**

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.

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 and government investment pool 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, 2012, the City's investment portfolio, with the exception of the repurchase agreement, the money market mutual fund investments, and the government investment pool consisted only of U.S. Treasury securities and U.S. government agency securities. Investments in U.S. government agency securities, including Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Bank, Federal Agricultural Mortgage Corporation and Federal Farm Credit Bank were rated 'AA+' (Long-term) and 'A-1+' (Short-term) by Standard & Poor's. The investments in the money market mutual fund and governmental investment pool were rated 'AAAm' by Standard & Poor's, and all repurchase agreements were greater than 100.0% collateralized with U.S. government agency securities.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)**Primary Government (City) (Continued)**

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, 2012, the U.S. government agency's 73.2% securities allocation was as follows: Federal National Mortgage Association 12.6%, Federal Home Loan Mortgage Corporation 15.3%, Federal Home Loan Bank 34.4%, Federal Agricultural Mortgage Corporation 7.9%, and Farm Federal Credit Bank 3.0%.

Securities Lending – The City engages in securities lending transactions under a contract with its lending agent, Frost 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 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 2012.

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, 2012, 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 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.

Notes to Financial Statements

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

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.

At September 30, 2012, 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 2012.

As of September 30, 2012, 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, 2012, there was a total of \$861,749 in securities, or 88.7% of the market value of the City's Pooled Operating Funds Portfolio, plus accrued interest, on loan. In exchange, the City received \$41,234 in cash collateral and \$838,294 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 \$104, amounted to \$2,987 in fiscal year 2012, of which 30.0% was paid as fees to the lending agent totaling \$896.

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, 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 \$2,287,786. 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, 2012, 4.0% of the Pension Fund's bonds were rated 'AAA', 12.0% were rated 'AA', 10.0% were rated 'A', 12.0% were rated 'BBB', 19.0% were rated 'BB', 18.0% were rated 'B', 3.0% were rated 'CCC', and 22.0% were unrated or not rated.

Notes to Financial Statements

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, 2012, the Pension Fund had cash deposits held by investment managers in the amount of \$942 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, 2012 amount to \$421,261 and have a weighted-average maturity (WAM) of 7.49 years. Securities that are subject to interest rate risk are shown in the following table.

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Weighted-Average Maturity WAM (Years)</u> |
|--|-------------------|--|
| Corporate Bonds | \$ 65,798 | 8.54 |
| Government Agencies | 3,760 | 7.34 |
| Government Bonds | 54,107 | 11.00 |
| Mortgage-backed securities | 44,483 | 4.34 |
| Municipal/Provincial bonds | 8,159 | 12.41 |
| Non-Government Backed C.M.O.s | 10,017 | 23.40 |
| Bank Loans | 124,590 | 4.95 |
| GoldenTree ¹ | 31,641 | |
| Wellington Emerging Market Debt ² | 78,706 | |
| Total Interest Rate Sensitive Securities | <u>\$ 421,261</u> | |

¹ GoldenTree is a commingled fund invested in high-yield corporate bonds. They report their portfolio effective duration in lieu of WAM as 3.56 as of September 30, 2012.

² Wellington, a commingled fund, also invests in emerging market debt. They report the effective duration of the portfolio in lieu of WAM. The effective duration for Wellington was 6.89 as of September 30, 2012.

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Notes to Financial Statements

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

Foreign Currency Risk – The Pension Fund’s investments include investments in equities, bonds, and cash in foreign currency denominations. Equities denominated in foreign currencies as of September 30, 2012 amounted to \$312,680 in equities, \$65,455 in bonds and \$942 in cash. Detailed as follows:

| <u>Country</u> | <u>Equities</u> | <u>Bonds</u> | <u>Cash</u> | <u>Total</u> |
|----------------------|-------------------|------------------|---------------|-------------------|
| Argentine Peso | \$ 8 | \$ - | \$ - | \$ 8 |
| Australian Dollar | 10,313 | 8,828 | 42 | 19,183 |
| Bermuda Dollar | 715 | | | 715 |
| Brazilian Real | 12,782 | 4,730 | | 17,512 |
| Canadian Dollar | 6,627 | | | 6,627 |
| Swiss Franc | 13,264 | | 113 | 13,377 |
| Chinese Yuan | 9,758 | 24 | | 9,782 |
| Chilean Peso | 773 | 708 | | 1,481 |
| Colombian Peso | | 622 | | 622 |
| Czech Republic Krona | 617 | | | 617 |
| Danish Krone | 1,452 | | 31 | 1,483 |
| Egyptian Pound | 15 | | | 15 |
| European Union | 71,047 | 6,049 | 51 | 77,147 |
| British Pound | 35,961 | 6,298 | 206 | 42,465 |
| Hong Kong Dollar | 7,776 | | 13 | 7,789 |
| Hungarian Forint | | 3,460 | | 3,460 |
| Indonesian Rupiah | 601 | | | 601 |
| Israeli New Shekel | 2,074 | | 18 | 2,092 |
| Indian Rupee | 5,659 | | | 5,659 |
| Japanese Yen | 55,070 | | 246 | 55,316 |
| South Korean Won | 17,842 | 3,863 | | 21,705 |
| Cayman Dollar | 210 | | | 210 |
| Mexican Peso | 9,044 | 13,601 | | 22,645 |
| Morocco Dirham | 30 | | | 30 |
| Malaysian Ringgit | 1,740 | 3,654 | | 5,394 |
| Norwegian Krone | 2,712 | | 38 | 2,750 |
| New Zealand Dollar | 82 | 3,550 | | 3,632 |
| Pakistani Rupee | 30 | | | 30 |
| Peruvian Nuevo Sol | | 559 | | 559 |
| Philippine Peso | 83 | | | 83 |
| Polish Zloty | 2,256 | 5,177 | | 7,433 |
| Russian Ruble | 5,747 | | | 5,747 |
| Swedish Krona | 5,414 | | 183 | 5,597 |
| Singapore Dollar | 4,306 | | 1 | 4,307 |
| Thai Baht | 7,465 | | | 7,465 |
| Turkey New Lira | 5,898 | | | 5,898 |
| Taiwan Dollar | 10,458 | | | 10,458 |
| Uruguay Peso | | 205 | | 205 |
| South African Rand | 4,851 | 4,127 | | 8,978 |
| | <u>\$ 312,680</u> | <u>\$ 65,455</u> | <u>\$ 942</u> | <u>\$ 379,077</u> |

Notes to Financial Statements

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 30 days at September 30, 2012.

As of September 30, 2012, the Pension Fund had lending arrangements outstanding with a total market value of \$111,157 which were fully collateralized with cash and securities. Cash collateral of \$114,207 is recorded in the accompanying Statements of Plan Net Assets. Net income for the year-ended September 30, 2012, under the securities lending arrangement, was \$331.

| Cash Collateral Pool | |
|---------------------------------------|--------------------------|
| U.S. Treasury Notes | \$ 2,256 |
| U.S. Treasury Bills | 6,446 |
| U.S. Asset Backed Securities | 2,667 |
| U.S. Repo Agreements | 31,826 |
| U.S. Sweep Vehicle | 1,030 |
| U.S. Agencies Bonds | 17,781 |
| U.S. Time Deposits | 1,781 |
| International Commercial Paper | 1,765 |
| International Certificates of Deposit | 32,406 |
| International Time Deposits | 12,235 |
| International Asset Backed Securities | 1,043 |
| International Corporate Notes | 275 |
| International MM demand accts. | 2,696 |
| Total | <u><u>\$ 114,207</u></u> |

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Notes to Financial Statements

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, 2012, was approximately \$10,017 in commercial mortgage obligations and is included with investments in the Statement of Plan 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 \$174,760 as of September 30, 2012.

As of September 30, 2012, the Pension Fund foreign-held currency forward contracts, converted to United States currency, is as follows:

| Currency | Nominal Amount USD | Maturity Date |
|--------------------|---------------------------|----------------------|
| Australian Dollar | \$ (8,356) | 10/10/2012 |
| Brazilian Real | 180 | 11/19/2012 |
| British Pound | 5,236 | 12/13/2012 |
| Chilean Peso | 2,816 | 10/18/2012 |
| Euro | (1,215) | 11/5/2012 |
| Indonesian Rupia | 3,401 | 3/20/2013 |
| New Zealand Dollar | (3,272) | 12/14/2012 |
| Turkish Lira | 3,562 | 11/9/2012 |
| Total | \$ 2,352 | |

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.

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.

Notes to Financial Statements

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

All investment income, including changes in the fair value of investments, is reported as additions in the Statement of Changes in Plan 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 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, 2012 is \$240,530. 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, 2012, 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, 2012.

The Health Fund does not have deposit or investment policies related to custodial credit risk as of September 30, 2012. 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.

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, 2012, the Health Fund’s common stock investments are held at Frost 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’ by S&P.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)**Primary Government (City) (Continued)****Fire and Police Retiree Health Care Fund (Continued)**

The Health Fund's investments in Mutual Funds – Fixed Income are not rated by a nationally recognized statistical ranking organization.

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 2 years at time of purchase. At September 30, 2012, the money market fund weighted average to maturity is 41 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 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. At September 30, 2012, 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 2012.

At September 30, 2012, there was a total of \$2,116 in securities out on loan to borrowers. In exchange, the Health Fund received \$2,116 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, 2012, the Fund had non-binding commitments to invest capital in 22 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 \$94,182. As of September 30, 2012, \$22,090 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. 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.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)**CPS Energy (Continued)**

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 a Community Infrastructure and Economic Development (CIED) Fund.

CPS Energy's cash deposits at January 31, 2012 were either insured by federal depository insurance or collateralized by banks. 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.

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 as of January 31, 2012 | |
|---|-------------------|
| Cash and Cash Equivalents: | |
| Petty Cash funds on hand | \$ 98 |
| Deposits with financial institutions: | |
| Unrestricted CPS Energy Deposits | 26,078 |
| Restricted CPS Energy Deposits: | |
| Debt Service | 156 |
| Project Warm | 67 |
| Investments with original maturities of less than 90 days: | |
| CPS Energy unrestricted (current) | 122,570 |
| CPS Energy restricted (noncurrent) | 61,353 |
| Decommissioning Trusts - restricted (noncurrent) | 22,283 |
| Total Cash and Cash Equivalents | <u>\$ 232,605</u> |

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.

Notes to Financial Statements

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

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.

| Summary of Cash and Cash Equivalents, Along with Current and Noncurrent Investments as of January 31, 2012 | |
|---|---------------------|
| Cash and Cash Equivalents: | |
| CPS Energy unrestricted and restricted | \$ 210,322 |
| Decommissioning Trusts - restricted | 22,283 |
| Total Cash and Cash Equivalents | <u>232,605</u> |
| Gross Investments - current and noncurrent: | |
| CPS Energy - unrestricted and restricted | 914,325 |
| Decommissioning Trusts - restricted | 439,642 |
| Total Gross Investments | <u>1,353,967</u> |
| Investments with original maturities of less than 90 days also included in Cash Equivalents: | |
| CPS Energy unrestricted and restricted | (183,923) |
| Decommissioning Trusts - restricted | (22,283) |
| Total Investments also included in Cash Equivalents | <u>(206,206)</u> |
| Net Current and Noncurrent Investments | <u>1,147,761</u> |
| Total Cash, Cash Equivalents and Investments | <u>\$ 1,380,366</u> |

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.

Notes to Financial Statements

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

| Investment Description | Permissible Investments | |
|---|----------------------------------|---------------------------|
| | CPS Energy Direct Investments | Decommissioning Trusts |
| U.S. Government, Government Agency, or U.S. Government-guaranteed obligations | ✓ | ✓ |
| Collateralized mortgage obligation issued by the U.S. Government | ✓ | ✓ |
| Fully secured certificates of deposit issued by a state, national or savings bank domiciled in the State of Texas | ✓ | ✓ |
| Direct repurchase agreements | ✓ | ✓ |
| Reverse repurchase agreements | ✓ | ✓ |
| Defined bankers' acceptances and commercial paper | ✓ | ✓ |
| No-load money market mutual funds | ✓ | ✓ |
| Other specific types of secured or guaranteed investments | ✓ | ✓ |
| Equities | N/A | ✓ |
| Corporate bonds | N/A | ✓ |
| International securities | N/A | ✓ |
| Securities lending | ✓ | ✓ |

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Notes to Financial Statements

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

Cash, Cash Equivalents and Investments by Fund as of January 31, 2012

| | |
|--|---------------------|
| Unrestricted | |
| Cash and Cash Equivalents | \$ 148,746 |
| Investments | 135,640 |
| Total Unrestricted (current) | <u>284,386</u> |
| Restricted | |
| Debt Service | |
| Cash and Cash Equivalents | 518 |
| Total Debt Service | <u>518</u> |
| Capital Projects | |
| Cash and Cash Equivalents | 60,970 |
| Investments | 56,425 |
| Total Capital Projects | <u>117,395</u> |
| Ordinance | |
| Investments | 530,830 |
| Total Ordinance | <u>530,830</u> |
| Other | |
| Project Warm | |
| Cash and Cash Equivalents | 88 |
| Investments | 7,507 |
| Total Project Warm | <u>7,595</u> |
| Decommissioning Trusts | |
| Cash and Cash Equivalents | 22,283 |
| Investments | 417,359 |
| Total Decommissioning Trusts | <u>439,642</u> |
| Total Other | 447,237 |
| Total Restricted | |
| Cash and Cash Equivalents | 83,859 |
| Investments | 1,012,121 |
| Total Restricted (noncurrent) | <u>1,095,980</u> |
| Total Cash, Cash Equivalents and Investments (unrestricted and restricted) | <u>\$ 1,380,366</u> |

CPS Energy's cash equivalents and fixed-income investments are exposed to interest rate risk, credit risk (including custodial credit risk and concentration of credit risk), and foreign currency risk. 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.

Notes to Financial Statements

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 as of January 31, 2012

| | |
|---|---------------------|
| CPS Energy Investments | |
| U.S. Treasury, Government Agencies and Money Market Funds | \$ 914,325 |
| Decommissioning Trusts | |
| U.S. Treasury, Government Agencies and Money Market Funds | 167,450 |
| Corporate Bonds | 63,007 |
| Foreign Bonds | 9,534 |
| Subtotal | <u>239,991</u> |
| Common Stock | 199,651 |
| Total Decommissioning Trusts | <u>439,642</u> |
| Grand Total - all Investments | <u>\$ 1,353,967</u> |

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.

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.

Notes to Financial Statements

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

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 35.0% 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 35.0% per issuer.

| Investment Type | Carrying Value | Market Value | Allocation | Weighted-Average Maturity (Years) |
|----------------------------------|-------------------|-------------------|---------------|-----------------------------------|
| U.S. Treasuries | \$ 37,068 | \$ 37,068 | 4.1% | 0.2 |
| U.S. Agencies: | | | | |
| Federal Home Loan Mortgage Corp. | 108,189 | 108,192 | 11.8% | 4.6 |
| Federal National Mortgage Assn. | 204,150 | 204,152 | 22.3% | 3.8 |
| Federal Home Loan Bank | 71,575 | 71,575 | 7.8% | 1.6 |
| Federal Farm Credit Bank | 47,579 | 47,579 | 5.2% | 3.8 |
| Municipal Bonds | 108,725 | 108,755 | 11.9% | 1.3 |
| Commercial Paper | 49,911 | 49,911 | 5.5% | 0.2 |
| Money Market Mutual Funds | 287,128 | 287,128 | 31.4% | N/A |
| Total Fixed-Income Investments | <u>\$ 914,325</u> | <u>\$ 914,360</u> | <u>100.0%</u> | <u>1.9</u> |

Credit Risk – In accordance with its Investment Policy, CPS Energy manages exposure to credit risk by limiting its fixed-income investments to a credit rating of 'A' or better. Due to the Standard & Poor's (S&P) downgrade of U.S. government debt securities in August 2011, the Investment Policy was revised effective September 1, 2011. This revision removed the requirement that all investments in securities issued by the U.S. Government Agencies, the state of Texas, and Texas Agencies must be rated 'AAA'. As of January 31, 2012, CPS Energy held no direct investments with a long-term credit rating below 'Aa3' or a short-term debt rating below 'SP-1'.

| Credit Rating | Carrying Value | Market Value | Allocation |
|--------------------------------|-------------------|-------------------|---------------|
| U.S. Treasuries | \$ 37,068 | \$ 37,068 | 4.0% |
| AAA | 300,238 | 300,236 | 32.8% |
| Aaa | 7,816 | 7,816 | 0.8% |
| AA+ | 435,760 | 435,763 | 47.7% |
| Aa1 | 800 | 800 | 0.1% |
| AA | 17,551 | 17,551 | 1.9% |
| Aa2 | 657 | 657 | 0.1% |
| AA- | 8,533 | 8,533 | 0.9% |
| Aa3 | 3,536 | 3,536 | 0.4% |
| Short-term: | | | |
| A-1 | 49,911 | 49,911 | 5.5% |
| MIG1 | 6,851 | 6,863 | 0.8% |
| SP-1+ | 45,604 | 45,626 | 5.0% |
| Total Fixed-Income Investments | <u>\$ 914,325</u> | <u>\$ 914,360</u> | <u>100.0%</u> |

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.

Notes to Financial Statements

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

Interest Rate Risk – Generally, the long-term nature of the liabilities and the limited need for daily operating liquidity allow interim fluctuations in market value to occur without jeopardizing the ultimate value of the assets. Where long-term securities are held, the interim market value of assets can be sensitive to changes in interest rates. As the general level of interest rates moves up and down, the interim market value of longer-maturity bonds may change substantially.

To mitigate this interest rate risk, a limitation is placed on the duration of the fixed-income portfolio. 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 2011.

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, 2011, total nongovernment-sponsored (corporate and foreign) issuers amounted to 38.6% of the 28% Decommissioning Trust and 18.9% of the 12% Decommissioning Trust.

The following tables list the fixed-income investment holdings by type:

| Investment Type | 28% Interest | | | 12% Interest | | |
|--|---------------------------|---------------|-----------------------------------|---------------------------|---------------|-----------------------------------|
| | Market Value ¹ | Allocation | Weighted-Average Duration (Years) | Market Value ¹ | Allocation | Weighted-Average Duration (Years) |
| U.S. Treasuries | \$ 9,591 | 5.8% | 7.3 | \$ 9,493 | 20.0% | 5.6 |
| U.S. Agencies: | | | | | | |
| Federal National Mortgage Assn. | 39,719 | 24.1% | 2.5 | 11,185 | 23.5% | 2.8 |
| Federal Home Loan Mortgage Corp. | 17,121 | 10.4% | 3.1 | 4,036 | 8.5% | 3.1 |
| Small Business Administration | 3,761 | 2.3% | 5.8 | | | |
| Government National Mortgage Assn. | 2,970 | 1.8% | 3.2 | 3,238 | 6.8% | 5.9 |
| Municipal Bonds - Texas | 532 | 0.3% | 5.5 | 1,517 | 3.2% | 12.6 |
| Municipal Bonds - Other States | 9,301 | 5.7% | 9.9 | 4,725 | 10.0% | 9.1 |
| Corporate Bonds | 54,025 | 32.9% | 6.2 | 8,982 | 18.9% | 5.9 |
| Foreign Bonds | 9,534 | 5.8% | 5.7 | | | |
| AIM Money Market | 17,965 | 10.9% | N/A | 4,318 | 9.1% | N/A |
| Total Fixed-income Investments | <u>\$ 164,519</u> | <u>100.0%</u> | 5.0 | <u>\$ 47,494</u> | <u>100.0%</u> | 5.4 |
| Cash Collateral - Securities Lending | 20,506 | | | 7,472 | | |
| Total Portfolio | <u>\$ 185,025</u> | | | <u>\$ 54,966</u> | | |
| Combined Decommissioning Trust Funds Total | <u>\$ 239,991</u> | | | | | |

¹ Market Value and carrying value are the same amount.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)**CPS Energy (Continued)**

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 1.1% of the fixed-income portfolio for the 28% Trust. There were no securities with a credit rating below ‘BBB-’ held in the 12% Trust at December 31, 2011. Standard & Poor’s (S&P) ratings are provided when available; if no S&P rating is available, the Moody’s rating is listed.

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 | \$ 9,591 | 5.2% | \$ 9,493 | 17.3% |
| AAA | 50,040 | 27.0% | 13,597 | 24.7% |
| Aaa | 1,768 | 1.0% | | |
| AA+ | 62,387 | 33.7% | 20,967 | 38.1% |
| AA | 1,165 | 0.6% | 1,638 | 3.0% |
| Aa1 | 70 | 0.0% | | |
| Aa2 | | | 306 | 0.6% |
| AA- | 2,813 | 1.5% | | |
| Aa3 | 219 | 0.1% | | |
| A+ | 7,949 | 4.3% | 1,245 | 2.3% |
| A | 5,092 | 2.8% | 561 | 1.0% |
| A- | 17,066 | 9.2% | 2,725 | 5.0% |
| A1 | 123 | 0.1% | | |
| BBB+ | 7,389 | 4.0% | 2,402 | 4.4% |
| Baa | 102 | 0.1% | | |
| BBB | 11,011 | 6.0% | 1,238 | 2.2% |
| BBB- | 6,135 | 3.3% | 794 | 1.4% |
| B+ | 187 | 0.1% | | |
| CCC | 428 | 0.2% | | |
| CC | 52 | 0.0% | | |
| Not rated | 1,438 | 0.8% | | |
| Total Fixed-income Portfolio | <u>\$ 185,025</u> | <u>100.0%</u> | <u>\$ 54,966</u> | <u>100.0%</u> |

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 \$9,500 as of December 31, 2011. 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, 2011, total foreign equity securities amounted to 12.4% of the 28% Trust’s equity portfolio. There were no foreign equity securities held by the 12% Trust at December 31, 2011.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)**CPS Energy (Continued)**

Securities Lending – CPS Energy and the Decommissioning Trusts engage in securities lending transactions under a contract with their lending agent, Frost Bank. Authority to engage in these transactions is granted under each entity’s Investment Policy. CPS Energy and the Decommissioning Trusts are authorized to loan up to 70.0% and 100.0%, respectively, of their investments in securities lending transactions.

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, provides guidance for entities reporting and disclosing securities lending transactions. This guidance includes reporting certain securities lending collateral on the balance sheet as an asset, with a corresponding liability for the obligation to repay the collateral.

In securities lending transactions, CPS Energy and the Decommissioning Trusts, through their lending agent, transfer securities to brokers/dealers in exchange for collateral and simultaneously agree to return the collateral for the same securities in the future. Cash collateral received from the borrower is invested 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, 2012, 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 2012.

Notes to Financial Statements

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

Direct Investments – At January 31, 2012, there was a total of \$355,907 in securities, or 38.9% of CPS Energy’s direct investments, out on loan to brokers/dealers. In exchange, CPS Energy received \$363,076 in securities collateral, or 102.2% of the market value of the corresponding securities loaned. Income generated from securities lending transactions amounted to \$1,119 in fiscal year 2012, of which 30.0% was paid as fees to the lending agent totaling \$336.

Decommissioning Trusts – For the 28% Decommissioning Trust at December 31, 2011, there was a total of \$45,869 in securities, or 15.0% of the Decommissioning Trust’s investments, out on loan to brokers/dealers. In exchange, the Trust received \$20,506 in cash collateral and \$26,446 in securities collateral, or a total of 102.4% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for the Decommissioning Trust amounted to \$63 in calendar year 2011, of which 30.0% was paid as fees to the lending agent totaling \$19.

For the 12% Decommissioning Trust at December 31, 2011, there was a total of \$19,011 in securities, or 18.1% of the Decommissioning Trust’s investments, out on loan to brokers/dealers. In exchange, the Trust received \$7,472 in cash collateral and \$11,953 in securities collateral, or a total of 102.2% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for this Decommissioning Trust amounted to \$27 in calendar year 2011, of which 30.0% was paid as fees to the lending agent totaling \$8.

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. San Antonio Water System Retirement Plan (SAWSRP) unallocated separate accounts are valued at fair value. 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 Bank, SAWS’ general depository bank. Additionally funds have been deposited in certificates of deposit at Bank of America, BBVA-Compass Bank and Lone Star National Bank. As required by state law, all deposits are fully collateralized and/or are covered by federal depository insurance. At December 31, 2011, 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, 2011, the bank balance of demand and savings account was \$47,173 and the reported amount was \$34,848, which included \$30 of cash on hand, and certificates of deposits totaled \$80,000.

Notes to Financial Statements

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 Bank and registered as accounts of SAWS. Funds held in escrow are Money Market Funds managed by Frost 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, 2011, SAWS had the following investments and maturities:

| Investment Type | Investments Maturities (in Days) | | | | Fair Value | Reported |
|----------------------------|----------------------------------|-------------------|------------------|------------------|-------------------|-------------------|
| | 90 Days or Less | 91 to 180 | 181 to 365 | Greater than 365 | | |
| U.S. Treasury Securities | \$ 8,829 | \$ - | \$ - | \$ - | \$ 8,829 | \$ 8,829 |
| U.S. Agency Discount Notes | 56,005 | 32,842 | | | 88,847 | 88,838 |
| U.S. Agency Coupon Notes | 92,821 | 81,670 | 66,974 | 17,292 | 258,757 | 258,777 |
| Money Market Funds: | | | | | | |
| Frost National Bank | 35,868 | | | | 35,868 | 35,868 |
| U.S. Bank | 10,489 | | | | 10,489 | 10,489 |
| Wells Fargo Bank | 11,112 | | | | 11,112 | 11,112 |
| | <u>\$ 215,124</u> | <u>\$ 114,512</u> | <u>\$ 66,974</u> | <u>\$ 17,292</u> | <u>\$ 413,902</u> | <u>\$ 413,913</u> |
| Percentage of Portfolio | 52.0% | 27.7% | 16.1% | 4.2% | 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, 95.8% 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, 2011, SAWS held no direct investments with a credit rating below ‘AA+’.

| Credit Rating | Carrying Value | Market Value | Allocation | Investment Policy Limit |
|-----------------|-------------------|-------------------|---------------|-------------------------|
| A-1/AAA | \$ 146,307 | \$ 146,316 | 35.3% | Max. = 100.0% |
| AA+ | 267,606 | 267,586 | 64.7% | |
| Total Portfolio | <u>\$ 413,913</u> | <u>\$ 413,902</u> | <u>100.0%</u> | |

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, 2011, the following investments in any one organization that represent more than 5.0% of total SAWS investments are: 26.0% in Federal Home Loan Bank, 21.0% in Federal National Mortgage Association, and 21.0% in Federal Home Loan Mortgage Corporation.

Notes to Financial Statements

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 2011:

| | December 31, 2011 |
|--|------------------------------|
| Reported amounts in Note for: | |
| Deposits, including certificates of deposit | \$ 114,848 |
| Investments | 413,913 |
| Total Deposits and Investments | <u>\$ 528,761</u> |
| Totals for Balance Sheet: | |
| Cash and Cash Equivalents: | |
| Unrestricted cash and cash equivalents | \$ 118,636 |
| Restricted cash and cash equivalents: | |
| Debt Service Fund | 11,698 |
| Capital Projects Accounts | 41,619 |
| Other Restricted Accounts: | |
| Reserve Fund | 364 |
| Total Cash and Cash Equivalents | <u>\$ 172,317</u> |
| Investments: | |
| Unrestricted current investments | \$ 69,413 |
| Restricted current investments: | |
| Debt Service Accounts | 36,035 |
| Capital Project Accounts | 35,767 |
| Other Restricted Accounts: | |
| Operating reserve | 35,227 |
| Customer deposits | 8,701 |
| Total Other Restricted Accounts | 43,928 |
| Total Current Investments | <u>\$ 185,143</u> |
| Restricted noncurrent investments: | |
| Capital Project Accounts | \$ 105,678 |
| Other Restricted Accounts: | |
| Reserve Fund | 65,623 |
| Total Cash, Cash Equivalents and Investments | <u>\$ 528,761</u> |

Notes to Financial Statements

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 \$658 were identified and reduced in capital assets for governmental activities. As a part of the City's continued diligence and review of CIP the City expended \$30,353 for non capitalized activities. Capital asset activity for governmental activities, to include Internal Service Funds, for the year-ended September 30, 2012 is as follows:

| Capital Assets - Governmental Activities | | | | | |
|--|------------------------------|-------------------|--------------------|------------------|---------------------------|
| Governmental Activities | Beginning Balance | Increases | Decreases | Transfers | Ending Balance |
| Non-Depreciable Assets: | | | | | |
| Land | \$ 1,371,289 | \$ 12,395 | \$ (120) | \$ - | \$ 1,383,564 |
| Construction in Progress | 537,568 | 242,994 | (30,353) | (463,538) | 286,671 |
| Non-Depreciable Intangible Assets | 81,961 | 775 | | 4 | 82,740 |
| Other Non-Depreciable Assets | 575 | 2,166 | | | 2,741 |
| Total Non-Depreciable Assets | <u>1,991,393</u> | <u>258,330</u> | <u>(30,473)</u> | <u>(463,534)</u> | <u>1,755,716</u> |
| Depreciable Assets: | | | | | |
| Intangible Assets | 3,014 | 250 | | 613 | 3,877 |
| Buildings | 731,433 | 583 | (4,044) | 117,013 | 844,985 |
| Improvements | 484,877 | | (974) | 120,375 | 604,278 |
| Infrastructure | 2,470,282 | | (732) | 177,207 | 2,646,757 |
| Machinery and Equipment | 411,676 | 35,653 | (14,904) | 48,326 | 480,751 |
| Total Depreciable Assets | <u>4,101,282</u> | <u>36,486</u> | <u>(20,654)</u> | <u>463,534</u> | <u>4,580,648</u> |
| Accumulated Depreciation: | | | | | |
| Intangible Assets | (303) | (772) | | | (1,075) |
| Buildings | (296,833) | (19,754) | 1,515 | | (315,072) |
| Improvements | (125,274) | (29,278) | 43 | | (154,509) |
| Infrastructure | (1,622,696) | (63,851) | | | (1,686,547) |
| Machinery and Equipment | (240,902) | (51,225) | 13,499 | | (278,628) |
| Total Accumulated Depreciation | <u>(2,286,008)</u> | <u>(164,880)</u> | <u>15,057</u> | | <u>(2,435,831)</u> |
| Total Depreciable Assets, net | <u>1,815,274</u> | <u>(128,394)</u> | <u>(5,597)</u> | <u>463,534</u> | <u>2,144,817</u> |
| Total Capital Assets, net | <u>\$ 3,806,667</u> | <u>\$ 129,936</u> | <u>\$ (36,070)</u> | <u>\$ -</u> | <u>\$ 3,900,533</u> |
| Depreciation expense was charged to governmental functions as follows: | | | | | |
| General Government | \$ 30,591 | | | | |
| Public Safety | 12,984 | | | | |
| Public Works | 79,016 | | | | |
| Health Services | 1,002 | | | | |
| Sanitation | 91 | | | | |
| Welfare | 1,169 | | | | |
| Culture and Recreation | 13,543 | | | | |
| Convention and Tourism | 8,253 | | | | |
| Urban Redevelopment and Housing | 192 | | | | |
| Economic Development and Opportunity | 124 | | | | |
| Depreciation on Capital Assets Held by City's Internal Service Funds are Charged to Various Functions Based on Asset Usage | <u>17,915</u> | | | | |
| Total Depreciation Expense for Governmental Activities | <u>\$ 164,880</u> | | | | |

The capital assets of Internal Service Funds are included in governmental activities. In fiscal year 2012, Internal Service Funds capital assets increased by \$25,198, and decreased by \$12,357, of which \$127 are impairments, resulting in an ending balance of \$192,995. Depreciation expense of \$17,915 resulted in an ending accumulated depreciation balance of \$118,682, to arrive at net book value of \$74,313.

Notes to Financial Statements

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 2012, the City capitalized construction period interest for the Airport System in the amount of \$585. Interest costs for Solid Waste Management and the nonmajor enterprise funds were not capitalized as the construction in progress in these funds during fiscal year 2012 were funded by capital contributions from governmental funds. Impairments of \$12,971 were identified for the Airport System and reduced in capital assets for business-type activities. Neither Solid Waste Management nor the nonmajor enterprise funds had impaired assets during fiscal year 2012.

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Notes to Financial Statements

Note 4 Capital Assets (Continued)

Primary Government (City) (Continued)

Capital asset activity for business-type activities for the year-ended September 30, 2012, is as follows:

| Capital Assets - Business-Type Activities | | | | | |
|---|-------------------|-----------------|--------------------|-----------------|-------------------|
| | Beginning Balance | Increases | Decreases | Transfers | Ending Balance |
| Non-Depreciable Assets: | | | | | |
| Land: | | | | | |
| Airport System | \$ 5,322 | \$ - | \$ - | \$ - | \$ 5,322 |
| Solid Waste Mgmt | 893 | 214 | | | 1,107 |
| Nonmajor Enterprise Fund | 8,170 | | | | 8,170 |
| Total Land | 14,385 | 214 | | | 14,599 |
| Construction in Progress: | | | | | |
| Airport System | 50,211 | 22,895 | (13,681) | (31,615) | 27,810 |
| Solid Waste Mgmt | 1,342 | 2,919 | | (2,475) | 1,786 |
| Nonmajor Enterprise Fund | 4,352 | 1,830 | | (4,289) | 1,893 |
| Total Construction in Progress | 55,905 | 27,644 | (13,681) | (38,379) | 31,489 |
| Total Non-Depreciable Assets | 70,290 | 27,858 | (13,681) | (38,379) | 46,088 |
| Depreciable Assets: | | | | | |
| Buildings: | | | | | |
| Airport System | 359,139 | | | 207 | 359,346 |
| Solid Waste Mgmt | 757 | 398 | | 136 | 1,291 |
| Nonmajor Enterprise Fund | 25,926 | | | | 25,926 |
| Total Buildings | 385,822 | 398 | | 343 | 386,563 |
| Improvements: | | | | | |
| Airport System | 365,813 | | | 31,017 | 396,830 |
| Solid Waste Mgmt | 6,870 | | | 4,288 | 9,210 |
| Nonmajor Enterprise Fund | 7,605 | | | | 11,893 |
| Total Improvements | 380,288 | | | 37,645 | 417,933 |
| Machinery and Equipment: | | | | | |
| Airport System | 14,391 | 425 | (15) | 391 | 15,192 |
| Solid Waste Mgmt | 28,993 | 6,725 | (18) | | 35,700 |
| Nonmajor Enterprise Fund | 2,661 | 10 | | | 2,671 |
| Total Machinery and Equipment | 46,045 | 7,160 | (33) | 391 | 53,563 |
| Total Depreciable Assets | 812,155 | 7,558 | (33) | 38,379 | 858,059 |
| Accumulated Depreciation: | | | | | |
| Buildings: | | | | | |
| Airport System | (83,485) | (10,356) | | | (93,841) |
| Solid Waste Mgmt | (114) | (58) | | | (172) |
| Nonmajor Enterprise Fund | (10,774) | (660) | | | (11,434) |
| Total Buildings | (94,373) | (11,074) | | | (105,447) |
| Improvements: | | | | | |
| Airport System | (113,951) | (16,121) | | | (130,072) |
| Solid Waste Mgmt | (1,803) | (344) | | | (2,147) |
| Nonmajor Enterprise Fund | (1,892) | (596) | | | (2,488) |
| Total Improvements | (117,646) | (17,061) | | | (134,707) |
| Machinery and Equipment: | | | | | |
| Airport System | (10,949) | (985) | 9 | | (11,925) |
| Solid Waste Mgmt | (11,665) | (3,439) | 14 | | (15,090) |
| Nonmajor Enterprise Fund | (1,717) | (300) | | | (2,017) |
| Total Machinery and Equipment | (24,331) | (4,724) | 23 | | (29,032) |
| Total Accumulated Depreciation | (236,350) | (32,859) | 23 | | (269,186) |
| Total Depreciable Assets, net | 575,805 | (25,301) | (10) | 38,379 | 588,873 |
| Total Capital Assets, net | \$ 646,095 | \$ 2,557 | \$ (13,691) | \$ - | \$ 634,961 |

Notes to Financial Statements

Note 4 Capital Assets (Continued)

CPS Energy

CPS Energy's plant-in service includes three power stations that are solely owned and operated by CPS Energy. In total, there are 20 generating units at these three power stations—four are coal-fired and 16 are gas-fired. The four gas-fired generating units at the W.B. Tuttle power station and the power station were retired in early fiscal year 2012. The following is a list of power stations and relative generating units in service at January 31, 2012:

| <u>Power Station</u> | <u>Generating Units</u> | <u>Type</u> |
|----------------------|-------------------------|------------------|
| Calaveras | 6 | Coal (4)/Gas (2) |
| Braunig | 8 | Gas |
| Leon Creek | 6 | Gas |

In fiscal year 2012, CPS Energy announced plans to deactivate its J.T. Deely Units 1 and 2 coal-fired power plants in fiscal year 2018 instead of the projected dates of fiscal year 2032 and fiscal year 2033, respectively. Depreciation will be accelerated beginning in fiscal year 2014 to account for the early closure. To continue operating the units, CPS Energy would need to install \$550,000 in flue gas desulfurization equipment (commonly referred to as scrubbers) to cut sulfur dioxide emissions in order to be compliant with new, more stringent environmental regulations scheduled to take effect in the future. Refer to Note 19, Subsequent Events, for CPS Energy's April 2012 purchase of a gas plant intended to ultimately provide generation capacity to replace J.T. Deely Units 1 and 2.

On January 31, 2012, CPS Energy purchased approximately eight acres of land and a shell building in northwest San Antonio to serve as the site of a new data and control center and other customer and support staff functions.

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 2012.

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.

Notes to Financial Statements

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 near 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 CPS Energy's partner in the project, Nuclear Innovation North America, Inc. (NINA), CPS Energy's ownership in STP Units 3 and 4 was reduced from 50.0% to 7.6% effective March 1, 2010. Including AFUDC of \$21,000, project costs incurred by CPS Energy to date of \$391,187 are included as construction in progress. Effective fiscal year 2012, AFUDC is not being recorded for the STP Units 3 and 4 project since efforts have been limited primarily to licensing-related activities. For more detailed information on project development and legal events associated with STP Units 3 and 4, see Note 10 for more information on CPS Energy's South Texas Project.

| STP Capital Investment, Net | |
|---|-------------------------|
| | January 31, 2012 |
| STP Capital Assets, net | |
| Land | \$ 5,701 |
| Construction in progress, STP Units 1&2 | 57,542 |
| Construction in progress, STP Units 3&4 | 391,187 |
| Electrical and general plant | 1,108,024 |
| Software | 56 |
| Nuclear Fuel | 94,738 |
| Total STP Capital Assets, net | <u>\$ 1,657,248</u> |
| Total CPS Energy Capital Assets, net | <u>\$ 7,275,397</u> |
| STP Capital Investments as a percentage of total CPS Energy Capital Assets, net | 22.8% |

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Notes to Financial Statements

Note 4 Capital Assets (Continued)

CPS Energy (Continued)

The following tables provide more detailed information on the activity of CPS Energy's net capital assets as presented on the balance sheet, including capital asset activity for fiscal year 2012:

| Capital Assets - CPS Energy | | | | | |
|----------------------------------|-------------------|-----------|-----------|-----------|----------------|
| | Beginning Balance | Increases | Transfers | Decreases | Ending Balance |
| Non-Depreciable Assets: | | | | | |
| Land | \$ 41,023 | \$ - | \$ 12,545 | \$ (2) | \$ 53,566 |
| Land Easements | 78,278 | | 584 | (862) | 78,000 |
| Construction in Progress | 671,735 | 312,639 | (388,380) | | 595,994 |
| Total Non-Depreciable Assets | 791,036 | 312,639 | (375,251) | (864) | 727,560 |
| Depreciable Capital Assets: | | | | | |
| Utility Plant in Service: | | | | | |
| Electric Plant | 8,878,516 | 37,992 | 303,445 | (75,505) | 9,144,448 |
| Gas Plant | 693,348 | 5,120 | 22,020 | (109) | 720,379 |
| General Plant | 594,459 | 33,317 | 40,873 | (19,735) | 648,914 |
| Software | 180,364 | 2,256 | 8,913 | (165) | 191,368 |
| Nuclear Fuel | 655,508 | 46,227 | | | 701,735 |
| Total Depreciable Capital Assets | 11,002,195 | 124,912 | 375,251 | (95,514) | 11,406,844 |
| Accumulated Depreciation | | | | | |
| Depletion and Amortization: | | | | | |
| Utility Plant in Service: | | | | | |
| Electric Plant | (3,444,883) | (272,805) | | 83,281 | (3,634,407) |
| Gas Plant | (259,136) | (16,086) | | 1,228 | (273,994) |
| General Plant | (210,195) | (49,129) | | 18,930 | (240,394) |
| Software | (89,040) | (14,153) | | (22) | (103,215) |
| Nuclear Fuel | (572,936) | (34,061) | | | (606,997) |
| Total Accumulated Depreciation | (4,576,190) | (386,234) | | 103,417 | (4,859,007) |
| Total Capital Assets, net | \$ 7,217,041 | \$ 51,317 | \$ - | \$ 7,039 | \$ 7,275,397 |

Cash flow information – Cash paid for additions and net removal costs was \$392,469. This included \$391,324 in additions to construction in progress and electric, gas and general plant, partially offset by \$5,827 in AFUDC and \$4,401 in donated assets.

Other – The increases in electric plant included Automated Meter Infrastructure (AMI) and distribution infrastructure. Depreciation and amortization of utility plant in service totaled \$352,300, which included \$160 related to intangible assets.

The decrease in accumulated depreciation is greater than the decrease in those respective asset classes because removal costs are not capitalized; however, they are included within the accumulated depreciation calculation.

Notes to Financial Statements

Note 4 Capital Assets (Continued)

San Antonio Water System (SAWS)

SAWS' interest expense during the construction period is capitalized as part of the cost of capital assets. For the year-ended December 31, 2011, interest capitalized was \$11,024. 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 | \$ 82,055 | \$ - | \$ 11,528 | \$ (252) | \$ 93,331 |
| Intangible Assets: | | | | | |
| Acquisition of Water Rights | 205,179 | | | (16) | 205,163 |
| Other | 370 | | | | 370 |
| Construction in Progress | 415,810 | 279,660 | (169,060) | (3,972) | 522,438 |
| Total Non-Depreciable Assets | 703,414 | 279,660 | (157,532) | (4,240) | 821,302 |
| Depreciable Assets: | | | | | |
| Utility Plant in Service: | | | | | |
| Structures and Improvements | 485,454 | 25 | 19,484 | | 504,963 |
| Pumping and Purification | 143,187 | 68 | 3,121 | | 146,376 |
| Distribution and Transmission System | 1,620,288 | 2,532 | 47,156 | (2,726) | 1,667,250 |
| Treatment Facilities | 1,444,176 | | 80,650 | | 1,524,826 |
| Total Utility Plant in Service | 3,693,105 | 2,625 | 150,411 | (2,726) | 3,843,415 |
| Machinery and Equipment: | | | | | |
| Machinery and Equipment | 107,176 | 8,526 | 3,229 | (2,617) | 116,314 |
| Furniture and Fixtures | 5,052 | | | | 5,052 |
| Computer Equipment | 20,557 | 1,896 | 71 | (9,231) | 13,293 |
| Software | 19,878 | 239 | 3,821 | (158) | 23,780 |
| Total Machinery and Equipment | 152,663 | 10,661 | 7,121 | (12,006) | 158,439 |
| Intangible Assets | 1,347 | | | | 1,347 |
| Total Depreciable Assets | 3,847,115 | 13,286 | 157,532 | (14,732) | 4,003,201 |
| Accumulated Depreciation: | | | | | |
| Utility Plant in Service: | | | | | |
| Structures and Improvements | (109,866) | (10,271) | | | (120,137) |
| Pumping and Purification | (30,636) | (3,539) | | | (34,175) |
| Distribution and Transmission System | (448,036) | (37,250) | | 2,726 | (482,560) |
| Treatment Facilities | (516,897) | (33,161) | | | (550,058) |
| Machinery and Equipment: | | | | | |
| Machinery and Equipment | (50,752) | (8,748) | | 2,535 | (56,965) |
| Furniture and Fixtures | (4,124) | (214) | | | (4,338) |
| Computer Equipment | (13,838) | (2,561) | | 9,207 | (7,192) |
| Software | (13,513) | (2,529) | | 130 | (15,912) |
| Intangible Assets | | (101) | | | (101) |
| Total Accumulated Depreciation | (1,187,662) | (98,374) | | 14,598 | (1,271,438) |
| Total Depreciable Assets, net | 2,659,453 | (85,088) | 157,532 | (134) | 2,731,763 |
| Total Capital Assets, net | \$ 3,362,867 | \$ 194,572 | \$ - | \$ (4,374) | \$ 3,553,065 |

Notes to Financial Statements

Note 4 Capital Assets (Continued)

San Antonio Water System (SAWS) (Continued)

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 \$3,972 in 2011. Of the amount charged off in 2011, \$2,700 related to the design of assets to be constructed in connection with a water project with the Lower Colorado River Authority (LCRA). In conjunction with a settlement of SAWS’ lawsuit against LCRA, this water project was cancelled and the design costs were written off.

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Notes to Financial Statements

Note 5 Receivables and Payables

Primary Government (City)

Disaggregation of Receivables

Net receivables at September 30, 2012 are as follows:

| | <u>Accounts</u> | <u>Taxes</u> | <u>Note and Loans</u> | <u>Accrued Interest</u> | <u>Other</u> | <u>Total Net Receivables</u> |
|--------------------------------|-------------------|------------------|---------------------------|-----------------------------|------------------|----------------------------------|
| Governmental Activities | <u>\$ 122,581</u> | <u>\$ 26,303</u> | <u>\$ 35,254</u> | <u>\$ 1,258</u> | <u>\$ 17,016</u> | <u>\$ 202,412</u> |
| Business-Type Activities: | | | | | | |
| Airport System | \$ 5,323 | \$ - | \$ 1,000 | \$ 178 | \$ - | \$ 6,501 |
| Solid Waste Management | 7,445 | | | 25 | | 7,470 |
| Nonmajor Enterprise Funds | 199 | | | 27 | | 226 |
| Total Business-Type Activities | <u>\$ 12,967</u> | <u>\$ -</u> | <u>\$ 1,000</u> | <u>\$ 230</u> | <u>\$ -</u> | <u>\$ 14,197</u> |

The receivable balances for Governmental Activities have been reduced by estimated allowances for doubtful accounts of \$54,235 against customer and other receivables, \$5,412 against property and occupancy taxes, and \$19,785 against other receivables. The receivable balances for Business-Type Activities have been reduced by estimated allowances for doubtful accounts of \$175 against customer and other receivables.

The only receivables not expected to be collected within one year are \$34,488 for 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. \$29,507 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, 2012 are as follows:

| | <u>Accounts</u> | <u>Accrued Payroll</u> | <u>Other</u> | <u>Total Payables</u> |
|--------------------------------|-------------------|----------------------------|--------------|---------------------------|
| Governmental Activities | <u>\$ 161,950</u> | <u>\$ 7,904</u> | <u>\$ -</u> | <u>\$ 169,854</u> |
| Business-Type Activities: | | | | |
| Airport System | \$ 7,503 | \$ 469 | \$ - | \$ 7,972 |
| Solid Waste Management | 2,474 | 462 | | 2,936 |
| Nonmajor Enterprise Funds | 1,685 | 315 | 22 | 2,022 |
| Total Business-Type Activities | <u>\$ 11,662</u> | <u>\$ 1,246</u> | <u>\$ 22</u> | <u>\$ 12,930</u> |

Notes to Financial Statements

Note 5 Receivables and Payables (Continued)

Primary Government (City) (Continued)

Interfund Receivable and Payable Balances

As of September 30, 2012, 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 fiscal year-end. Of the \$40,407 due from other funds in the General Fund, \$34,879 is a result of overdraws of pooled cash. Except for internal loans from the Other Internal Service Fund of \$648 and \$118 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.

The following is a summary of interfund receivables and payables for the City as of September 30, 2012:

| Summary Table of Interfund Receivables and Payables As of September 30, 2012 | | |
|---|----------------------|--------------------|
| | Due from Other Funds | Due To Other Funds |
| General Fund: | | |
| Categorical Grant-In-Aid | \$ 17,942 | \$ 691 |
| Debt Service Fund | 4,210 | 200 |
| Airport System Fund | | 105 |
| Internal Service Funds | 608 | 918 |
| Nonmajor Enterprise Funds | 60 | 19 |
| Nonmajor Governmental Funds | 17,574 | 3,325 |
| Solid Waste Management Fund | 13 | |
| Total General Fund | 40,407 | 5,258 |
| Debt Service Fund: | | |
| General Fund | 200 | 4,210 |
| Solid Waste Management Fund | 14 | |
| Total Debt Service Fund | 214 | 4,210 |
| Categorical Grant-In-Aid: | | |
| General Fund | 691 | 17,942 |
| Nonmajor Governmental Funds | 4 | |
| Total Categorical Grant-In-Aid | 695 | 17,942 |
| 2007 General Obligation Bonds: | | |
| Nonmajor Governmental Funds | 6,040 | |
| Total 2007 General Obligation Bonds | 6,040 | |
| Airport System Fund: | | |
| General Fund | 105 | |
| Internal Service Funds | 402 | |
| Nonmajor Governmental Funds | 110 | |
| Total Airport System Fund | 617 | |
| Solid Waste Management Fund: | | |
| General Fund | | 13 |
| Debt Service Fund | | 14 |
| Internal Service Funds | 22 | 124 |
| Nonmajor Governmental Funds | 2 | |
| Total Solid Waste Management Fund | 24 | 151 |

(Continued)

Notes to Financial Statements

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, 2012 | | |
|---|----------------------|--------------------|
| | Due from Other Funds | Due To Other Funds |
| Nonmajor Governmental Funds: | | |
| General Fund | \$ 3,325 | \$ 17,574 |
| Categorical Grant-In-Aid | | 4 |
| 2007 General Obligation Bonds | | 6,040 |
| Airport System Fund | | 110 |
| Solid Waste Management Fund | | 2 |
| Nonmajor Governmental Funds | 4,634 | 4,634 |
| Nonmajor Enterprise Funds | 101 | 101 |
| Internal Service Funds | 3,458 | 7,661 |
| Total Nonmajor Governmental Funds | 11,518 | 36,126 |
| Nonmajor Enterprise Funds: | | |
| General Fund | 19 | 60 |
| Nonmajor Governmental Funds | 101 | 101 |
| Internal Service Funds | 48 | |
| Total Nonmajor Enterprise Funds | 168 | 161 |
| Internal Service Funds: | | |
| General Fund | 918 | 608 |
| Airport System Fund | | 402 |
| Solid Waste Management Fund | 124 | 22 |
| Nonmajor Governmental Funds | 7,661 | 3,458 |
| Nonmajor Enterprise Funds | | 48 |
| Internal Service Funds | 286 | 286 |
| Total Internal Service Funds | 8,989 | 4,824 |
| Total | \$ 68,672 | \$ 68,672 |

CPS Energy

Disaggregation of Receivables – Net customer accounts receivable as of January 31, 2012, included \$18,032 for unbilled revenue receivables and \$150,752 for billed utility services, which include an allowance of \$15,373. Interest and other receivables included \$7,370 for regulatory-related receivables and \$20,887 for other miscellaneous receivables, which include an allowance of \$18,115.

Disaggregation of Payables – At January 31, 2012, accounts payable and accrued liabilities included \$180,950 related to standard operating supplier and vendor payables, including fuels payable; \$43,846 for employee-related payables; and \$73,452 for other miscellaneous payables and accrued liabilities.

San Antonio Water System (SAWS)

Disaggregation of Receivables – Gross customer accounts receivables as of December 31, 2011, included \$26,588 from customers, \$20,294 in unbilled revenue, and \$9,764 receivable from other governmental agencies, less an allowance of \$2,305.

Disaggregation of Payables – At December 31, 2011, accounts payable and other current liabilities included \$30,494 in accounts payable, \$4,576 in vacation payable, \$1,556 in accrued payroll and benefits, \$35,767 in construction contracts, and \$8,701 in customer deposits.

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 2012:

On March 27, 2012, the City issued \$33,410 in General Improvement Refunding Bonds, Series 2012 to refund certain outstanding obligations of the City. The net proceeds from the sale of the General Improvement Refunding Bonds, Series 2012, which included a premium of \$4,846, was used to fund an escrow account for the redemption, discharge, and defeasance of the refunded obligations. As a result of defeasing the debt, the City will realize a total decrease of \$4,762 in debt service payments and total deferred charges of \$636. Through this defeasance, the City obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$7,815. The Bonds have maturities ranging from 2013 to 2024, with interest rates ranging from 2.0% to 5.0%.

On August 2, 2012, the City issued \$148,600 in General Improvement Bonds, Series 2012 and \$19,340 in Combination Tax and Revenue Certificates of Obligation, Series 2012. The General Improvement Bonds, Series 2012 were issued to finance improvements to: streets, bridges, and sidewalks; drainage improvements and flood control; parks, recreation, open space, and athletics; library, museum, and cultural arts facilities; and public safety facilities; and costs of issuance related to the bonds. The Bonds have maturities ranging from 2013 to 2032, with interest rates ranging from 2.0% to 5.0%.

The Combination Tax and Revenue Certificates of Obligation, Series 2012 were issued to provide funds for the payment of contractual obligations to be incurred for making permanent public improvements and for other public purposes, to include constructing, improving, renovating, demolishing, and equipping municipal facilities, public safety facilities, cultural, recreation, and park facilities, drainage facilities, sidewalks, bridges and streets, and other expenses necessary, incidental, or related to the foregoing. The Bonds have maturities ranging from 2014 to 2032, with interest rates ranging from 1.0% to 5.0 %

On August 8, 2012, the City issued \$17,635 in Tax Notes, Series 2012. The Tax Notes, Series 2012, were issued to provide funds to acquire property interests for the Edwards Aquifer Protection Venue Program with the intent of protecting water quality and quantity in the Edwards Aquifer (the "Project") and the payment of costs of various professional services necessary for and related to the design and installation of the Project, including but not limited to the cost of necessary consultants, advisors, and designers and/or engineers. The debt service for the Tax Notes will be paid from the collection of the 1/8th-of-one-cent sales tax, which was approved in November of 2010 for the Edwards Aquifer Protection Venue Program. The Tax Notes have maturities ranging from 2013 to 2016, with interest rates ranging from 1.5% to 2.0%.

Note 6 Long-Term Debt (Continued)**Primary Government (City) (Continued)****Governmental Activity Long-Term Debt (Continued)****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.

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 originally dated as of July 11, 2008 issued by Wells Fargo Bank, National Association, whom also serves as the remarketing agent. The current Letter of Credit agreement was amended on July 6, 2010 and July 10, 2012 and was extended to July 11, 2013.

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.

Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

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, 2012, \$123,215 of previously defeased bonds was outstanding.

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Notes to Financial Statements

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, 2012 for governmental activity debt:

| Issue | Time of Original Issuance | | | Balance Outstanding October 1, 2011 | Additions During Year | Deletions During Year | Balance Outstanding September 30, 2012 |
|--|---------------------------|-------------------------|--------------------|-------------------------------------|-----------------------|-----------------------|--|
| | Original Amount | Final Principal Payment | Interest Rates (%) | | | | |
| Governmental Activity Long-Term Debt | | | | | | | |
| Tax-Exempt General Obligation Bonds: | | | | | | | |
| Series 2001 | \$ 84,945 | 2022 | 3.000-5.250 | \$ 1,780 | \$ - | \$ (1,780) | \$ - |
| Series 2002 Forward Refunding | 251,280 | 2013 | 4.000-5.250 | 21,040 | | (11,615) | 9,425 |
| Series 2002 | 55,850 | 2023 | 2.000-5.500 | 6,690 | | (6,690) | |
| Series 2003 | 40,905 | 2014 | 2.750-5.000 | 13,800 | | (4,120) | 9,680 |
| Series 2003A | 56,515 | 2016 | 2.000-5.000 | 30,670 | | (7,845) | 22,825 |
| Series 2004 | 33,570 | 2024 | 2.375-4.750 | 12,935 | | (11,270) | 1,665 |
| Series 2005 | 116,170 | 2025 | 3.500-5.250 | 99,430 | | (6,645) | 92,785 |
| Series 2006 Forward Refunding | 33,090 | 2016 | 5.250-5.500 | 22,820 | | (6,065) | 16,755 |
| Series 2006 Refunding | 170,785 | 2026 | 3.500-5.000 | 129,465 | | (2,860) | 126,605 |
| Series 2007 Refunding | 121,220 | 2028 | 4.000-5.000 | 81,965 | | (4,160) | 77,805 |
| Series 2008 | 75,060 | 2028 | 4.000-5.500 | 72,355 | | (2,810) | 69,545 |
| Series 2010 Refunding | 155,710 | 2023 | 2.000-5.000 | 146,820 | | (11,785) | 135,035 |
| Series 2010A | 8,800 | 2020 | 5.000 | 8,800 | | | 8,800 |
| Series 2011 | 59,485 | 2031 | 2.000-5.000 | 59,485 | | (2,145) | 57,340 |
| Series 2012 Refunding | 33,410 | 2024 | 2.000-5.000 | | 33,410 | | 33,410 |
| Series 2012 | 148,600 | 2032 | 2.000-5.000 | | 148,600 | | 148,600 |
| Total Tax-Exempt General Obligation Bonds | \$ 1,445,395 | | | \$ 708,055 | \$ 182,010 | \$ (79,790) | \$ 810,275 |
| 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 2002 | \$ 69,930 | 2023 | 3.000-5.500 | \$ 11,905 | \$ - | \$ (11,905) | \$ - |
| Series 2004 | 29,525 | 2024 | 2.000-5.000 | 17,800 | | (15,225) | 2,575 |
| Series 2005 | 10,535 | 2025 | 4.000-5.250 | 10,535 | | (550) | 9,985 |
| Series 2006 | 73,155 | 2026 | 3.500-4.375 | 59,675 | | (2,935) | 56,740 |
| Series 2007 | 106,755 | 2028 | 4.000-5.000 | 62,500 | | (7,135) | 55,365 |
| Series 2008 | 85,005 | 2028 | 3.500-5.500 | 76,300 | | (3,110) | 73,190 |
| Series 2010 | 38,375 | 2019 | 4.000-5.000 | 38,375 | | | 38,375 |
| Series 2011 | 79,780 | 2031 | 2.000-5.000 | 79,780 | | (2,665) | 77,115 |
| Series 2012 | 19,340 | 2032 | 1.000-5.000 | | 19,340 | | 19,340 |
| Total Tax-Exempt Certificates of Obligation | \$ 512,400 | | | \$ 356,870 | \$ 19,340 | \$ (43,525) | \$ 332,685 |
| Tax Notes: | | | | | | | |
| Series 2007A | \$ 21,270 | 2012 | 4.000-5.000 | \$ 4,780 | \$ - | \$ (4,780) | \$ - |
| Series 2008 | 15,320 | 2013 | 3.500-5.000 | 6,710 | | (3,295) | 3,415 |
| Series 2010A | 9,655 | 2013 | 2.000-4.000 | 6,515 | | (3,215) | 3,300 |
| Series 2011 | 9,445 | 2016 | 2.000-4.000 | 9,445 | | (1,780) | 7,665 |
| Series 2012 | 17,635 | 2016 | 1.500-2.000 | | 17,635 | | 17,635 |
| Total Tax Notes | \$ 73,325 | | | \$ 27,450 | \$ 17,635 | \$ (13,070) | \$ 32,015 |
| Revenue Bonds: | | | | | | | |
| Series 1996 Hotel Occupancy Tax ¹ | \$ 182,012 | 2017 | 5.100-6.020 | \$ 15,275 | \$ - | \$ (2,884) | \$ 12,391 |
| 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 | 70,775 | | (290) | 70,485 |
| Series 2008 Hotel Occupancy Tax Ref | 135,000 | 2034 | Variable | 129,105 | | (505) | 128,600 |
| Series 2009 Municipal Drainage | 44,150 | 2028 | 3.500-5.000 | 34,780 | | (1,400) | 33,380 |
| Series 2005 Municipal Drainage | 63,060 | 2030 | 3.500-5.250 | 52,440 | | (1,655) | 50,785 |
| Series 2010 Municipal Facility Corp Ref | 9,090 | 2020 | 1.000-3.250 | 8,825 | | (905) | 7,920 |
| Series 2011 Municipal Facility Corp | 27,925 | 2041 | 2.000-5.000 | 27,925 | | | 27,925 |
| Convention Series 2005A | 129,930 | 2039 | 5.000 | 129,930 | | | 129,930 |
| Convention Series 2005B | 78,215 | 2028 | 4.500-5.310 | 73,745 | | (2,500) | 71,245 |
| Starbright Industrial Development Corp. | 24,685 | 2033 | 2.180-5.110 | 21,925 | | (605) | 21,320 |
| Total Revenue Bonds | \$ 775,077 | | | \$ 575,115 | \$ - | \$ (10,744) | \$ 564,371 |
| Total | \$ 2,997,747 | | | \$ 1,859,040 | \$ 218,985 | \$ (147,129) | \$ 1,930,896 |

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 \$4,706 due to the bond payment's maturity schedule, and decreased by \$2,316 for interest on the remaining maturities outstanding, resulting in an ending balance of \$20,923, which increases revenue bonds payable. This increase is reflected in the combined Statement of Net Assets but is not reflected in this table.

Notes to Financial Statements

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, 2012 are as follows:

| Year Ending September 30, | Principal and Interest Requirements | | | | | | | | |
|------------------------------|--|------------|--------------------------------|-------------------------------|------------|-----------|----------|---------------|------------|
| | General Obligation Bonds ² | | | Certificates of Obligation | | Tax Notes | | Revenue Bonds | |
| | Principal | Interest | Direct Subsidy ¹ | Principal | Interest | Principal | Interest | Principal | Interest |
| 2013 | \$ 74,065 | \$ 48,211 | \$ (3,825) | \$ 19,690 | \$ 15,134 | \$ 12,825 | \$ 852 | \$ 11,666 | \$ 27,045 |
| 2014 | 66,220 | 45,296 | (3,825) | 25,355 | 14,438 | 6,230 | 427 | 11,970 | 26,672 |
| 2015 | 54,515 | 42,224 | (3,825) | 30,700 | 13,304 | 6,400 | 264 | 12,005 | 26,268 |
| 2016 | 54,445 | 39,646 | (3,825) | 20,745 | 11,920 | 6,560 | 96 | 12,398 | 25,860 |
| 2017 | 51,450 | 37,026 | (3,825) | 21,675 | 10,986 | | | 13,067 | 25,409 |
| 2018-2022 | 292,280 | 142,911 | (18,896) | 80,955 | 42,273 | | | 107,605 | 114,837 |
| 2023-2027 | 202,030 | 81,763 | (16,379) | 94,375 | 22,082 | | | 133,060 | 85,852 |
| 2028-2032 | 115,460 | 42,124 | (12,502) | 39,190 | 3,915 | | | 131,205 | 52,458 |
| 2033-2037 | 53,775 | 21,337 | (7,468) | | | | | 95,955 | 21,255 |
| 2038-2041 | 37,585 | 4,597 | (1,609) | | | | | 35,440 | 3,011 |
| Total | \$ 1,001,825 | \$ 505,135 | \$ (75,979) | \$ 332,685 | \$ 134,052 | \$ 32,015 | \$ 1,639 | \$ 564,371 | \$ 408,667 |

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 fiscal year 2012, the City collected \$3,825 in Direct Subsidies.

² Includes both Tax-Exempt and Taxable General Obligation Bonds

In May 2012, the citizens authorized the City to sell \$596,000 in debt for the 2012-2017 Municipal Bond Program. The program includes 140 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 and Flood Control Improvements; Parks, Recreation, and Open Space Improvements; Library, Museum and Cultural Arts Facilities Improvements; and Public Safety Facilities Improvements. The Bonds are pledged with and will be repaid from ad valorem tax revenue the City collects on an annual basis.

| Authorized but Unissued General Obligation Debt | | | | |
|---|---|----------------------|---|----------------------------------|
| Authorization Date | Purpose | Amount Authorized | Bonds Previously Issued ¹ | Bonds Authorized but Unissued |
| 5/12/2012 | Streets, Bridges, and Sidewalks | \$ 337,441 | \$ 34,548 | \$ 302,893 |
| 5/12/2012 | Drainage and Flood Control | 128,031 | 13,533 | 114,498 |
| 5/12/2012 | Parks, Recreation and Open Space | 87,150 | 16,688 | 70,462 |
| 5/12/2012 | Library, Museum and Cultural Art Facilities | 29,032 | 3,852 | 25,180 |
| 5/12/2012 | Public Safety Facilities | 14,346 | 3,577 | 10,769 |
| Total | | \$ 596,000 | \$ 72,198 | \$ 523,802 |

¹ Includes a portion of the net reoffering premium on the General Improvement Bonds, Series 2012 issuance in the amount of \$22,246 allocated against the voted authorization.

Notes to Financial Statements

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 2012 was \$82,656,577, which provides a debt ceiling of \$8,265,658. The total outstanding debt that is secured by an ad valorem tax pledge is \$1,384,630 including \$18,105 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).

Notes Payable and Interfund Borrowings

In September 2004, City Council authorized the submission of a \$57,000 HUD 108 loan application to HUD, which was received August 2006. Proceeds of the loan have been utilized to fund various capital improvement projects including streets and drainage projects, and to fund improvements to public health facilities, parks, libraries, and community recreation and cultural facilities. The City is required to expend the funds by December 31, 2013. The loan amount outstanding as of September 30, 2012 is \$45,865.

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 fiscal year-ended September 30, 2012 was 0.2%, resulting in interest of \$1. Cumulative interest incurred through fiscal year 2012 was \$16. 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 fiscal year-ended September 30, 2012:

| Balance | | Balance | | |
|-----------------|-----------|------------|--------------------|--|
| October 1, 2011 | Additions | Reductions | September 30, 2012 | |
| \$ 648 | \$ - | \$ - | \$ 648 | |

Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Notes Payable and Interfund Borrowings (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 2012 using the City's average rate for the fiscal year-ended September 30, 2012 of 0.2% was \$1. Cumulative interest incurred through fiscal year 2012 was \$12.

The following is a summary of changes in the loan for the fiscal year-ended September 30, 2012:

| Balance | | Balance | |
|-----------------|-----------|------------|--------------------|
| October 1, 2011 | Additions | Reductions | September 30, 2012 |
| \$ 193 | \$ - | \$ 75 | \$ 118 |

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, 2012 were approximately \$8,066.

The City has entered into various lease purchase agreements for the acquisition of printers and related components, fire fighting gear, various fire trucks and parts, 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 | \$ 32,336 |
| Less: Accumulated Depreciation | (22,934) |
| Total | <u>\$ 9,402</u> |

Year-Ended September 30, 2012

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Amounts are expressed in thousands

Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Leases (Continued)

As of September 30, 2012, 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: | | | |
| 2013 | \$ 2,710 | \$ 6,859 | \$ 9,569 |
| 2014 | 2,291 | 4,770 | 7,061 |
| 2015 | 2,011 | 3,702 | 5,713 |
| 2016 | 2,011 | 2,925 | 4,936 |
| 2017 | 753 | 1,788 | 2,541 |
| 2018-2022 | 3,765 | 5,606 | 9,371 |
| 2023-2027 | 3,200 | 2,359 | 5,559 |
| 2028-After | | 7,092 | 7,092 |
| Future Minimum Lease Payments | <u>16,741</u> | <u>\$ 35,101</u> | <u>\$ 51,842</u> |
| Less: Interest | (2,548) | | |
| Present Value of Future Minimum Lease Payments | 14,193 | | |
| Less: Current Portion | (2,302) | | |
| Capital Lease, Net of Current Portion | <u>\$ 11,891</u> | | |

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 May 1, 2012, the City issued \$70,135 in Airport System Revenue Refunding Bonds, Series 2012 (AMT) (2012 GARBs) and \$25,790 in Passenger Facility Charge and Subordinate Lien Airport System Revenue Refunding Bonds, Series 2012 (AMT) (2012 PFC Bonds).

The 2012 GARBs were issued for the purpose of currently refunding a portion of the City's outstanding indebtedness originally issued to finance Airport System improvements and for paying the costs of issuance. The City's net proceeds from the sale of the 2012 GARBs, which included a premium of \$7,184, were used for the redemption of the 2002 GARBs. As a result of converting the debt, the City will realize a total decrease of \$16,640 in debt service payments and total deferred charges of \$2,095. Through this redemption, the City realized an economic gain (difference between the present values of the debt service payments on the old and new debt plus the City's cash contribution) of \$38,626. The 2012 GARBs have maturities ranging from 2013 to 2027, with interest rates ranging from 2.0% to 5.0%.

Year-Ended September 30, 2012

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Amounts are expressed in thousands

Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

Issuances (Continued)

The 2012 PFC Bonds were issued for the purpose of refunding a portion of the City's outstanding indebtedness originally issued to finance Airport System, PFC related, improvements, and for paying the costs of issuance. The City's net proceeds from the sale of the 2012 PFC Bonds, which included a premium of \$2,542, were used for the redemption of the 2002 PFC Bonds. As a result of converting the debt, the City will realize a total decrease of \$5,648 in debt service payments and total deferred charges of \$740. Through this redemption, the City realized an economic gain (difference between the present values of the debt service payments on the old and new debt plus the City's cash contribution) of \$13,856. The 2012 PFC Bonds have maturities ranging from 2013 to 2027, with interest rates ranging from 2.0% to 5.0%.

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 (GARB) and Passenger Facility Charge and Subordinate Lien Bonds (PFC). GARBs 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. PFCs 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.

Capitalized Interest Costs – Interest costs incurred on revenue bonds and other borrowing totaled \$17,855 for the Airport System and \$0 for Solid Waste Management. For fiscal year 2012, the amount of \$585 was capitalized for the Airport System and included as an addition to construction in progress. Neither Solid Waste Management nor nonmajor enterprise funds' interest costs were capitalized as the construction in progress in these funds during fiscal year 2012 was funded by capital contributions from governmental funds.

Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

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, 2012, \$19,935 of previously defeased bonds was outstanding.

The following table is a summary of changes in debt obligations for the fiscal year ended September 30, 2012:

| Issue | Business-Type Long-Term Debt | | | | | | |
|---|------------------------------|-------------------------|--------------------|-------------------------------------|-----------------------|-----------------------|--|
| | Time of Original Issuance | | | Balance Outstanding October 1, 2011 | Additions During Year | Deletions During Year | Balance Outstanding September 30, 2012 |
| | Original Amount | Final Principal Payment | Interest Rates (%) | | | | |
| Airport System: | | | | | | | |
| Revenue Bonds: | | | | | | | |
| Series 2002 | \$ 92,470 | 2027 | 5.000-5.750 | \$ 80,020 | \$ - | \$ (80,020) | \$ - |
| Series 2002 PFC | 37,575 | 2027 | 4.000-5.750 | 29,255 | - | (29,255) | - |
| Series 2003 Refunding | 50,230 | 2013 | 5.500-6.000 | 9,745 | - | (4,845) | 4,900 |
| Series 2005 PFC | 38,085 | 2030 | 3.375-5.250 | 32,635 | - | (1,045) | 31,590 |
| Series 2006 | 17,850 | 2014 | 5.000 | 9,145 | - | (2,645) | 6,500 |
| Series 2007 | 82,400 | 2032 | 4.950-5.250 | 78,370 | - | (2,165) | 76,205 |
| Series 2007 PFC | 74,860 | 2032 | 5.000-5.250 | 67,650 | - | (1,870) | 65,780 |
| 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 | 36,375 | - | (715) | 35,660 |
| Series 2012 Refunding | 70,135 | 2027 | 2.000-5.000 | - | 70,135 | - | 70,135 |
| Series 2012 PFC Refunding | 25,790 | 2027 | 2.000-5.000 | - | 25,790 | - | 25,790 |
| Subtotal | \$ 589,835 | | | \$ 406,300 | \$ 95,925 | \$ (122,560) | \$ 379,665 |
| Parking System: | | | | | | | |
| Taxable General Obligation Bonds: | | | | | | | |
| Series 2004 Refunding | \$ 13,245 | 2016 | 2.800-4.650 | \$ 5,955 | \$ - | \$ (1,175) | \$ 4,780 |
| Series 2008 Refunding | 10,120 | 2024 | 5.820-6.570 | 10,120 | - | - | 10,120 |
| Subtotal | \$ 23,365 | | | \$ 16,075 | \$ - | \$ (1,175) | \$ 14,900 |
| Solid Waste Management: | | | | | | | |
| Tax-Exempt General Obligation Bonds: | | | | | | | |
| Series 2006 Refunding | \$ 1,000 | 2026 | 3.500-5.000 | \$ 765 | \$ - | \$ (40) | \$ 725 |
| Series 2010 Refunding | 545 | 2021 | 2.000-5.000 | 545 | - | - | 545 |
| Tax-Exempt Certificate of Obligations: | | | | | | | |
| Series 2006 | 400 | 2026 | 3.500-5.000 | 335 | - | (15) | 320 |
| Series 2007 | 2,500 | 2028 | 4.000-5.000 | 1,700 | - | (85) | 1,615 |
| Subtotal | \$ 4,445 | | | \$ 3,345 | \$ - | \$ (140) | \$ 3,205 |
| Total | \$ 617,645 | | | \$ 425,720 | \$ 95,925 | \$ (123,875) | \$ 397,770 |

Notes to Financial Statements

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, 2012 are as follows:

| Year Ending September 30, | Principal and Interest Requirements | | | | | | | | |
|------------------------------|-------------------------------------|-------------------|-------------------|------------------|-----------------|------------------|------------------------|-----------------|-----------------|
| | Airport System | | | Parking System | | | Solid Waste Management | | |
| | Principal | Interest | Total | Principal | Interest | Total | Principal | Interest | Total |
| 2013 | \$ 18,115 | \$ 18,654 | \$ 36,769 | \$ 1,300 | \$ 810 | \$ 2,110 | \$ 145 | \$ 151 | \$ 296 |
| 2014 | 18,665 | 17,483 | 36,148 | 1,480 | 750 | 2,230 | 150 | 145 | 295 |
| 2015 | 16,710 | 16,696 | 33,406 | 1,000 | 694 | 1,694 | 165 | 137 | 302 |
| 2016 | 17,400 | 16,019 | 33,419 | 1,000 | 648 | 1,648 | 165 | 129 | 294 |
| 2017 | 18,195 | 15,225 | 33,420 | 1,025 | 625 | 1,650 | 180 | 120 | 300 |
| 2018-2022 | 83,245 | 64,123 | 147,368 | 6,100 | 2,137 | 8,237 | 1,020 | 452 | 1,472 |
| 2023-2027 | 99,695 | 43,039 | 142,734 | 2,995 | 297 | 3,292 | 1,195 | 196 | 1,391 |
| 2028-2032 | 71,345 | 20,486 | 91,831 | | | | 185 | 8 | 193 |
| 2033-2037 | 22,205 | 7,121 | 29,326 | | | | | | |
| 2038-2040 | 14,090 | 1,522 | 15,612 | | | | | | |
| Total | <u>\$ 379,665</u> | <u>\$ 220,368</u> | <u>\$ 600,033</u> | <u>\$ 14,900</u> | <u>\$ 5,961</u> | <u>\$ 20,861</u> | <u>\$ 3,205</u> | <u>\$ 1,338</u> | <u>\$ 4,543</u> |

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 | \$ 17,215 |
| Less: Accumulated Depreciation | (7,645) |
| Total | <u>\$ 9,570</u> |

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Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

As of September 30, 2012 the City had future minimum payments under capital and operating leases with a remaining term in excess of one year for business-type activities as follows:

| Fiscal Year Ending September 30, | Capital Leases | Operating Leases | Total |
|--|------------------|------------------|------------------|
| 2013 | \$ 5,778 | \$ 452 | \$ 6,230 |
| 2014 | 4,529 | 404 | 4,933 |
| 2015 | 4,481 | 383 | 4,864 |
| 2016 | 3,083 | 234 | 3,317 |
| 2017 | 1,202 | 39 | 1,241 |
| 2018-2022 | 3,043 | | 3,043 |
| 2023-After | 1,175 | | 1,175 |
| Future Minimum Lease Payments | 23,291 | <u>\$ 1,512</u> | <u>\$ 24,803</u> |
| Less: Interest | (1,979) | | |
| Present Value of Future Minimum Lease Payments | 21,312 | | |
| Less: Current Portion | (5,207) | | |
| Capital Leases, Net of Current Portion | <u>\$ 16,105</u> | | |

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Notes to Financial Statements

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 | \$ 708,055 | \$ 182,010 | \$ (79,790) | \$ 810,275 | \$ 74,065 |
| Taxable General Obligation Bonds | 191,550 | | | 191,550 | |
| Tax-Exempt Certificates of Obligation | 356,870 | 19,340 | (43,525) | 332,685 | 19,690 |
| Tax Notes | 27,450 | 17,635 | (13,070) | 32,015 | 12,825 |
| Revenue Bonds | 575,115 | | (10,744) | 564,371 | 11,666 |
| Gross Bonds Payable | 1,859,040 | 218,985 | (147,129) | 1,930,896 | 118,246 |
| Unamortized (Discount) / Premium | 73,504 | 30,616 | (12,518) | 91,602 | 16,061 |
| Deferred Amount on Refunding | (23,168) | (636) | 2,312 | (21,492) | (2,347) |
| Net Bonds Payable | 1,909,376 | 248,965 | (157,335) | 2,001,006 | 131,960 |
| Other Payables: | | | | | |
| Capital Lease Liability | 17,045 | | (2,852) | 14,193 | 2,302 |
| Accrued Leave Payable | 192,175 | 41,060 | (30,368) | 202,867 | 61,125 |
| Notes Payable | 48,816 | | (2,185) | 46,631 | 2,225 |
| Pollution Remediation Liability ⁴ | 1,545 | 537 | (549) | 1,533 | |
| Net Pension / OPEB Obligation ^{1,2} | 110,749 | 35,157 | | 145,906 | |
| Total Other Payables | 370,330 | 76,754 | (35,954) | 411,130 | 65,652 |
| Total Governmental Activities | \$ 2,279,706 | \$ 325,719 | \$ (193,289) | \$ 2,412,136 | \$ 197,612 |
| Business-Type Activities: | | | | | |
| Bonds Payable: | | | | | |
| Tax-Exempt General Obligation Bonds | \$ 1,310 | \$ - | \$ (40) | \$ 1,270 | \$ 40 |
| Taxable General Obligation Bonds | 16,075 | | (1,175) | 14,900 | 1,300 |
| Tax-Exempt Certificates of Obligation | 2,035 | | (100) | 1,935 | 105 |
| Revenue Bonds | 406,300 | 95,925 | (122,560) | 379,665 | 18,115 |
| Gross Bonds Payable | 425,720 | 95,925 | (123,875) | 397,770 | 19,560 |
| Unamortized (Discount) / Premium | 7,783 | 9,726 | (1,483) | 16,026 | 3,353 |
| Deferred Amount on Refunding | (4,017) | (2,835) | 1,114 | (5,738) | (1,086) |
| Net Bonds Payable | 429,486 | 102,816 | (124,244) | 408,058 | 21,827 |
| Other Payables: | | | | | |
| Capital Lease Liability | 21,140 | 5,514 | (5,342) | 21,312 | 5,207 |
| Accrued Leave Payable | 4,453 | 7,064 | (6,607) | 4,910 | 3,797 |
| Accrued Landfill Postclosure Costs ³ | 2,045 | | (1) | 2,044 | 129 |
| Pollution Remediation Liability ⁴ | 1,040 | | | 1,040 | |
| Net OPEB Obligation ² | 20,123 | 6,637 | | 26,760 | |
| Total Other Payables | 48,801 | 19,215 | (11,950) | 56,066 | 9,133 |
| Total Business-Type Activities | \$ 478,287 | \$ 122,031 | \$ (136,194) | \$ 464,124 | \$ 30,960 |

NOTE: Interest accreted decreased by \$4,706 due to the bond payment's maturity schedule, and decreased by \$2,316 for interest on the remaining maturities outstanding, resulting in an ending balance of \$20,923, 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 8, Pension & Retirement Plans for a description of the pension program.

² See Note 9, Post-employment Retirement Benefits for a description of the post-employment 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.

Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt

Accrued Leave

The following is a summary of accrued leave for the fiscal year-ended September 30, 2012:

| Governmental Activities | | | | | |
|--------------------------------|----------------------|----------------------|------------------|------------|------------|
| Fund Type | Short-Term Available | Short-Term Remaining | Total Short-Term | Long-Term | Total |
| Governmental Funds | \$ 7,975 | \$ 50,667 | \$ 58,642 | \$ 141,346 | \$ 199,988 |
| Internal Service Funds | | 2,483 | 2,483 | 396 | 2,879 |
| Total Governmental Activities | \$ 7,975 | \$ 53,150 | \$ 61,125 | \$ 141,742 | \$ 202,867 |

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 his or her 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 | \$ 1,646 | \$ 781 | \$ 2,427 |
| Solid Waste Management | 1,312 | 332 | 1,644 |
| Nonmajor Enterprise Funds | 839 | | 839 |
| Total Business-Type Activities | \$ 3,797 | \$ 1,113 | \$ 4,910 |

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, 2012, the aggregate principal amounts payable are as follows: seven series of EFC Revenue Bonds in the amount of \$109,720; two series of IDA Revenue Bonds in the amount of \$11,200; and two series of EZDC Revenue Bonds in the amount of \$39,900.

The City also facilitates the issuance of tax-exempt revenue bonds to enable the HFC 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, 2012, 19 series of tax-exempt revenue bonds were outstanding, with an aggregate principal amount payable of \$214,111 and an aggregate principal amount issued of \$228,459.

Note 6 Long-Term Debt (Continued)**Primary Government (City) (Continued)****Conduit Debt Obligations (Continued)**

To provide for the acquisition and construction of certain airport facilities, the City has issued Special Airport Facilities Revenue Refunding Bonds, Series 1995. The bond is payable pursuant to lease agreements, which stipulate that various commercial entities are obligated to pay amounts to a third-party trustee in lieu of lease payments to the City. These payments are sufficient to pay for the principal, premium, interest, and purchase price of the bond when they become due. The aggregate principal amount outstanding for the Special Airport Facilities Revenue Refunding Bonds, Series 1995 at September 30, 2012 was \$2,600.

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, 2012, the aggregate amount of the outstanding loan totaled \$9,328.

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, 2012, the amount of conduit debt was \$44,440.

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, 2012, SAEAPFC has one series of tax-exempt revenue bonds with an aggregate principal amount outstanding of \$542,590.

Neither the City, the State of Texas, nor any political subdivision of the State of Texas other than the Port, 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, 2012 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 the call date of 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, 2012, 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.

Notes to Financial Statements

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 CPS Energy. 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, 2012, 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.

Notes to Financial Statements

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 were issuable in calendar years 2009 and 2010 as taxable bonds. The BABs permitted the issuer to receive subsidy payments equal to 35.0% of the bond's interest directly from the U.S. Department of the Treasury. In fiscal year 2010, CPS Energy issued \$375,000 of taxable New Series 2009C Revenue Direct Subsidy BABs. In fiscal year 2011, CPS Energy issued \$380,000 of taxable New Series 2010A Revenue Direct Subsidy BABs, \$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).

On November 10, 2011, CPS Energy issued \$50,915 of New Series 2011 Revenue Refunding Bonds. Proceeds, including the premium associated with the bonds, were issued to refund \$57,400 par value of the New Series 2002 Bonds. This refunding transaction resulted in a net present value debt service savings of \$7,700 or 13.4% of the par amount of the bonds being refunded. The true interest cost for this issue, which has two term bonds maturing in 2016 and 2017, is 1.6%.

The total subsidy received for the 2009C and 2010A Senior Lien BSBs and the 2010A and 2010B Junior Lien BABs was \$26,100 for fiscal year 2012.

| CPS Energy Revenue Bond Summary | | | |
|---|-------------------|--|-------------------------|
| Issuance | Maturities | Weighted-Average Yield on Outstanding Bonds at January 31, 2012 | January 31, 2012 |
| Tax Exempt new series bonds 1994A-2009D | 2011-2034 | 4.8% | \$ 3,002,000 |
| Taxable new series bonds ¹ 2009C and 2010A | 2033-2041 | 3.8% | 755,000 |
| Total New Series Bonds | | 4.4% | 3,757,000 |
| Taxable series bonds ¹ 2010A-2010B | 2037-2041 | 3.9% | 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 | | | 4,654,615 |
| Less: Current Maturities of Bonds | | | 170,175 |
| Total Revenue Bonds Outstanding, Net of Current Maturities | | | <u>\$ 4,484,440</u> |

¹ Direct Subsidy Build America Bonds

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Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds (Continued)

As of January 31, 2012, 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 |
| 2013 | \$ 170,175 | \$ 227,002 | \$ (26,132) | \$ 371,045 |
| 2014 | 183,610 | 218,001 | (26,132) | 375,479 |
| 2015 | 157,035 | 208,284 | (26,132) | 339,187 |
| 2016 | 155,115 | 200,192 | (26,132) | 329,175 |
| 2017 | 166,135 | 192,416 | (26,132) | 332,419 |
| 2018-2022 | 937,335 | 835,025 | (130,659) | 1,641,701 |
| 2023-2027 | 929,730 | 584,857 | (130,659) | 1,383,928 |
| 2028-2032 | 586,670 | 448,759 | (130,659) | 904,770 |
| 2033-2037 | 737,204 | 318,054 | (109,568) | 945,690 |
| 2038-2041 | 631,606 | 90,258 | (31,590) | 690,274 |
| Totals | \$ 4,654,615 | \$ 3,322,848 | \$ (663,795) | \$ 7,313,668 |

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 since the subsidy is received directly by the trustee to be used solely for debt service payments.

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 0.5% at January 31, 2012.

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 the City. 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.

Notes to Financial Statements

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, 2011 | Additions During Year | Decreases During Year | Balance Outstanding January 31, 2012 |
| Revenue and Refunding Bonds: | | | | | | | |
| 1994A Tax Exempt | \$ 684,700 | 2012 | 5.008 | \$ 67,465 | \$ - | \$ (67,465) | \$ - |
| 2002 Tax Exempt | 436,090 | 2017 | 4.055 | 326,060 | | (116,720) | 209,340 |
| 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 | 74,210 | | (1,680) | 72,530 |
| 2003 Tax Exempt | 350,490 | 2013 | 3.081 | 50,325 | | | 50,325 |
| 2004 Tax Exempt Junior Lien | 160,000 | 2027 | Variable | 147,615 | | | 147,615 |
| 2005 Tax Exempt | 294,625 | 2020 | 4.381 | 294,625 | | | 294,625 |
| 2005 Tax Exempt | 240,675 | 2025 | 4.683 | 239,800 | | | 239,800 |
| 2005A Tax Exempt | 197,335 | 2025 | 4.571 | 195,215 | | | 195,215 |
| 2006A Tax Exempt | 384,185 | 2025 | 4.555 | 344,285 | | (14,615) | 329,670 |
| 2006B Tax Exempt | 128,845 | 2021 | 3.974 | 95,250 | | (9,240) | 86,010 |
| 2007 Tax Exempt | 46,195 | 2018 | 4.159 | 46,195 | | | 46,195 |
| 2007 Tax Exempt | 403,215 | 2032 | 4.575 | 402,130 | | | 402,130 |
| 2008 Tax Exempt | 287,935 | 2032 | 4.582 | 287,935 | | | 287,935 |
| 2008A Tax Exempt | 158,030 | 2016 | 3.736 | 106,620 | | (22,400) | 84,220 |
| 2009A Tax Exempt | 442,005 | 2034 | 4.863 | 439,500 | | | 439,500 |
| 2009C Taxable | 375,000 | 2039 | 3.944 | 375,000 | | | 375,000 |
| 2009D Tax Exempt | 207,940 | 2021 | 3.720 | 203,065 | | | 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 |
| 2011 Tax Exempt | 50,915 | 2017 | 1.600 | | 50,915 | | 50,915 |
| Bonds Outstanding | | | | 4,835,820 | 50,915 | (232,120) | 4,654,615 |
| Bond Current Maturities | | | | (174,690) | | 4,515 | (170,175) |
| Bond (Discount)/Premium | | | | 117,262 | 7,775 | (18,510) | 106,527 |
| Bond Reacquisition Costs | | | | (45,844) | (2,256) | 15,412 | (32,688) |
| Revenue Bonds, Net | | | | 4,732,548 | 56,434 | (230,703) | 4,558,279 |
| Tax Exempt Commercial Paper (TECP) | | | Variable | 130,000 | | | 130,000 |
| Total Long-Term Debt, Net | | | | \$ 4,862,548 | \$ 56,434 | \$ (230,703) | \$ 4,688,279 |

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Note 6 Long-Term Debt (Continued)**CPS Energy (Continued)****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.

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, 2012 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, 2012, 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, 2012 the accruals for employee vested benefits were \$16,900. These accruals are reported under Accounts Payable and Other Current Liabilities.

San Antonio Water System (SAWS)

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.

City Ordinance No. 75686 also provides for no free services except for municipal firefighting purposes.

Note 6 Long-Term Debt (Continued)**San Antonio Water System (SAWS) (Continued)**

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.

Revenue Bonds

On April 27, 2011, SAWS issued \$46,555 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2011. The proceeds from the sale of the bonds were used to (i) refund \$50,235 City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2001 (the "Series 2001 Bond"), and (ii) pay the cost of issuance. The refunding of the Series 2001 Bonds reduced total debt service payments over the next sixteen years by approximately \$5,800 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately \$4,300. The bonds are secured together with other currently outstanding Senior Lien Obligations solely by a lien on a pledge of net revenues.

On August 18, 2011, SAWS issued \$24,550 City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2011 through the Texas Water Development Board. The bonds were sold under the Water Infrastructure Fund Loan Program (the "WIF"). The proceeds from the sale of the bonds were used to (i) finance portions of the Brackish Groundwater Desalination Project, and (ii) pay the cost of issuance. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On August 18, 2011, SAWS issued \$18,095 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2011A 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 \$2,000 in outstanding commercial paper notes, and (iii) pay the cost of issuance. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On October 6, 2011, SAWS issued \$165,090 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2011A. The proceeds from the sale of the bonds were used to (i) refund \$34,625 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2002 (the "Series 2002 Bond"), (ii) refund \$80,455 City of San Antonio, Texas Water System Revenue Bonds, Series 2002-A (the "Series 2002-A Bonds"), (iii) refund \$60,000 in outstanding commercial paper notes, and (iv) pay the cost of issuance. The refunding of the Series 2002 Bonds and Series 2002-A Bonds reduced total debt service payments over the next twenty-two years by approximately \$15,700 and resulted in an economic gain of approximately \$10,500. The bonds are secured together with other currently outstanding Senior Lien Obligations solely by a lien on a pledge of net revenues.

Senior Lien Water System Revenue Bonds, comprised of Series 2002, Series 2002-A, Series 2004, Series 2005, Series 2007, Series 2009, Series 2009A, Series 2009B, Series 2010B, Series 2011, and Series 2011-A outstanding in the amount of \$1,507,950 at December 31, 2011, 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 6.2%, exclusive of any federal interest subsidy on the Series 2009B and 2010B Build America Bonds.

Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

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, Series 2010A, Series 2011, and Series 2011A outstanding in the amount of \$386,280 at December 31, 2011, 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 Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax exempt borrowing rates. The Treasury requires payment for each issue every five years. The estimated liability is updated annually for all tax-exempt issuances or changes in yields until such time payment of the calculated liability is due. A liability is recorded once payment appears to be probable. As of December 31, 2011, SAWS had a recorded arbitrage liability of \$258 related to the Series 2007A junior lien bonds.

The following summarizes transactions of the Revenue Bonds for the year-ended December 31, 2011:

| | Beginning Balance Jan. 1, 2011 | Additions | Reductions | Ending Balance Dec. 31, 2011 | Due Within One Year |
|---|--------------------------------------|-------------------|-------------------|------------------------------------|------------------------|
| Bonds Payable | \$ 1,844,985 | \$ 254,290 | \$ 205,045 | \$ 1,894,230 | \$ 44,780 |
| Deferred Amounts for Issuance (Discounts)/Premiums | (18,641) | 16,652 | 921 | (2,910) | |
| Total Bonds payable, Net | <u>\$ 1,826,344</u> | <u>\$ 270,942</u> | <u>\$ 205,966</u> | <u>\$ 1,891,320</u> | <u>\$ 44,780</u> |

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Notes to Financial Statements

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:

| Year Ended December 31, | Annual Debt Service Requirements Revenue and Refunding Bonds | | | | | |
|----------------------------|---|---------------------|--------------------------------|---------------------|-------------------|---------------------|
| | Senior Lien | | | Junior Lien | | |
| | Principal | Interest Expense | Direct Subsidy ¹ | Net Interest | Principal | Interest Expense |
| 2012 | \$ 25,590 | \$ 75,386 | \$ (4,014) | \$ 71,372 | \$ 19,190 | \$ 8,111 |
| 2013 | 26,830 | 73,464 | (4,006) | 69,458 | 19,895 | 10,555 |
| 2014 | 27,990 | 72,270 | (3,997) | 68,273 | 20,430 | 10,032 |
| 2015 | 29,285 | 70,945 | (3,969) | 66,976 | 21,005 | 9,802 |
| 2016 | 30,615 | 69,538 | (3,920) | 65,618 | 23,895 | 9,524 |
| 2017-2021 | 203,005 | 320,987 | (18,612) | 302,375 | 114,460 | 36,667 |
| 2022-2026 | 302,905 | 257,840 | (16,424) | 241,416 | 70,010 | 22,711 |
| 2027-2031 | 279,405 | 178,899 | (13,336) | 165,563 | 43,900 | 14,122 |
| 2032-2036 | 327,225 | 109,341 | (7,857) | 101,484 | 31,605 | 7,728 |
| 2037-2041 | 255,100 | 25,023 | (1,400) | 23,623 | 21,890 | 1,449 |
| Total | <u>\$ 1,507,950</u> | <u>\$ 1,253,693</u> | <u>\$ (77,535)</u> | <u>\$ 1,176,158</u> | <u>\$ 386,280</u> | <u>\$ 130,701</u> |

¹ Federal interest rate subsidy on Build America Bonds is utilized to pay interest on those bonds but is reported as nonoperating revenue.

SAWS is required to comply with various debt covenant provisions included in the ordinances which authorized the bond issuances. SAWS is in compliance with all significant provisions of the ordinances.

Prior Years' Defeased 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, 2011, \$147,515 of bonds outstanding were considered defeased.

Accrued Leave

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.

| Year-Ended | Liability Beginning Balance | Current-Year Accruals | Payments | Liability Ending Balance | Estimated Due Within One Year |
|-------------------|-----------------------------------|--------------------------|------------|--------------------------------|-------------------------------------|
| December 31, 2011 | \$ 6,613 | \$ 5,458 | \$ (4,576) | \$ 7,495 | \$ 4,576 |

Notes to Financial Statements

Note 7 Commercial Paper Programs

Primary Government (City)

The City had no Commercial Paper debt during fiscal year 2012.

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.

| | |
|---|------------|
| TECP Outstanding | \$ 130,000 |
| Weighted Average Interest Rate of Outstanding TECP | 0.2% |
| Average Life of Outstanding TECP (Approximate Number of Days) | 64 |

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, 2012, there was no amount outstanding under the revolving credit agreement. Further, there have been no borrowings under the agreement since inception.

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.

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.

Notes to Financial Statements

Note 7 Commercial Paper Programs (Continued)

San Antonio Water System (SAWS) (Continued)

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. The capacity of the revolving credit agreement is \$350,000 and the agreement expires in July 2013.

Commercial paper notes of \$214,930 are outstanding as of December 31, 2011. Of this balance, \$103,810 relates to the refunding of the Series 2003 Bonds while the remaining \$111,120 proceeds were used solely for financing of capital improvements. Interest rates on the notes outstanding at December 31, 2011 range from 0.1% to 0.2% and maturities range from 27 to 69 days. The outstanding notes had an average rate of 0.2% and averaged 39 days to maturity.

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 \$2,840 of commercial paper in 2012. 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, 2011.

| | <u>Beginning Balance</u> | | | <u>Ending Balance</u> |
|-----------------------------------|--------------------------|------------------|-------------------|--------------------------|
| | <u>January 1, 2011</u> | <u>Additions</u> | <u>Reductions</u> | <u>December 31, 2011</u> |
| Tax Exempt Commercial Paper Notes | \$ 244,650 | \$ 35,000 | \$ 64,720 | \$ 214,930 |

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Notes to Financial Statements

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 | \$ 285,658 | \$ 35,193 | \$ 70,389 | \$ 105,582 |
| | Texas Municipal Retirement System (TMRS) - Civilian | Nontraditional Hybrid Defined Benefit Agent Plan | \$ 276,095 | \$ 16,570 | \$ 28,171 | \$ 44,741 |
| Component Units: | | | | | | |
| SAWS | Texas Municipal Retirement System (TMRS) ¹ | Nontraditional Hybrid Defined Benefit Agent Plan | \$ 84,611 | \$ 2,538 | \$ 4,997 | \$ 7,535 |
| | SAWSRP Contract ¹ | Single Employer Defined Benefit Plan | \$ 85,394 | \$ - | \$ 9,171 | \$ 9,171 |
| CPS Energy | CPS All Employee Plan ² | Single Employer Defined Benefit Plan | \$ 228,525 | \$ 11,781 | \$ 37,687 | \$ 49,468 |

¹ Fiscal year ended December 31, 2011.

² Fiscal year ended January 31, 2012.

³ Covered payroll presented in this table for the City is as of September 30, 2012.

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Notes to Financial Statements

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 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 Pension Fund is provided in the Pension Fund's separately issued financial statements.

At September 30, 2012, membership of the Pension Fund consisted of:

| | |
|---|--------------|
| Retirees and beneficiaries receiving benefits | 2,235 |
| Active participants | <u>3,926</u> |
| Total | <u>6,161</u> |

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.

There is also a provision for a 13th and 14th pension check. At the end of each fiscal year, the Board may authorize the disbursement of a 13th monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 100 basis points. In the same way, the Board may authorize a 14th 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 13th and 14th 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 13th and 14th check for any other year. The Pension Fund did not meet the criteria for the 13th and 14th checks for the year ended September 30, 2012.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

The Pension Fund also provides benefits when service is terminated by reason of death or disability. The employee's beneficiary or the employee shall be entitled to one-half of the average of the employee's total salary, excluding overtime pay, or vested benefit as is provided in the computation of normal retirement benefits, whichever is higher. If a member dies after retiring, spouses or beneficiaries who were married to or dependents of the member at the time of retirement receive the same annuity paid to the member as of the date of the member's death up to the maximum benefit. The maximum benefit for surviving spouses and dependent children is equal to a 27-year service pension. 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 (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.

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.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

The Pension Fund is funded in accordance with Texas state statutes and are not actuarially determined. The City was required to contribute 24.6% of salary, excluding overtime pay, in 2012. The employee contribution rate was 12.3% in 2012. 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.

The Pension Fund has a provision that allows the fire chief and police chief to opt out of membership in the Pension Fund.

The annual required contributions for fiscal year 2012 were determined as part of the October 2011 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, 2011 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, 2012 were as follows:

| | <u>Amount</u> | <u>Percentage of Covered Payroll</u> |
|----------|-------------------|--------------------------------------|
| Employer | \$ 70,389 | 24.6% |
| Employee | 35,193 | 12.3% |
| Total | <u>\$ 105,582</u> | |

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.

Note 8 Pension and Retirement Plans (Continued)**Primary Government (City) (Continued)****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, 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 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 ratio of 72.2%. After adoption of these changes, as of December 31, 2007 the City's Plan had a UAAL of \$317,720 with a funded ratio of 60.1%.

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 approved an eight-year phase-in period, which allowed governments the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full 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.

Note 8 Pension and Retirement Plans (Continued)**Primary Government (City) (Continued)****Texas Municipal Retirement System (TMRS) (Continued)**

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%.

TMRS legislation was passed 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 were credited, by law, with 5.0% interest. This guaranteed interest credit resulted in a highly leveraged (positive or negative) interest credit to the MAF. In years when TMRS as a whole earned less than the amount needed to provide the 5.0% guaranteed interest credit to the ESF and CSARF, additional funding was needed from the MAF. Additionally, as each city's plan matured and retirements increased, more funds transferred into the CSARF from the ESF and the MAF, and the MAF balance, combined with the highly leveraged interest allocations, would have resulted in city contribution rates 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 required 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.

Note 8 Pension and Retirement Plans (Continued)**Primary Government (City) (Continued)****Texas Municipal Retirement System (TMRS) (Continued)**

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 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 was calculated to \$100,426 with a funded ratio of 90.6%. Further, the amortization periods differed; prior to restructuring the period was 25.6 years; after restructuring the period was 24.1 years, resulting in a reduction to the contribution rate from 12.6% to 10.0% for the first quarter of calendar year 2012. TMRS permitted the City to early implement this contribution rate reduction in the first quarter of fiscal year 2012, resulting in a first quarter difference of 2.6%, or \$1,810 in ARC, not being funded. This NPO will be funded through salary assessments to each City department with full-time, civilian employees.

In the fiscal year 2012 budget, City Council adopted a one-time annuity increase that was 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 caused 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.

Note 8 Pension and Retirement Plans (Continued)**Primary Government (City) (Continued)****Texas Municipal Retirement System (TMRS) (Continued)**

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 10.3% for calendar year 2011, 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.

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 22.1-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 22.1-year period. Currently, the UAAL is amortized over a constant 22.1-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.

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

Note 8 Pension and Retirement Plans (Continued)**Primary Government (City) (Continued)****Texas Municipal Retirement System (TMRS) (Continued)**

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.

City Deferred Compensation

City of San Antonio has a deferred compensation plan for its employees, created in accordance with Internal Revenue Code Section 457. The plan, available to all regular employees, permits them to defer a portion of their salary on a pre-taxed basis until future years. The compensation deferred under this plan is not available to employees until termination, retirement, death, loan, or qualifying unforeseeable emergency. Participation in the plan is voluntary. Beginning with FY 2012, the City of San Antonio implemented a matching contribution of up to 1% of base salary to eligible executives who participate in the plan. City of San Antonio has no liability for losses under this plan but does have the usual fiduciary responsibilities of a plan sponsor.

San Antonio Water System (SAWS)

SAWS' pension program includes benefits provided by TMRS, the San Antonio Water System Retirement Plan (SAWSRP), the San Antonio Water System Deferred Compensation Plan (SAWSDCP), and Social Security. The following information related to TMRS was prepared as of December 31, 2010, while the information related to the SAWSRP was prepared as of January 1, 2011.

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 statewide 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. The plan provisions are adopted by SAWS within the options available and actuarial constraints in the state statutes governing TMRS.

Note 8 Pension and Retirement Plans (Continued)**San Antonio Water System (SAWS) (Continued)****Texas Municipal Retirement System (TMRS) (Continued)**

Under the state law governing TMRS, SAWS' contribution rate is determined annually by an actuary using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, which is 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 amortizes the unfunded actuarial liability over the applicable period for SAWS. Both the normal costs and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

There is a delay in the valuation and when the rate becomes effective, for example the 2011 contribution rate is based on the December 31, 2009 valuation results. SAWS contributes to TMRS at the actuarially determined rate. Both the employees and SAWS make monthly contributions.

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 2011 was 5.9% while the phased-in rate of 2011 was 4.6% of salary. The current contribution rate for employees is 3.0% of salary.

| TMRS Schedule of Contributions | |
|-----------------------------------|-------------|
| | <u>2011</u> |
| Employer Contribution | \$ 4,967 |
| Employee Contribution | \$ 2,538 |
| Employer Contribution Rate | 5.9% |

San Antonio Water System Retirement Plan (SAWSRP)

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. SAWS has delegated the authority to manage certain plan assets and administer the payment of benefits to Principal Financial Group.

SAWS provides supplemental pension benefits for all persons customarily employed at least 20 hours per week and five months per year through this defined benefit pension plan. Employees are eligible to participate in SAWSRP on January 1 of the calendar year following date of hire. A member does not vest in this plan until completion of five years of service.

Notes to Financial Statements

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

San Antonio Water System Retirement Plan (SAWSRP) (Continued)

SAWSRP membership consisted of:

| | |
|---|--------------------|
| | January 1, 2011 |
| Active Employees | 1,609 |
| Retirees and beneficiaries currently receiving benefits ¹ | 517 |
| Terminated employees entitled to benefits but not yet receiving them | 403 |
| Total | <u>2,529</u> |

¹ Does not include retirees whose benefits have been purchased.

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.

An employee is automatically 100% vested upon attainment of age 65 or upon becoming totally and permanently disabled.

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.

Notes to Financial Statements

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

San Antonio Water System Retirement Plan (SAWSRP) (Continued)

SAWSRP'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 make contributions. Any obligation with respect to SAWSRP shall be paid by SAWS. Investment expenses, including investment manager and custodial services, are funded through investment earnings. Administrative expenses, including investment actuarial and consultant services, are funded through investment earnings and/or contributions.

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 | 30 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 |

San Antonio Water System Deferred Compensation Plan (SAWSDCP)

SAWS has a deferred compensation plan for its employees, created in accordance with Internal Revenue Code Section 457. SAWSDCP, available to all regular employees, permits them to defer a portion of their salary until future years. The compensation deferred under this plan is not available to employees until termination, retirement, death, or qualifying unforeseeable emergency. Participation in SAWSDCP is voluntary, and SAWS does not make any contributions. SAWS has no liability for losses under SAWSDCP, but does have the usual fiduciary responsibilities of a plan sponsor.

CPS Energy

All Employee Plan

The CPS Energy Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan (Plan) covering substantially all employees who have completed one year of service. It is an unconsolidated entity within which normal retirement is age 65; however, early retirement is available with 25 years of benefit service, as well as to those employees who are ages 55 or older with at least ten years of benefit service. Retirement benefits are based on length of service and compensation, and benefits are reduced for retirement before age 55 with 25 years or more of benefit service or before age 62 with less than 25 years of service.

Note 8 Pension and Retirement Plans (Continued)**CPS Energy****All Employee Plan (Continued)**

The Plan is sponsored by and may be amended at any time by CPS Energy, acting by and through an Oversight Committee, which includes the 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.

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 \$1,054,003 at December 31, 2011.

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 \$91 for fiscal year 2012. 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, 2010, valuation was the basis for contributions in fiscal year 2012. 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 2012.

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 2012, 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 16.5% of covered payroll in fiscal year 2012.

Annual Pension Cost and Net Pension Obligation – CPS Energy's annual pension cost (APC) and net pension obligation (NPO) for fiscal year 2012 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.

Note 8 Pension and Retirement Plans (Continued)**CPS Energy (Continued)****All Employee Plan (Continued)**

Funded Status and Funding Progress – The funded status of the Plan as of January 1, 2010 valuation date is presented 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.

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, 2010 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 method for amortization of prior 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 2011 Plan year.

Significant actuarial assumptions used for the January 1, 2010, actuarial valuation included (a) a rate of return on the investment of present and future assets of 7.8%, (b) projected salary increases averaging 5.5%, and (c) post retirement cost-of-living increases of 1.5%. The projected salary increases included an inflation rate of 3.0%.

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*.

| Pension Plan | Fiscal Year | Three-Year Trend Information | | | | | | | Net Pension Obligation (Asset) at End of Year | Percentage of ARC Contributed |
|------------------------------------|-------------|------------------------------------|--|-------------------|---------------------------|----------------------------------|----------------------------|---|---|-------------------------------|
| | | 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 (Asset) at Beginning of Year | | |
| Fire and Police | 2010 | \$ 64,498 | \$ - | \$ - | \$ 64,498 | \$ (64,498) | \$ - | \$ - | \$ - | 100.0% |
| Pension Plan City of San Antonio | 2011 | 67,328 | | | 67,328 | (67,328) | | | | 100.0% |
| | 2012 | 70,389 | | | 70,389 | (70,389) | | | | 100.0% |
| TMRS - City of San Antonio | 2010 | \$ 32,338 | \$ - | \$ - | \$ 32,338 | \$ (32,338) | \$ - | \$ - | \$ - | 100.0% |
| | 2011 | 33,883 | | | 33,883 | (33,883) | | | | 100.0% |
| | 2012 | 29,981 | | | 29,981 | (28,171) | 1,810 | | 1,810 | 93.9% |
| CPS All 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% |
| | 2012 | 39,703 | (54) | 58 | 39,707 | (37,687) | 2,020 | (616) | 1,404 | 94.9% |
| TMRS - 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% |
| | 2011 | 4,967 | 173 | (143) | 4,997 | (4,997) | 1,071 | 2,313 | 3,384 | 100.0% |
| SAWRP - SAWS ² | 2009 | \$ 6,035 | \$ - | \$ - | \$ 6,035 | \$ (6,035) | \$ - | \$ - | \$ - | 100.0% |
| | 2010 | 7,849 | | | 7,849 | (7,849) | | | | 100.0% |
| | 2011 | 9,171 | | | 9,171 | (9,171) | | | | 100.0% |

¹ Fiscal year-ended January 31, 2012.

² Fiscal year-ended December 31, 2011.

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) | \$ 2,330,520 | \$ 1,031,749 | \$ 125,424 | \$ 90,496 | \$ 1,097,147 |
| Actuarial accrued liability (b) | 2,573,262 | 1,126,876 | 149,640 | 144,552 | 1,243,118 |
| Unfunded actuarial accrued liability (funding excess) (b) - (a) | \$ 242,742 | \$ 95,127 | \$ 24,216 | \$ 54,056 | \$ 145,971 |
| Funded ratio (a) / (b) | 90.6% | 91.6% | 83.8% | 62.6% | 88.3% |
| Covered payroll (c) | \$ 286,327 | \$ 264,088 | \$ 84,611 | \$ 85,394 | \$ 228,525 |
| Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll (((b) - (a)) / (c)) | 84.8% | 36.0% | 28.6% | 63.3% | 63.9% |

¹ Covered payroll presented in this table is as of 10/1/2011.

² Covered payroll presented in this table is as of 12/31/2011.

Significant TMRS Actuarial Assumptions and Methods

Significant assumptions used in the actuarial valuation of December 31, 2011, 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 | 22.1 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% |

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Note 9 Post-employment 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 post-employment benefit programs. Pursuant to GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, the City is required to account for and disclose its other post-employment liability for these programs. The City continues to actively review and have actuarial valuations performed for these programs as required.

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 comprises 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 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 meeting retirement criteria for the TMRS Pension Plan.

As of September 30, 2012, there are 6,172 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 the City. 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 severance of service. 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, 2012, there were 399 retirees and surviving spouses participating in this program.

The second program with 1,006 participating retirees and surviving spouses is available to eligible retirees who have Medicare coverage. All retirees and dependents are required to apply for and maintain Medicare Parts A & B coverage once they reach age 65 or otherwise become eligible for Medicare in order to participate in the Medicare Advantage PPO or HMO Plan. Of the current 1,006 participating Medicare retirees and surviving spouse, 161 participate in a fully insured Medicare Advantage HMO and the remaining 845 participate in a fully insured Medicare Advantage PPO.

Participant data disclosed above is not expressed in thousands.

Note 9 Post-employment Retirement Benefits (Continued)**Primary Government (City) (Continued)**

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 \$10,103, which included \$1,729 in administration costs covered by the City and \$5,341 in medical claims covered by total contributions. No contributions were made in fiscal year 2012 to prefund benefits. For the fiscal year-ended September 30, 2012, total contributions were as follows:

| Total Contributions | |
|---------------------|-----------------|
| City | \$ 6,227 |
| Retiree Premiums | 2,147 |
| Total Contributions | <u>\$ 8,374</u> |

Annual OPEB Cost and Net OPEB Obligation – For the fiscal year-ended September 30, 2012, the City's annual post-employment 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, 2012:

| 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) |

Note 9 Post-employment Retirement Benefits (Continued)**Primary Government (City) (Continued)**

Below are the health care cost trend assumptions used for the City's January 1, 2011 actuarial study reviewed and updated for the fiscal year-ended September 30, 2012.

| City's Health Care Cost Trend Assumptions | |
|---|------------------------------|
| Year | Medical & Prescription Drugs |
| 2012 | 8.0% |
| 2013 | 7.0% |
| 2014 | 6.0% |
| 2015 | 5.0% |
| 2016 + | 5.0% |

The City's retiree participation rate is estimated to be at 60.0%. This estimate is based on an 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 immediately follows 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 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 post-employment 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 post-employment health care benefits to police officers and firefighters of the City retiring after September 30, 1989. Authority to establish and amend the plan's post-employment 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 2012.

Notes to Financial Statements

Note 9 Post-employment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

Contributions – Since its inception, the Health Fund has been funded primarily by contributions from the City and 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.

The contribution amounts for each fiscal year, beginning October 1, 2007, are based on a statutory contribution rate that is applied to 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, 2012, 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, 2012 (not expressed in thousands):

| | |
|---|-----------|
| Biweekly Contributions: | |
| Active Fire and Police Members | \$ 121.10 |
| City of San Antonio for Each Members | \$ 242.20 |
| Monthly Contributions: | |
| Retirees with less than 30 years of service | \$ 262.39 |
| Dependent Children | \$ 157.35 |

Total contributions by active firefighters and police officers were \$12,243 for the year ended September 30, 2012.

Membership in the Plan consisted of the following at September 30, 2012 (not expressed in thousands):

| | |
|---|---------------------|
| Retirees and Beneficiaries Receiving Benefits | 3,005 |
| Active Plan Members | <u>3,878</u> |
| Total Membership | <u><u>6,883</u></u> |

Funding Status and Funding Progress – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of the plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Notes to Financial Statements

Note 9 Post-employment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

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. 45. 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. A NPO in the amount of \$39,836 is outstanding as of September 30, 2012. This NPO will be funded through future contributions from the City’s Fire and Police department, reported in the General Fund.

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 | 10/1/2011 |
| Actuarial Cost Method | Entry Age |
| Amortization Method | Level Open Percentage of Pay, Open |
| Amortization Period | 30 Years |
| Asset Valuation Method | Market Value Smoothed by a 5 year Deferred Recognition Method with a 80%/120% Corridor on Market |
| 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 | 8.0% in FY2012 declining to 5.5% in FY2015 |
| Annual Payroll Growth Rate | 4.0% |

Note 9 Post-employment Retirement Benefits (Continued)**CPS Energy**

CPS Energy provides certain health, life insurance and disability income benefits for employees. Additionally, most CPS Energy employees continue eligibility 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.

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. The Health Plan's net assets had a market value of \$198,087 at December 31, 2011. The Life Plan's net assets had a market value of \$42,391 at December 31, 2011. The Disability Plan's net assets had a market value of \$3,932 at December 31, 2011.

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, 2010 valuation was the basis for contributions in fiscal year 2012.

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 \$4,704 in fiscal year 2012 for their health insurance benefits.

Based on the funded status of the Health Plan, CPS Energy made no contributions in relation to ARC in fiscal year 2012.

Note 9 Post-employment Retirement Benefits (Continued)**CPS Energy (Continued)**

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 \$911 for fiscal year 2012. 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 of insurance per month on amounts in excess of \$20 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 of insurance per month on amounts in excess of \$20 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 \$238 in fiscal year 2012 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 2012.

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 2012.

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 \$9,065 for fiscal year 2012. 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.

Projections of benefits for financial reporting are based on the substantive plans (the plans as understood by the employer and plan member) and include the types of benefits provided for at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Note 9 Post-employment Retirement Benefits (Continued)**CPS Energy (Continued)****Actuarial Methods and Assumptions (Continued)**

For the Health Plan, the actuarial cost method used was the projected unit credit actuarial cost method. For the Life and Disability Plans, the aggregate actuarial cost method was used to determine the cost of benefits. Since this method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress was prepared using the entry age actuarial cost method, which is intended to approximate the funding progress of the plans.

The amortization method used for all three Plans was the level-dollar open method, 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, 2010 actuarial valuation included (a) a rate of return on the investment of present and future assets of 7.8% 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 3.6% to 9.9% depending on age for base and other salaries and an inflation rate for salary increases of 3.0% for the Life and Disability Plans, and (d) medical cost increases projected at 8.0% for 2010, decreasing annually to 5.5% in 2015 and thereafter.

San Antonio Water System (SAWS)

SAWS provides certain healthcare and life insurance benefits for eligible retirees, their spouses, and their dependents through a single-employer defined benefit plan administered by SAWS. The authority to establish and amend the OPEB provisions is vested in the SAWS board of trustees.

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, 2011 (the most recent actuarial valuation date, not expressed in thousands):

| | |
|-------------------|--------------|
| Active employees | 1,620 |
| Retired employees | 684 |
| Total | <u>2,304</u> |

Note 9 Post-employment Retirement Benefits (Continued)**San Antonio Water System (SAWS) (Continued)**

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. No contributions were made in 2011 to prefund benefits.

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, 2011, plan members receiving benefits contributed \$395, while SAWS contributed the remainder of the pay-as-you-go cost of \$6,840. During 2011, the SAWS board of trustees approved increases in the required contributions by plan Members beginning in 2012. These increases will be phased in over eight years. The expected long-term impact of these increases will result in the plan members eventually contributing one-third of the annual premiums for retiree health insurance.

Annual OPEB Cost and Net OPEB Obligation – For the year-ended December 31, 2011, 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, 2011, SAWS does not issue a separate financial report for its OPEB plan.

In the January 1, 2011 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, 2011, the UAAL is being amortized as a level dollar amount over a 30 year closed period.

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Notes to Financial Statements

Note 9 Post-employment Retirement Benefits (Continued)

San Antonio Water System (SAWS) (Continued)

Health care cost trend rates are used to anticipate increases in medical benefit costs expected to be experienced by the retiree health plan in each future year. The trend rates used are as follows:

| Year Beginning January 1 | Annual Rate of Increase | |
|--------------------------|---------------------------------------|--|
| | Pre-Medicare Medical and Prescription | Medicare Eligible Medical and Prescription |
| 2012 | 9.7% | 7.0% |
| 2013 | 9.4% | 6.9% |
| 2014 | 9.0% | 6.7% |
| 2015 | 8.7% | 6.6% |
| 2016 | 8.4% | 6.4% |
| 2017 | 8.1% | 6.2% |
| 2018 | 7.7% | 6.1% |
| 2019 | 7.4% | 5.9% |
| 2020 | 7.1% | 5.8% |
| 2021 | 6.8% | 5.6% |
| 2022 | 6.4% | 5.4% |
| 2023 | 6.1% | 5.3% |
| 2024 | 5.8% | 5.1% |
| 2025 | 5.5% | 5.0% |
| 2026 | 5.1% | 4.8% |
| 2027 | 4.8% | 4.7% |
| 2028 + | 4.5% | 4.5% |

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Notes to Financial Statements

Note 9 Post-employment 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:

| Pension Plan | Fiscal Year | Three-Year Trend Information | | | | | | | Net OPEB Obligation (Asset) at Beginning of Year | Net OPEB Obligation (Asset) at End of Year | Percentage of ARC Contributed |
|--|-------------|------------------------------------|---------------------------------|-------------------|------------------|----------------------------------|---------------------------------|-------------|--|--|-------------------------------|
| | | 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 | | | | |
| City of San Antonio | 2010 | \$ 35,818 | \$ 1,499 | \$ (2,549) | \$ 34,768 | \$ (8,303) | \$ 26,465 | \$ 49,951 | \$ 76,416 | 23.9% | |
| | 2011 | 36,012 | 2,168 | (3,685) | 34,495 | (7,624) | 26,871 | 76,416 | 103,287 | 22.1% | |
| | 2012 | 36,012 | 2,928 | (4,980) | 33,960 | (6,227) | 27,733 | 103,287 | 131,020 | 18.3% | |
| Fire and Police Retiree Health Care Fund | 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% | |
| | 2012 | 30,233 | 2,662 | (1,818) | 31,077 | (24,510) | 6,567 | 33,269 | 39,836 | 78.9% | |
| CPS - Health Plan ¹ | 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 | (13,820) | 7,046 | (37,650) | (30,604) | 0.0% | |
| | 2012 | 8,152 | (2,372) | 2,839 | 8,619 | (13,820) | 8,619 | (30,604) | (21,985) | 0.0% | |
| CPS - Life Plan ¹ | 2010 | \$ - | \$ (45) | \$ 58 | \$ 13 | \$ (140) | \$ (127) | \$ (685) | \$ (685) | 1076.9% | |
| | 2011 | - | (55) | 65 | 10 | (140) | (130) | (685) | (815) | 1400.0% | |
| | 2012 | - | (63) | 75 | 12 | (137) | (125) | (815) | (940) | 1141.7% | |
| CPS - Disability Plan ¹ | 2010 | \$ 381 | \$ (10) | \$ 12 | \$ 383 | \$ (617) | \$ (234) | \$ (125) | \$ (359) | 161.1% | |
| | 2011 | 341 | (40) | 47 | 348 | (617) | (269) | (359) | (628) | 177.3% | |
| | 2012 | 425 | (43) | 52 | 434 | (735) | (301) | (628) | (929) | 169.4% | |
| SAWS - OPEB ² | 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% | |
| | 2011 | 20,722 | 3,087 | (4,108) | 19,701 | (6,840) | 12,861 | 64,989 | 77,850 | 34.7% | |

The City's Health Fund, SAWS' and CPS Energy's funded status for the most recent year are as follows:

| Pension Plan | Funded Status and Funding Progress | | | | | |
|--|------------------------------------|----------------------------------|------------|------------------------|----------------------|----------------------------|
| | 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) | \$ - | \$ 236,239 | \$ - | \$ 209,894 | \$ 47,092 | \$ 3,902 |
| Actuarial accrued liability (b) | 324,516 | 639,853 | 242,388 | 219,929 | 37,266 | 6,567 |
| Unfunded actuarial accrued liability (funding excess) (b) - (a) | \$ 324,516 | \$ 403,614 | \$ 242,388 | \$ 10,035 | \$ (9,826) | \$ 2,665 |
| Funded ratio (a) / (b) | 0.0% | 36.9% | 0.0% | 95.4% | 126.4% | 59.4% |
| Covered payroll (c) | \$ 276,095 | \$ 259,797 | \$ 83,505 | \$ 228,525 | \$ 200,649 | \$ 200,649 |
| Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll [(b) - (a)] / (c) | 117.5% | 155.4% | 290.3% | 4.4% | -4.9% | 1.3% |

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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 to extend the operating licenses of STP Units 1 and 2 to 2047 and 2048, respectively. Based on the published NRC review schedule, approval of the license renewal application is expected in early 2013. 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.

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 the monthly fuel expense.

STP Unit 2 Forced Outage – STP Unit 2 completed a scheduled refueling outage in November 2011, returning to full power operation on November 24. On November 29, the main generator experienced a fault due to a reactor trip, resulting in a forced outage to repair the main generator. Initial visual inspection identified significant damage to at least one stator coil. Detailed electrical testing performed by STPNOC and by the generator vendor identified more extensive damage that required a complete rewind of the generator stator and rotor. Additionally, several other generator components required repair or refurbishment. Insurance is expected to cover substantially all repairs in excess of the deductible; consequently, a receivable has been established to account for recoveries under the policy. CPS Energy closely monitored the repair activities, which were completed in April 2012.

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 two new nuclear units at the STP site, 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.

Note 10 CPS Energy South Texas Project (STP) (Continued)**Joint Operations (Continued)**

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%. 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. Receipt of the NRC-approved combined operating license is a condition precedent to starting significant project construction.

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.

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 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, filed on April 21, 2009, contained 28 contentions. Interveners subsequently filed seven additional contentions. As a result of NRC Atomic Safety and Licensing Board (ASLB) decisions, most of the contentions were dismissed. However, two contentions were admitted for further consideration.

On October 13, 2009, the Board approved selection of STP Units 3 and 4 as the next base load 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 San Antonio City Council'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.

Note 10 CPS Energy South Texas Project (STP) (Continued)**Joint Operations (Continued)**

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. 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.

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. 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, 2012, CPS Energy had received \$5,000 from NINA for REAP.

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 convened a Near-Term Task Force to look 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 Near-Term Task Force's 90-day report 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 unnecessary 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 recommendations that were identified as long-term actions and/or that require additional staff study to inform potential regulatory changes.

Note 10 CPS Energy South Texas Project (STP) (Continued)**Joint Operations (Continued)**

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.

On April 19, 2011, NRG announced that it would continue to support its current partners but that it would not invest additional capital in STP Units 3 and 4 development effort. NRG wrote off the entire value of its investment in the project while continuing to own a legal interest. Since then, TANE has funded ongoing costs to move the application process forward for the combined operating and construction license.

Following the announcement by NRG of its planned write-down, interveners filed a contention related to foreign ownership. In August 2011, the ASLB held an oral argument hearing concerning the admissibility of the foreign ownership contention. Subsequently, the ASLB agreed to admit the contention of foreign ownership for further consideration. In late December 2011, the interveners filed a motion for summary disposition of the STP Units 3 and 4 COLA. On February 7, 2012, the ASLB denied the motion for summary disposition.

On December 13, 2011, the NRC issued a letter to NINA stating that its COLA does not meet the requirements of 10 CFR 50.38 (Ineligibility of Certain Applicants). This section of federal regulation contains restrictions associated with foreign ownership, control and domination. The letter 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 letter also stated that review of all remaining portions of the COLA would continue. NINA is currently working with the NRC to clarify for the NRC the ownership and control structure for STP Units 3 and 4.

Additionally on November 1, 2011, the NRC approved a design certification amendment for the Advanced Boiling Water Reactor, the model to be used for STP Units 3 and 4. The amendment acceptably addresses the probable effects from an impact of a large commercial aircraft.

After extensive evaluation, CPS Energy has made an assessment that its investment in the project remains valuable and that the most appropriate treatment would be to continue to report this investment on its balance sheet 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 the project would be treated as an extraordinary item on its statement of revenues, expenses and changes in fund net assets. The write-down would be a noncash transaction that would have no impact on CPS Energy's debt service coverage ratio; however, it would change the debt-to-equity ratio. As of January 31, 2012, the impact of a write-down would have been an increase in the debt-to-equity ratio from 59.2% to 62.0%. CPS Energy continues to maintain regular communication with all stakeholders, including the rating agencies, regarding ongoing assessment of the viability of the project and the impact to its financial position.

Including AFUDC of \$21,000, project costs incurred by CPS Energy to date of \$391,187 are included on the balance sheet as construction in progress. Effective as of fiscal year 2012, AFUDC is not being recorded for the STP Units 3 and 4 projects since efforts have been limited primarily to licensing-related activities.

Note 10 CPS Energy South Texas Project (STP) (Continued)**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 \$111,900, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at \$17,500 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 \$375,000 for the nuclear industry as a whole, provides protection from nuclear-related claims. A Master Worker Certificate policy, also with a maximum limit of \$375,000 for the nuclear industry as a whole, provides protection from radiation tort claims of workers at nuclear facilities.

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.

Nuclear Decommissioning

In 1991, CPS Energy started accumulating funds for the decommissioning of its 28.0% ownership in STP Units 1 and 2 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 distributed to or received from CPS Energy's ratepayers after decommissioning is complete.

In conjunction with the acquisition of the additional 12.0% interest in STP Units 1 and 2 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). The 12% Decommissioning Trust's 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 distributed to or received from AEP customers after decommissioning is complete.

Note 10 CPS Energy South Texas Project (STP) (Continued)**Nuclear Decommissioning (Continued)**

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 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, dated 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% Trust and an analysis of this cost study, CPS Energy determined that no further decommissioning contributions will be required to be deposited into the Trust.

In fiscal year 2009, CPS Energy determined that some preshutdown decommissioning and spent fuel management activities would be required prior to shutdown of STP Units 1 and 2. As a result, separate trust accounts were created to pay for preshutdown decommissioning activities. Additionally, funds in the Trusts applicable to spent fuel management were transferred to separate spent fuel accounts so that they were not commingled with funds allocable to preshutdown decommissioning costs. Based on projected costs, the spent fuel management accounts are currently fully funded; therefore, no contributions were made to these accounts in fiscal year 2012. Contributions to fund preshutdown decommissioning costs for CPS Energy's 28% ownership in STP amounted to \$2,200 in fiscal year 2012. Preshutdown decommissioning expenses for the 28% ownership totaled \$1,500 for fiscal year 2012. For the 12% ownership, preshutdown costs were funded by AEP's ratepayers; preshutdown decommissioning expenses for this ownership totaled \$636 for fiscal year 2012.

Excluding securities lending cash collateral, as of December 31, 2011, CPS Energy had accumulated approximately \$308,700 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, the date of the most recent calculation.

The March 2008 cost study estimated decommissioning costs for the 12.0% ownership in STP Units 1 and 2 at \$165,600 in 2007 dollars. Excluding securities lending cash collateral, as of December 31, 2011, approximately \$106,100 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, the date of the most recent calculation.

CPS Energy accounts for decommissioning by recognizing a liability and expense for a pro rata share of projected decommissioning costs as determined by the most recent cost study. A new cost study is performed every five years, and in years subsequent to the latest study, estimated annual decommissioning expense and an increase in the liability is calculated by applying the effects of inflation and the ration of years of plant usage to total plant life. Additionally, guidance under FASB Statement 71, *Accounting for the Effects of Certain Types of Regulation*, is followed to retain the zero fund net assets approach to accounting for the Decommissioning Trusts.

Both Decommissioning Trusts have separate calendar-year financial statements, which are separately audited and can be obtained by contacting the Controller at CPS Energy.

Notes to Financial Statements

Note 10 CPS Energy South Texas Project (STP) (Continued)

STP Pension Plan and Other Postretirement Benefits

STP maintains a noncontributory defined-benefit pension plan covering most employees. Retirement benefits are based on length of service and compensation. Plan assets are invested in various equity and fixed-income securities. Pension contributions totaling \$27,700 were made in fiscal year 2011 of which \$12,000 related to the 2011 plan year, while \$15,700 related to the 2010 plan year. Contributions totaling \$8,700 were made in fiscal year 2010, of which approximately \$8,200 related to the 2010 plan year, while approximately \$500 related to plan year 2009. A final contribution of \$16,300 for plan year 2011 was made in the first quarter of 2012 in order to meet minimum funding requirements and maintained the targeted adjusted funding target attainment percentage.

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 were also to be 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 \$17,056 for fiscal year 2012 and was reflected as a decrease in Other Changes in Fund Net Assets on the statements of revenues, expenses and changes in fund net assets.

Employees whose annual 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.

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.

Notes to Financial Statements

Note 10 CPS Energy South Texas Project (STP) (Continued)

STP Pension Plan and Other Postretirement Benefits (Continued)

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear 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.

| Schedule of Funding Status (RSI-Unaudited) Calendar Year 2011 | | |
|--|--------------------|--------------------|
| | Pension Benefits | Other Benefits |
| Change in Benefit Obligation: | | |
| Benefit Obligation - Beginning | \$ 309,100 | \$ 102,105 |
| Service Cost | 9,651 | 9,136 |
| Interest Cost | 16,846 | 5,301 |
| Actuarial Loss | 23,876 | 7,975 |
| Benefits Paid | (5,056) | (3,063) |
| Benefit Obligation - Ending | 354,417 | 121,454 |
| Change in Plan Assets: | | |
| Fair Value of Plan Assets - Beginning | 183,314 | 10,635 |
| Actual Return on Plan Assets | (3,795) | 368 |
| Employer Contributions | 27,666 | 2,673 |
| Benefits Paid | (5,056) | (3,063) |
| Fair Value of Plan Assets - Ending | 202,129 | 10,613 |
| Funded Status - Ending | (152,288) | (110,841) |
| Unrecognized Net Actuarial Loss | 135,464 | 44,741 |
| Unrecognized Prior Service Cost | 4,410 | (9,171) |
| Unrecognized Transition Obligation | | 141 |
| Net Amount Recognized | (12,414) | (75,130) |
| Accrued Benefit Cost | \$ (12,414) | \$ (75,130) |
| Weighted-Average Assumptions: | | |
| Discount Rate | 5.2% | 5.1% |
| Expected Return on Plan Assets | 7.8% | 7.8% |
| 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, 2012. Grants awarded by federal, state, and other governmental agencies but not yet earned as of September 30, 2012 were \$56,594.

Capital Improvement Program

The City will be undertaking various capital improvements during fiscal year 2013. The estimated cost of these improvements is \$636,336, which consist of the following:

| Function/Program | FY 2013 |
|---|-------------------|
| General Government | |
| Information Technology | \$ 10,400 |
| Municipal Facilities | 120,344 |
| Total General Government | \$ 130,744 |
| Public Health & Safety | |
| Drainage | \$ 97,622 |
| Fire Protection | 11,559 |
| Law Enforcement | 11,160 |
| Total Public Health & Safety | \$ 120,341 |
| Recreation & Culture | |
| Libraries | \$ 6,571 |
| Parks | 97,962 |
| Total Recreation & Culture | \$ 104,533 |
| Transportation | |
| Air Transportation | \$ 68,782 |
| Street | 211,936 |
| Total Transportation | \$ 280,718 |
| Total Capital Plan | \$ 636,336 |

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 estimate of incurred but not reported claims, is recorded in the Insurance Reserve Fund in the amount \$26,055. The City estimates the amounts of unsettled claims under its self-insurance program and believes that the self-insurance reserves recorded as appropriations 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 basic financial statements cannot be determined.

Koplow 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 with a favorable ruling for the Plaintiff, but the City's motion for a new trial was granted. After a retrial, the jury awarded approximately \$600 to the Plaintiff for the inverse condemnation and statutory condemnation. The City and the 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 2011 and the City filed its reply in December 2011. On March 9, 2012, the Texas Supreme Court accepted the petition for review. Oral argument was heard on September 13, 2012. The parties are awaiting the Court's ruling.

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. In December 2011, the Court granted the City's motion for summary judgment. The Defendant officer filed an interlocutory appeal with the Fifth Circuit Court of Appeals on January 27, 2012. If the Fifth Circuit affirms the denial of the officers' 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. 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. 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 June 13, 2013.

Note 11 Commitments and Contingencies (Continued)**Primary Government (City) (Continued)****Litigation (Continued)**

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 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. Damages are capped by the Texas Tort Claims Act at \$250. This case is set for trial on July 15, 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. Damages are capped by the Texas Tort Claims Act at \$250. This matter was set for trial in February 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 June 10, 2013.

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. This case is set for trial June 10, 2013.

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.

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 in 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. Total damages, including lost wages, pain and suffering may reach \$250. The case is in the discovery stage and scheduled for trial on June 3, 2013.

San Juana Salas v. City of San Antonio City pickup truck rear-ended another vehicle in which Plaintiff was a passenger. Liability is disputed. Plaintiff has accrued approximately \$65, in past medical expenses, with expected future medical expenses of over \$190. Plaintiff also seeks pain and suffering damages. This matter is currently set for trial October 15, 2013.

Note 11 Commitments and Contingencies (Continued)**Primary Government (City) (Continued)****Litigation (Continued)**

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 City's Zero Tolerance/Violence in the Workplace policy; however, termination did not occur for several months after 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 recover for due process violations under the U. S. 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. This case is not yet set for trial.

Valemas v. City of San Antonio In 2005, Plaintiff entered into a construction contract with the City for work at the City's Brackenridge Park. Plaintiff alleges that it experienced delays in the work due to actions of the City, resulting in damages to Plaintiff. Plaintiff filed suit alleging breach of contract. The City sought to have some of the claims dismissed for want of jurisdiction which was denied. The City appealed to the Fourth Court of Review, which upheld the denial. The City has filed a petition for review with the Texas Supreme Court. The Supreme Court has requested a response to the petition. If the petition is denied and the case is tried, damages could exceed \$250.

L. Payne Construction v. City of San Antonio Plaintiff was a subcontractor to Valemas, Inc. on a construction contract for work on Clark Avenue in San Antonio. Plaintiff alleges that it did not receive final payment and that it is entitled to delay damages in excess of \$500. Issues in this case are closely related to the issues in the Valemas case listed above and thus the City is awaiting final ruling by the Texas Supreme Court in Valemas before proceeding in this litigation.

Lisandro Ramirez v. City of San Antonio and San Antonio Police Officer San Antonio police officers were called to a motel for a disturbance of the peace due to an apparent party in one of the rooms. Plaintiff was in the motel room. He alleges that although he was "polite and respectful," a San Antonio police officer used excessive force in restraining him. Plaintiff alleges that the officer threw him head first into a wall, causing him to suffer severe injuries to his skull. Plaintiff alleges that the officer had prior incidents of use of excessive force that put the City on notice of his propensity to use such force. If Plaintiff is successful, his damages could exceed \$250. This is a relatively new case and discovery has not yet begun.

Katherine Calvillo v. City of San Antonio Plaintiff was a passenger in a vehicle struck by a San Antonio police patrol vehicle exiting a private drive. Plaintiff suffered severe injuries to her neck and back. Plaintiff alleges that she will have to undergo extensive surgery in the future due to these injuries. Plaintiff's damages could reach the Texas Tort Claims Act damages cap of \$250. This case is set for trial on May 13, 2013.

Note 11 Commitments and Contingencies (Continued)**Primary Government (City) (Continued)****Litigation (Continued)**

Silverado Bros. Construction Co. v. AT&T et. al. Plaintiff contracted with the City for construction work on certain streets and sidewalks. The construction contract indicated that all utility lines would be marked. When construction began, it was discovered that certain utility lines owned by AT&T were not located where they had been reported to be. Construction work stopped while AT&T, through their contractor Bay Builders, moved the lines. However, the lines were improperly moved and work was stopped a second time to allow correction of this error. Silverado Bros filed suit against AT&T and Bay Builders seeking compensation for damages caused by the delay. In December 2012, Silverado Bros amended the suit to include the City as a party, alleging that the City violated the contract because the lines were not properly marked. Plaintiff claims damages in excess of \$800. This matter is set for trial on November 4, 2013.

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 from operating leases received for the fiscal year-ended September 30, 2012 was \$10,458 for Governmental Activities, \$43,900 for the Airport System, \$106 for Solid Waste Management, and \$1,132 for Nonmajor Enterprise. As of September 30, 2012, the leases provide for the following future minimum rentals:

| | Leases Revenues | | | | |
|----------------------------------|----------------------------|-------------------|---------------------------|------------------------|------------|
| | Governmental Activities | Airport System | Solid Waste Management | Nonmajor Enterprise | Total |
| Fiscal year ending September 30: | | | | | |
| 2013 | \$ 6,555 | \$ 40,014 | \$ 109 | \$ 1,121 | \$ 47,799 |
| 2014 | 6,238 | 30,076 | 100 | 840 | 37,254 |
| 2015 | 6,081 | 28,616 | 100 | 98 | 34,895 |
| 2016 | 3,478 | 8,489 | 50 | 84 | 12,101 |
| 2017 | 3,118 | 8,254 | | 84 | 11,456 |
| 2018-2022 | 7,824 | 25,571 | | 422 | 33,817 |
| 2023-2027 | 4,346 | 12,066 | | 141 | 16,553 |
| 2028-2032 | 1,311 | 3,796 | | | 5,107 |
| 2033-After | 301 | 1,122 | | | 1,423 |
| Future Minimum Lease Rental | \$ 39,252 | \$ 158,004 | \$ 359 | \$ 2,790 | \$ 200,405 |

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 projected 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 for the Nelson Gardens Landfill is recorded as a liability and expensed in the Solid Waste Management Fund. 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, 2012 resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of \$2,044. This represents a decrease of \$1 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 demonstrate financial responsibility for underground storage petroleum facilities. Based on the number of underground petroleum storage tanks the City possesses, 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.

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. Annual reductions to BDA's obligation are made 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 obligations each will be reduced equally. To date, CPS Energy has invested \$7,681 and BDA met its \$4,200 obligation, net of annual interest.

Note 11 Commitments and Contingencies (Continued)**Primary Government (City) (Continued)****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, 2012, the City has no arbitrage liability for its governmental or proprietary funds.

CPS Energy**Litigation**

In the normal course of business, CPS Energy is involved in legal proceedings related to alleged personal and property damages, breach of contract, condemnation appeals, and discrimination cases. In addition, CPS Energy's power generation activities and other utility operations are subject to extensive state and federal environmental regulation. In the opinion of CPS Energy's management, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS Energy.

Leases

Capital Leases – CPS has no capital leases for fiscal year 2012.

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 building lease was terminated in February 2012 as CPS Energy entered into an agreement to purchase the building. The leases for the parking lot space and several of the leases for office space also 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:

| <u>Year Ended January 31,</u> | <u>Operating Lease Payments</u> |
|-------------------------------------|-------------------------------------|
| 2013 | \$ 7,403 |
| 2014 | 5,523 |
| 2015 | 3,302 |
| 2016 | 940 |
| Total future minimum lease payments | <u>\$ 17,168</u> |

Note 11 Commitments and Contingencies (Continued)**CPS Energy (Continued)****Leases (Continued)**

CPS Energy's minimum lease payments for all operating leases for which CPS Energy was the lessee amounted to \$8,100 in fiscal year 2012. There were no contingent lease or sublease payments in fiscal year 2012.

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.

The future minimum lease receipts to CPS Energy for noncancelable operating leases with terms in excess of one year were as follows:

| <u>Year Ended January 31,</u> | <u>Operating Lease Receipts</u> |
|-------------------------------------|-------------------------------------|
| 2013 | \$ 3,023 |
| 2014 | 3,046 |
| 2015 | 2,468 |
| 2016 | 2,434 |
| 2017 | 2,478 |
| Later years | 8,077 |
| Total future minimum lease receipts | <u>\$ 21,526</u> |

CPS Energy's minimum lease receipts for all operating leases for which CPS Energy was the lessor amounted to \$9,500 in fiscal year 2012. Contingent lease receipts amounted to \$366 for fiscal year 2012. There were no sublease receipts in fiscal year 2012.

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.

Note 11 Commitments and Contingencies (Continued)**CPS Energy (Continued)****Leases (Continued)**

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 2012, the net amount recorded as income by CPS Energy was \$2,800.

Other

Purchase and construction commitments amounted to approximately \$6,872,038 at January 31, 2012. This amount includes construction commitments, provisions for coal purchases through December 2021, coal transportation through December 2014 and natural gas purchases through June 2027; the actual amount to be paid will depend on CPS Energy's actual requirements during the contract period and the price of gas. Also included, are provisions for wind power through December 2037, solar power through December 2040, landfill power through December 2028 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.

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 \$6,872,038 purchase and construction commitments amount.

Note 11 Commitments and Contingencies (Continued)**CPS Energy (Continued)****Other (Continued)**

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 \$2,742 as of January 31, 2012.

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. Annual reductions to BDA's obligation are made 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 \$7,681 and BDA has met its \$4,192 obligation, net of annual interest.

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 investment made through January 31, 2012 was \$1,800 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 that will expire in 2013 and 2016; and the volumes committed under these agreements represent less than 2.0% of current capacity. CPS Energy has four additional agreements covering the period from 2016 through 2023. As of 2016, the combined long-term wholesale power supply agreements will represent less than 7.0% of current capacity. CPS Energy regularly monitors the market values of these transactions to manage contract provisions with the counterparties.

Note 11 Commitments and Contingencies (Continued)**CPS Energy (Continued)****Other (Continued)**

On June 20, 2011, CPS Energy announced its New Energy Economy initiative. The program is designed to focus on more clean energy sources rather than traditional energy sources and includes several major initiatives to which CPS Energy has committed (current commitments are included in the aforementioned \$6,900,000):

- CPS Energy's customers will have the opportunity to manage their home energy use through a Home Area Network system referred to as Energy Guard. A pilot program is currently under way with plans to expand the offering to up to 140,000 homes and businesses by 2015. Home area networks work with smart meters to provide up-to-the-minute energy use information and allow demand-side management to reduce energy consumption on the customer premise. The deployment may be partially funded through the Save for Tomorrow Energy Program (STEP) and has the potential to reduce electrical demand by 250 megawatts ("MW") over the next four years.
- CPS Energy will replace 25,000 San Antonio street lights with light-emitting diode ("LED") street lights. The lights will be purchased from GreenStar, a worldwide supplier of LED lighting. The LED street lights use 60.0% less energy than standard sodium lights and are designed to last 12 to 15 years, reducing maintenance costs.
- In November 2011, a contract was entered into with SunEdison, which converted CPS Energy's power purchase agreements for 30 MW of solar energy at three facilities in the San Antonio area to a \$77,000 prepayment for approximately 60.0% of the anticipated output. The purchase of the balance of the output will be on a pay-as-you-go basis. As part of the agreement, CPS Energy has the right to purchase the facilities in the future.
- In December 2011, a contract was entered into with Summit Texas Clean Energy, LLC to provide CPS Energy with 200 MW of clean-coal power utilizing integrated gasification combined cycle technology along with 90.0% carbon capture from the first-of-its-kind power plant in West Texas. The power plant, which was expected to break ground in 2012, is projected to be completed in 2015.

Save for Tomorrow Energy Program (STEP)

CPS Energy has projected to spend approximately \$849,000 over a 12-year period on energy efficiency and conservation through STEP. Contributing towards its goal to save 771 MW by 2020, CPS Energy's programs include home weatherization, higher efficiency light bulbs, solar rebates, peak saver thermostats, home area networks and other such initiatives.

Annually, approximately \$8,000 of the STEP expenses are funded through the electric base rate and 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 are deferred as STEP net costs recoverable in accordance with guidance provided by FASB Statement No. 71. This guidance requires that certain costs be capitalized as a regulatory asset until they are recovered through future rates.

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 \$6,794 at December 31, 2011. 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 orally notified by Region 6 of the EPA 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 (the "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 thirteen occasions, with the Thirteenth Tolling Agreement currently set to expire on February 11, 2013. Since 2007, SAWS has engaged in settlement negotiations with the EPA and the DOJ to resolve the allegations. Negotiations with the EPA/DOJ are ongoing and may conclude in the first quarter of calendar year 2013. While these negotiations are ongoing, SAWS expects that any settlement, consent decree, or enforcement action will result in the imposition of a civil penalty and 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 the first quarter of calendar year 2013.

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Notes to Financial Statements

Note 11 Commitments and Contingencies (Continued)

San Antonio Water System (SAWS) (Continued)

Other

As of December 31, 2011, 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 2012 and others continuing until 2021. Some of the leases include price escalations and the average annual cost per acre foot ranges from \$119 to \$143 (these figures are not in thousands). The future commitments under these leases are as follows:

| | 2012 | 2013 | 2014 | 2015 | 2016 | Thereafter |
|-------------------------------|----------|----------|----------|----------|----------|------------|
| Lease obligations | \$ 4,735 | \$ 3,927 | \$ 2,170 | \$ 1,421 | \$ 1,435 | \$ 7,237 |
| Lease obligations (acre feet) | 35,336 | 24,419 | 17,625 | 17,425 | 15,794 | 51,588 |

SAWS has various commitments relating to the production of water supplies. A summary of these commitments is provided in the following table. As with any estimates, the actual amounts paid could differ materially.

| | 2012 | 2013 | 2014 | 2015 | 2016 | Thereafter |
|--|----------|----------|----------|----------|----------|------------|
| Firm purchased water obligations | \$ 4,924 | \$ 5,021 | \$ 5,119 | \$ 5,218 | \$ 5,558 | \$ 115,722 |
| Firm purchased water obligations (acre feet) | 6,700 | 6,700 | 6,700 | 6,700 | 6,700 | 94,800 |
| Variable purchased water obligations | \$ 3,696 | \$ 3,598 | \$ 3,492 | \$ 3,092 | \$ 6,919 | \$ 90,848 |
| Variable purchased water obligations (acre feet) | 4,507 | 4,267 | 4,027 | 3,423 | 7,726 | 83,802 |

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 2012-2037 at prices ranging from \$891 to approximately \$1,509 per acre foot. SAWS has an option to extend this contract until 2077 under new payment terms. (Figures in this paragraph are not in thousands.)

In 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 that are connected to the system 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.

Notes to Financial Statements

Note 11 Commitments and Contingencies (Continued)

San Antonio Water System (SAWS) (Continued)

Other (Continued)

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, 2011, SAWS was 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.

| | 2012 | 2013 | 2014 | 2015 | 2016 | Thereafter |
|---------------------------------|--------|--------|--------|--------|--------|------------|
| Required minimum water payments | \$ 700 | \$ 824 | \$ 865 | \$ 891 | \$ 918 | \$ 15,736 |
| Projected additional payments | | | 319 | 328 | 338 | 4,471 |
| Produced water (acre feet) | | | 11,688 | 11,688 | 11,688 | 151,944 |

SAWS is also committed under various contracts for completion of construction or acquisition of utility plant totaling approximately \$240,000 as of December 31, 2011. Funding of this amount will come from excess revenues, contributions from developers, restricted assets and available commercial paper capacity.

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 10/1/2011 | Additions | Deletions | Balance at 9/30/2012 |
|---------------------------|-------------------------|-----------|-----------|-------------------------|
| Governmental Activities: | | | | |
| Liabilities | \$ 1,545 | \$ 537 | \$ (549) | \$ 1,533 |
| Construction in Progress | 861 | 492 | (170) | 1,183 |
| Business-Type Activities: | | | | |
| Liability | \$ 1,040 | \$ - | \$ - | \$ 1,040 |

Note 12 Pollution Remediation Obligation**Primary Government (City)**

The Governmental Activities' liabilities were a result of cost estimates to clean existing pollution found on land acquired by the City's Capital Improvement Management Services 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 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 City had no additional pollution remediation costs in the Airport System Fund, Solid Waste Management Fund or Business-Type Activities as of September 30, 2012.

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 remediating 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.

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 \$3,488 as of January 31, 2012. 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, 2011.

Note 13 Risk Financing**Primary Government (City)****Property and Casualty Liability**

FM Global Insurance Company provides coverage for the City's real property and contents. The City's deductible for property damage is \$100 and the insurance will reimburse up to \$1,000,000. There was a reduction in the policy limit for property coverage of \$1,500,000. The risk of a loss exceeding \$1,000,000 in one year was deemed negligible and was balanced by the more advantageous terms and conditions offered by this carrier.

As of September 30, 2012, 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 \$1,000 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. 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. Claims settlements have not exceeded insurance coverage limits for the past three years.

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-insured. 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 employees who are eligible to retire from the TMRS Pension Plan immediately following severance 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.

Note 13 Risk Financing (Continued)**Primary Government (City) (Continued)****Extended Sick Leave Program**

The Extended Sick Leave Program is used to pay benefits associated with short term disability, long term disability and continued long term disability. 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 to provide primary, pre-employment and promotional exams to active employees. Additionally, the City provides every employee and member 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.

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 2.0% 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 discount rate used in prior fiscal years was 3.0%.

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Note 13 Risk Financing (Continued)**Primary Government (City) (Continued)****Claims Liability (Continued)**

The following is a summary of changes in claims liability for the City's Insurance Reserve, Employee Health Benefits, and Workers' Compensation Programs Funds for the fiscal year-ended September 30, 2012:

| <u>Fund</u> | <u>October 1,</u> | <u>Estimates</u> | <u>Claims</u> | <u>Payments</u> | <u>September 30,</u> |
|--|-------------------|------------------|---------------|-----------------|----------------------|
| Insurance Reserve¹: | | | | | |
| Fiscal Year 2011 | \$ 23,135 | \$ (1,590) | \$ 5,259 | \$ (5,259) | \$ 21,545 |
| Fiscal Year 2012 | 21,545 | 4,510 | 3,252 | (3,252) | 26,055 |
| Employee Health Benefits²: | | | | | |
| Fiscal Year 2011 | \$ 8,365 | \$ (496) | \$ 87,068 | \$ (87,068) | \$ 7,869 |
| Fiscal Year 2012 | 7,869 | 1,091 | 90,751 | (90,751) | 8,960 |
| Workers' Compensation: | | | | | |
| Fiscal Year 2011 | \$ 27,920 | \$ 1,534 | \$ 12,333 | \$ (12,333) | \$ 29,454 |
| Fiscal Year 2012 | 29,454 | 3,780 | 8,938 | (8,938) | 33,234 |

¹ FY12 fund financial claims expense reflects an additional \$64 paid for claims handled outside of reserves.

² FY12 fund financial claims expense reflects an additional \$401 paid for Unemployment Claims that are not included in the calculation of claims liability.

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 \$6,100,000 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 and 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 CPS Energy insurance reserve retentions. Actuarial valuations include nonincremental claims expenses. An actuarial study was performed during the third quarter of fiscal year 2012.

Note 13 Risk Financing (Continued)**CPS Energy (Continued)**

In the following table, the remaining balance under the property reserves column at January 31, 2012, relates to estimated obligations for the cleanup, 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.

| Fund | Schedule of Changes in Claims Liability | | | |
|---------------------------------------|---|-----------------------|--------------------|--------------------------|
| | Liability February 1, | Claims Adjustments | Claims Payments | Liability January 31, |
| Property Reserves: | | | | |
| Fiscal Year 2011 | \$ 3,904 | \$ 344 | \$ - | \$ 4,248 |
| Fiscal Year 2012 | 4,248 | 258 | | 4,506 |
| Employee and Public Liability Claims: | | | | |
| Fiscal Year 2011 | \$ 10,363 | \$ 6,343 | \$ (4,427) | \$ 12,279 |
| Fiscal Year 2012 | 12,279 | 7,549 | (5,413) | 14,415 |

Counterparty Risk – CPS Energy is exposed to counterparty risk associated with various transactions primarily related to debt, investments, fuel hedging, a lease/leaseback transaction, suppliers 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.

Fuel 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.

Note 13 Risk Financing (Continued)**CPS Energy (Continued)**

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, 2012, and were determined to be effective in substantially offsetting the changes in cash flows of the hedgeable items. These hedging derivative instruments utilize natural gas forwards 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, 0.97 and 0.99, 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.

As of January 31, 2012, the total fair value of outstanding hedge instruments was a net liability of \$27,673. Fuel hedging instruments with a fair value of \$(17,380) 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 \$(10,293) are reported as a noncurrent liability and classified as a component of other liabilities and deferred credits.

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 \$19,735 at January 31, 2012. 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 \$16,184 at January 31, 2012. These amounts are reported on the balance sheet as noncurrent assets and are classified as Deferred Outflows Derivative Instrument.

Note 13 Risk Financing (Continued)**CPS Energy (Continued)**

Following is information related to CPS Energy's outstanding fuel hedging derivative instruments:

| Fuel Derivative Transactions as of January 31, 2012 | | | | | |
|---|-------------------------|---------------------|---------------------|--------------------|--------------------------|
| Type of Transaction | | Duration | Volumes in MMBTU | Fair Value | Changes in Fair Value |
| Long | Call | Apr 2013 - Jan 2015 | 4,086,118 | \$ 672 | \$ (1,532) |
| Long | Fixed Price Natural Gas | Feb 2012 - Jan 2015 | 18,589,958 | (40,805) | (26,922) |
| Long | Put | Apr 2012 - Mar 2014 | 14,954,715 | 12,460 | 6,222 |
| | | | | <u>\$ (27,673)</u> | <u>\$ (22,232)</u> |

In the event purchased options are allowed to expire, the related premiums paid to acquire those options will be lost. When a short position is established and options are sold, premiums are received and an obligation to honor the terms of the option contract, if exercised, is created. The decision to exercise the options or let them expire rests with the purchasing party.

Futures contracts represent a firm obligation to buy or sell the underlying asset. If held to expiration, the contract holder must take delivery of, or deliver, the underlying asset at the established contract price. Basis swap contracts represent a financial obligation to buy or sell the underlying delivery point basis. If held to expiration, the financial difference determined by mark-to-market valuation must be settled on a cash basis. 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 Revenue Rights (PCRR) and Congestion Revenue Rights (CRR) as a hedge against unexpected congestion costs. The CRRs are purchased at auction, annually and monthly, at market value. Municipally owned utilities are granted the right to purchase PCRRs annually at a percentage of the cost of CRRs. While PCRRs exhibit the three characteristics of derivatives as defined in GASB Statement No. 53, they are generally used by CPS Energy as factors in the cost of transmission. Therefore, these PCRRs meet the normal purchases and sales scope exception and are reported on the balance sheets at cost and classified as prepayments. From time to time, CPS Energy purchases PCRRs and sells them at the same auction at market price. In this case, the PCRRs are considered investments, and the gain is reported as investment income. In fiscal year 2012, gains on the sale of PCRRs totaled \$4,400.

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 investment grade, 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, 2012, the exposure to all hedge-related counterparties was such that no counterparty credit risk existed.

Note 13 Risk Financing (Continued)**CPS Energy (Continued)**

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.

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 2012, the HSC price was \$3.04 per MMBtu, the WAHA price was \$3.04 per MMBtu, and the Henry Hub price was \$3.08 per MMBtu.

San Antonio Water System (SAWS)**Risk Management**

SAWS provides health care benefits to eligible employees and retirees through a self-insured plan that includes medical, prescription drug and dental benefits. The payment of claims associated with these benefits is handled by third party administrators. Plan participants contribute a portion of the cost of providing these benefits through payroll deductions or monthly premiums, annual deductibles and other co-payments. SAWS was self-insured for the first \$200 of medical claims per person during 2011.

SAWS is exposed to various risks of financial 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, 2011, there were no reductions in insurance coverage from the previous year. Settled claims during the last three years have not exceeded the insurance coverage in any year.

The claims liability for health care benefits and other risks, 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 (Restated) | Estimates | Claims and Payments | Balance at End of Fiscal Year | Estimated Due Within One Year |
| December 31, 2011 | \$ 8,526 | \$ 24,691 | \$ (22,650) | \$ 10,567 | \$ 10,565 |
| December 31, 2010 | \$ 8,221 | \$ 24,997 | \$ (21,692) | \$ 11,526 | \$ 8,526 |

Note 13 Risk Financing (Continued)**San Antonio Water System (SAWS) (Continued)**

Pay-Fixed, Receive-Variable Interest Rate Swap – On March 27, 2003, SAWS entered into an interest rate swap agreement in connection with its City of San Antonio, Texas Water System Subordinate Lien Revenue and Refunding Bonds, Series 2003-A and 2003-B (the Series 2003 Bonds) issued in a variable interest rate mode. The Series 2003 Bonds were issued to provide funds for the SAWS' Capital Improvement Program and to refund certain outstanding commercial paper notes.

The swap was used to hedge interest rates on the Series 2003 Bonds to a synthetic fixed rate that produced a lower expected interest rate cost than traditional long-term fixed rate bonds. 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, 2011, \$103,810 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 \$24,200 at December 31, 2011. 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.

Note 13 Risk Financing (Continued)**San Antonio Water System (SAWS) (Continued)**

The swap agreement meets the criteria of an effective hedge under GASB Statement 53 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.

Credit Risk – As of December 31, 2011, 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 'Aa1' by Moody's Investors Service, 'A+' by Standard & Poor's, and 'AA-' by Fitch Ratings as of December 31, 2011. 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 \$103,810 of variable-rate debt hedged by the swap is outstanding commercial paper notes with current maturities less than 38 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, 2011, 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.

Notes to Financial Statements

Note 13 Risk Financing (Continued)

San Antonio Water System (SAWS) (Continued)

| 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 |
| 2012 | \$ 2,840 | \$ 188 | \$ 4,158 | \$ 7,186 |
| 2013 | 2,970 | 183 | 4,039 | 7,192 |
| 2014 | 3,105 | 177 | 3,914 | 7,196 |
| 2015 | 3,245 | 171 | 3,783 | 7,199 |
| 2016 | 3,395 | 165 | 3,647 | 7,207 |
| 2017-2021 | 19,435 | 723 | 15,960 | 36,118 |
| 2022-2026 | 24,300 | 520 | 11,484 | 36,304 |
| 2027-2031 | 30,355 | 267 | 5,890 | 36,512 |
| 2032-2033 | 14,165 | 22 | 488 | 14,675 |
| Total | \$ 103,810 | \$ 2,416 | \$ 53,363 | \$ 159,589 |

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Notes to Financial Statements

Note 14 Interfund Transfers

The following is a summary of interfund transfers for the City for the fiscal year-ended September 30, 2012:

| Summary Table of Interfund Transfers Year-Ended September 30, 2012 | | |
|---|-------------------------------|-----------------------------|
| | Transfers From Other Funds | Transfers To Other Funds |
| General Fund: | | |
| Categorical Grant-In-Aid | \$ - | \$ 6,822 |
| Airport System Fund | 199 | |
| Solid Waste Management Fund | 800 | 173 |
| Internal Service Funds | 3,930 | 7,863 |
| Nonmajor Governmental Funds | 10,523 | 28,524 |
| Nonmajor Enterprise Funds | 3,425 | 4,258 |
| Total General Fund | 18,877 | 47,640 |
| Debt Service Fund: | | |
| Internal Service Funds | 1,042 | |
| Nonmajor Governmental Funds | 24,144 | |
| Total Debt Service Fund | 25,186 | |
| Categorical Grant-In-Aid: | | |
| General Fund | 6,822 | |
| Nonmajor Governmental Funds | 695 | 2,420 |
| Nonmajor Enterprise Funds | 2 | |
| Total Categorical Grant-In-Aid | 7,519 | 2,420 |
| 2007 General Obligation Bonds: | | |
| Nonmajor Governmental Funds | | 111,042 |
| Total 2007 General Obligation Bonds | | 111,042 |
| Airport System Fund: | | |
| General Fund | | 199 |
| Total Airport System Fund | | 199 |
| Solid Waste Management Fund: | | |
| General Fund | 173 | 800 |
| Nonmajor Governmental Funds | 82 | 1,297 |
| Total Solid Waste Management Fund | 255 | 2,097 |

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Notes to Financial Statements

Note 14 Interfund Transfers (Continued)

| Summary Table of Interfund Transfers (Continued) Year-Ended September 30, 2012 | | |
|---|-------------------------------|-----------------------------|
| | Transfers From Other Funds | Transfers To Other Funds |
| Internal Service Funds: | | |
| General Fund | \$ 7,863 | \$ 3,930 |
| Debt Service Fund | | 1,042 |
| Internal Service Funds | 159 | 159 |
| Nonmajor Governmental Funds | 25 | 468 |
| Nonmajor Enterprise Funds | | 51 |
| Total Internal Service Funds | 8,047 | 5,650 |
| Nonmajor Governmental Funds: | | |
| General Fund | 28,524 | 10,523 |
| Debt Service Fund | | 24,144 |
| Categorical Grant-In-Aid | 2,420 | 695 |
| 2007 General Obligation Bonds | 111,042 | |
| Solid Waste Management Fund | 1,297 | 82 |
| Internal Service Funds | 468 | 25 |
| Nonmajor Governmental Funds | 173,253 | 173,253 |
| Nonmajor Enterprise Funds | | 3 |
| Total Nonmajor Governmental Funds | 317,004 | 208,725 |
| Nonmajor Enterprise Funds: | | |
| General Fund | 4,258 | 3,425 |
| Categorical Grant-In-Aid | | 2 |
| Internal Service Funds | 51 | |
| Nonmajor Governmental Funds | 3 | |
| Nonmajor Enterprise Funds | 281 | 281 |
| Total Nonmajor Enterprise Funds | 4,593 | 3,708 |
| Total | \$ 381,481 | \$ 381,481 |

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.

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Notes to Financial Statements

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 | Nonmajor Governmental Funds | Total Governmental Funds |
|---|--------------|-------------------|--------------------------|-------------------------------|-----------------------------|--------------------------|
| Fund Balances: | | | | | | |
| Nonspendable: | | | | | | |
| In nonspendable form: | | | | | | |
| Materials and Supplies | \$ 5,324 | \$ - | \$ 530 | \$ - | \$ 138 | \$ 5,992 |
| Prepaid, Deposits and Other | 476 | | 134 | | 792 | 1,402 |
| Legally or contractually intact: | | | | | | |
| Permanent Fund Corpus | | | | | 3,641 | 3,641 |
| Total Nonspendable | 5,800 | | 664 | | 4,571 | 11,035 |
| Restricted for: | | | | | | |
| General Government | | | | | 17,758 | 17,758 |
| Public Safety | | | 344 | | 3,330 | 3,674 |
| Public Works | | | | | 44,092 | 44,092 |
| Health Services | 135 | | | | 938 | 1,073 |
| Welfare | 14 | | | | 88 | 102 |
| Culture and Recreation | 748 | | | | 58,453 | 59,201 |
| Urban Redevelopment and Housing | 30 | | | | 731 | 761 |
| Economic Development and Opportunity | 76 | | | | 10,634 | 10,710 |
| Capital Projects | | | | 206,011 | 199,481 | 405,492 |
| Debt Service | | 86,360 | | | 37,310 | 123,670 |
| Total Restricted | 1,003 | 86,360 | 344 | 206,011 | 372,815 | 666,533 |
| Committed: | | | | | | |
| General Government | 9,961 | | | | 1,179 | 11,140 |
| Public Safety | 4,060 | | | | 80 | 4,140 |
| Public Works | 28,368 | | | | | 28,368 |
| Health Services | 583 | | | | | 583 |
| Welfare | 1,810 | | | | | 1,810 |
| Culture and Recreation | 933 | | | | 988 | 1,921 |
| Urban Redevelopment and Housing | | | | | 20,872 | 20,872 |
| Economic Development and Opportunity | 1,320 | | | | | 1,320 |
| Capital Projects | | | | | 54,085 | 54,085 |
| Total Committed | 47,035 | | | | 77,204 | 124,239 |
| Assigned: | | | | | | |
| General Government | 3,600 | | | | | 3,600 |
| Public Safety | 15 | | | | | 15 |
| Public Works | | | | | 1,143 | 1,143 |
| Health Services | 504 | | | | | 504 |
| Welfare | 15 | | | | | 15 |
| Culture and Recreation | 3 | | | | 387 | 390 |
| Urban Redevelopment and Housing | | | | | 10,800 | 10,800 |
| Economic Development and Opportunity | 6 | | | | | 6 |
| Total Assigned | 4,143 | | | | 12,330 | 16,473 |
| Unassigned | 158,532 | | | | (36,129) | 122,403 |
| Total Fund Balance | \$ 216,513 | \$ 86,360 | \$ 1,008 | \$ 206,011 | \$ 430,791 | \$ 940,683 |

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Notes to Financial Statements

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 | Nonmajor Governmental Funds | Total Governmental Funds |
|---------------------------|------------------|-------------------|--------------------------|-------------------------------|-----------------------------|--------------------------|
| Encumbrances: | | | | | | |
| Restricted | \$ - | \$ - | \$ 18,325 | \$ 209,661 | \$ 226,105 | \$ 454,091 |
| Committed | 33,559 | | | | 27,647 | 61,206 |
| Assigned | | | | | 7,088 | 7,088 |
| Unassigned | | | | | 193,169 | 193,169 |
| Total Encumbrances | <u>\$ 33,559</u> | <u>\$ -</u> | <u>\$ 18,325</u> | <u>\$ 209,661</u> | <u>\$ 454,009</u> | <u>\$ 715,554</u> |

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 are 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, 2012 was \$85,328. 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.

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Notes to Financial Statements

Note 16 Deficits in Fund Balances / Net Assets

Special Revenue Funds

As of September 30, 2012, deficit fund balances are reported in the American Recovery Reinvestment Act (ARRA) and the Community Development Program Fund in the amounts of \$2,372 and \$303 respectively. The deficit balance in ARRA was because funds were expended and met other eligibility criteria for revenue recognition, but were not received within 60 days of fiscal year-end and were deferred. The City anticipates this deficit to be remediated through collections in the next fiscal year. 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 incorporated this deficit into the fiscal year 2013 annual budget process which was funded in October 2012.

Capital Projects Funds

As of September 30, 2012, deficit fund balances are reported in the General Obligation Projects Fund, Certificates of Obligation Projects Fund, Improvement Projects, and Equipment Acquisition Fund in the amounts of \$19,426, \$6,525, \$6,144 and \$1,231 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 debt obligations 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 debt authorization (when sold), operating funds, grants, and/or by billing and collecting contributions from third party contributors. The deficit fund balance in the Equipment Acquisition Fund is due to a timing difference of proceeds and their associated expenditures to be allocated to other Internal Service Funds which will be completed in 2013.

Internal Service Funds

As of September 30, 2012, the Insurance Reserve and Workers' Compensation Fund had deficit net assets of \$1,587 and \$292 respectively. The deficit balances were a result of actuarially determined accruals in fiscal year 2012 that were more than the amount considered in the annual Insurance Reserve and Workers' Compensation Fund assessments. The City will fund the deficits by revising the future assessments charged to various City funds over the course of the next five years.

As of September 30, 2012, a deficit fund balance was reported in CIMS in the amount of \$4,257. 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.

Notes to Financial Statements

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.

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 \$1 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 \$77 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 \$2 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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Notes to Financial Statements

Note 18 Prior Period Restatement

The City was unable to obtain fiscal year 2011 financial statements for the EDC, HPARC, and the HTPFC, which are presented in the nonmajor special revenue funds – blended component units. In order to reflect the proper beginning fund balances with the receipt of financials in fiscal year 2012, the City restated an increase in the beginning fund balances in the amounts of \$348, \$238, and \$126, respectively.

A net OPEB obligation deriving from the Fire and Police Retiree Health Care Fund had not been recorded in the City's government-wide liabilities prior to fiscal year 2012, even though an obligation was disclosed in the footnotes. During the current fiscal year, the City decreased beginning net assets in the amount of \$33,269 to reflect this liability.

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Note 19 Subsequent Events**Primary Government (City)****Long-Term Debt**

On October 11, 2012, a new component unit of the City, TPFC issued \$550,374 in Public Facilities Corporation Improvement and Refunding Lease Revenue Bonds, Series 2012 (Convention Center Refinancing and Expansion Project). The Bonds were issued for the purpose of providing proceeds to (i) refund all outstanding City indebtedness issued to finance or refinance the Existing Convention Center, (ii) finance the City's acquisition, construction, and equipping of the Convention Center Expansion Project, (iii) pay capitalized interest on the current interest bonds, and (iv) pay the cost of issuing the Bonds. The Bonds have maturities ranging from 2017 to 2042, with interest rates ranging from 3.0% to 5.1%. Coinciding with TPFC's Bond issuance, the City entered into a long term lease agreement with TPFC to pay the principal and interest associated with TPFC's debt.

Pre-K 4 San Antonio

On November 6, 2012 San Antonio residents approved the 1/8 cent sales tax increase that will support the Pre-K 4 SA initiative. The Pre-K 4 SA Initiative would utilize revenue generated by a 1/8 cent sales tax and other state and federal dollars to provide high quality, full-day Pre-K for eligible four-year-olds in San Antonio. The sales tax increase will take effect on April 1, 2013 and last for the next eight years. With the approval of this 1/8 cent sales tax, the City has reached its maximum sales tax limit of 8.25% as authorized by state law.

Fire and Police Pension Fund

The Pension Fund had their actuarial study as of October 1, 2012 completed and issued in January 2013. The results of the study include a decrease in the Fund's Unfunded Actuarially Accrued Liability (UAAL) from \$242,741 as of October 1, 2011 to \$214,677. The years to amortize the UAAL remained at 7.1 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, 2012 resulted in the deferral of \$219,586 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 7.5% 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.

Note 19 Subsequent Events (Continued)**Primary Government (City) (Continued)****Fire and Police Retiree Health Care Fund**

The Fire and Police Retiree Health Care Fund had its actuarial study as of October 1, 2012 completed in February 2013. The results of the study include an increase in the Fund's Unfunded Actuarially Accrued Liability (UAAL) from \$403,614 as of October 1, 2011 to \$413,707. In order to maintain an amortization of the UAAL over a period of 30 years, contribution and benefit rates would have to increase beyond those currently included in the Fund's governing statute. However, these contribution and benefit rates would only be required to be implemented if the amortization period of the UAAL exceeds 30 years with the actuarial valuation to be conducted in 2017.

CPS Energy**Depreciation Study**

In fiscal year 2013, CPS Energy engaged an independent third-party consulting firm to conduct a depreciation study, which is performed every five years. The new depreciation rates resulting from the study will be effective for fiscal year 2013.

Rio Nogales Plant Purchase

In the first quarter of fiscal year 2013, \$521,000 taxable senior lien bonds were issued to purchase the Rio Nogales combined-cycle natural gas electric generating plant in Seguin, Texas. The 800-megawatt ("MW") plant is being utilized to provide a portion of its power to a third party that has executed a multiyear agreement for an option to call on power from the plant, with the remaining power available for CPS Energy to utilize to meet its commitments or to sell into the Electric Reliability Council of Texas ("ERCOT") market. Rio Nogales will provide generation capacity that would not otherwise be available once J.T. Deely Units 1 and 2 are mothballed. As part of the acquisition, CPS Energy entered into a Tax Exemption Settlement Agreement in which CPS Energy agreed to pay \$25,504 to certain parties to compromise, terminate claims and settle any disputes relating to exemption of ad valorem taxes involving the parties to this agreement. This amount will be amortized over the life of the agreement, which runs through December 2041.

Solar Prepayments

In November 2011, a contract was entered into with SunEdison, which converted CPS Energy's power purchase agreements to a prepaid agreement for 30 MW of solar energy from three facilities in the San Antonio area. In fiscal year 2013, \$77,025 in prepayments were made for approximately 60.0% of the anticipated annual output over a period of 25 years. The purchase of the balance of the output will be on a pay-as-you-go basis. As part of the agreement, CPS Energy has the right to purchase the facilities six years after commercial operation commences.

Note 19 Subsequent Events (Continued)**CPS Energy (Continued)****Long-Term Debt**

On March 29, 2012, CPS Energy issued \$521,000 of taxable New Series 2012 Revenue Bonds. The true interest cost for this issue, which has maturities in 2026 through 2030 and in 2042, is 4.4%. Bond proceeds were primarily used to fund the purchase of the Rio Nogales natural gas combined-cycle power plant.

On June 28, 2012, CPS Energy issued \$655,370 of New Series 2012 Revenue Refunding Bonds. Proceeds, including the premium associated with the bonds, were used to refund \$716,305 par value of the 2005A Revenue Refunding Bonds, 2005 Revenue Bonds and the majority of the 2006A Revenue Bonds. This refunding transaction resulted in a net present value debt service savings of \$68,435 or 9.6% of the par amount of the bonds refunded. The true interest cost for this issue, which consists of serial bonds with maturities in 2021 through 2025, is 2.6%.

On November 29, 2012, CPS Energy issued a total of \$143,645 of Series 2012A, Series 2012B and Series 2012C Variable Rate Junior Lien Revenue Refunding Bonds. Proceeds, including the premium associated with the bonds, were used to refund \$147,615 par value of the 2004 Variable Rate Demand Obligations. This refunding transaction resulted in a net present value debt service savings of \$1,968 or 1.3% of the par amount of the bonds being refunded. The bonds have maturities in 2024 through 2027. The coupon rate for these bonds is 2.0%, with current yields of 0.6%, 0.8%, and 1.0% for the Series 2012A, Series 2012B and 2012C bonds, respectively. These bonds will be remarketed in two, three and four years, respectively, and at that time will likely reset at different rates of interest.

Commercial Paper

The commercial paper has been classified as long-term in accordance with the refinancing terms under three revolving credit agreements with a consortium of banks, which supports the commercial paper. Under the terms of these revolving credit agreements, which are effective from October 17, 2012, through December 31, 2014, CPS Energy may borrow up to an aggregate amount not to exceed \$450,000 for the purpose of paying principal due under the commercial paper program. There have been no borrowings under the agreement since inception.

San Antonio Water System (SAWS)**Long-Term Debt**

On February 29, 2012, SAWS issued \$225,255 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2012. The proceeds from the sale of the bonds were used to (i) refund \$265,885 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2002 (the "Series 2002 Bond"), and (ii) pay the cost of issuance. The refunding of the Series 2002 reduced total debt service payments over the next seventeen years by approximately \$71,000 and resulted in an economic gain of approximately \$56,400.

Note 19 Subsequent Events (Continued)**San Antonio Water System (SAWS) (Continued)****Long-Term Debt (Continued)**

On April 11, 2012, SAWS issued \$31,890 City of San Antonio, Texas Water System Junior Lien Revenue Refunding Bonds, Series 2012 (No Reserve). The proceeds from the sale of the bonds were used to (i) refund the City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2001, the City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2001-A, the City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2002, and the City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2002-A, (together the "Refunded Bonds") and (ii) pay the cost of issuance. The refunding of the Refunded Bonds reduced total debt service payments over the next eleven years by approximately \$3,400 and resulted in an economic gain of approximately \$3,000.

On August 28, 2012, SAWS issued \$19,630 City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2012 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, and (ii) pay the cost of issuance. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On October 2, 2012, SAWS issued \$163,435 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2012A. The proceeds from the sale of the bonds were used to (i) refund \$175,000 in outstanding commercial paper notes, and (ii) pay the cost of issuance. The bonds are secured together with other currently outstanding Senior Lien Obligations solely by a lien on a pledge of net revenues.

Other

On March 7, 2012, SAWS contributed \$12,000 to the San Antonio Water System Retiree Health Trust (OPEB Trust). The OPEB Trust was established under the provisions of the Internal Revenue Code of 1986 Section 115. Funds in the OPEB Trust must be used for the exclusive purpose of providing benefits to eligible retirees and their dependents. SAWS intends to make subsequent annual contributions to the OPEB Trust in accordance with a plan that results in fully funding the actuarially determined annual required contributions for the OPEB Plan over a period of time.

BexarMet

On January 28, 2012 SAWS assumed the operational control and management of the Bexar Metropolitan Water District (BexarMet). 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 the passage of Senate Bill 341 (SB 341) by the Texas Legislature in May 2011. The primary component of SB 341 required the conduct of an election (Election) by BexarMet ratepayers to vote on the dissolution of BexarMet and consolidation with SAWS. The Election was held on November 8, 2011 and the BexarMet ratepayers voted in favor of dissolution. 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.

Note 19 Subsequent Events (Continued)

San Antonio Water System (SAWS) (Continued)

BexarMet (Continued)

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 be treated as a component unit of the City of San Antonio, to be known as the San Antonio Water System District Special Project (SAWS DSP). In accordance with this ordinance, SAWS DSP will not materially and adversely interfere with the operation of SAWS but will be fully integrated into SAWS’ system no later than 2017 as specified by SB 341.

On March 8, 2012, the City Council, acting by and through SAWS, as legal successor to BexarMet, adopted a resolution electing to exercise its right to purchase the water treatment plant operated by the Bexar Metropolitan Development Corporation (the “Corporation”) and leased to BexarMet, and in connection with the purchase, exercise its right to redeem the Bexar Metropolitan Development Corporation Water Facility Contract Revenue Bonds, Series 1998 (the “Corporation Bonds”), effective August 6, 2012. Upon the completion of the purchase of the water treatment plant by the City, through SAWS, and the redemption of the Corporation Bonds, the purpose of the Corporation was fulfilled, and the Corporation was officially dissolved on October 12, 2012.

Upon SAWS’ assumption of BexarMet, SAWS DSP assumed responsibility for all contracts to which BexarMet was a party. These contracts include two long-term water supply agreements with Water Exploration Company, Ltd. (WECO). These agreements collectively called for the production and sale of up to 17,543 acre-feet of groundwater by WECO to BexarMet on a take or pay basis from the Trinity Aquifer in northern Bexar County. SAWS DSP stopped accepting water under the agreements on January 27, 2012. One of the agreements was renegotiated and approved by the Board on July 10, 2012. The other agreement was terminated by mutual agreement of both SAWS and WECO. The new agreement has a term of 15 years, with two optional 5 year extensions. The purchase obligation is limited to 3,750 acre-feet during first twelve months of agreement. As of July 1, 2013 SAWS is obligated to purchase up to 17,000 acre-feet per year in monthly increments not to exceed 1,417 acre-feet if water is available to be produced. SAWS only pays for delivered water meeting all state and federal drinking water standards. Pumping by WECO may not reduce the Trinity Aquifer below 600 feet Mean Sea Level at test wells on tracts. Unit cost of raw water to SAWS is \$685 per acre-foot for the first eighteen months and \$880 per acre-foot beginning in 2014. The cost will escalate annually thereafter by the greater of two percent or the percentage increase in the Producer Price Index for Commodities Finished Goods.

CITY OF SAN ANTONIO, TEXAS

Comprehensive Annual Financial Report

Year-Ended September 30, 2012





Required Supplementary Information

CITY OF SAN ANTONIO, TEXAS

Budgetary Comparison Schedule

General Fund

Year-Ended September 30, 2012

(In Thousands)

2012

| | BUDGETED AMOUNTS | | BUDGETARY BASIS | VARIANCE WITH |
|---|------------------|----------------|-----------------|-------------------|
| | ORIGINAL | FINAL | ACTUAL | FINAL BUDGET |
| Resources (Inflows): | | | | |
| Taxes | \$ 479,178 | \$ 490,786 | \$ 500,679 | \$ 9,893 |
| Licenses and Permits | 8,080 | 8,306 | 8,469 | 163 |
| Intergovernmental | 6,629 | 5,685 | 7,997 | 2,312 |
| Revenues from Utilities | 299,769 | 300,511 | 299,306 | (1,205) |
| Charges for Services | 47,700 | 48,055 | 47,960 | (95) |
| Fines and Forfeits | 14,430 | 13,931 | 14,401 | 470 |
| Miscellaneous | 12,348 | 13,226 | 18,044 | 4,818 |
| Investment Earnings | 1,639 | 988 | 1,306 | 318 |
| Transfers from Other Funds | 34,018 | 18,410 | 18,877 | 467 |
| Amounts Available for Appropriation | <u>903,791</u> | <u>899,898</u> | <u>917,039</u> | <u>17,141</u> |
| Charges to Appropriations (Outflows): | | | | |
| General Government | 100,378 | 94,625 | 96,609 | (1,984) |
| Public Safety | 542,110 | 543,672 | 540,123 | 3,549 |
| Public Works | 39,761 | 43,937 | 43,711 | 226 |
| Health Services | 76,311 | 77,476 | 78,718 | (1,242) |
| Sanitation | 3,314 | 3,251 | 3,311 | (60) |
| Welfare | 42,822 | 44,837 | 41,857 | 2,980 |
| Culture and Recreation | 82,303 | 84,205 | 83,644 | 561 |
| Economic Development and Opportunity | 4,486 | 14,353 | 16,142 | (1,789) |
| Transfers to Other Funds | 76,184 | 64,636 | 62,662 | 1,974 |
| Total Charges to Appropriations: | <u>967,669</u> | <u>970,992</u> | <u>966,777</u> | <u>4,215</u> |
| Surplus (Deficiency) of Resources Over (Under) Charges to Appropriations | (63,878) | (71,094) | (49,738) | (21,356) |
| Fund Balance Allocation | 63,878 | 71,094 | 49,738 | 21,356 |
| Excess (Deficiency) of Resources Over (Under) Charges to Appropriations | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| 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 | | | | \$ 917,039 |
| Differences - budget to GAAP: | | | | |
| Transfers from other funds are inflows of budgetary resources but are not revenue: for financial reporting purposes | | | | (18,877) |
| Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds | | | | <u>\$ 898,162</u> |
| Uses/Outflows of Resources: | | | | |
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule | | | | \$ 966,777 |
| 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 purpose: | | | | (18,537) |
| Transfers to other funds are outflows of budgetary resources but are not expenditure: for financial reporting purposes | | | | (62,662) |
| Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds | | | | <u>\$ 885,578</u> |

General Fund Budgetary Information

The City Charter establishes requirements for the adoption of budgets and budgetary control. Under provisions of the Charter, expenditures of each City function and activity within individual funds cannot legally exceed the final budget approved by the City Council. Amendments to line items within a departmental budget may be initiated by Department Directors.

The City's prepares an annual budget for the General Fund on a modified accrual basis which is consistent with generally accepted accounting principles. The annual budgetary data reported for the General Fund represents the original appropriation ordinance and amendments thereto as adopted by the City Council, adjusted for encumbrances outstanding at the beginning of the fiscal year. All annual appropriations lapse at fiscal year-end.

The City noted budget violations within General Government, 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)

Pension and Post-employment 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 |
|---------------------------------|----------------------------------|--|--|---------------------|------------------------|--|
| 10-01-11 | \$ 2,330,520 | \$ 2,573,262 | \$ 242,742 | 90.6% | \$ 286,327 | 84.8% |
| 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% |

TEXAS MUNICIPAL RETIREMENT SYSTEM - CITY OF SAN ANTONIO

| ACTUARIAL VALUATION DATE | ACTUARIAL VALUE OF ASSETS | ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL) | UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) | FUNDED RATIO | COVERED PAYROLL | UAAL AS A PERCENTAGE OF COVERED PAYROLL |
|---------------------------------|----------------------------------|--|--|---------------------|------------------------|--|
| 12-31-11 | \$ 1,031,749 | \$ 1,126,876 | \$ 95,127 | 91.6% | \$ 264,088 | 36.0% |
| 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% |

CPS ENERGY - ALL EMPLOYEE PLAN

| ACTUARIAL VALUATION DATE¹ | 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 |
|---|----------------------------------|--|--|---------------------|------------------------|--|
| 01-01-10 | \$ 1,097,147 | \$ 1,243,118 | \$ 145,971 | 88.3% | \$ 228,525 | 63.9% |
| 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% |

¹ 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.

(unaudited - see accompanying auditors' report)

Required Supplementary Information - (Unaudited)

Pension Schedules

Schedules of Funding Progress

Last Three Fiscal Years

(In Thousands)

SAN ANTONIO WATER SYSTEM - TMRS

| ACTUARIAL VALUATION DATE | ACTUARIAL VALUE OF ASSETS | ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL) | UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) | FUNDED RATIO | COVERED PAYROLL | UAAL AS A PERCENTAGE OF COVERED PAYROLL |
|--------------------------|---------------------------|---|---|--------------|-----------------|---|
| 12-31-11 | \$ 125,424 | \$ 149,640 | \$ 24,216 | 83.8% | \$ 84,611 | 28.6% |
| 12-31-10 | 116,123 | 140,565 | 24,442 | 82.6% | 83,660 | 29.2% |
| 12-31-09 | 68,756 | 107,311 | 38,555 | 64.1% | 81,821 | 47.1% |

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 | \$ 90,496 | \$ 144,552 | \$ 54,056 | 62.6% | \$ 85,394 | 63.3% |
| 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% |

- 190 -

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 |
|--------------------------|---------------------------|--|---|--------------|-----------------|---|
| 02-01-10 | \$ 209,894 | \$ 219,929 | \$ 10,035 | 95.4% | \$ 228,525 | 4.4% |
| 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% |

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 |
|--------------------------|---------------------------|-----------------------------------|--|--------------|-----------------|---|
| 02-01-10 | \$ 3,902 | \$ 6,567 | \$ 2,665 | 59.4% | \$ 200,649 | 1.3% |
| 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% |

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 |
|--------------------------|---------------------------|-----------------------------------|--|--------------|-----------------|---|
| 02-01-10 | \$ 47,092 | \$ 37,266 | \$ (9,826) | 126.4% | \$ 200,649 | (4.9)% |
| 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)% |

¹ The AAL consisted of the liability for both retired employees and active employees. The AAL for retired employees was \$90,700 for February 1, 2010, and \$87,900 for February 1, 2009.

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.

(unaudited - see accompanying auditors' report)

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% | \$ 276,095 | 117.5% |
| 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 |
|--------------------------|---------------------------|-----------------------------------|---|--------------|-----------------|---|
| 10-01-11 | \$ 236,239 | \$ 639,853 | \$ 403,614 | 36.9% | \$ 259,797 | 155.4% |
| 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% |

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.

CITY OF SAN ANTONIO, TEXAS

Comprehensive Annual Financial Report

Year-Ended September 30, 2012



**Supplementary
Budget and Actual
Schedules for Legally
Adopted Funds**

CITY OF SAN ANTONIO, TEXAS

**Schedules of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)**

General Fund
Year-Ended September 30, 2012
(In Thousands)

| | 2012 | | |
|---|-------------------|-------------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Revenues: | | | |
| Taxes | \$ 490,786 | \$ 500,679 | \$ 9,893 |
| Licenses and Permits | 8,306 | 8,469 | 163 |
| Intergovernmental | 5,685 | 7,997 | 2,312 |
| Revenues from Utilities | 300,511 | 299,306 | (1,205) |
| Charges for Services | 48,055 | 47,960 | (95) |
| Fines and Forfeits | 13,931 | 14,401 | 470 |
| Miscellaneous | 13,226 | 18,044 | 4,818 |
| Investment Earnings | 988 | 1,306 | 318 |
| Total Revenues | 881,488 | 898,162 | 16,674 |
| Expenditures: | | | |
| General Government | 94,625 | 96,609 | (1,984) |
| Public Safety | 543,672 | 540,123 | 3,549 |
| Public Works | 43,937 | 43,711 | 226 |
| Health Services | 77,476 | 78,718 | (1,242) |
| Sanitation | 3,251 | 3,311 | (60) |
| Welfare | 44,837 | 41,857 | 2,980 |
| Culture and Recreation | 84,205 | 83,644 | 561 |
| Economic Development and Opportunity | 14,353 | 16,142 | (1,789) |
| Total Expenditures | 906,356 | 904,115 | 2,241 |
| (Deficiency) of Revenues (Under) Expenditures | (24,868) | (5,953) | 18,915 |
| Other Financing Sources (Uses): | | | |
| Transfers In | 18,410 | 18,877 | 467 |
| Transfers Out | (64,636) | (62,662) | 1,974 |
| Total Other Financing Sources (Uses) | (46,226) | (43,785) | 2,441 |
| (Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses) | (71,094) | (49,738) | \$ 21,356 |
| Fund Balances, October 1 | 232,692 | 232,692 | |
| Add Encumbrances | | 33,559 | |
| Fund Balances, September 30 | \$ 161,598 | \$ 216,513 | |

CITY OF SAN ANTONIO, TEXAS

**Schedule of Revenues Compared to Budget
Budget and Actual (Budgetary Basis)**

General Fund
Year-Ended September 30, 2012
(In Thousands)

| | 2012 | | |
|--|-------------------|-------------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Revenues: | | | |
| Taxes: | | | |
| Property: | | | |
| Current | \$ 239,730 | \$ 239,809 | \$ 79 |
| Delinquent | 2,734 | 3,162 | 428 |
| City Sales | 210,602 | 219,649 | 9,047 |
| Alcoholic Beverages | 4,767 | 5,200 | 433 |
| Telecommunication Access Lines Fees | 15,457 | 15,094 | (363) |
| Cablevision Franchise | 14,093 | 14,446 | 353 |
| Bingo | 1,034 | 1,090 | 56 |
| Other | 90 | 105 | 15 |
| Penalties and Interest on Delinquent Taxes | 2,279 | 2,124 | (155) |
| Total Taxes | 490,786 | 500,679 | 9,893 |
| Licenses and Permits: | | | |
| Alcoholic Beverages Licenses | 675 | 757 | 82 |
| Health Licenses | 4,231 | 4,372 | 141 |
| Amusement Licenses | 122 | 125 | 3 |
| Professional and Occupational Licenses | 2,264 | 2,190 | (74) |
| Animal Licenses | 208 | 201 | (7) |
| Street Permits | 806 | 824 | 18 |
| Total Licenses and Permits | 8,306 | 8,469 | 163 |
| Intergovernmental: | | | |
| Library Aid from Bexar County | 3,774 | 3,774 | |
| Bexar County - Child Support | 65 | 47 | (18) |
| Magistration and Detention - Bexar | 1,117 | 2,462 | 1,345 |
| Health Aid from Bexar County | 379 | 1,352 | 973 |
| VIA Contributions | 308 | 308 | |
| Hotel/Motel Tax Collection Fee | 42 | 54 | 12 |
| Total Intergovernmental | 5,685 | 7,997 | 2,312 |
| Revenues from Utilities: | | | |
| CPS Energy | 289,441 | 288,096 | (1,345) |
| San Antonio Water System | 11,070 | 11,210 | 140 |
| Total Revenues from Utilities | \$ 300,511 | \$ 299,306 | \$ (1,205) |

(Continued)

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues Compared to Budget

Budget and Actual (Budgetary Basis)

General Fund

Year-Ended September 30, 2012

(In Thousands)

| | 2012 | | |
|-----------------------------------|-------------------|-------------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Charges for Services: | | | |
| General Government | \$ 5,476 | \$ 1,093 | \$ (4,383) |
| Police Department | 6,302 | 6,165 | (137) |
| Fire Department | 998 | 1,091 | 93 |
| Abatement of Nuisances | 321 | 509 | 188 |
| Health | 24,399 | 28,046 | 3,647 |
| Culture and Recreation: | | | |
| Tower of the Americas | 544 | 660 | 116 |
| Hemisphere Plaza | 97 | 132 | 35 |
| La Villita | 503 | 487 | (16) |
| Recreation Fees | 1,512 | 1,555 | 43 |
| Concessions in Other Parks | 64 | 66 | 2 |
| River Boats | 5,701 | 5,770 | 69 |
| Governor's Palace | 79 | 74 | (5) |
| Swimming Pools | 149 | 132 | (17) |
| Community Centers | 447 | 483 | 36 |
| Library | 881 | 1,052 | 171 |
| Miscellaneous Recreation Revenue | 582 | 645 | 63 |
| Total Charges for Services | 48,055 | 47,960 | (95) |
| Fines and Forfeits: | | | |
| Municipal Court Fines | 13,931 | 14,401 | 470 |
| Miscellaneous: | | | |
| Sales | 5,309 | 4,656 | (653) |
| Recovery of Expenditures | 2,757 | 3,042 | 285 |
| Interfund Charges | 1,639 | 1,745 | 106 |
| Rents, Leases, and Concessions | 1,839 | 1,809 | (30) |
| Other | 1,682 | 6,792 | 5,110 |
| Total Miscellaneous | 13,226 | 18,044 | 4,818 |
| Investment Earnings: | | | |
| Interest | 988 | 1,306 | 318 |
| Total Revenues | \$ 881,488 | \$ 898,162 | \$ 16,674 |

(End of Schedule)

CITY OF SAN ANTONIO, TEXAS

Schedule of Expenditures Compared to Budget

Budget and Actual (Budgetary Basis)

General Fund

Year-Ended September 30, 2012

(In Thousands)

| | 2012 | | |
|---------------------------------|-------------------|-------------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Expenditures: | | | |
| General Government: | | | |
| Legislative: | | | |
| Personal Services | \$ 8,199 | \$ 8,112 | \$ 87 |
| Contractual Services | 2,547 | 2,813 | (266) |
| Commodities | 353 | 274 | 79 |
| Other Expenditures | 3,477 | 3,127 | 350 |
| Total Legislative | 14,576 | 14,326 | 250 |
| Judicial: | | | |
| Personal Services | 10,384 | 10,118 | 266 |
| Contractual Services | 712 | 851 | (139) |
| Commodities | 213 | 270 | (57) |
| Other Expenditures | 1,286 | 1,326 | (40) |
| Total Judicial | 12,595 | 12,565 | 30 |
| Executive: | | | |
| Personal Services | 35,751 | 33,674 | 2,077 |
| Contractual Services | 22,680 | 26,984 | (4,304) |
| Commodities | 3,111 | 3,215 | (104) |
| Other Expenditures | 5,824 | 5,576 | 248 |
| Capital Outlay | 88 | 269 | (181) |
| Total Executive | 67,454 | 69,718 | (2,264) |
| Total General Government | 94,625 | 96,609 | (1,984) |
| Public Safety: | | | |
| Police: | | | |
| Personal Services | 269,783 | 270,534 | (751) |
| Contractual Services | 7,778 | 7,941 | (163) |
| Commodities | 1,002 | 1,112 | (110) |
| Other Expenditures | 13,264 | 13,245 | 19 |
| Capital Outlay | | 24 | (24) |
| Total Police | 291,827 | 292,856 | (1,029) |
| Fire: | | | |
| Personal Services | 143,749 | 141,847 | 1,902 |
| Contractual Services | 3,214 | 2,820 | 394 |
| Commodities | 3,167 | 3,479 | (312) |
| Other Expenditures | 9,422 | 10,211 | (789) |
| Capital Outlay | 313 | 206 | 107 |
| Total Fire | \$ 159,865 | \$ 158,563 | \$ 1,302 |

(Continued)

CITY OF SAN ANTONIO, TEXAS

Schedule of Expenditures Compared to Budget

Budget and Actual (Budgetary Basis)

General Fund

Year-Ended September 30, 2012

(In Thousands)

| | 2012 | | |
|--|------------------|------------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Public Safety (Continued): | | | |
| Building Inspection and Regulations: | | | |
| Personal Services | \$ 224 | \$ 228 | \$ (4) |
| Contractual Services | 8 | 16 | (8) |
| Commodities | 3 | | 3 |
| Other Expenditures | 13 | 14 | (1) |
| Total Building Inspection and Regulations | 248 | 258 | (10) |
| Administration: | | | |
| Personal Services | 15,950 | 16,443 | (493) |
| Contractual Services | 2,660 | 2,547 | 113 |
| Commodities | 1,461 | 1,333 | 128 |
| Other Expenditures | 18,315 | 17,887 | 428 |
| Capital Outlay | 27 | 17 | 10 |
| Total Administration | 38,413 | 38,227 | 186 |
| Other Protection: | | | |
| Personal Services | 29,576 | 27,561 | 2,015 |
| Contractual Services | 7,263 | 4,869 | 2,394 |
| Commodities | 3,729 | 4,136 | (407) |
| Other Expenditures | 12,721 | 13,610 | (889) |
| Capital Outlay | 30 | 43 | (13) |
| Total Other Protection | 53,319 | 50,219 | 3,100 |
| Total Public Safety | 543,672 | 540,123 | 3,549 |
| Public Works: | | | |
| Streets: | | | |
| Personal Services | 11,254 | 10,818 | 436 |
| Contractual Services | 2,720 | 5,756 | (3,036) |
| Commodities | 10,029 | 7,225 | 2,804 |
| Other Expenditures | 4,733 | 4,647 | 86 |
| Capital Outlay | 1,911 | 2,111 | (200) |
| Total Streets | 30,647 | 30,557 | 90 |
| Lighting: | | | |
| Contractual Services | 90 | | 90 |
| Commodities | 13,200 | 13,154 | 46 |
| Total Lighting | 13,290 | 13,154 | 136 |
| Total Public Works | \$ 43,937 | \$ 43,711 | \$ 226 |

(Continued)

CITY OF SAN ANTONIO, TEXAS

Schedule of Expenditures Compared to Budget

Budget and Actual (Budgetary Basis)

General Fund

Year-Ended September 30, 2012

(In Thousands)

| | 2012 | | |
|---|-------------------|-------------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Health Services: | | | |
| Personal Services | \$ 58,868 | \$ 59,719 | \$ (851) |
| Contractual Services | 7,910 | 7,997 | (87) |
| Commodities | 3,809 | 4,163 | (354) |
| Other Expenditures | 6,614 | 6,380 | 234 |
| Capital Outlay | 275 | 459 | (184) |
| Total Health Services | 77,476 | 78,718 | (1,242) |
| Sanitation: | | | |
| Personal Services | 2,621 | 2,654 | (33) |
| Contractual Services | 118 | 174 | (56) |
| Commodities | 95 | 27 | 68 |
| Other Expenditures | 417 | 456 | (39) |
| Total Sanitation | 3,251 | 3,311 | (60) |
| Welfare: | | | |
| Personal Services | 13,923 | 13,655 | 268 |
| Contractual Services | 24,581 | 21,669 | 2,912 |
| Commodities | 573 | 811 | (238) |
| Other Expenditures | 5,760 | 5,708 | 52 |
| Capital Outlay | | 14 | (14) |
| Total Welfare | 44,837 | 41,857 | 2,980 |
| Culture and Recreation: | | | |
| Libraries: | | | |
| Personal Services | 20,912 | 20,477 | 435 |
| Contractual Services | 3,461 | 3,685 | (224) |
| Commodities | 4,369 | 4,479 | (110) |
| Other Expenditures | 3,847 | 3,771 | 76 |
| Total Libraries | 32,589 | 32,412 | 177 |
| Parks: | | | |
| Personal Services | 28,633 | 28,247 | 386 |
| Contractual Services | 9,616 | 10,167 | (551) |
| Commodities | 3,766 | 3,544 | 222 |
| Other Expenditures | 9,524 | 9,195 | 329 |
| Capital Outlay | 77 | 79 | (2) |
| Total Parks | 51,616 | 51,232 | 384 |
| Total Culture and Recreation | 84,205 | 83,644 | 561 |
| Economic Development and Opportunity: | | | |
| Personal Services | 2,805 | 3,107 | (302) |
| Contractual Services | 9,714 | 11,134 | (1,420) |
| Commodities | 77 | 225 | (148) |
| Other Expenditures | 1,757 | 1,676 | 81 |
| Total Economic Development and Opportunity | 14,353 | 16,142 | (1,789) |
| Total Expenditures | \$ 906,356 | \$ 904,115 | \$ 2,241 |

(End of Schedule)

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Debt Service Fund

Year-Ended September 30, 2012

(In Thousands)

| | 2012 | | |
|--|------------------|------------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Revenues: | | | |
| Property Taxes: | | | |
| Current | \$ 142,847 | \$ 143,165 | \$ 318 |
| Delinquent | 1,163 | 1,888 | 725 |
| Penalties and Interest on Delinquent Taxes | 1,346 | 1,268 | (78) |
| Miscellaneous | 3,825 | 3,825 | |
| Investment Earnings | 627 | 101 | (526) |
| Total Revenues | <u>149,808</u> | <u>150,247</u> | <u>439</u> |
| Expenditures: | | | |
| General Government: | | | |
| Contractual Services | 16 | 2,072 | (2,056) |
| Total General Government | <u>16</u> | <u>2,072</u> | <u>(2,056)</u> |
| Debt Service: | | | |
| Principal Retirement | 111,145 | 111,145 | |
| Interest | 76,543 | 69,469 | 7,074 |
| Issuance Costs | | 320 | (320) |
| Total Debt Service: | <u>187,688</u> | <u>180,934</u> | <u>6,754</u> |
| Total Expenditures | <u>187,704</u> | <u>183,006</u> | <u>4,698</u> |
| (Deficiency) of Revenues (Under) Expenditures | <u>(37,896)</u> | <u>(32,759)</u> | <u>5,137</u> |
| Other Financing: | | | |
| Issuance of Long-Term Debt | 33,410 | 33,410 | |
| Premium/(Discount) on Long-Term Debt | 4,846 | 4,846 | |
| Payments to Refunded Bond Escrow Agent | (37,892) | (37,892) | |
| Transfers In | 32,930 | 25,186 | (7,744) |
| Total Other Financing | <u>33,294</u> | <u>25,550</u> | <u>(7,744)</u> |
| (Deficiency) of Revenues (Under) Expenditures | <u>(4,602)</u> | <u>(7,209)</u> | <u>\$ (2,607)</u> |
| Fund Balances, October 1 | 93,569 | 93,569 | |
| Fund Balances, September 30 | <u>\$ 88,967</u> | <u>\$ 86,360</u> | |

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Advanced Transportation District

Year-Ended September 30, 2012

(In Thousands)

| | 2012 | | |
|---|------------------|------------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Revenues: | | | |
| General Sales and Use: | | | |
| City Sales Tax | \$ 12,452 | \$ 12,861 | \$ 409 |
| Investment Earnings | 48 | 57 | 9 |
| Total Revenues | <u>12,500</u> | <u>12,918</u> | <u>418</u> |
| Expenditures: | | | |
| General Government: | | | |
| Other Expenditures | | 12 | (12) |
| Total General Government | | <u>12</u> | <u>(12)</u> |
| Public Works: | | | |
| Personal Services | 1,518 | 1,506 | 12 |
| Contractual Services | 627 | 650 | (23) |
| Commodities | 43 | 35 | 8 |
| Other Expenditures | 218 | 344 | (126) |
| Capital Outlay | 34 | 21 | 13 |
| Total Public Works | <u>2,440</u> | <u>2,556</u> | <u>(116)</u> |
| Total Expenditures | <u>2,440</u> | <u>2,568</u> | <u>(128)</u> |
| Excess of Revenues Over Expenditures | <u>10,060</u> | <u>10,350</u> | <u>290</u> |
| Other Financing (Uses): | | | |
| Transfers Out | (11,717) | (14,417) | (2,700) |
| Total Other Financing (Uses) | <u>(11,717)</u> | <u>(14,417)</u> | <u>(2,700)</u> |
| (Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses) | <u>(1,657)</u> | <u>(4,067)</u> | <u>\$ (2,410)</u> |
| Fund Balances, October 1 | 12,942 | 12,942 | |
| Add Encumbrances | | 5,951 | |
| Fund Balances, September 30 | <u>\$ 11,285</u> | <u>\$ 14,826</u> | |

The City noted budget violations of excess expenditures transfers out, and encumbrances 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.

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Community and Visitor Facilities

Year-Ended September 30, 2012

(In Thousands)

| | 2012 | | |
|---|------------------|------------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Revenues: | | | |
| Taxes: | | | |
| Occupancy | \$ 48,996 | \$ 52,840 | \$ 3,844 |
| Penalties and Interest on Delinquent Taxes | 29 | 126 | 97 |
| Intergovernmental | 11,077 | 6,945 | (4,132) |
| Charges for Services | 16,720 | 18,233 | 1,513 |
| Miscellaneous | 1,269 | 1,856 | 587 |
| Investment Earnings | 83 | 275 | 192 |
| Total Revenues | 78,174 | 80,275 | 2,101 |
| Expenditures: | | | |
| General Government: | | | |
| Other Expenditures | | 48 | (48) |
| Total General Government | | 48 | (48) |
| Cultural and Recreation: | | | |
| Arts and Cultural Affairs: | | | |
| Personal Services | 1,151 | 1,144 | 7 |
| Contractual Services | 1,205 | 1,167 | 38 |
| Commodities | 16 | 9 | 7 |
| Other Expenditures | 96 | 96 | |
| Total Arts and Cultural Affairs | 2,468 | 2,416 | 52 |
| Convention Facilities: | | | |
| Personal Services | 16,934 | 17,190 | (256) |
| Contractual Services | 3,722 | 3,801 | (79) |
| Commodities | 989 | 1,141 | (152) |
| Other Expenditures | 13,140 | 12,148 | 992 |
| Capital Outlay | | 14 | (14) |
| Total Convention Facilities | 34,785 | 34,294 | 491 |
| Nondepartmental: | | | |
| Personal Services | 81 | 28 | 53 |
| Contractual Services | 2,291 | 2,082 | 209 |
| Commodities | 2 | | 2 |
| Other Expenditures | 3 | 5 | (2) |
| Total Nondepartmental | 2,377 | 2,115 | 262 |
| Contributions to Other Agencies | 5,197 | 5,032 | 165 |
| Total Cultural and Recreation | 44,827 | 43,857 | 970 |
| Convention and Tourism: | | | |
| Convention and Visitors Bureau: | | | |
| Personal Services | 7,848 | 7,934 | (86) |
| Contractual Services | 11,694 | 11,449 | 245 |
| Commodities | 304 | 317 | (13) |
| Other Expenditures | 508 | 522 | (14) |
| Total Convention and Tourism | 20,354 | 20,222 | 132 |
| Economic Development and Opportunity: | | | |
| Personal Services | 443 | 323 | 120 |
| Contractual Services | 435 | 412 | 23 |
| Commodities | 30 | 96 | (46) |
| Other Expenditures | 22 | 25 | (3) |
| Total Economic Development and Opportunity | 950 | 856 | 94 |
| Total Expenditures | 66,131 | 64,983 | 1,148 |
| Excess of Revenues Over Expenditures | 12,043 | 15,292 | 3,249 |
| Other Financing Sources (Uses): | | | |
| Transfers In | 2,658 | 4,828 | 2,170 |
| Transfers Out | (30,404) | (34,202) | (3,798) |
| Total Other Financing Sources (Uses) | (27,746) | (29,374) | (1,628) |
| (Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses) | (15,703) | (14,082) | \$ 1,621 |
| Fund Balances, October 1 | 40,188 | 40,188 | |
| Add Encumbrances | | 15,855 | |
| Fund Balances, September 30 | \$ 24,485 | \$ 41,961 | |

The City noted budget violations of excess transfers out, and encumbrances 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.

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 and Creative Development and International Relations.

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Confiscated Property

Year-Ended September 30, 2012

(In Thousands)

| | 2012 | | |
|---|-----------------|-----------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Revenues: | | | |
| Miscellaneous | \$ 1,927 | \$ 1,147 | \$ (780) |
| Investment Earnings | 12 | 17 | 5 |
| Total Revenues | 1,939 | 1,164 | (775) |
| Expenditures: | | | |
| General Government: | | | |
| Other Expenditures | | 3 | (3) |
| Total General Government | | 3 | (3) |
| Public Safety: | | | |
| Personal Services | 361 | 334 | 27 |
| Contractual Services | 1,117 | 560 | 557 |
| Commodities | 541 | 434 | 107 |
| Other Expenditures | 207 | 244 | (37) |
| Capital Outlay | 811 | 302 | 509 |
| Total Public Works | 3,037 | 1,874 | 1,163 |
| Total Expenditures | 3,037 | 1,877 | 1,160 |
| (Deficiency) of Revenues (Under) Expenditures | (1,098) | (713) | 385 |
| Other Financing (Uses): | | | |
| Transfers Out | (379) | (379) | |
| Total Other Financing (Uses) | (379) | (379) | |
| (Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses) | (1,477) | (1,092) | \$ 385 |
| Fund Balances, October 1 | 4,109 | 4,109 | |
| Add Encumbrances | | 246 | |
| Fund Balances, September 30 | \$ 2,632 | \$ 3,263 | |

CITY OF SAN ANTONIO, TEXAS

**Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Hotel/Motel 2% Revenue
Year-Ended September 30, 2012
(In Thousands)**

| | 2012 | | |
|---|-----------------|------------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Revenues: | | | |
| Taxes: | | | |
| Occupancy | \$ 13,999 | \$ 15,097 | \$ 1,098 |
| Penalties and Interest on Delinquent Taxes | 26 | 36 | 10 |
| Miscellaneous | | 60 | 60 |
| Investment Earnings | | 69 | 69 |
| Total Revenues | <u>14,025</u> | <u>15,262</u> | <u>1,237</u> |
| Expenditures: | | | |
| Convention and Tourism: | | | |
| Contractual Service | | 54 | (54) |
| Other Expenditures | | 14 | (14) |
| Total Expenditures | | <u>68</u> | <u>(68)</u> |
| Excess of Revenues Over Expenditures | <u>14,025</u> | <u>15,194</u> | <u>1,169</u> |
| Other Financing Sources (Uses): | | | |
| Transfer In | | 4,530 | 4,530 |
| Transfers Out | (22,635) | (16,968) | 5,667 |
| Total Other Financing Sources (Uses) | <u>(22,635)</u> | <u>(12,438)</u> | <u>10,197</u> |
| Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses) | (8,610) | 2,756 | <u>\$ 11,366</u> |
| Fund Balances, October 1 | 15,584 | 15,584 | |
| Add Encumbrances | | 381 | |
| Fund Balances, September 30 | <u>\$ 6,974</u> | <u>\$ 18,721</u> | |

CITY OF SAN ANTONIO, TEXAS

**Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Parks Development and Expansion - 2010, 2005, and 2000 Venue Projects
Year-Ended September 30, 2012
(In Thousands)**

| | 2012 | | |
|--|------------------|------------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Revenues: | | | |
| General Sales and Use: | | | |
| City Sales Tax | \$ 26,933 | \$ 27,417 | \$ 484 |
| Miscellaneous | | 11 | 11 |
| Investment Earnings | 95 | 176 | 81 |
| Total Revenues | <u>27,028</u> | <u>27,604</u> | <u>576</u> |
| Expenditures: | | | |
| General Government: | | | |
| Other Expenditures | 27 | 36 | (9) |
| Total General Government | <u>27</u> | <u>36</u> | <u>(9)</u> |
| Culture and Recreation: | | | |
| Contractual Services | 539 | 541 | (2) |
| Other Expenditures | | 23 | (23) |
| Total Culture and Recreation | <u>539</u> | <u>564</u> | <u>(25)</u> |
| Total Expenditures | <u>566</u> | <u>600</u> | <u>(34)</u> |
| Excess of Revenues Over Expenditures | <u>26,462</u> | <u>27,004</u> | <u>542</u> |
| Other Financing Sources (Uses): | | | |
| Transfers In | | 3 | 3 |
| Transfers Out | (21,534) | (26,456) | (4,922) |
| Total Other Financing Sources (Uses) | <u>(21,534)</u> | <u>(26,453)</u> | <u>(4,919)</u> |
| Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing (Uses) | 4,928 | 551 | <u>\$ (4,377)</u> |
| Fund Balances, October 1 | 33,036 | 33,036 | |
| Add Encumbrances | | 20,634 | |
| Fund Balances, September 30 | <u>\$ 37,964</u> | <u>\$ 54,221</u> | |

The City noted budget violations of excess expenditures transfers out, and encumbrances 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.

CITY OF SAN ANTONIO, TEXAS

**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, 2012
(In Thousands)**

| | 2012 | | |
|---|-----------------|-----------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Revenues: | | | |
| Charges for Services | \$ 1,344 | \$ 1,351 | \$ 7 |
| Miscellaneous | | 2 | 2 |
| Investment Earnings | | 5 | 5 |
| Total Revenues | 1,344 | 1,358 | 14 |
| Expenditures: | | | |
| General Government: | | | |
| Other Expenditures | | 1 | (1) |
| Total General Government | | 1 | (1) |
| Public Works: | | | |
| Personal Services | 985 | 1,040 | (55) |
| Contractual Services | 259 | 269 | (10) |
| Commodities | 14 | 16 | (2) |
| Other Expenditures | 236 | 247 | (11) |
| Total Public Works | 1,494 | 1,572 | (78) |
| Total Expenditures | 1,494 | 1,573 | (79) |
| (Deficiency) of Revenues (Under) Expenditures | (150) | (215) | (65) |
| Other Financing Sources (Uses): | | | |
| Transfers In | 149 | | (149) |
| Transfers Out | (74) | | 74 |
| Total Other Financing Sources (Uses) | 75 | | (75) |
| (Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses) | (75) | (215) | \$ (140) |
| Fund Balances, October 1 | 1,320 | 1,320 | |
| Add Encumbrances | | 38 | |
| Fund Balances, September 30 | \$ 1,245 | \$ 1,143 | |

The City noted budget violations of excess expenditures, and encumbrances 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.

CITY OF SAN ANTONIO, TEXAS

**Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Stormwater Operations
Year-Ended September 30, 2012
(In Thousands)**

| | 2012 | | |
|---|------------------|------------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Revenues: | | | |
| Charges for Services | \$ 40,125 | \$ 40,989 | \$ 864 |
| Miscellaneous | | 695 | 695 |
| Investment Earnings | 156 | 134 | (22) |
| Total Revenues | 40,281 | 41,818 | 1,537 |
| Expenditures: | | | |
| Public Works: | | | |
| Administration: | | | |
| Personal Services | 1,255 | 4,281 | (3,026) |
| Contractual Services | 4,871 | 1,424 | 3,447 |
| Commodities | 30 | 468 | (438) |
| Other Expenditures | 304 | 1,845 | (1,541) |
| Capital Outlay | 3 | 34 | (31) |
| Total Administration | 6,463 | 8,052 | (1,589) |
| Vegetation Control: | | | |
| Personal Services | 3,128 | 88 | 3,040 |
| Contractual Services | 1,305 | 4,610 | (3,305) |
| Commodities | 418 | 12 | 406 |
| Other Expenditures | 1,249 | 15 | 1,234 |
| Capital Outlay | 28 | | 28 |
| Total Vegetation Control | 6,128 | 4,725 | 1,403 |
| River Maintenance: | | | |
| Personal Services | 4,102 | 4,023 | 79 |
| Contractual Services | 650 | 1,085 | (435) |
| Commodities | 427 | 343 | 84 |
| Other Expenditures | 1,661 | 1,752 | (91) |
| Capital Outlay | | 52 | (52) |
| Total River Maintenance | 6,840 | 7,255 | (415) |
| Street Sweeping: | | | |
| Personal Services | 2,600 | 2,470 | 130 |
| Contractual Services | 534 | 573 | (39) |
| Commodities | 172 | 293 | (121) |
| Other Expenditures | 1,155 | 1,183 | (28) |
| Total Street Sweeping | 4,461 | 4,519 | (58) |
| Tunnel Maintenance: | | | |
| Personal Services | 1,477 | 1,319 | 158 |
| Contractual Services | 392 | 613 | (221) |
| Commodities | 223 | 159 | 64 |
| Other Expenditures | 521 | 728 | (207) |
| Capital Outlay | 622 | 737 | (115) |
| Total Tunnel Maintenance | 3,235 | 3,556 | (321) |
| Design Engineering: | | | |
| Personal Services | 1,519 | 1,214 | 305 |
| Contractual Services | 535 | 662 | (127) |
| Commodities | 8 | 24 | (16) |
| Other Expenditures | 109 | 144 | (35) |
| Total Design Engineering | 2,171 | 2,044 | 127 |
| Total Expenditures | 29,298 | 30,151 | (853) |
| Excess of Revenues Over Expenditures | 10,983 | 11,667 | 684 |
| Other Financing Sources (Uses): | | | |
| Transfers In | | 6 | 6 |
| Transfers Out | (13,585) | (36,919) | (23,334) |
| Total Other Financing Sources (Uses) | (13,585) | (36,913) | (23,328) |
| (Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses) | (2,602) | (25,246) | \$ (22,644) |
| Fund Balances, October 1 | 35,026 | 35,026 | |
| Add Encumbrances | | 20,161 | |
| Fund Balances, September 30 | \$ 32,424 | \$ 29,941 | |

The City noted budget violations of excess expenditures transfers out, and encumbrances 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.

CITY OF SAN ANTONIO, TEXAS

**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, 2012
(In Thousands)**

| | 2012 | | |
|---|-----------------|-----------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Revenues: | | | |
| Charges for Services: | | | |
| Administrative Fee | \$ 457 | \$ 308 | \$ (149) |
| Total Revenues | <u>457</u> | <u>308</u> | <u>(149)</u> |
| Expenditures: | | | |
| Economic Development and Opportunity: | | | |
| Personal Services | 435 | 350 | 85 |
| Contractual Services | 23 | 3 | 20 |
| Commodities | 7 | 2 | 5 |
| Other Expenditures | 24 | 24 | |
| Capital Outlay | | 4 | (4) |
| Total Expenditures | <u>489</u> | <u>383</u> | <u>106</u> |
| (Deficiency) of Revenues (Under) Expenditures | <u>(32)</u> | <u>(75)</u> | <u>(43)</u> |
| Other Financing (Uses): | | | |
| Transfers Out | | (4) | (4) |
| Total Other Financing (Uses) | | <u>(4)</u> | <u>(4)</u> |
| (Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses) | <u>(32)</u> | <u>(79)</u> | <u>\$ (47)</u> |
| Fund Balances, October 1 | <u>(153)</u> | <u>(153)</u> | |
| Fund Balances, September 30 | <u>\$ (185)</u> | <u>\$ (232)</u> | |

CITY OF SAN ANTONIO, TEXAS

**Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Child Safety
Year-Ended September 30, 2012
(In Thousands)**

| | 2012 | | |
|---|--------------|--------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Revenues: | | | |
| Charges for Services: | | | |
| Parking Fines | \$ 132 | \$ 163 | \$ 31 |
| Moving Violations | 331 | 243 | (88) |
| Intergovernmental | 1,703 | 1,560 | (143) |
| Total Revenues | <u>2,166</u> | <u>1,966</u> | <u>(200)</u> |
| Expenditures: | | | |
| Public Safety: | | | |
| Personal Services | 1,680 | 1,311 | 369 |
| Contractual Services | 28 | 31 | (3) |
| Commodities | 33 | 14 | 19 |
| Other Expenditures | 401 | 578 | (177) |
| Total Expenditures | <u>2,142</u> | <u>1,934</u> | <u>208</u> |
| Excess of Revenues Over Expenditures | <u>24</u> | <u>32</u> | <u>8</u> |
| Other Financing (Uses): | | | |
| Transfers Out | (216) | (216) | |
| Total Other Financing (Uses) | <u>(216)</u> | <u>(216)</u> | |
| (Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses) | <u>(192)</u> | <u>(184)</u> | <u>\$ 8</u> |
| Fund Balances, October 1 | <u>243</u> | <u>243</u> | |
| Fund Balances, September 30 | <u>\$ 51</u> | <u>\$ 59</u> | |

CITY OF SAN ANTONIO, TEXAS

**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, 2012
(In Thousands)**

| | 2012 | | |
|--|-------------------|-------------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Revenues: | | | |
| Miscellaneous | \$ 300 | \$ 256 | \$ (44) |
| Total Revenues | <u>300</u> | <u>256</u> | <u>(44)</u> |
| Excess of Revenues Over Expenditures | <u>300</u> | <u>256</u> | <u>(44)</u> |
| Other Financing (Uses): | | | |
| Transfers Out | (106) | (89) | 17 |
| Total Other Financing (Uses) | <u>(106)</u> | <u>(89)</u> | <u>17</u> |
| Excess of Revenues Over Expenditures and Other Financing (Uses) | 194 | 167 | \$ (27) |
| Fund Balances, October 1 | (1,956) | (1,956) | |
| Fund Balances, September 30 | <u>\$ (1,762)</u> | <u>\$ (1,789)</u> | |

CITY OF SAN ANTONIO, TEXAS

**Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Juvenile Case Manager
Year-Ended September 30, 2012
(In Thousands)**

| | 2012 | | |
|---|---------------|---------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Revenues: | | | |
| Charges for Services: | | | |
| Juvenile Case Manager Fee | \$ 712 | \$ 723 | \$ 11 |
| Investment Earnings | | 2 | 2 |
| Total Revenues | <u>712</u> | <u>725</u> | <u>13</u> |
| Expenditures: | | | |
| General Government: | | | |
| Personal Services | 574 | 556 | 18 |
| Contractual Services | 3 | | 3 |
| Other Expenditures | 33 | 34 | (1) |
| Total Expenditures | <u>610</u> | <u>590</u> | <u>20</u> |
| Excess of Revenues Over Expenditures | <u>102</u> | <u>135</u> | <u>33</u> |
| Excess of Revenues Over Expenditures | 102 | 135 | \$ 33 |
| Fund Balances, October 1 | 419 | 419 | |
| Fund Balances, September 30 | <u>\$ 521</u> | <u>\$ 554</u> | |

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Community Service Funds - Municipal Court Security

Year-Ended September 30, 2012

(In Thousands)

| | 2012 | | |
|---|--------------|--------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Revenues: | | | |
| Charges for Services: | | | |
| Building Security | \$ 493 | \$ 470 | \$ (23) |
| Total Revenues | <u>493</u> | <u>470</u> | <u>(23)</u> |
| Expenditures: | | | |
| General Government: | | | |
| Personal Services | 429 | 443 | (14) |
| Contractual Services | 30 | 3 | 27 |
| Commodities | 8 | 1 | 7 |
| Other Expenditures | 33 | 33 | |
| Capital Outlay | | 1 | (1) |
| Total Expenditures | <u>500</u> | <u>481</u> | <u>19</u> |
| (Deficiency) of Revenues (Under) Expenditures | <u>(7)</u> | <u>(11)</u> | <u>(4)</u> |
| Other Financing (Uses): | | | |
| Transfers Out | (15) | (15) | |
| Total Other Financing (Uses) | <u>(15)</u> | <u>(15)</u> | |
| (Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses) | <u>(22)</u> | <u>(26)</u> | <u>\$ (4)</u> |
| Fund Balances, October 1 | 76 | 76 | |
| Fund Balances, September 30 | <u>\$ 54</u> | <u>\$ 50</u> | |

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Community Service Funds - Municipal Court Technology

Year-Ended September 30, 2012

(In Thousands)

| | 2012 | | |
|---|----------------|-----------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Revenues: | | | |
| Charges for Services: | | | |
| Technology Improvements | \$ 653 | \$ 628 | \$ (25) |
| Investment Earnings | | 5 | 5 |
| Total Revenues | <u>653</u> | <u>633</u> | <u>(20)</u> |
| Expenditures: | | | |
| General Government: | | | |
| Personal Services | 57 | 38 | 19 |
| Contractual Services | 662 | 339 | 323 |
| Commodities | | 1 | (1) |
| Other Expenditures | 6 | 9 | (3) |
| Capital Outlay | | 15 | (15) |
| Total Expenditures | <u>725</u> | <u>402</u> | <u>323</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(72)</u> | <u>231</u> | <u>303</u> |
| Other Financing (Uses): | | | |
| Transfers Out | (1,008) | (555) | 453 |
| Total Other Financing (Uses) | <u>(1,008)</u> | <u>(555)</u> | <u>453</u> |
| (Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses) | <u>(1,080)</u> | <u>(324)</u> | <u>\$ 756</u> |
| Fund Balances, October 1 | 2,057 | 2,057 | |
| Fund Balances, September 30 | <u>\$ 977</u> | <u>\$ 1,733</u> | |

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Special Revenue Funds

Community Service Funds - Tree Canopy Preservation and Mitigation Fund

Year-Ended September 30, 2012

(In Thousands)

| | 2012 | | |
|---|--------------|---------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Revenues: | | | |
| Charges for Services: | | | |
| Canopy Fee - Residential | \$ 255 | \$ 206 | \$ (49) |
| Canopy Fee - Commercial | 89 | 92 | 3 |
| Investment Earnings | 8 | 2 | (6) |
| Total Revenues | <u>352</u> | <u>300</u> | <u>(52)</u> |
| Expenditures: | | | |
| Culture and Recreation: | | | |
| Personal Services | 85 | 120 | (35) |
| Contractual Services | 116 | 195 | (79) |
| Commodities | 406 | 259 | 147 |
| Other Expenditures | 46 | 51 | (5) |
| Total Expenditures | <u>653</u> | <u>625</u> | <u>28</u> |
| (Deficiency) of Revenues (Under) Expenditures | <u>(301)</u> | <u>(325)</u> | <u>(24)</u> |
| Other Financing (Uses): | | | |
| Transfers Out | (132) | (132) | |
| Total Other Financing (Uses) | <u>(132)</u> | <u>(132)</u> | |
| (Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses) | <u>(433)</u> | <u>(457)</u> | <u>\$ (24)</u> |
| Fund Balances, October 1 | 501 | 813 | |
| Add Encumbrances | | 4 | |
| Fund Balances, September 30 | <u>\$ 68</u> | <u>\$ 360</u> | |

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

Permanent Fund

City Cemeteries

Year-Ended September 30, 2012

(In Thousands)

| | 2012 | | |
|---|-----------------|-----------------|----------------------------|
| | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Revenues: | | | |
| Charges for Services: | | | |
| Sales | \$ 191 | \$ 162 | \$ (29) |
| Investment Earnings | 10 | 11 | 1 |
| Total Revenues | <u>201</u> | <u>173</u> | <u>(28)</u> |
| Expenditures: | | | |
| Culture and Recreation: | | | |
| Contractual Services | 95 | 33 | 62 |
| Commodities | 64 | | 64 |
| Other Expenditures | 10 | 12 | (2) |
| Total Expenditures | <u>169</u> | <u>45</u> | <u>124</u> |
| Excess of Revenues Over Expenditures | <u>32</u> | <u>128</u> | <u>96</u> |
| Excess of Revenues Over Expenditures | 32 | 128 | \$ 96 |
| Fund Balances, October 1 | 2,535 | 2,535 | |
| Add Encumbrances | | 3 | |
| Fund Balances, September 30 | <u>\$ 2,567</u> | <u>\$ 2,666</u> | |

APPENDIX F

FORM OF OPINION OF CO-BOND COUNSEL

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MCCALL, PARKHURST & HORTON L.L.P.
700 N. St. Mary's, Suite 1525
San Antonio, Texas 78205

ESCAMILLA & PONECK, LLP
700 N. St. Mary's, Suite 850
San Antonio, Texas 78205

July __, 2013

\$20,890,000
CITY OF SAN ANTONIO, TEXAS,
STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORATION
CONTRACT REVENUE REFUNDING BONDS,
TAXABLE SERIES 2013 (STARBRIGHT PROJECT)

AS CO-BOND COUNSEL for the **CITY OF SAN ANTONIO, TEXAS, STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORATION** (the "*Issuer*"), the issuer of the bonds described above (the "*Bonds*"), we have examined into the legality and validity of the Bonds, which bear interest from their date of issuance until their maturity or redemption at the rates described in the text on the Bonds. The Bonds mature and are subject to redemption prior to maturity in the manner, and under the terms and conditions, described in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Bonds, including (i) one of the executed Bonds (Bond No. R-1), (ii) the Indenture (described below), (iii) the *Economic Development Contract*, dated as of June 1, 2003, between the **CITY OF SAN ANTONIO, TEXAS** (the "*City*") and Issuer (the "*Economic Development Contract*"), (iv) 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*"), (v) the opinion of Michael Bernard, as City Attorney of the City, and (vi) various certificates and documents executed by officers of the Issuer and the City, upon which certificates, documents and opinion we rely as to certain matters stated below.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that the Issuer, created by the City, is a nonprofit industrial development corporation duly and validly incorporated, existing, and functioning under and pursuant to the Constitution and laws of the State of Texas, particularly the Development Corporation Act (now codified as it applies to the Issuer at Chapter 501, Texas Local Government Code, as amended - the "*Act*"); that the resolution authorizing the issuance of the Bonds (the "*Bond Resolution*") has been duly and lawfully adopted and constitutes a valid and binding obligation of the Issuer; and that the Bonds have been authorized, issued, and delivered in accordance with law and constitute valid and legally binding special limited revenue obligations of the Issuer, enforceable against the Issuer in accordance with their terms, with the principal of, redemption premium, if any, and interest on the Bonds, and other payments with respect to the Bonds, being payable from, and secured by a lien on and pledge of, the payments to be made or paid, or caused to be made or paid, to the Trustee (hereinafter defined) pursuant to the Indenture and the Economic Development Contract.

THE BONDS ARE SECURED by an Indenture of Trust, dated as of June 1, 2003 (the "**Trust Indenture**"), as supplemented by the Second Supplemental Indenture, dated as of June 1, 2013 (the "**Second Supplemental Indenture**") and collectively with the Trust Indenture, the "**Indenture**") whereunder **WELLS FARGO BANK, N.A.**, or its successor, is Trustee (the "**Trustee**") 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 Indenture; and it is our opinion that the Indenture has been duly and lawfully authorized, executed, and delivered by the Issuer, and that it is a valid and binding agreement of the Issuer enforceable against the Issuer in accordance with its terms and conditions.

IT IS FURTHER OUR OPINION that the Economic Development Contract has been duly and lawfully authorized, executed, and delivered by the Issuer, and that the Economic Development Contract is valid and binding upon 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 Economic Development Contract 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.

IT IS FURTHER OUR OPINION that the Series 2003 Defeasance and Redemption Account in the Debt Service Fund has been duly authorized and created under the Indenture and that the "**Refunded Bonds**" (as defined in the Bond Resolution) being refunded by the Bonds are outstanding under the Trust Indenture and that certain First Supplemental Indenture, dated as of June 1, 2003, between the Issuer and the Trustee authorizing their issuance, only for the purpose of receiving the funds provided by, and are secured solely by and payable solely from, the cash and investments held in such Series 2003 Defeasance and Redemption Account. 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 to the Series 2003 Defeasance and Redemption Account for the purpose of paying the principal of and interest on the Refunded Bonds.

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 and the interest thereon are payable from sources described in the Bond Resolution and the Indenture, and are not payable from any other funds or resources of the Issuer; and the Bonds and the interest thereon do not constitute, and shall never be considered as, obligations of the State of Texas, the City of San Antonio, Texas, or any other political subdivision or agency of the State of Texas, or of the Board of Directors of the Issuer, either individually or collectively.

THE ISSUER HAS RESERVED THE RIGHT to amend the Indenture as provided therein, and under some, but not all, circumstances, amendments thereto must be approved by the owners of at least a majority in aggregate principal amount of the outstanding Bonds secured by the Indenture.

THE OPINIONS HEREINBEFORE EXPRESSED are qualified to the extent that the obligations of the Trustee and the Issuer, and the enforceability thereof, with respect to the Bonds, the Economic Development Contract and the Indenture are subject to applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally.

IT IS FURTHER OUR OPINION that the Bonds are not obligations described in section 103(a) of the Internal Revenue Code of 1986, as amended, and, therefore, interest on the Bonds is includable in gross income for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion.

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.

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.

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 Issuer, the Economic Development Contract, the Bond Resolution, and the Bonds under the Constitution and laws of the State of Texas, and with respect to the inclusion in 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. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,