OFFICIAL STATEMENT
Dated April 24, 2013

NEW ISSUE – BOOK-ENTRY-ONLY

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

In the opinion of Bond Counsel (as hereinafter defined), interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing law and the Bonds are not private activity bonds. For a discussion of opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations, see "FEDERAL TAX MATTERS" herein.

$70,685,000
CITY OF SAN ANTONIO, TEXAS
MUNICIPAL DRAINAGE UTILITY SYSTEM
REVENUE REFUNDING BONDS, SERIES 2013

Dated: May 1, 2013 (interest accrues from date of delivery) **Due: February 1, as shown herein**

The $70,685,000 "City of San Antonio, Texas Municipal Drainage Utility System Revenue Refunding Bonds, Series 2013" (the "Bonds") are being issued by the City pursuant to the laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and Section 552.051, Texas Local Government Code, as amended, and an ordinance adopted by the City Council of the City on April 4, 2013 (the "Ordinance") to (i) refund for debt service savings a portion of the City's outstanding Municipal Drainage Utility System Revenue Bonds which were issued to finance the costs of drainage improvements, including the acquisition, construction, and repair of structures, equipment, and facilities for the City of San Antonio Municipal Drainage Utility System (the "System"), and (ii) pay the costs of issuance of the Bonds (see "PLAN OF FINANCING" and "THE BONDS - Authority for Issuance of the Bonds" herein). As permitted by the provisions of Chapter 1207, the City Council, in the Ordinance, delegated the authority to certain City officials to execute an Approval Certificate establishing the pricing terms for the Bonds. Pursuant to such authority, the Approval Certificate was executed by the Chief Financial Officer of the City on April 24, 2013.

Interest on the Bonds will accrue from the date of delivery and will be payable on February 1 and August 1 of each year, commencing August 1, 2013, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued as fully registered obligations in book-entry-only form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of $5,000 or any integral multiple thereof. Purchasers of the Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds. So long as the Securities Depository is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by U.S. Bank National Association, Dallas, Texas, as the initial Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners (see "BOOK-ENTRY-ONLY SYSTEM" herein).

The Bonds are payable solely from and secured by a first lien on and a pledge of the Revenues (defined herein) of the System (see "THE BONDS").

The City is obligated to pay the Bonds and the interest thereon solely from the Revenues and neither the full faith and credit nor any physical properties of the City, including the System, are pledged to the payment of the principal of or interest on the Bonds. The Ordinance does not create a mortgage on, or other security interest in, the real or personal property constituting the System. The issuance of the Bonds does not directly or indirectly or contingently obligate the City to levy any form of taxation whatsoever therefor, or to make any appropriation for their payment, except from the Revenues. Neither the full faith and credit nor the taxing power of the City, the State of Texas, or any political subdivision thereof is pledged to the payment of the Bonds.

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

The Bonds are offered for delivery, when, as, and if issued and received by the initial purchasers thereof (the "Underwriters") and subject to the approving opinion of the Attorney General of the State of Texas and the delivery of the legal opinion of Winstead PC, San Antonio, Texas, as Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas (see "LEGAL MATTERS" herein). It is expected that the Bonds will be available for initial delivery through the services of DTC on or about May 16, 2013.

Stifel, Nicolaus & Company, Incorporated

Cabrera Capital Markets, LLC **Loop Capital Markets** **SAMCO Capital Markets, Inc.**

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

$70,685,000
CITY OF SAN ANTONIO, TEXAS
MUNICIPAL DRAINAGE UTILITY SYSTEM REVENUE REFUNDING BONDS, SERIES 2013

Stated Maturity (February 1)	Principal Amount ($)	Interest Rate (%)	Initial Yield (%)	CUSIP No.[1] (796311)
2014	1,410,000	3.000	0.250	CG1
2015	1,455,000	3.000	0.380	CH9
2016	3,515,000	3.000	0.520	CJ5
2017	3,645,000	4.000	0.710	CK2
2018	3,785,000	4.000	0.900	CL0
2019	3,965,000	5.000	1.100	CM8
2020	4,165,000	5.000	1.360	CN6
2021	4,375,000	5.000	1.620	CP1
2022	4,605,000	5.000	1.840	CQ9
2023	4,840,000	5.000	2.020	CR7
2024	5,090,000	5.000	2.170[2]	CS5
2025	5,325,000	4.000	2.530[2]	CT3
2026	5,570,000	5.000	2.500[2]	CU0
2027	5,855,000	5.000	2.630[2]	CV8
2028	6,155,000	5.000	2.720[2]	CW6
2029	3,405,000	4.000	3.000[2]	CX4
2030	3,525,000	3.250	3.360	CY2

Optional Redemption

The Bonds having stated maturities on and after February 1, 2024 are subject to optional redemption in whole or in any part thereof, in the principal amounts of $5,000 or any integral multiple thereof, on February 1, 2023, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption (see “THE BONDS – Redemption Provisions” herein).

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ 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 provided by CUSIP Global Services. CUSIP numbers are included herein solely for the convenience of the owners of the Bonds. Neither the City, the Board, the Co-Financial Advisors nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on February 1, 2023, the first optional call date for such Bonds, at a redemption price of par, plus accrued interest to the redemption date.

CITY OF SAN ANTONIO, TEXAS
CITY ADMINISTRATION

CITY COUNCIL:

Name	Years on City Council	Term Expires	Occupation
Julián Castro, Mayor	3 Years, 11 Months	May 31, 2013	Attorney
Diego M. Bernal, District 1	1 Year, 10 Months	May 31, 2013	Attorney
Ivy R. Taylor, District 2	3 Years, 10 Months	May 31, 2013	College Lecturer
Leticia D. Ozuna, District 3 (1)	1 Year, 3 Months	May 31, 2013	Cyber-Security Specialist
Rey Saldaña, District 4	1 Year, 11 Months	May 31, 2013	Adjunct Professor
David Medina, Jr., District 5	3 Years, 10 Months	May 31, 2013	Project Manager
Ray Lopez, District 6	3 Years, 11 Months	May 31, 2013	Retired
Cris Medina, District 7	1 Year, 10 Months	May 31, 2013	Business Owner
W. Reed Williams, District 8	3 Years, 11 Months	May 31, 2013	Retired
Elisa Chan, District 9	3 Years, 11 Months	May 31, 2013	Business Owner
Carlton Soules, District 10	1 Year, 11 Months	May 31, 2013	Commercial Real Estate

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

CITY OFFICIALS:

Name	Position	Years with City of San Antonio	Years in Current Position
Sheryl L. Sculley (1)	City Manager	7 Years, 6 Months	7 Years, 6 Months
Erik J. Walsh	Deputy City Manager	18 Years, 11 Months	1 Year, 7 Months
Peter Zanoni (2)	Deputy City Manager	16 Years, 1 Month	5 Months
Ed Belmares	Assistant City Manager	6 Years, 3 Months	1 Year, 6 Months
David Ellison	Assistant City Manager	1 Year, 10 Months	1 Year, 1 Month
Carlos Contreras (3)	Assistant City Manager	4 Years, 3 Months	5 Months
Gloria Hurtado (4)	Assistant City Manager	2 Years, 1 Month	5 Months
Michael D. Bernard	City Attorney	7 Years, 6 Months	7 Years, 6 Months
Leticia M. Vacek	City Clerk	8 Years, 10 Months	8 Years, 10 Months
Ben Gorzell, Jr.	Chief Financial Officer	22 Years, 5 Months	2 Years, 9 Months
Troy Elliott	Director of Finance	16 Years, 8 Months	1 Year, 7 Months
Majed A. Al-Ghafry	Director of Public Works	5 Years, 3 Months	5 Years, 3 Months
Maria Villagomez	Director of Management and Budget	15 Years, 7 Months	3 Years, 6 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. Zanoni 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:

Bond Counsel	Winstead PC, San Antonio, Texas
Certified Public Accountants	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 and the information contained herein are subject to completion and amendment. Under no circumstances will this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

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

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

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.

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

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

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

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OFFICIAL STATEMENT
Relating to the

$70,685,000
CITY OF SAN ANTONIO, TEXAS
MUNICIPAL DRAINAGE UTILITY SYSTEM
REVENUE REFUNDING BONDS, SERIES 2013

INTRODUCTION

This Official Statement of the City of San Antonio, Texas (the "City") is provided to furnish information in connection with the sale of the "City of San Antonio, Texas Municipal Drainage Utility System Revenue Refunding Bonds, Series 2013" (the "Bonds"), in the aggregate principal amount of $70,685,000. This Official Statement describes the Bonds, the Ordinance (defined herein), and certain other information about the City and the System (defined herein). All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Capitalized terms not defined herein have the meanings ascribed thereto in the Ordinance (see "APPENDIX B – Selected Provisions of the Ordinance" attached hereto). Copies of such documents may be obtained 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, 600 Navarro, Suite 350, San Antonio, Texas, 78205, or Estrada Hinojosa & Company, Inc., 100 W. Houston Street, Suite 1400, San Antonio, Texas, 78205, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

The City is a home rule municipality that operates pursuant to the Home Rule Charter of the City (the "City Charter"), which was adopted on October 2, 1951 and became effective on January 1, 1952, whereby subject only to the limitations imposed by the Texas Constitution, Texas Statutes, and the City Charter, all powers of the City are vested in an 11-member council (the "City Council") which enacts legislation, adopts budgets, and determines policies. The City Charter provides for a Council-Manager form of government with ten council members elected from single-member districts and a Mayor elected at large, each serving two-year terms, limited to four full two-year terms of office as required by the City Charter. All members of the City Council stand for election at the same time in odd-numbered years. The City Council appoints a City Manager who administers the government of the City and serves as the City's chief administrative officer. The City Manager serves at the pleasure of the City Council.

The City's geographic area covers approximately 467 square miles (both full purpose and limited purpose annexations) and is located in South Central Texas, approximately 80 miles south of the Texas capital in Austin, 282 miles south of Dallas, 199 miles west of Houston, and 150 miles north of the United States/Mexico border. The City serves as the county seat for Bexar 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 A 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 C hereto.

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

PLAN OF FINANCING

Purpose

The Bonds are issued to (i) provide funds required to refund certain currently outstanding revenue bonds of the City (the "Refunded Bonds") that are further described in "SCHEDULE I" attached hereto, and (ii) pay costs related to the issuance of the Bonds. The Refunded Bonds were issued to finance the costs of drainage improvements, including the acquisition, construction, and repair of structures, equipment, and facilities for the City's Municipal Drainage Utility System (the "System").

Refunded Bonds

The principal and interest due on the Refunded Bonds are to be paid on the scheduled interest payment, maturity, and redemption dates, as applicable, of such Refunded Bonds, from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and U.S. Bank National Association, Dallas, Texas (the "Escrow Agent"). The Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriters, the City will deposit with the Escrow Agent the amount necessary, together with other lawfully available funds of the City, if any, to accomplish the discharge and final payment of the Refunded Bonds on their scheduled maturity or redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

Prior to, or simultaneously with, the issuance of the Bonds, the City will give irrevocable instructions to provide notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Bonds from money held under the Escrow Agreement.

Causey Demgen & Moore P.C., a nationally recognized accounting firm (the "Verification Agent"), will verify at the time of delivery of the Bonds to the Underwriters thereof the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Federal Securities will not be available to pay the Bonds. See "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS" herein.

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

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

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Sources and Uses

The following represents a summary of the application of the Bond proceeds and the City's contribution and the sources and uses of funds:

Sources of Funds:	
Par Amount of Bonds	$70,685,000.00
Net Premium	12,350,161.50
Total	$83,035,161.50
Uses of Funds:	
Escrow Fund Deposit	$82,339,161.48
Costs of Issuance and Additional Proceeds	300,118.46
Underwriters' Discount	395,881.56
Total	$83,035,161.50

THE BONDS

General Description

Interest on the Bonds accrues from the date of delivery, and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2013. The principal of and interest on the Bonds are payable in the manner described herein under "BOOK-ENTRY-ONLY SYSTEM." In the event the Book-Entry-Only System is discontinued, the interest on the Bonds will be payable to the registered owner as shown on the Register (defined herein) as of the 15th day of the month next preceding such interest payment date, by check, mailed first-class postage prepaid, to the address of such person on the Register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, the principal of the Bonds will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the designated payment office of the Paying Agent/Registrar.

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

Authority for Issuance of the Bonds

The Bonds are issued pursuant to the City Charter, the general laws of the State, particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and Section 552.051, Texas Local Government Code, as amended, and the ordinance adopted by the City Council on April 4, 2013 authorizing the issuance of the Bonds (the "Ordinance"). As permitted by the provisions of Chapter 1207, the City Council, in the Ordinance, delegated the authority to certain City officials to execute an Approval Certificate establishing the pricing terms for the Bonds. Pursuant to such authority, the Approval Certificate was executed by the Chief Financial Officer of the City on April 24, 2013.

Security for the Bonds

General. Pursuant to authority conferred by the Municipal Drainage Utility System Act (currently found in Subchapter C of Chapter 552, Texas Local Government Code, as amended (the "Act")), the City Council adopted an ordinance in 1997 declaring the drainage of the City to be a public utility, enabling the City to bill, along with other municipal utility system billings, a separate charge against lots and tracts of benefited property in the City for drainage services. The 1997 creation ordinance was validated pursuant to the provisions of Section 51.003, Texas

Local Government Code, as amended. The City has issued two series of bonds payable from the Revenues (as defined in the Ordinance) of the System, being the $44,150,000 "City of San Antonio, Texas Municipal Drainage Utility System Revenue Bonds, Series 2003," currently outstanding in the aggregate principal amount of $31,920,000 (the "Series 2003 Bonds"), and the $61,060,000 "City of San Antonio, Texas Municipal Drainage Utility System Revenue Bonds, Series 2005," currently outstanding in the aggregate principal amount of $49,045,000 (the "Series 2005 Bonds") (the Series 2003 Bonds and the Series 2005 Bonds collectively, the "Outstanding Bonds"). All but $3,770,000 in principal amount of the Outstanding Bonds is being refunded with proceeds of the Bonds, with the 2014 and 2015 maturities of the Series 2005 Bonds remaining outstanding (see Schedule I herein).

Special Obligations. The Bonds, together with the Outstanding Bonds and any Additional Bonds (defined herein) issued in the future (collectively, the "Bonds Similarly Secured") are special and limited obligations of the City, payable solely from and secured by a first lien on and pledge of the Revenues. The City is not obligated to pay the Bonds or the interest thereon from any source except from the Revenues and neither the full faith and credit nor any physical properties of the City, including the System, are pledged to the payment of the Bonds. The issuance of the Bonds does not directly or indirectly or contingently obligate the City to levy any form of taxation or to make any appropriation for their payments except from the Revenues. **NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF TEXAS, OR ANY OTHER POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS**.

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

Additional Bonds. Subject to satisfying the terms and conditions prescribed therefor, the City has reserved the right to issue additional revenue obligations payable from and equally and ratably secured by a parity lien on and pledge of the Revenues (the "Additional Bonds"), in the same manner and to the same extent as the Bonds.

The Ordinance permits the City to issue Additional Bonds for any authorized purpose, including the issuance of refunding bonds. Among the conditions specified for the issuance of such Additional Bonds, the City is required to secure a certificate of the City Manager or the City's Chief Financial Officer to the effect that, according to the books and records of the City, the Revenues for the last completed Fiscal Year, or for 12 consecutive months out of the 18 months, immediately preceding the date of issuance of the Additional Bonds (the date of issuance being the date of delivery of all or a portion of the Additional Bonds to the initial purchasers thereof) are at least equal to 1.25 times the Average Annual Debt Service Requirements for all Bonds Similarly Secured after giving effect to the issuance of the Additional Bonds then being issued. In making a determination of the Revenues, the City Manager or the City's Chief Financial Officer may take into consideration a change in the charges for services afforded by the System that became effective at least 60 days prior to the last day of the period for which Revenues are determined and, for purposes of satisfying the above coverage test relating to Revenues, make a pro forma determination of the Revenues for the period of time covered by the certification based on such change in charges being in effect for the entire period covered by the certificate of the City Manager or the City's Chief Financial Officer (see "APPENDIX B – Selected Provisions of the Ordinance").

Reserve Fund. The City has provided for the creation of the Reserve Fund. The amount to be accumulated and maintained in such fund is an amount at least equal to the Average Annual Debt Service requirements of both the Bonds and any Additional Bonds issued on a parity therewith. The total amount to be accumulated and maintained in the Reserve Fund may be established in whole or in part from the Revenues, the proceeds of the sale or sales of Bonds Similarly Secured, or by depositing to the credit of the Reserve Fund one or more surety bonds or insurance policies issued by a company or institution issuing such bonds or policies in its normal course of business; provided, however, that the City is not required to fund the Reserve Fund when Revenues for each Fiscal Year are equal to at least 1.75 times the Average Annual Debt Service Requirements (see "APPENDIX B – Selected Provisions of the Ordinance"). Due to the sufficiency of Revenues generated by the System, the City has never been required to fund the Reserve Fund nor will any funds be deposited into the Reserve Fund upon delivery of the Bonds (see Table 3 – "Historical and Projected System Operating Cashflow" for recent historical and projected Revenue information).

Rate Covenant. In the Ordinance, the City agrees, while any of the Bonds are outstanding, to establish, maintain, and impose monthly drainage charges for facilities and services afforded by the System reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Revenues in each Fiscal Year (i) to pay the principal of and interest on the Bonds Similarly Secured (including any credit agreement) and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Bonds Similarly Secured, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a first lien on and pledge of the Revenues; (ii) to pay for all Operating and Maintenance Expenses; (iii) in an amount equivalent to at least 1.25 times the annual Debt Service Requirements for the Fiscal Year on the Bonds Similarly Secured then outstanding; and (iv) to pay all other indebtedness payable from and/or secured in whole or in part by a lien on and pledge of the Revenues (see APPENDIX B – Selected Provisions of the Ordinance").

Flow of Funds. In the Ordinance, the City covenants and agrees that the Revenues (excluding earnings and income derived from investments held in the Bond Fund and the Reserve Fund) will be deposited as collected and designated as a fund maintained at an official depository of the City to be credited on the books and records of the City as the "Drainage Utility System Fund" (the "System Fund"). All Revenues deposited in the System Fund are pledged and appropriated, to the extent required, for the following uses and in the order of priority shown:

First: To the payment of the amounts required to be deposited in the Bond Fund for the payment of Debt Service Requirements on the Bonds Similarly Secured (including any credit agreement) as the same becomes due and payable;

Second: To the payment of all necessary and reasonable Operating and Maintenance Expenses; and

Third: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of the Ordinance or any other ordinance authorizing the issuance of Bonds Similarly Secured including payment amounts, if any, pursuant to the terms of a credit facility.

Amounts remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be transferred to the City's General Fund or used for any other purpose now or hereafter permitted by law.

Redemption Provisions

Optional Redemption. The City reserves the right, at its sole option, to redeem the Bonds stated to mature on or after February 1, 2024, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof on February 1, 2023, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. The City will determine the maturity or maturities, and the principal amount of the Bonds within each maturity to be redeemed. If less than all of the Bonds within a stated maturity are to be redeemed, the particular Bonds to be redeemed will be selected at random and by lot by the Paying Agent/Registrar.

Notice of Redemption. At least 30 days prior to the date fixed for any redemption of any Bonds or portions thereof prior to stated maturity, the City must cause written notice of such redemption to be sent by United States mail, first-class postage prepaid, to the registered owner of each Bond or a portion thereof to be redeemed at its address as it appeared on the registration books of the Paying Agent/Registrar (the "Register") on the day such notice of redemption is mailed. By the date fixed for any such redemption, due provision must be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or portions thereof which are to be so redeemed. If such notice of redemption is given and if due provision for such payment is made, all as provided above, the Bonds or portions thereof which are to be so redeemed thereby automatically will be treated as redeemed prior to their scheduled maturities, and they will not bear interest after the date fixed for redemption, and they will not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

Denominations. Bonds of a denomination larger than $5,000 may be redeemed in part ($5,000 or any integral multiple thereof). Any Bonds to be partially redeemed may be surrendered in exchange for one or more new Bonds in authorized denominations of the same stated maturity, series, and interest rate for the unredeemed portion of the principal.

Redemption through The Depository Trust Company. The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance, or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, or by any DTC Participant or Indirect Participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of the Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of the Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed thereupon will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants, or the persons for whom DTC Participants act as nominees with respect to the payments on the Bonds or the providing of notice to DTC Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption (see "BOOK-ENTRY-ONLY SYSTEM").

Paying Agent/Registrar

The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas (the "Paying Agent/Registrar"). In the Ordinance, the City covenants to provide a competent and legally qualified bank, trust company, financial institution, or other entity to act as and perform the services of Paying Agent/Registrar at all times until the Bonds are duly paid, and the City retains the right to replace the Paying Agent/Registrar.

Successor Paying Agent/Registrar

Provision is made in the Ordinance for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any Paying Agent/Registrar selected by the City must be either a qualified national or state banking or financing institution doing business under the laws of the United States of America or of any state and legally authorized to exercise trust powers and to serve as a Paying Agent/Registrar. The successor Paying Agent/Registrar, if any, will be determined by the City. Upon a change in the Paying Agent/Registrar for the Bonds, the City is required to promptly cause written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class postage prepaid.

Transfer, Exchange, and Registration

In the event the Bonds are not in the Book-Entry-Only System, the Bonds may be registered, transferred, assigned, and exchanged on the Register only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration, transfer, and exchange will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, transfer, and exchange. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated payment office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk, and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner, to the extent possible, within three business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer will be in denominations of $5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount, series, and rate of interest as the Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized in regard to ownership and transferability of the Bonds.

Mutilated, Destroyed, Lost, or Stolen Bonds

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

Limitation on Transfer

Neither the City nor the Paying Agent/Registrar will be required to transfer or exchange any Bonds (i) during the period commencing at the close of business on the Record Date (defined herein) and ending at the opening of business on the next interest payment date and (ii) with respect to the Bonds selected for redemption in whole or in part, within 45 days of the date fixed for redemption; provided, however, this limitation is not applicable to the transfer or exchange of the unredeemed balance of the Bonds called for redemption in part.

Record Date for Interest Payment

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

Amendments

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

Defeasance

The Ordinance provides for the defeasance of the Bonds when payment of the principal on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise) is provided by irrevocably depositing with a paying agent in trust (i) money in an amount sufficient to make such payment and (ii) Government Securities certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the respective series of Bonds. The Ordinance provides that "Government Securities" means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding or unpaid; provided, however, the City has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which have been defeased to their maturity date, if the City (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Payment Record

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

Bondowners' Remedies

The Ordinance provides that if the City defaults in the payment of principal of or interest on the Bonds when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body of the City and other officers of the City to observe and perform any covenant, condition, or obligation prescribed in the Ordinance. 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 Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the Bondowners upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, Bondowners may not be able to bring such a suit against the City for breach of the covenants included in the Bonds or the Ordinance. 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 is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues (such as the 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 Bondowners 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 Bond Counsel will note with respect to the Bonds that all opinions relative to the enforceability of the Ordinance and the Bonds 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.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by DTC, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Co-Financial Advisors, and the Underwriters believe the source of such information to be reliable, but such parties take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the 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, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC, the world's largest 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. DTC 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 companies 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 United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase.

Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction.

Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee, do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a 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 the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

The Paying Agent/Registrar and the City, as long as the DTC book-entry system is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance, or other notices with respect to such Bonds only to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant to notify the Beneficial Owners, of any notices and their contents or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its book-entry system, a redemption of such Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of the Bonds to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility or obligation to Direct Participants, Indirect Participants, or the persons for whom DTC Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, payment or notices that are to be given to registered owners under the Ordinance will be given only to DTC.

THE SYSTEM

The Act provides the statutory authority for municipalities to establish a drainage utility system and to develop a corresponding schedule of charges therefor within the municipality and, in certain circumstances, within the municipality's extraterritorial jurisdiction. This statutory authority was created in order to provide municipalities with a funding source to comply with the federal Environmental Protection Agency's (the "EPA") mandated stormwater quality requirements, as well as to pay local drainage system operating and maintenance costs. Additionally, the revenues resulting from these drainage fees can be pledged to the payment of debt incurred for drainage improvement purposes.

The City currently assesses two drainage fees, known as the "Fee In Lieu of Detention Pond" and the "Stormwater Drainage Service Fee," respectively.

In response to the aforementioned EPA requirements, the City created the System and established its System Fund in September 1997 to capture revenues from and pay expenditures for services related to the management of municipal drainage activity. The City, the Texas Department of Transportation – San Antonio District, and the City-owned utility named the San Antonio Water System ("SAWS"), as co-permitees under the "National Pollutant Discharge Elimination System" ("NPDES"), Permit No. TX 58001901 (the "Permit"), are responsible for stormwater runoff quality monitoring and maintenance. The Permit has been delegated by the EPA to the Texas Commission on Environmental Quality ("TCEQ") for renewal as NPDES Permit No. 24284. The Permit is renewed every five years. The latest permit was set to expire in September 2012. The current renewal was submitted to TCEQ for review in April 2012. In this renewal, the City, SAWS, and the Texas Department of Transportation – San Antonio District identified their role in the managing of any discharge entering into the Municipal Separate Storm Sewer System (MS4). In June 2012, TCEQ acknowledged receipt of the renewal and is currently reviewing the submittal. Until the completion of this review, the City operates under the existing permit requirements.

As a result of the responsibilities arising under the Permit, the City and SAWS entered into an interlocal contract (the "Interlocal Contract") to set forth the specific responsibilities of each entity in accomplishing the implementation of the Permit's requirements. Under the Interlocal Contract, the City retains overall responsibility relating to its drainage activity. SAWS is obligated to perform certain duties relating to the City's municipal drainage activity, including: (i) instream monitoring, sampling, testing, and analysis; (ii) industrial site inspection; (iii) water quality modeling on a watershed basis; (iv) illicit connection inspection; (v) billing, collection/accounting, and other customer service functions; (vi) legal services; and (vii) public education. The terms of the Interlocal Contract also require that SAWS annually prepare a work plan and budget, which is approved by the City, detailing specific programs to be undertaken that year and the proposed costs therefor. For Fiscal Year 2013, the amount budgeted by the City for these anticipated costs totaled $5,028,241, for which SAWS is reimbursed from collected drainage fees and the actual costs for Fiscal Year 2012 were $4,458,241.

Fee In Lieu of Detention Pond. The Fee in Lieu of Detention Pond, a one-time assessment levied against developers of land and assessed and collected by the City. Since the inception of the fee in 1997 until March 31, 2013, the fee had been as follows:

Detached single-family and two-family duplex residential developments: $1,200 per acre or $750 per lot, whichever is less;
Residential development other than one-family and two-family: $1,600 per acre;
Non-residential with less than 65% impervious cover: $2,600 per acre;
Non-residential with 65% or more impervious cover: $3,000 per acre; and
Building permits with additional impervious cover.

Pursuant to an ordinance approved by the City Council on January 31, 2013, the Fee in Lieu of Detention Pond will be, for the period between April 1, 2013 through November 30, 2015, as follows:

Single Family:	$0.15 rate per square feet of impervious cover;
Multi Family:	$0.15 rate per square feet of impervious cover;
Commercial:	$0.20 rate per square feet of impervious cover; and
Industrial:	$0.15 rate per square feet of impervious cover.

On and after December 1, 2015, the Fee in Lieu of Detention Pond will be as follows:

Single Family:	$0.15 rate per square feet of impervious cover;
Multi Family:	$0.20 rate per square feet of impervious cover;
Commercial:	$0.25 rate per square feet of impervious cover; and
Industrial:	$0.20 rate per square feet of impervious cover.

The new fees effective on April 1, 2013 and December 1, 2015 described above are modified for certain constituents as follows:

For Inner City Reinvestment Infill Policy (ICRIP):	50% of new fee categories per square feet of impervious cover;
For Infill Development Zone (IDZ):	No fee; and
For Public Facilities:	$0.15 (increasing to $0.20 on December 1, 2015) rate per square feet of impervious cover with consideration that all school projects funded through either a bond or maintenance tax note prior to April 1, 2013 will be assessed at the rate of 50% of the new fee for public facilities.

The Fee in Lieu of Detention Pond is not assessed against drainage easements or rights of usage (if either is in a pervious condition) or permanent detention facilities.

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Stormwater Drainage Service Fee. The monthly Stormwater Drainage Service Fee is collected by SAWS from its customers pursuant to the terms of the Interlocal Contract. The following schedule depicts the current Stormwater Drainage Service Fees:

Customer Class/Tier	Billing Unit by Square Foot (SF)	Billing Unit Monthly Charge
Residential Rates		
Tier 1	0 – 4,999	$ 3.22
Tier 2	5,000 or more	4.25
Multifamily Rates		
Tier 1	0 – 21,999	$ 7.19
Tier 2	22,000 – 43,999	22.39
Tier 3	44,000 – 131,999	67.90
Tier 4	132,000 or more	323.09
Commercial/General Rates		
Tier 1	0 – 21,999	$ 18.32
Tier 2	22,000 – 43,999	50.12
Tier 3	44,000 – 86,999	89.82
Tier 4	87,000 – 131,999	154.81
Tier 5	132,000 or more	342.03
Public Stormwater Rates		
Tier 1	0 – 21,999	$ 18.15
Tier 2	22,000 – 43,999	49.64
Tier 3	44,000 – 86,999	89.66
Tier 4	87,000 or more	151.57

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The following Tables 1 through 3, provided by the City's Finance Department, contain information on Operating Revenues and Expenditures, Debt Service Requirements and Coverage Ratios, and the historical and projected financial performance for the System.

The System's operating revenues and expenditures are shown below for the past five Fiscal Years.

Table 1 – Condensed Statement of Operations

	Fiscal Year Ended September 30				
	2012	2011	2010	2009	2008
Revenues:					
Stormwater Drainage Service Fee	$38,187,270	$37,575,574	$36,972,482	$36,306,220	$33,493,145
Fee In Lieu of Detention Pond	2,801,639	2,808,810	2,143,087	2,694,645	5,211,330
Miscellaneous	695,142	45,477	107,178	22,907	71,973
Interest Income	133,526	156,629	168,358	530,178	1,006,093
Transfers from Other Funds	5,822	-0-	1,000,000	-0-	-0-
Total Revenues	$41,823,399	$40,586,490	$40,391,105	$39,553,950	$39,782,541
Less: Fee In Lieu of Detention Pond Revenues [1]	(2,923,988)	(2,939,600)	(2,349,765)	(3,104,971)	(6,103,415)
Total Stormwater Revenues Available for Debt Service Requirements	$38,899,411	$37,646,890	$38,041,340	$36,448,979	$33,679,126
Expenditures:					
Drainage Improvement	$28,475,280	$27,572,958	$25,868,936	$22,244,082	$21,656,457
Maintenance [2]	833,835	753,715	800,931	1,799,168	2,882,081
Transfers to Other Funds	17,599,999	14,021,020	13,226,142	12,249,226	12,924,022
Total Expenditures	$46,909,114	$42,347,693	$39,896,009	$36,292,476	$37,462,560
Less: Fee In Lieu of Detention Pond Expenditures	(5,138,175)	(4,039,451)	(1,713,771)	(5,172,179)	(6,796,148)
Total Stormwater Expenditures	$41,770,939	$38,308,242	$38,182,238	$31,120,297	$30,666,412
Excess of Stormwater Revenues over Expenditures and Other Financing Uses	$(2,871,528)	$ (661,352)	$ (140,898)	$ 5,328,682	$ 3,012,714
Fund Balance at Beginning of Year	$35,030,387	$36,780,647	$36,285,552	$33,024,077	$30,704,097
Less: Fee In Lieu of Detention Pond Fund Balance at Beginning of Year	(23,000,605)	(24,093,162)	(23,457,169)	(25,524,376)	(26,217,110)
Less: Capital Expenditures	-0-	-0-	-0-	-0-	-0-
Plus: Fee In Lieu of Detention Pond Capital Expenditures	-0-	-0-	-0-	-0-	-0-
Stormwater Fund Balance at End of Year	$ 9,158,254	$12,026,133	$12,687,485	$12,828,383	$ 7,499,701

[1] Includes Fee in Lieu of Detention Pond, along with interest and other miscellaneous income related thereto.
[2] Includes transfers to SAWS for collection of the Stormwater Drainage Service Fee and to pay the costs of certain designated projects (see "THE SYSTEM").

The ratios of total revenues to the average annual and maximum annual debt service requirements for the System are shown below:

Table 2 – Coverage and Fund Balances

Fiscal Year 2012 Total Revenues Available for Debt Service Requirements	$38,899,411
Average Annual Debt Service Requirements	$ 6,200,455
Coverage of Annual Average Debt Service Requirements	6.27x
Maximum Annual Debt Service Requirements for Fiscal Year 2017	$ 6,564,063
Coverage of Maximum Debt Service Requirements	5.93x

A comparison of the revenues and expenditures for the past five Fiscal Years and the projections for the subsequent five Fiscal Years is shown below.

Table 3 – Historical and Projected System Operating Cashflow

Historical [1]	Fiscal Year Ended September 30				
	2008	2009	2010	2011	2012
Stormwater Revenues:					
Gross Operating Revenues	$33,493,145	$36,306,220	$36,972,482	$37,575,574	$38,187,270
Gross Non-Operating Revenues	185,981	142,759	1,068,858	71,316	712,141
Total Gross Revenues Available for Debt Service	$33,679,126	$36,448,979	$38,041,340	$37,646,890	$38,899,411
The Bonds Debt Service Requirements	$7,308,625	$7,301,638	$7,302,038	$7,304,500	$7,307,919
The Bonds Debt Service Coverage	4.61x	4.99x	5.21x	5.15x	5.32x

Projected	Fiscal Year Ended September 30				
	2013	2014	2015	2016	2017
Stormwater Revenues:					
Gross Operating Revenues	$38,368,076	$38,751,757	$39,139,275	$39,530,668	$39,925,975
Gross Non-Operating Revenues	50,683	50,683	50,683	50,683	50,683
Total Gross Revenues Available for Debt Service	$38,418,759	$38,802,440	$39,189,958	$39,581,351	$39,976,658
The Bonds Debt Service Requirements	$6,051,151	$6,556,969	$6,560,031	$6,559,688	$6,564,063
The Bonds Debt Service Coverage	6.35x	5.92x	5.97x	6.03x	6.09x

[1] Includes an increase of 8.24% in Stormwater Drainage Fees effective October 1, 2007.

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Table 4 below shows the debt service payable on the Bonds.

Table 4 – Debt Service Schedule [1]

			The Bonds			
Fiscal Year	Existing Debt Service	Less: Refunded Bonds Debt Service	Principal	Interest	Annual Debt Service	Total Debt Service Requirement
2013	$ 7,303,100	$ 1,915,150		$ 663,201	$ 663,201	$ 6,051,151
2014	7,304,656	5,319,900	$ 1,410,000	3,162,213	4,572,213	6,556,969
2015	7,303,694	5,317,900	1,455,000	3,119,238	4,574,238	6,560,031
2016	7,304,850	7,304,850	3,515,000	3,044,688	6,559,688	6,559,688
2017	7,307,663	7,307,663	3,645,000	2,919,063	6,564,063	6,564,063
2018	7,302,719	7,302,719	3,785,000	2,770,463	6,555,463	6,555,463
2019	7,303,781	7,303,781	3,965,000	2,595,638	6,560,638	6,560,638
2020	7,303,531	7,303,531	4,165,000	2,392,388	6,557,388	6,557,388
2021	7,301,450	7,301,450	4,375,000	2,178,888	6,553,888	6,553,888
2022	7,306,769	7,306,769	4,605,000	1,954,388	6,559,388	6,559,388
2023	7,303,272	7,303,272	4,840,000	1,718,263	6,558,263	6,558,263
2024	7,305,772	7,305,772	5,090,000	1,470,013	6,560,013	6,560,013
2025	7,304,538	7,304,538	5,325,000	1,236,263	6,561,263	6,561,263
2026	7,307,163	7,307,163	5,570,000	990,513	6,560,513	6,560,513
2027	7,307,694	7,307,694	5,855,000	704,888	6,559,888	6,559,888
2028	7,306,869	7,306,869	6,155,000	404,638	6,559,638	6,559,638
2029	4,331,750	4,331,750	3,405,000	182,663	3,587,663	3,587,663
2030	4,330,625	4,330,625	3,525,000	57,281	3,582,281	3,582,281
Totals	$125,539,894	$116,181,394	$70,685,000	$31,564,682	$102,249,682	$111,608,182

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

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 December 31, 2012, investable City funds in the approximate amount of $1,248,534,748 were 87.16% invested in obligations of the United States, or its agencies and instrumentalities, 7.26% invested in a money market mutual fund, 2.43% invested in a local government investment pool, and 3.15% 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

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 C. 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 Supreme Court accepted the Petition for Review. Oral arguments were 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 $250,000. 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. The Fifth Circuit dismissed the interlocutory appeal on December 5, 2012. This matter is set for trial on June 24, 2013.

Smith, et. al. v. Ybarra, et. al. Plaintiffs' decedent was killed in a motor vehicle accident. Plaintiffs filed suit against the driver of the vehicle involved, as well as the City. As to the City, Plaintiffs contend that paramedics did not render medical aid to decedent based on their mistaken belief that she was already dead. Damages could be up to $250,000. The driver of the vehicle involved was criminally prosecuted. In February 2012, a jury found her guilty of intoxication manslaughter and she was sentenced to two years in jail. The civil matter has not been set for trial.

KGME, Incorporated v. City of San Antonio. Plaintiff entered into a contract with the City to provide construction services. The parties determined that work on portions of the contract had become impracticable and further work would cease. Plaintiff sued for breach of contract and violations of the Prompt Payment Act. Damages could exceed $250,000. The City filed a plea to the jurisdiction, which was denied by the trial court. The Fourth Court of Appeals issued its opinion on February 16, 2011, affirming the trial court's denial of the City's plea to the jurisdiction. The case was remanded back to State Court. This case is set for trial on June 13, 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. In October 2012, the Plaintiffs filed a Petition for Review to the Texas Supreme Court. On January 18, 2013, the Supreme Court denied the Petition. Plaintiffs have filed a Motion for Reconsideration with the Texas Supreme Court. 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 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 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 $250,000. This case is set for trial on 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 $250,000. This case is set for trial on July 29, 2013.

Natasha Brown v. City of San Antonio. Plaintiff sued under the Texas Tort Claims Act for injuries sustained in a motor vehicle accident. A San Antonio Police Officer was tracking another officer when the vehicle in front of him stopped at a red light. The officer hit the vehicle from behind as he was unable to stop on time. Plaintiff had lower back surgery after the accident to fuse a herniated disc the Plaintiff claims resulted from the automobile accident. Plaintiff also complains of a damaged nerve that is causing numbness to her leg. Medical expenses are estimated to be over $100,000. Total damages, including lost wages, pain and suffering may reach $250,000. The case is in the discovery stage and scheduled for trial on June 3, 2013.

San Juana Salas v. City of San Antonio. A City pick-up truck rear-ended another vehicle in which Plaintiff was a passenger. Liability is disputed. Plaintiff has accrued approximately $65,000 in past medical expenses, with expected future medical expenses of over $190,000. Plaintiff also seeks damages for pain and suffering. This matter is currently set for trial on October 15, 2013.

Russell Martin v. City of San Antonio. Plaintiff was employed as a Police Officer at the San Antonio International 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. 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 Review, 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 Valemas 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.

Katherine Calvillo v. City of San Antonio. Plaintiff was a passenger in a vehicle struck by a San Antonio Police Department 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 $250,000. This case is set for trial on May 13, 2013.

Silverado Brothers v. AT&T, et. al. Plaintiff contracted to perform street and sidewalk work for the 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 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 suit to include the City as a responsible party, based on representations that lines would be properly marked. This case is currently set for trial on November 4, 2013.

FEDERAL TAX MATTERS

Tax Exemption

The delivery of the Bonds is subject to the opinion of Winstead PC, Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinion appears in APPENDIX D hereto.

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

In rendering the foregoing opinions, Bond Counsel will rely upon the report of Causey Demgen & Moore P.C., certified public accountants, regarding the sufficiency of the deposit to the Escrow Fund on the date of Closing and upon representations and certifications of the City made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Ordinance by the City subsequent to the issuance of the Bonds. The Ordinance contains covenants by the City respect to, among other matters, the use of the proceeds of the Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage "profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

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

Law Changes

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent owners of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability, or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives, or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives, or litigation.

Ancillary Tax Consequences

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Accounting Treatment of Discount Bonds

The initial public offering price to be paid for certain Bonds is less than the amount payable on such Bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such accrued interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

In the event of the sale or other taxable disposition of a Discount Bond prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

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

Tax Accounting Treatment of Premium Bonds

The initial public offering price to be paid for certain Bonds is greater than the stated redemption price on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium with respect to the Premium Bonds. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

LEGAL MATTERS

The City will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State to the effect that the Bonds are valid and legally binding special obligations of the City, and based upon examination of such transcript of proceedings, the legal opinion of Bond Counsel to the effect that the Bonds are valid and legally binding special obligations of the City and, subject to the qualifications set forth herein under "FEDERAL TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner, questioning the validity of the Bonds will also be furnished. Bond Counsel has been engaged by, and only represents, the City. In its capacity as Bond Counsel, Winstead PC, San Antonio, Texas, has reviewed the information appearing in this Official Statement under the captions "THE BONDS" (except for the information under the captions "Security for the Bonds – Perfection of Security Interest," and "Payment Record" as to which no opinion is expressed), "FEDERAL TAX MATTERS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "LEGAL MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (except under the caption "Compliance with Prior Undertakings" as to which no opinion is expressed), "APPENDIX B – Selected Provisions of the Ordinance," and "APPENDIX D - Form of Bond Counsel's Opinion" to determine whether such information accurately and fairly describes and summarizes the information, material, and documents and legal issues referred to therein and is correct as to matters of law and such firms are of the opinion that the information relating to the Bonds, the Ordinance, and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and the legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy and completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinions of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on issuance and delivery of the Bonds. The form of the legal opinion of Bond Counsel is attached hereto as APPENDIX D. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas.

Winstead PC represents the Underwriters from time to time on matters unrelated to the Bonds. McCall, Parkhurst & Horton L.L.P. represents the City and its subordinate units from time to time.

Neither the Attorney General of the State of Texas, Bond Counsel, nor Underwriters' Counsel has been engaged to investigate or verify, and accordingly neither will express any opinion concerning, the financial condition or capabilities of the City or the sufficiency of the security for, or the value or marketability of, the Bonds.

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

RATINGS

The Bonds have been assigned ratings of "AA," "Aa2" and "AA+," respectively, from 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"). The ratings of the Bonds by Fitch, Moody's and S&P reflect only the views of said companies at the time the ratings are given, and the City makes no representation as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by Fitch, Moody's, and S&P if, in the judgment of said companies, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually and timely notice of specified material events to the Municipal Securities Rulemaking Board (the "MSRB"). The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal Market Access ("EMMA") system through an internet website accessible at www.emma.msrb.org as described below under "Availability of Information."

Annual Reports

Under Texas law, including, but not limited to, Chapter 103, as amended, Texas Local Government Code, the City must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant and must maintain each audit report within 120 days after the close of the City's Fiscal Year. The City's fiscal records and audit reports are available for public inspection during the regular business hours, and the City is required to provide a copy of the City's audit reports to any bondowner or other member of the public within a reasonable time on request upon payment of charges prescribed by the Texas General Services Commission.

The City will file certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in Tables 1 through 4 and in APPENDIX C to this Official Statement. The City will update and provide this information within six months after the end of each Fiscal Year. The City will provide the updated information to the MSRB in an electronic format, which will be available through EMMA to the general public without charge.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the United States Securities and Exchange Commission's Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time, and will provide audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B, the Ordinance or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current Fiscal Year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its Fiscal Year. If the City changes its Fiscal Year, it will file notice of such change with the MSRB through EMMA.

Notice of Certain Events

The City will also provide notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner and not more than 10 business days after occurrence of the event: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, 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 Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of 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, if material; and (14) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material.

For these purposes, any event described in the immediately preceding paragraph (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. Neither the Bonds nor the Ordinance make any provision for credit enhancement or liquidity enhancement. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports”. The City will provide each notice described in this paragraph to the MSRB.

Availability of Information

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

With respect to debt of the City issued prior to the EMMA Effective Date, the City remains obligated to make annual required filings, as well as notices of material events, under its continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information depository (the “SID”). Prior to EMMA Effective Date, the Municipal Advisory Council of Texas (the “MAC”) had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA’s website simultaneously with such posting. Until the City receives notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the City has determined, in reliance on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

Limitations and Amendments

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

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders or beneficial owners of the Bonds. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided. The City 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, respectively, in the primary offering of the Bonds.

Compliance with Prior Undertakings

Except as hereinafter described, the City, during the past five years, has complied in all material respects with continuing disclosure agreements made thereby in accordance with the Rule.

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

Additionally, due to an administrative oversight by CPS Energy (“CPS”) staff, on September 18, 2012, the City was informed by the MAC that CPS did not file its annual financial information and operating data for the City of San Antonio, Texas Starbright Industrial Development Corporation Contract Revenue Bonds, Series 2003 (Taxable) (Starbright Project) (the “Starbright Bonds”) having a base CUSIP number of 796300 and being secured by CPS revenues transferred to the City. CPS filed on October 11, 2012 all required annual financial disclosure information to the EMMA website for the City’s Starbright Bonds (CUSIP 796300), in addition to a non-compliance notice, and will ensure that future disclosures are made in a timely manner.

FORWARD-LOOKING STATEMENTS

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

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

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 Bonds and, in such capacity, have assisted the City in the preparation of certain documents related thereto. The Co-Financial Advisors' fee for service rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds.

The Co-Financial Advisors have not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the City's records and from other sources which are believed to be reliable, including financial records of the City and other entities which may be subject to interpretation. No guarantee is made 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.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City at an underwriting discount of $395,881.56 from the initial offering prices for the Bonds and no accrued interest. The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such 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 their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL CALCULATIONS

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

AUTHORIZATION OF THE OFFICIAL STATEMENT

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

/s/ Julián Castro
Mayor, City of San Antonio, Texas

ATTEST:

/s/ Leticia M. Vacek
City Clerk, City of San Antonio, Texas

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SCHEDULE I
SCHEDULE OF REFUNDED BONDS

CITY OF SAN ANTONIO, TEXAS
MUNICIPAL DRAINAGE UTILITY SYSTEM REVENUE BONDS, SERIES 2003

Maturity Date (February 1)	Principal Maturing In Year ($)	Principal Being Refunded ($)	Interest Rate (%)	CUSIP No. (796311)	Redemption Date
2014	1,520,000	1,520,000	4.000	AL2	June 28, 2013
2015	1,580,000	1,580,000	4.000	AM0	June 28, 2013
2016	1,645,000	1,645,000	4.000	AN8	June 28, 2013
2017	1,715,000	1,715,000	4.000	AP3	June 28, 2013
2018	1,790,000	1,790,000	5.000	AQ1	June 28, 2013
2019	1,885,000	1,885,000	5.000	AR9	June 28, 2013
2020	1,980,000	1,980,000	5.000	AS7	June 28, 2013
2021	2,080,000	2,080,000	5.000	AT5	June 28, 2013
2022	2,190,000	2,190,000	5.000	AU2	June 28, 2013
2023[1]	2,295,000	2,295,000	4.625	MSF	June 28, 2013
2024[1]	2,405,000	2,405,000	4.625	MSF	June 28, 2013
2025[1]	2,520,000	2,520,000	4.625	AW8	June 28, 2013
2026[2]	2,640,000	2,640,000	4.750	MSF	June 28, 2013
2027[2]	2,770,000	2,770,000	4.750	MSF	June 28, 2013
2028[2]	2,905,000	2,905,000	4.750	AX6	June 28, 2013
Totals	31,920,000	31,920,000			

[1] Represents mandatory sinking fund payment of Term Bonds maturing on February 1, 2025.
[2] Represents mandatory sinking fund payment of Term Bonds maturing on February 1, 2028.

CITY OF SAN ANTONIO, TEXAS
MUNICIPAL DRAINAGE UTILITY SYSTEM REVENUE BONDS, SERIES 2005

Maturity Date (February 1)	Principal Maturing In Year ($)	Principal Being Refunded ($)	Interest Rate (%)	CUSIP No. (796311)	Redemption Date
2016	2,040,000	2,040,000	5.250	BK3	Feb. 1, 2015
2017	2,150,000	2,150,000	5.250	BL1	Feb. 1, 2015
2018	2,265,000	2,265,000	5.250	BM9	Feb. 1, 2015
2019	2,385,000	2,385,000	5.250	BN7	Feb. 1, 2015
2020	2,515,000	2,515,000	5.250	BP2	Feb. 1, 2015
2021	2,650,000	2,650,000	5.250	BQ0	Feb. 1, 2015
2022	2,795,000	2,795,000	5.250	BR8	Feb. 1, 2015
2023	2,945,000	2,945,000	5.250	BS6	Feb. 1, 2015
2024	3,105,000	3,105,000	5.250	BT4	Feb. 1, 2015
2025	3,270,000	3,270,000	5.250	BU1	Feb. 1, 2015
2026	3,450,000	3,450,000	5.250	BV9	Feb. 1, 2015
2027	3,635,000	3,635,000	5.250	BX5	Feb. 1, 2015
2028[1]	3,825,000	3,825,000	5.000	MSF	Feb. 1, 2015
2029[1]	4,020,000	4,020,000	5.000	MSF	Feb. 1, 2015
2030[1]	4,225,000	4,225,000	5.000	BW7	Feb. 1, 2015
Totals	45,275,000	45,275,000			

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[1] Represents mandatory sinking fund payment of Term Bonds maturing on February 1, 2030.

APPENDIX A

CITY OF SAN ANTONIO, TEXAS
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

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APPENDIX A

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 MSA[1] 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 6.0% in March 2013, down from 6.1% in February 2013. The Texas unadjusted (actual) unemployment rate decreased to 6.3% in March 2013, down from 6.4% reported in February 2013. The nation's unadjusted (actual) unemployment rate decreased to 7.6% in March 2013, down from 8.1% in February 2013.

Total nonfarm employment in the San Antonio-New Braunfels MSA for March 2013 was 887,400. 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 Heath 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.

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.

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.

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

Finance Industry

The largest 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.

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 319 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.

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

Calendar Year	Hotel Occupancy [1]	Revenue per Available Room (RevPAR) [1]	Room Nights Sold [1]	Convention Attendance [2]	Convention Room Nights [2]	Convention Delegate Expenditures (Millions) [2, 3]
2003	63.8%	$54.07	6,535,974	429,539	613,747	$387.0
2004	64.4	55.80	6,669,644	491,287	621,640	510.5
2005	68.8	63.06	7,283,824	503,601	699,932	523.3
2006	69.1	69.43	7,439,783	467,426	736,659	485.8
2007	66.3	69.90	7,397,123	455,256	647,386	473.1
2008	64.6	70.82	7,669,475	563,164	691,525	607.5
2009	57.1	55.94	7,167,603	399,408	660,736	474.5
2010	59.3	57.02	7,768,002	535,400	736,325	636.1
2011	61.3	58.08	8,236,019	499,171	637,593	593.0
2012	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 is estimated to be complete in May 2013, a new Student Activity Center is estimated to be complete by July 2013; a new SAMMC Visitor Control Center Gate is also scheduled for completion in July 2013; and the new Army-Air Force Exchange Services (AAFES) Life Style Center is scheduled for a September 2013 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 summer 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.

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 1,113.5 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 mid-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 2017. CPS has one of the most aggressive renewable energy programs in Texas with a renewable capacity under contract totaling 1,517.5 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. Back 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 36^{th} Street extension creates an enhanced route inside the Port. The 36^{th} 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 36^{th} 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	Electric Customers	Gas Customers
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 Ended December 31	Water Customers [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 Permits	Residential Single Family Valuation	Residential Multi-Family [1] Permits	Residential Multi-Family [1] Valuation	Other [2] Permits	Other [2] 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:

	2012	2011	2010	2009	2008
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 March 2013, as compared to the prior periods of February 2013 and March 2012, respectively.

Employment by Industry

San Antonio-New Braunfels MSA [1]	March 2013	February 2013	March 2012
Mining and Logging	4,300	4,300	3,700
Construction	42,100	42,000	40,200
Manufacturing	45,900	46,500	46,300
Trade, Transportation, and Utilities	149,900	149,900	146,500
Information	20,400	20,300	19,800
Financial Activities	72,500	72,700	71,200
Professional and Business Services	109,700	108,200	105,300
Education and Health Services	137,500	135,100	134,700
Leisure and Hospitality	109,800	105,400	109,100
Other Services	33,400	33,200	32,400
Government	161,900	162,500	161,500
Total Nonfarm	887,400	880,100	870,700

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

The following table shows civilian labor force estimates, the number of persons employed, the number of persons unemployed, and the unemployment rate in the San Antonio-New Braunfels MSA, Texas, and the United States for the period of March 2013, as compared to the prior periods of February 2013 and March 2012, respectively.

Unemployment Information *(all estimates in thousands)*

San Antonio-New Braunfels MSA [1]	March 2013	February 2013	March 2012
Civilian Labor Force	1,023.7	1,017.6	1,023.7
Number of Employed	962.0	955.4	956.0
Number of Unemployed	61.7	62.2	67.7
Unemployment Rate (%)	6.0	6.1	6.6

Texas (Actual) [1]	March 2013	February 2013	March 2012
Civilian Labor Force	12,686.1	12,662.1	12,548.7
Number of Employed	11,885.8	11,845.7	11,671.8
Number of Unemployed	800.3	816.4	876.9
Unemployment Rate (%)	6.3	6.4	7.0

United States (Actual) [1]	March 2013	February 2013	March 2012
Civilian Labor Force	154,512.0	154,727.0	154,316.0
Number of Employed	142,698.0	142,228.0	141,412.0
Number of Unemployed	11,815.0	12,500.0	12,904.0
Unemployment Rate (%)	7.6	8.1	8.4

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

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San Antonio Electric and Gas Systems

History and Management

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

Vacancies in membership on the CPS Board are filled by majority vote of the remaining members, based on geographical quadrant. New CPS Board appointees must be approved by a majority vote of the City Council. A vacancy, in certain cases, may be filled by the City Council.

The CPS Board is vested with all of the powers of the City with respect to the management and operation of the EG Systems and the expenditure and application of the revenues therefrom, including all powers necessary or appropriate for the performance of all covenants, undertakings, and agreements of the City contained in the bond ordinances, except regarding rates, condemnation proceedings, and issuances of bonds, notes, or commercial paper. It is empowered to appoint and employ all officers and employees and must obtain and keep in force a "blanket" type employees' fidelity and indemnity bond (also known as commercial crime bond) covering losses in the amount of not less than $100,000.

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

Citizens Advisory Committee

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

City Council members nominate ten of the 15 members, one representing each district. The other five members are at-large candidates interviewed and nominated by the 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 has been approved by the Public Utility Commission of Texas (the "PUCT"). CPS is currently the exclusive provider of retail electric service within this service area, including the provision of electric service to some U.S. military installations located within the service area that own their distribution facilities. Until and unless the City Council and the CPS Board exercise the option to opt-in to retail electric competition (called "Texas Electric Choice" by the PUCT), CPS has the sole right to provide retail electric services in its service area.

In addition to the area served at retail rates, CPS currently sells wholesale electricity to the Floresville Electric Light & Power System, the City of Hondo, and the City of Castroville. In 2013, CPS began selling wholesale electricity to the City of Boerne, the Central Texas Electric Cooperative, and the Kerrville Public Utility Board. In 2016, CPS will also begin selling wholesale electricity to the City of Seguin. 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 JKS 2 plant. CPS expects to continue to periodically seek electric and gas base rate increases that are intended to maintain debt coverage, debt to equity, and liquidity ratios. CPS anticipates seeking a rate increase in early 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.

The 1999 Texas Legislature amended the PURA95 to authorize rate authority over Municipal Utilities for wholesale transmission and to require that the postage stamp method be used for wholesale transmission pricing. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method, which sets the price for transmission at the system average for the Electric Reliability Council of Texas ("ERCOT"). CPS' wholesale open access transmission charges are set out in tariffs filed with the PUCT, and are based on its transmission cost of service approved by the PUCT, representing CPS' input to the calculation of the statewide postage stamp pricing method. The PUCT's rule, consistent with provisions in PURA §35.005(b), also provides that the PUCT may require construction or enlargement of transmission facilities in order to facilitate wholesale transmission service.

Additional Impacts of Senate Bill 7 (Deregulation). SB 7 provides for an independent transmission system operator ("ISO") that is governed by a board comprised of market participants and independent members and is responsible for directing and controlling the operation of the transmission network within ERCOT. The PUCT has designated ERCOT as the ISO for the portion of Texas within the ERCOT area.

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

Response to Competition

As of 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 in mid-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.

Strategic Planning Initiatives. CPS has a comprehensive corporate strategic plan that is designed to make CPS more efficient and competitive, while delivering value to its various customer groups and the City.

In 2008, CPS implemented Vision 2020, outlining CPS' long-term view and focusing on four key objectives: increasing its energy efficiency and conservation efforts; expanding renewable-energy resources; providing cost-competitive electricity; and maintaining its strong commitment to the environment. To ensure achievement of the vision, the following key strategic business drivers were established, along with targets for each: customer relationships, employee relationships, external relationships, operational excellence, carbon constraints and the environment, technology and innovation, and financial integrity. CPS periodically updates Vision 2020 to ensure it properly reflects CPS' perspective and direction and continues to work with City and community leaders in the development of sustainability initiatives to improve the overall quality of life in San Antonio.

Debt and Asset Management Program. CPS has developed a debt and asset management program ("Debt Management Program") for the purposes of lowering the debt component of energy costs, maximizing the effective use of cash and cash equivalent assets, and enhancing financial flexibility. An important part of the Debt Management Program is debt restructuring through the prudent employment of variable rate debt and possible interest rate swap contracts. The program also focuses on the use of unencumbered cash and available cash flow, when available, to redeem debt ahead of scheduled maturities as a means of reducing outstanding debt. The Debt

Management Program is designed to lower interest costs, fund strategic initiatives and increase net cash flow. CPS has a Debt Management Policy (the "Policy") providing guidelines under which financing and debt transactions are managed. The Policy focuses on financial options intended to lower debt service costs on outstanding debt; facilitate alternative financing methods to capitalize on the present market conditions and optimize capital structure; and maintain favorable financial ratios. The Policy limits CPS' gross variable rate exposure to 25% of total outstanding debt.

Electric System

Generating Plants. CPS operates 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 and gas requirements. This assessment includes updates to fuel prices, wholesale electric market forecasts, and updates to its electric peak demand forecast, which incorporate the most recent economic, demographic and historical demand data for the CPS service territory. Additionally, this assessment includes updated demand reductions due to the STEP energy efficiency and conservation program.

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

Ownership
Effective February 2, 2006

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

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

STP Units 1 and 2 each have a 40-year Nuclear Regulatory Commission ("NRC") license that expires in 2027 and 2028, respectively. In October 2010, STPNOC filed an application with the NRC to extend the operating licenses of STP Units 1 and 2 to 2047 and 2048, respectively. 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. 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, such as for the design and construction of an independent spent fuel storage installation ("ISFSI" also known as "Dry Cask Storage"), 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.

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

The March 2011 tsunami in Japan that damaged the Fukushima nuclear plant owned by Tokyo Electric Power Company had an immediate and significant effect on the status of and prospects for future nuclear development in the United States. On April 19, 2011, NRG announced that it planned to write down its entire investment in STP Units 3 and 4 by recording a first-quarter charge of approximately $481 million associated with the impairment of all of the net assets of NINA. NRG stated the events in Japan had introduced uncertainties that reduced the probability of being able to successfully develop STP Units 3 and 4 in a timely fashion. NRG also announced that it will not invest any additional capital into STP Units 3 and 4 but will continue to own a legal interest. Toshiba America Nuclear Energy ("TANE") will be responsible for funding ongoing costs to continue the licensing process; however, TANE has yet to publicly disclose any specific plans beyond its possible short-term licensing effort. In light of the reduction in scope of STP Units 3 and 4, and uncertainty regarding timelines and long-term milestone commitments, CPS' management conducted an extensive evaluation of whether it should fully or partially write-down its investment in STP Units 3 and 4. CPS has made an assessment that its investment in STP Units 3 and 4 remains valuable and that the most appropriate treatment would be to continue to report this investment on its Balance Sheets at full historical cost. However, if it is determined at some point in the future that a write down is appropriate, due to the unusual and infrequent nature of the circumstances that have to be considered, the impact of writing down STP Units 3 and 4 would be treated as an extraordinary item on its Statements of Revenues, Expenses and Changes in Fund Net Assets. The write down would be a noncash transaction that would have no impact on CPS' debt service coverage ratio; however, it would change the debt-to-equity ratio. CPS continues to maintain regular communication with all stakeholders, including the rating agencies, regarding ongoing assessment of the viability of STP Units 3 and 4 and the impact to its financial position.

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

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

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

Distribution System. The distribution system is currently supplied by 81 substations, which are strategically located on the high voltage 138 kV transmission system. The central business district of the City is served by nine underground networks, each consisting of four primary feeders operated at 13.8 kV, transformers equipped with network protectors, and both a 4-wire 120/208 volt secondary grid system and a 4-wire 277/480 volt secondary spot system. This system is well-designed for both service and reliability. Approximately 7,682 circuit miles (three-phase equivalent) of overhead distribution lines are included in the distribution system. These overhead lines also carry secondary circuits and street lighting circuits. The underground distribution system consists of 362 miles of three-phase equivalent distribution lines, 83 miles of three-phase downtown network distribution lines, and 4,231 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground residential distribution systems.

Gas System

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

Distribution System. The gas distribution system consists of 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 catholically protected to mitigate corrosion. Critical areas of the distribution system are designated critical pressure regulating stations and isolation valves are remotely controlled by SCADA.

Implementation of New Accounting Policies

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

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

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.

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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	$ 782,970	$ 775,914	$ 865,954	$ 884,804	$ 832,836
Actual Principal and Interest Requirements:					
Senior Lien Obligations [3, 4]	$ 309,855	$ 332,540	$ 357,054	$ 363,339	$ 366,474
Junior Lien Obligations [5]	$ 11,190	$ 6,987	$ 10,774	$ 22,372	$ 23,256
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]	2.09x	2.07x	2.31x	2.36x	2.22x
Senior and Junior Lien Obligations [7]	1.81x	1.79x	2.00x	2.04x	1.92x

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]

						Total Direct Rate			
						Water		Sewer	
Fiscal Year	Gallons of Water Production [b]	Gallons of Water Usage	Gallons of Water Unbilled	Average Percent Unbilled	Gallons of Wastewater Treated [c]	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]	3,026	4,106	2,935	3,469	3,948	2,432	4,276	3,613	2,634	2,636
Recycled Water Sales	18,129	18,990	14,968	16,321	16,559	14,148	14,836	14,048	13,626	13,643

[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.

Recycling Water System. SAWS is authorized to provide Type I (higher quality) recycled water from its wastewater treatment plants and has been doing so since 2000. The water recycling program is designed to provide up to 35,000 acre-feet per year of recycled water to commercial and industrial businesses in San Antonio. This system was originally comprised of two north/south transmission lines. In 2008, an interconnection of these two lines was constructed at the north end of the lines, providing additional flexibility with respect to this valuable water resource. Currently, approximately 125 miles of pipeline deliver highly treated effluent to over 52 customers consisting of golf courses, universities, parks, and commercial and industrial customers throughout the City. The system was also designed to provide baseflows in the upper San Antonio River and Salado Creek, and the result has been significant and lasting environmental improvements for the aquatic ecosystems in these streams.

Chilled Water and Steam System. SAWS owns, operates, and maintains six thermal energy facilities providing chilled water and steam services to governmental and private entities. Two of the facilities, located in the City's downtown area, provide chilled water and/or steam service to 23 customers. Various City facilities, that include the Henry B. Gonzalez Convention Center and Alamodome, constitute a large percentage of the downtown system's chilled water and steam annual production requirements. In addition to these City facilities, the two central plants also provide chilled water and/or steam service to a number of major hotels in the downtown area including the Grand Hyatt, Marriott, and the Hilton Palacio Del Rio. The other four central thermal energy facilities, owned and operated by SAWS, are located at the Port and provide chilled water and steam services to large industrial customers that include Lockheed Martin and Boeing Aerospace. SAWS' chilled water-producing capacity places it as one of the largest producers of chilled water in the immediate south Texas area. SAWS also currently operates and maintains the central thermal energy plants at Brooks City-Base under an agreement with the BDA.

Stormwater System. In September 1997, the City created its Municipal Drainage Utility and established its Municipal Drainage Utility Fund to capture revenues and expenditures for services related to the management of the municipal drainage activity in response to Environmental Protection Agency-mandated stormwater runoff and treatment requirements under the 40 CFR 122.26 Storm Water Discharge. The City, along with SAWS, has the responsibility, pursuant to the Permit from the TCEQ, for water-quality monitoring and maintenance. The City and SAWS have entered into an interlocal agreement to set forth the specific responsibilities of each regarding the implementation of the requirements under the Permit. The approved annual budget for the SAWS share of program responsibilities for SAWS FY 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 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 indentified, 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 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 of Trustees 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.

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 U.S. Department of Justice, which was received on January 27, 2012. The City commenced assumption procedures on January 28, 2012. SAWS, acting by and through the City, 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 pertain to the control, finances, management, and operation of BexarMet, and (3) permits, approvals, and certificates necessary to provide water services; (d) to the extent that a transfer of an item 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 Municipal Advisory Council of Texas (the "MAC") 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.

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

				Revenue Bond Debt Service[a]				Maximum Annual Debt Service Requirements			
Year	Gross Revenues[b]	Operating Expenses[c]	Net Revenue Available	Principal	Interest[d]	Total	Coverage	Total Debt[e]	Coverage	Senior Lien Debt[e]	Coverage[f]
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

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(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:

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

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

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

PFC Projects. Public agencies wishing to impose PFCs are required to apply to the FAA for such authority and must meet certain requirements specified in the PFC Act and the implementing regulations issued by the FAA.

The FAA issued a "Record of Decision" on August 29, 2001 approving the City's initial PFC application. The City, as the owner and operator of the Airport, received authority to impose a $3.00 PFC and to collect, in the aggregate, approximately $102,500,000 in PFC Revenues. On February 15, 2005, the FAA approved an application amendment increasing the PFC funding by a net amount of $13,893,537. On February 22, 2005, the FAA approved the City's application for an additional $50,682,244 in PFC collections to be used for 11 new projects. On June 26, 2007, the FAA approved two amendments to approved applications increasing the PFC funding by a net amount of $121,611,491 for two projects and $67,621,461 for four projects. Additionally, the FAA approved the increased collection rate from $3.00 to $4.50, effective October 1, 2007. In May 2010, the FAA approved amendments to the City's PFC collection authorization to increase the scope of the PFC funding for certain PFC projects and permitted the addition of several elements. The May 28, 2010 FAA approvals increased the PFC funding amount from $380,958,549 to $574,569,629.

On October 1, 2007, the City began collecting a $4.50 PFC (less a $0.11 air carrier collection charge) per qualifying enplaned passenger. The City has received PFC "impose and use" authority, meaning that it may impose the PFC and use the resultant PFC Revenues for all projects, contemplated to be completed using proceeds of the Parity PFC Bonds. As of January 31, 2013, the City has collected $138,709,151 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 January 31, 2013, the City has received $7,485,008 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	5,040,274	4,165,260	4,178,122	0	0
Adjusted Gross Revenues	$70,228,162	$66,345,593	$68,224,011	$83,288,806	$90,163,733
Expenses	(41,585,794)	(39,743,093)	(39,873,764)	(44,480,164)	(47,048,746)
Net Income	$28,642,368	$26,602,500	$28,350,247	$38,808,642	$43,114,987

[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 Year	Total	Increase/ (Decrease)	Percent (%) Change
2003	159,576	---	---
2004	191,254	31,678	19.85
2005	185,992	(5,262)	(2.75)
2006	199,138	13,146	7.07
2007	197,585	(1,553)	(0.78)
2008	177,219	(20,366)	(10.31)
2009	139,286	(37,933)	(21.40)
2010	136,970	(2,316)	(1.66)
2011	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 Year	Total	Increase/ (Decrease)	Percent (%) Change
2003	5,391,301	---	---
2004	5,416,555	25,254	0.47
2005	5,650,228	233,673	4.31
2006	5,946,232	296,004	5.24
2007	6,098,276	152,044	2.56
2008	6,209,192	110,916	1.82
2009	5,487,537	(721,655)	(11.62)
2010	5,632,203	144,666	2.64
2011	5,707,294	75,091	1.33
2012	5,811,513	104,219	1.83

Source: City of San Antonio, Department of Aviation.

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APPENDIX B

SELECTED PROVISIONS OF THE ORDINANCE

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APPENDIX B

SELECTED PROVISIONS OF THE ORDINANCE

The following constitutes a summary of certain selected provisions of the Ordinance. This summary should be qualified by reference to other provisions of the Ordinance referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Ordinance in this Official Statement are, separately in whole, qualified by reference to the exact terms of the Ordinance, a copy of which may be obtained from the City.

Section 9. Definitions. For all purposes of this Ordinance (as defined below), and in addition to other terms defined herein, except as otherwise expressly provided or unless the context otherwise requires in addition to other words and terms defined in this Ordinance: (i) the terms defined in this Section have the meanings assigned to them in this Section, certain terms used in Sections 31 and 50 of this Ordinance have the meanings assigned to them in such Sections, and all such terms, include the plural as well as the singular; (ii) all references in this Ordinance to designated "Sections" and other subdivisions are to the designated Sections and other subdivisions of this Ordinance as originally adopted; and (iii) the words "herein", "hereof", and "hereunder" and other words of similar import refer to this Ordinance as a whole and not to any particular Section or other subdivision.

"Act" means Subchapter C of Chapter 552 (formerly Chapter 402) of the Texas Local Government Code, as amended, or any successor statute.

"Additional Bonds" means revenue bonds or other evidences of indebtedness issued or entered into, as the case may be, in the future in accordance with the terms and conditions provided in Section 17 hereof and, by their terms, are equally and ratably secured by a lien on and pledge of the Revenues of the System.

"Approval Certificate" means the certificate, in substantially the form attached hereto as Exhibit "A", specifying the terms detailed in Section I hereof and executed by an Authorized Official.

"Authorized Officials" means the Mayor, the City Clerk, the City Manager, the Chief Financial Officer, or any other officer or employee of the City appointed by the Council to serve as an "Authorized Official" hereafter.

"Average Annual Debt Service Requirements" means an amount which, at the time of computation, is derived by dividing the total amount of Debt Service Requirements to be paid over a period of years as the same is scheduled to become due and payable by the number of years taken into account in determining the total Debt Service Requirements. Capitalized interest payments provided from bond proceeds shall be excluded in making the aforementioned computation.

"Bond Date" means May 1, 2013.

"Bond Fund" means the special fund created and established by the provisions of Section 13 of this Ordinance.

"Bonds" means the "CITY OF SAN ANTONIO, TEXAS MUNICIPAL DRAINAGE UTILITY SYSTEM REVENUE REFUNDING BONDS, SERIES 2013" authorized by this Ordinance.

"Bonds Similarly Secured" means collectively, the Series 2005 Bonds, the Bonds, and any Additional Bonds.

"City" means the City of San Antonio, and, where appropriate, the City Council of the City.

"Closing Date" means the date of physical delivery of the Initial Bond in exchange for the payment in full by the Purchasers.

"Credit Agreement" means a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase debt, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized, and approved by the City as a Credit Agreement in connection with the authorization, issuance, security, or payment of any obligation authorized by Chapter 1371, Texas Government Code, as amended.

"Credit Facility" means a policy of insurance or a surety bond issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations or a letter or line of credit issued by any financial institution whereby the issuer is obligated to provide funds up to and including the maximum amount and under the conditions specified in such agreement or instrument.

"Credit Provider" means any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Facility.

"Debt Service Requirement" means as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the City as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on or other payments due under such obligation, assuming, in the case of obligations without a fixed numerical rate, that such obligations bear interest or other payment obligations calculated by assuming (1) that such non-fixed interest rate for every future 12-month period is equal to the rate of interest reported in the most recently published edition of *The Bond Buyer* (or its successor) at the time of calculation as the "Revenue Bond Index" or, if such Revenue Bond Index is no longer being maintained by *The Bond Buyer* (or its successor) at the time of calculation, such interest rate shall be assumed to be 80% of the most recently reported yield, as of the time of calculation, at which United States Treasury obligations of like maturity have been sold and (2) that, in the case of bonds not subject to fixed scheduled mandatory sinking fund redemptions, that the principal of such bonds is amortized such that annual debt service is substantially level over the remaining stated life of such bonds, and in the case of obligations required to be redeemed or prepaid as to principal prior to Stated Maturity according to a fixed schedule, the principal amounts thereof will be redeemed prior to stated maturity in accordance with the mandatory redemption provisions applicable thereto (in each case notwithstanding any contingent obligation to redeem bonds more rapidly). For the term of any interest rate hedge agreement entered into in connection with any such obligations, Debt Service Requirements shall be computed by netting the amounts payable to the City under such hedge agreement from the amounts payable by the City under such hedge agreement and such obligations.

"Depository" means an official depository bank of the City.

"Federal Tax Certificate" means the certificate of the City delivered on the Closing Date concerning federal income tax matters.

"Fiscal Year" means the 12 month financial accounting period used by the City in connection with the operation of the System which may be any twelve consecutive month period established by the City.

"Funds" means all funds created or confirmed by this Ordinance.

"Government Securities" means (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America, or (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

"Interest Payment Date" means the date semiannual interest is payable on the Bonds, being August 1 and February 1 of each year, commencing August 1, 2013, while any of the Bonds remain Outstanding.

"Net Revenues" means Revenues of the System, with respect to any period, after deducting the System's Operating and Maintenance Expenses during such period.

"Operating and Maintenance Expenses" means all current expenses of operating and maintaining the System not paid from the proceeds of any Debt, including all salaries, labor, materials, and administrative costs, allocable under generally accepted accounting principles, to the System. This term shall also include any payments made by the City, or any transfer or allocation of Revenues, to the San Antonio Water System, or any other entity utilized by the City for instream monitoring, sampling, testing and analysis, industrial site inspection, water quality modeling, inspection of illicit connections, legal services and public education relating to the System, to collect the Revenues of the System, or to construct capital improvements to the System for the benefit of the City. Depreciation charges and other costs and disbursements which may be capitalized under generally accepted accounting principles shall not be considered Operating and Maintenance Expenses.

"Ordinance" means this ordinance adopted by the City Council on April 4, 2013.

"Outstanding" when used in this Ordinance with respect to Bonds Similarly Secured, as the case may be, means, as of the date of determination, all Bonds Similarly Secured theretofore sold, issued, and delivered by the City, except:

(1) Bonds Similarly Secured cancelled or delivered to the transfer agent or registrar for cancellation in connection with the exchange or transfer of such obligations;

(2) Bonds Similarly Secured paid or deemed to be paid in accordance with the provisions of Section 32 hereof; and

(3) Bonds Similarly Secured that have been mutilated, destroyed, lost, or stolen and replacement bonds have been registered and delivered in lieu thereof.

"Owner" or "Owners" means the registered owner, whose name appears in the Register for any Bond.

"Paying Agent/Registrar" means U.S. Bank National Association, Dallas, Texas or any successor.

"Purchasers" means the initial purchaser(s) of the Bonds named in Section 34 of this Ordinance.

"Refunded Bonds" means those obligations of the City currently outstanding as described in Schedule I attached hereto, and which will be refunded as finalized and fully described in the Approval Certificate.

"Required Reserve" means the total amount required to be accumulated and maintained in the Reserve Fund under the provisions of Section 14 hereof.

"Revenues" means all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding restricted gifts, grants in aid of construction and any amounts received from drainage charges specifically provided by ordinance for contribution to the funding of future drainage system construction) of the System, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established for the payment and security of the Bonds Similarly Secured and other obligations payable solely from and secured only by a lien on and pledge of the Revenues of the System, and excluding those amounts subject to payment to the United States of America as rebate pursuant to section 148 of the Code.

"Stated Maturity" means the annual principal payments of the Bonds payable on February 1 of each year, as set forth in Section 2 of this Ordinance.

"System" or "Municipal Drainage Utility System" means all land, easements and interest in land, together with all structures, equipment, and facilities used in draining benefitted property (within the meaning of the Act), including, but not limited to, bridges, catch basins, channels, conduits, creeks, culverts, detention ponds, ditches, draws, flumes, pipes, pumps, sloughs, treatment works, and appurtenances to those items, whether natural or artificial, or using force or gravity, that are used to draw off surface water from land, carry the water away, collect, store, or treat the water, or divert the water into natural or artificial watercourses and excluding the property or entities exempted from the Act pursuant to Section 552.053 of the Act; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term System shall not mean to include facilities of any kind which are declared not to be a part of the System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of *Special Facilities Bonds*, which are hereby defined as being special revenue obligations of the City which are not payable from Revenues but which are payable from and equally and ratably secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of the Bonds Similarly Secured including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

Section 10. Pledge. The City hereby covenants and agrees that the Revenues of the System, with the exception of those in excess of the amounts required for the payment and security of the Bonds Similarly Secured, are hereby irrevocably pledged, to the payment and security of the Debt Service Requirements on the Bonds (including any Credit Agreements) and any Additional Bonds, if issued, including the establishment and maintenance of the special funds created and established by this Ordinance, all as hereinafter provided, and it is hereby ordained that such pledge of the Revenues securing the payment of the Bonds Similarly Secured and interest thereon shall constitute a first lien on such Revenues and be valid and binding in accordance with the terms hereof without any filing or recording thereof (except in the official records of the City) or physical delivery of such Revenues or further act by the City.

Chapter 1208, Texas Government Code, as amended, applies to the issuance of the Bonds Similarly Secured and the pledge of Revenues granted by the City under subsection (a) of this Section, and such pledge is therefore valid, effective, and perfected. If Texas law is amended at anytime while the Bonds Similarly Secured are outstanding and unpaid such that the pledge of the Revenues granted by the City is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the registered owners of the Bonds Similarly Secured the perfection of the security interest in this pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code and enable a filing to perfect the security interest in this pledge to occur.

Section 11. Rates and Charges. For the benefit of the Owners of the Bonds Similarly Secured and in accordance with the provisions of the Act and other applicable laws of the State of Texas, the City hereby expressly stipulates and agrees, while any of the Bonds Similarly Secured are Outstanding, to establish, maintain and impose drainage charges for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Revenues in each Fiscal Year sufficient:

(1) to pay the principal of and interest on the Bonds Similarly Secured (including any Credit Agreement) and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Bonds Similarly Secured, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the Revenues of the System,

(2) to pay for all Operating and Maintenance Expenses,

(3) in an amount equivalent to at least 1.25 times the annual Debt Service Requirements for the Fiscal Year on the Bonds Similarly Secured then Outstanding, and

(4) to pay all other indebtedness payable from and/or secured in whole or in part by a lien on and pledge of the Revenues of the System.

Section 12. System Fund. The City hereby covenants and agrees that the Revenues of the System (excluding earnings and income derived from investments held in the Bond Fund and Reserve Fund) shall be deposited as collected to the credit of a fund maintained at the Depository, and known on the books and records of the City as the "Drainage Utility System Fund" (herein called the "System Fund"*).* All revenues deposited in the System Fund shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

<u>First:</u> To the payment of the amounts required to be deposited in the Bond Fund for the payment of Debt Service Requirements on the Bonds Similarly Secured (including any Credit Agreement) as the same becomes due and payable.

<u>Second:</u> To the payment of all necessary and reasonable Operating and Maintenance Expenses.

<u>Third:</u> To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to issuance of Bonds Similarly Secured, including payment of amounts, if any, pursuant to the terms of a Credit Facility as provided in Section 14 hereof. Net Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be transferred to the City's General Fund or used for any other purpose now or hereafter permitted by law.

Section 13. Bond Fund; Excess Bond Proceeds. For the purpose of paying the interest on and to provide a sinking fund for the payment, redemption, and retirement of the Bonds Similarly Secured (including any Credit Agreement), the creation of a special Fund to be designated "City of San Antonio Drainage Utility System Revenue Bond Interest and Sinking Fund" (the "Bond Fund"), which Fund shall be kept and maintained at the Depository, and money deposited in such Fund shall be used for no other purpose and shall be maintained as provided in Section 26, is hereby confirmed. The City covenants that there shall be deposited into the Bond Fund prior to each principal and interest payment date from the available Revenues an amount equal to 100% of the amount required to fully pay the interest on and the principal of the Bonds then falling due and payable, such deposits to pay maturing principal and accrued interest on the Bonds to be made in substantially equal monthly installments on or before the tenth day of each month, beginning on or before the tenth day of the month next following the delivery of the Bonds to the Purchasers. If the Revenues in any month are insufficient to make the required payments into the Bond Fund, then the amount of any deficiency in such payment shall be added to the amount otherwise required to be paid into the Bond Fund in the next month.

The required monthly deposits to the Bond Fund for the payment of principal of and interest on the Bonds shall continue to be made as hereinabove provided until such time as (i) the total amount on deposit in the Bond Fund and Reserve Fund is equal to the amount required to fully pay and discharge all outstanding Bonds (principal and interest) or (ii) the Bonds are no longer Outstanding.

Accrued interest received from the Purchasers shall be taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited into the Bond Fund from the Revenues of the System. Additionally, any proceeds of the Bonds, and investment income thereon, not expended for authorized purposes shall be deposited into the Bond Fund and shall be taken into consideration and reduce the amount of monthly deposits required to be deposited into the Bond Fund from the Revenues of the System.

Section 14. Reserve Fund. For purposes of accumulating and maintaining a reserve amount for the payment of the Bonds Similarly Secured, the City agrees and covenants to create and maintain a special fund or account on its books and records known as the "City of San Antonio Drainage Utility System Revenue Bond Reserve Fund" (the "Reserve Fund"). All moneys deposited to the credit of such Fund shall be held in a fund or account maintained at the Depository. All funds deposited to the credit of the Reserve Fund (excluding investment or deposit earnings and income which may be transferred to the System Fund established in Section 12 hereof during such periods as there is on deposit in the Reserve Fund the Required Reserve) shall be used solely for the payment of the principal of and interest on the Bonds Similarly Secured when (whether at maturity, upon a mandatory redemption date or any interest payment date) other funds available for such purposes are insufficient, and, in addition, may be used to the extent not required to maintain the Required Reserve, to pay, or provide for the payment of, the final principal amount of a series of Bonds Similarly Secured so that such series of Bonds Similarly Secured is no longer deemed to be Outstanding.

Initially, the total amount to be accumulated and maintained in the Reserve Fund by reason of the issuance of the Bonds shall be an amount equal to the Average Annual Debt Service Requirements for the Bonds (calculated on a Fiscal Year basis), and hereinafter referred to as the "Required Reserve". Beginning on or before the 10th day of the month next following the delivery of the Bonds to the initial purchasers on or before the 10th day of each following month until the Required Reserve has been accumulated in said Fund, the City covenants and agrees to cause an amount to be deposited in the Reserve Fund equal to at least 1/60th of the Required Reserve.

When Additional Bonds are delivered or incurred, the Required Reserve shall be increased, if required, to an amount equal to the lesser of (i) the Average Annual Debt Service Requirements (calculated on a Fiscal Year basis) for all Bonds Similarly Secured then Outstanding, as determined on the date each series of Additional Bonds are delivered or incurred and annually following each principal payment date or redemption date for Bonds Similarly Secured, as the case may be, or (ii) the maximum amount in a reasonably required reserve fund that can be invested without restriction as to yield pursuant to Subsection (d) of section 148 of the Code, and regulations promulgated thereunder. Any additional amount required to be maintained in the Reserve Fund shall be so accumulated by the deposit in the Reserve Fund of all or any part thereof in cash immediately after the delivery of the then proposed Additional Bonds, or, at the option of the City, by the deposit of monthly installments, made on or before the 10th day of each month following the month of delivery of the then proposed Additional Bonds, of not less than 1/60th of the additional amount to be maintained in said Fund by reason of the issuance of the Additional Bonds then being issued (or 1/60th of the balance of the additional amount not deposited immediately in cash).

While cash and investments in the Reserve Fund total not less than the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but, if and when the Reserve Fund at any time contains less than the Required Reserve (other than as the result of the initial funding of the Required Reserve or issuance of Additional Bonds as provided in the preceding paragraph), the City covenants and agrees to cure the deficiency in the Required Reserve by making monthly deposits on or before the 10th day of each month to said Fund from the Revenues in amounts equal to not less than 1/60th of the then total Required Reserve to be maintained in said Fund until the total Required Reserve then to be maintained in said Fund has been fully restored. The City further covenants and agrees that, subject only to the payments to be made to the Bond Fund, the Revenues shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amounts as required by the terms of this Ordinance and any other ordinance pertaining to the issuance of Additional Bonds.

During such time as the Reserve Fund contains the total Required Reserve, the City may, at its option, withdraw all surplus in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the System Fund.

The City, at its option and consistent with the provisions of this Section, may fund the Reserve Fund at the Required Reserve by purchasing a Credit Facility that will unconditionally obligate the insurance company or other entity to pay all, or any part thereof, of the Required Reserve in the event funds on deposit in the Bond Fund are not sufficient to pay the debt service requirements on the Bonds Similarly Secured. All ordinances adopted after the date hereof authorizing the issuance of Additional Bonds shall contain a provision to this effect. The City reserves the right to use Revenues of the System to fund the payment of periodic premiums on the Credit Facility and any repayment obligation incurred by the City (including interest) to the issuer of the Credit Facility, the payment of which will result in the reinstatement of such Credit Facility, prior to making payments required to be made to the Reserve Fund pursuant to the provisions of this Section to restore the balance in such fund to the Required Reserve for the Bonds Similarly Secured.

In the event a Credit Facility is issued to satisfy all or part of the City's obligation with respect to the Reserve Fund which causes the amount then on deposit in the Reserve Fund to exceed the Required Reserve, the City may transfer such excess amount to any fund or account established for the payment of or security for the Bonds Similarly Secured (including any escrow established for the final payment of any such obligations pursuant to Chapter 1207, Texas Government Code, as amended) or use such excess amount for any lawful purpose now or hereafter provided by law; provided, however, to the extent that such excess amount represents Bond proceeds, then such amount must be transferred to the Bond Fund.

Notwithstanding the foregoing provisions of this section, the requirement to maintain the Required Reserve in the Reserve Fund shall be suspended for such time as the Revenues for each Fiscal Year are equal to at least 1.75 times the Average Annual Debt Service Requirements. In the event that the Revenues for any Fiscal Year are less than 1.75 times the Average Annual Debt Service requirements, the City will be required to commence making the Required Reserve deposits as provided in this Section, and to continue such deposits until the Reserve Fund contains the Required Reserve or the Revenues in each of two Fiscal Years have been equal to not less than 1.75 times the Average Annual Debt Service Requirements.

Section 15. Deficiencies; Excess Revenues. (a) If on any occasion there shall not be sufficient Revenues of the System to make the required deposits into the Bond Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available Revenues of the System, or from any other sources available for such purpose.

(b) Subject to making the required deposits to the Bond Fund and the Reserve Fund in accordance with the provisions of this Ordinance, or any ordinance authorizing the issuance of Additional Bonds, the excess Revenues may be transferred to the City's general operating fund or used by the City for any lawful purpose.

Section 16. Payment of Bonds. While any of the Bonds are Outstanding, the City's Chief Financial Officer (or other designated financial officer of the City) shall cause to be transferred to the Paying Agent/Registrar, from funds on deposit in the Bond Fund, and, if necessary, in the Reserve Fund, amounts sufficient to fully pay and discharge promptly as each installment of interest and principal of the Bonds accrues or matures or comes due by reason of redemption prior to maturity; such transfer of funds to be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the Bonds at the close of the last business day next preceding the date of payment for the Bonds.

Section 17. Issuance of Additional Bonds. Subject to the provisions hereinafter appearing as to conditions precedent which must be satisfied, the City reserves the right to issue, from time to time as needed, Additional Bonds for any authorized purpose, including the issuance of refunding bonds. Such Additional Bonds may be issued in such form and manner as now or hereafter authorized by the laws of the State of Texas for the issuance of evidences of indebtedness or other instruments, and should new methods or financing techniques be developed that differ from those now available and in normal use, the City reserves the right to employ the same in its financing arrangements provided only that the following conditions precedent for the authorization and issuance of the same are satisfied, to wit:

(1) The Chief Financial Officer of the City or the City Manager shall have executed a certificate stating (a) that, to the best of his/her knowledge and belief, the City is not then in default as to any covenant, obligation or agreement contained in any ordinance or other proceeding relating to any obligations of the City payable from and secured by a lien on and pledge of the Revenues of the System that would materially affect the security or payment of such obligations and (b) either (i) payments into all special Funds maintained for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Revenues of the System have been made and that the amounts on deposit in such special Funds equal or exceed the amounts then required to be on deposit therein or (ii) the application of the proceeds of sale of such obligations then being issued will cure any such deficiency.

(2) The Additional Bonds shall be scheduled to mature or be payable as to principal on February 1 or August 1 (or both) in each year the same are to be outstanding or during the term thereof.

(3) The City has secured a certificate of the City Manager or the Chief Financial Officer of the City to the effect that, according to the books and records of the City, the Revenues for the last completed Fiscal Year, or for 12 consecutive months out of the 18 months, immediately preceding the date of issuance of the Additional Bonds (the date of issuance being the date of initial delivery of all or a portion of the Additional Bonds to the initial purchasers) are at least equal to 1.25 times the Average Annual Debt Service Requirements for all Outstanding Bonds Similarly Secured

after giving effect to the issuance of the Additional Bonds then being issued. In making a determination of the Revenues, the Chief Financial Officer or City Manager may take into consideration a change in the charges for services afforded by the System that became effective at least sixty (60) days prior to the last day of the period for which Revenues are determined and, for purposes of satisfying the above Revenues test, make a pro forma determination of the Revenues of the System for the period of time covered by his/her certification based on such change in charges being in effect for the entire period covered by the certificate.

Section 18. Refunding Bonds. The City reserves the right to issue refunding bonds to refund all or any part of the Bonds Similarly Secured (pursuant to any law then available) upon such terms and conditions as the City Council of the City may deem to be in the best interest of the City and its inhabitants, and if less than all such Bonds Similarly Secured then outstanding are refunded, the conditions precedent prescribed (for the issuance of Additional Bonds) set forth in subparagraph (3) of Section 17 hereof shall be satisfied and the certificate of the Accountant required in subparagraph (3) shall give effect to the Debt Service Requirements of the proposed refunding bonds (and shall not give effect to the Debt Service Requirements of the Bonds Similarly Secured being refunded following their cancellation or provision being made for their payment).

Section 19. Obligations of Inferior Lien and Pledge. The City hereby reserves the right to issue obligations payable from and secured by a lien on and pledge of the Net Revenues of the System, junior and subordinate in rank and dignity to the lien and pledge securing the payment of the Bonds Similarly Secured, as may be authorized by the laws of the State of Texas.

Section 20. Sale or Lease of Properties. The City, to the extent and in the manner authorized by law, may sell or exchange for consideration representing the fair value thereof, as determined by the City Council of the City, any property of the System which is obsolete, damaged or worn out or otherwise unsuitable. The proceeds of any sale of properties of the System shall be deposited in the System Fund.

Section 21. Records and Accounts. The City hereby covenants and agrees that while any Bonds remain Outstanding, it will keep and maintain separate and complete records and accounts pertaining to the receipt and disbursement of Revenues of the System in accordance with generally accepted accounting principles, as well as an inventory or list of System properties. The Owners of any Bonds or any duly authorized agent or agents of such Owners shall have the right at all reasonable times to inspect such records, accounts and data relating thereto and the inventory of System properties. The City further agrees that annually an audit of the books and accounts of the System shall be made by an independent firm of Certified Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the accountant, shall particularly include the following:

(1) A statement of the receipts and disbursements of the System for such Fiscal Year.

(2) A balance sheet for the System as of the end of such Fiscal Year.

(3) The Accountant's comments regarding the manner in which the City has carried out the requirements of this Ordinance and any other ordinance authorizing the issuance of Additional Bonds and his/her recommendations for any changes or improvements in the operations, records and accounts of the System.

Copies of each annual audit shall be furnished to the Executive Director of the Municipal Advisory Council of Texas at his office in Austin, Texas, and, upon request, to the initial purchasers of the Bonds and subsequent Owners of 15% or more in principal amount of the Bonds. Such required annual audit of the financial records and accounts of the City shall be completed, insofar as possible, within 120 days following the close of each Fiscal Year and may be a part of the annual audit made of all City records and accounts.

Section 22. Special Covenants. The City further covenants and agrees by and through this Ordinance as follows:

It has the lawful power to pledge the Revenues of the System to the payment of the Bonds to the extent provided herein and has lawfully exercised said power under the Constitution and laws of the State of Texas, including the Act, and that the Bonds issued hereunder, together with the Additional Bonds, shall be ratably secured in such manner that no one bond shall have preference over any other bond of said issues.

The Revenues of the System have not been in any manner pledged or encumbered to the payment of any debt or obligation of the City or the System, save and except for the Series 2005 Bonds and the Bonds.

To exercise and pursue with due diligence available remedies provided by law for the collection of delinquent drainage charges, including the power under Section 552.050 of the Act to discontinue all utility services, particularly water and sewer services provided by the City to a user of benefitted property who is delinquent in the payment of drainage charges.

The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

Section 23. Special Obligations. The Bonds are special obligations of the City payable from the pledged Revenues and the Owners thereof shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

Section 24. Investments. Pending the transfer of funds to the Paying Agent/Registrar, money in any Fund established by this Ordinance may, at the option of the City, be placed in time deposits or certificates of deposit, guaranteed investment contracts, or similar contractual agreements as permitted by the provisions of the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, secured (to the extent not insured by the Federal Deposit Insurance Corporation) by obligations of the type hereinafter described, or be invested, as authorized by any law, including investments held in book-entry form, in securities including, but not limited to, direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, Farmers Home Administration, Federal Home Loan Mortgage Association, Small Business Administration, or Federal Housing Association; provided, however, that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund will be available at the proper time or times. All interest and income derived from deposits and investments in such Fund shall be credited to, and any losses debited to, such Fund. All such investments shall be sold promptly when necessary to prevent any default in connection with the Bonds.

Section 25. Security for Funds. All money on deposit in the Funds for which this Ordinance makes provision (except any portion thereof as may be at any time properly invested as provided herein) shall be secured in the manner and to the fullest extent required by the laws of the State of Texas for the security of public funds, and money on deposit in the Funds shall be used only for the purposes permitted by this Ordinance.

Section 26. Remedies in Event of Default. In addition to all the rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in the payments to be made to the Bond Fund or Reserve Fund or (b) defaults in the observance or performance of any other of the covenants, conditions, or obligations set forth in this Ordinance, the Owners of any of the Bonds shall be entitled to seek a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body of the City and other officers of the City to observe and perform any covenant, condition, or obligation prescribed in this Ordinance.

No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedies herein provided shall be cumulative of all other existing remedies and the specification of such remedies shall not be deemed to be exclusive.

Section 27. Notices to Owners, Waiver. Wherever this Ordinance provides for notice to Owners of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and sent by United States mail, first-class postage prepaid, to the address of each Owner appearing in the Register at the close of business on the business day next preceding the mailing of such notice.

In any case where notice to Owners is given by mail, neither the failure to mail such notice to any particular Owners, nor any defect in any notice so mailed, shall affect the sufficiency of such notice with respect to all other Bonds or Owners. Where this Ordinance provides for notice in any manner, such notice may be waived in writing by the Owner entitled to receive such notice, either before or after the event with respect to which such notice is given, and such waiver shall be the equivalent of such notice. Waivers of notice by Owners shall be filed with the Paying Agent/Registrar, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 28. Cancellation. All Bonds surrendered for payment, redemption, transfer, exchange, or replacement, if surrendered to the Paying Agent/Registrar, shall be promptly canceled by it and, if surrendered to the City, shall be delivered to the Paying Agent/Registrar and, if not already canceled, shall be promptly canceled by the Paying Agent/Registrar. The City may at any time deliver to the Paying Agent/Registrar for cancellation any Bonds previously certified or registered and delivered which the City may have acquired in any manner whatsoever, and all Bonds so delivered shall be promptly canceled by the Paying Agent/Registrar. All canceled Bonds held by the Paying Agent/Registrar shall be destroyed as directed by the City.

Section 29. Mutilated, Destroyed, Lost, and Stolen Bonds. If (i) any mutilated Bond is surrendered to the Paying Agent/Registrar, or the City and the Paying Agent/Registrar receive evidence to their satisfaction of the destruction, loss, or theft of any Bond, and (ii) there is delivered to the City and the Paying Agent/Registrar such security or indemnity as may be required to save each of them harmless, then, in the absence of notice to the City or the Paying Agent/Registrar that such Bond has been acquired by a bona fide purchasers, the City shall execute and, upon the City's request, the Paying Agent/Registrar shall register and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost, or stolen Bond, a new Bond of the same Stated Maturity and interest rate and of like tenor and principal amount, bearing a number not contemporaneously Outstanding.

In case any such mutilated, destroyed, lost, or stolen Bond has become or is about to become due and payable, the City in its discretion may, instead of issuing a new Bond, pay such Bond. Upon the issuance of any new Bond, or payment in lieu thereof, under this Section, the City may require payment by the Owner of a sum sufficient to cover any tax or other governmental charge imposed in relation thereto and any other expenses and charges (including attorney's fees and the fees and expenses of the Paying Agent/Registrar) connected therewith. Every new Bond issued pursuant to this Section in lieu of any mutilated, destroyed, lost, or stolen Bond shall constitute a replacement of the prior obligation of the City, whether or not the mutilated, destroyed, lost, or stolen Bond shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Ordinance equally and ratably with all other Outstanding Bonds. The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost, or stolen Bonds.

Section 30. Covenants to Maintain Tax-Exempt Status. (a) Definitions. When used in this Section, the following terms have the following meanings:

"Code" means the Internal Revenue Code of 1986, as amended by all legislation, if any, effective on or before the Closing Date.

"Computation Date" has the meaning set forth in Section 1.148-1(b) of the Regulations.

"Gross Proceeds" means any proceeds as defined in Section 1.148-1(b) of the Regulations, and any replacement proceeds as defined in Section 1.148-1(c) of the Regulations, of the Bonds.

"Investment" has the meaning set forth in Section 1.148-1(b) of the Regulations.

"Nonpurpose Investment" means any investment property, as defined in section 148(b) of the Code, in which Gross Proceeds of the Bonds are invested and which is not acquired to carry out the governmental purposes of the Bonds.

"Rebate Amount" has the meaning set forth in Section 1.148-1(b) of the Regulations.

"Regulations" means any proposed, temporary, or final Income Tax Regulations issued pursuant to sections 103 and 141 through 150 of the Code, and 103 of the Internal Revenue Code of 1954, which are applicable to the Bonds. Any reference to any specific Regulation shall also mean, as appropriate, any proposed, temporary, or final Income Tax Regulation designed to supplement, amend, or replace the specific Regulation referenced.

"Yield" of

(i) any Investment has the meaning set forth in Section 1.148-5 of the Regulations; and

(ii) the Bonds mean the yield on the Bonds, as calculated pursuant to Section 1.148-4 of the Regulations.

(b) Not to Cause Interest to Become Taxable. The City shall not use, permit the use of, or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner which if made or omitted, respectively, would cause the interest on any Bond to become includable in the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the City receives a written opinion of counsel nationally recognized in the field of municipal bond law to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income tax of the interest on any Bond, the City shall comply with each of the specific covenants in this Section.

(c) No Private Use or Private Payments. Except to the extent that it will cause the Bonds to become "private activity bonds" within the meaning of section 141 of the Code and the Regulations and rulings thereunder, the City shall at all times prior to the last Stated Maturity of Bonds:

(i) exclusively own, operate, and possess all property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with Gross Proceeds of the Bonds (including property financed with Gross Proceeds of the Refunded Bonds), and not use or permit the use of such Gross Proceeds (including all contractual arrangements with terms different than those applicable to the general public) or any property acquired, constructed, or improved with such Gross Proceeds in any activity carried on by any person or entity (including the United States or any agency, department and instrumentality thereof) other than a state or local government, unless such use is solely as a member of the general public; and

(ii) not directly or indirectly impose or accept any charge or other payment by any person or entity who is treated as using Gross Proceeds of the Bonds or any property the acquisition, construction, or improvement of which is to be financed or refinanced directly or indirectly with such Gross Proceeds (including property financed with Gross Proceeds of the Refunded Bonds), other than taxes of general application within the City or interest earned on investments acquired with such Gross Proceeds pending application for their intended purposes.

(d) No Private Loan. Except to the extent that it will not cause the Bonds to become "private activity bonds" within the meaning of section 141 of the Code and the Regulations and rulings thereunder, the City shall not use Gross Proceeds of the Bonds to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, such Gross Proceeds are considered to be "loaned" to a person or entity if: (i) property acquired, constructed, or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction which creates a debt for federal income tax purposes; (ii) capacity in or service from such property is committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (iii) indirect benefits, or burdens and benefits of ownership, of such Gross Proceeds or any property acquired, constructed, or improved with such Gross Proceeds are otherwise transferred in a transaction which is the economic equivalent of a loan.

(e) Not to Invest at Higher Yield. Except to the extent that it will cause the Bonds to become "arbitrage bonds" within the meaning of section 148 of the Code and the Regulations and rulings thereunder, the City shall not at any time prior to the final Stated Maturity of the Bonds directly or indirectly invest Gross Proceeds in any Investment, if as a result of such investment the Yield of any Investments acquired with Gross Proceeds (or with money replaced thereby), whether then held or previously disposed of, materially exceeds the Yield of the Bonds.

(f) Not Federally Guaranteed. Except to the extent permitted by section 149(b) of the Code and the Regulations and rulings thereunder, the City shall not take or omit to take any action which would cause the Bonds to be federally guaranteed within the meaning of section 149(b) of the Code and the Regulations and rulings thereunder.

(g) Information Report. The City shall timely file the information required by section 149(e) of the Code with the Secretary of the Treasury on Form 8038-G or such other form and in such place as the Secretary may prescribe.

(h) Rebate of Arbitrage Profits. Except to the extent otherwise provided in section 148(f) of the Code and the Regulations and rulings thereunder:

(i) The City shall account for all Gross Proceeds (including all receipts, expenditures, and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures, and investments thereof) and shall retain all records of accounting for at least six years after the day on which the last Outstanding Bond is discharged. However, to the extent permitted by law, the City may commingle Gross Proceeds of the Bonds with other money of the City, provided that the City separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith.

(ii) Not less frequently than each Computation Date, the City shall calculate the Rebate Amount in accordance with rules set forth in section 148(f) of the Code and the Regulations and rulings thereunder. The City shall maintain such calculations with its official transcript of proceedings relating to the issuance of the Bonds until six years after the final Computation Date.

(iii) As additional consideration for the purchase of the Bonds by the Purchasers and the loan of the money represented thereby and in order to induce such purchase by measures designed to insure the excludability of the interest thereon from the gross income of the owners thereof for federal income tax purposes, the City shall pay to the United States out of the Bond Fund or its General Fund, as permitted by applicable Texas statute, regulation, or opinion of the Attorney General of the State of Texas, the amount that when added to the future value of previous rebate payments made for the Bonds equals (A) in the case of a Final Computation Date as defined in Section 1.148-3(e)(2) of the Regulations, 100% of the Rebate Amount on such date; and (B) in the case of any other Computation Date, 90% of the Rebate Amount on such date. In all cases, the rebate payments shall be made at the times, in the installments, to the place and in the manner as is or may be required by section 148(f) of the Code and the Regulations and rulings thereunder, and shall be accompanied by Form 8038-T or such other forms and information as is or may be required by section 148(f) of the Code and the Regulations and rulings thereunder.

(iv) The City shall exercise reasonable diligence to assure that no errors are made in the calculations and payments required by paragraphs (ii) and (iii), and if an error is made, to discover and promptly correct such error within a reasonable amount of time thereafter (and in all events within 180 days after discovery of the error), including payment to the United States of any additional Rebate Amount owed to it, interest thereon, and any penalty imposed under Section 1.148-3(h) of the Regulations.

(i) Not to Divert Arbitrage Profits. Except to the extent permitted by section 148 of the Code and the Regulations and rulings thereunder, the City shall not, at any time prior to the earlier of the Stated Maturity or final payment of the Bonds, enter into any transaction that reduces the amount required to be paid to the United States pursuant to Subsection (h) of this Section because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yield of the Bonds not been relevant to either party.

(j) Bonds Not Hedge Bonds.

(i) The City reasonably expects to spend at least 85% of the spendable proceeds of the Bonds within three years after such Bonds are issued.

(ii) Not more than 50% of the proceeds of the Bonds will be invested in Nonpurpose Investments having a substantially guaranteed Yield for a period of four years or more.

(k) Qualified Advance Refunding. The Bonds are issued to refund the Refunded Bonds, and the Bonds will be issued more than 90 days before the redemption of certain of the Refunded Bonds. The City represents as follows:

(i) The Bonds are the "first advance refunding" of any original obligations issued after 1985 and are the "first or second advance refunding" of any original obligations issued before 1986, both within the meaning of section 149(d)(3) of the Code.

(ii) The Refunded Bonds are being called for redemption, and will be redeemed (A) in the case of the Refunded Bonds issued after 1985, not later than the earliest date on which such obligations may be redeemed and on which the City will realize present value debt service savings (determined without regard to administrative expenses) in connection with the issuance of the Bonds; and (B) in the case of the Refunded Bonds issued before 1986, not later than the earliest date on which such obligations may be redeemed at par or at a premium of 3% or less and on which the City will realize present value debt service savings (determined without regard to administrative expenses) in connection with the issuance of the Bonds.

(iii) The initial temporary period under section 148(c) of the code will end: (A) with respect to the proceeds of the Bonds used to refund the Refunded Bonds not later than 30 days after the Closing Date; and (B) with respect to proceeds of the Refunded Bonds on the Closing Date if not ended prior thereto.

(iv) On and after the Closing Date, no proceeds of the Refunded Bonds will be invested in Nonpurpose Investments having a Yield in excess of the Yield on such Refunded Bonds.

(v) The Bonds are being issued for the purposes stated in the preamble of this Ordinance. There is a present value savings associated with the refunding. In the issuance of the Bonds the City has: (A) neither issued more obligations, nor issued obligations earlier and will not allow obligations to remain outstanding longer than reasonably necessary to accomplish the governmental purposes for which the Bonds were issued; (B) not employed an "abusive arbitrage device" within the meaning of Section 1.148-10(a) of the Regulations; and (C) not employed a "device" to obtain a material financial advantage based on arbitrage, within the meaning of section 149(d)(4) of the Code, apart from savings attributable to lower interest rates and reduced debt service payments in early years.

(l) Current Refunding. The Bonds are issued in part to redeem the Refunded Bonds within 90 days after the issuance of the Bonds. The City hereby waives such temporary periods with respect to the Bonds as provided in the Federal Tax Certificate. The City will not invest the proceeds of the Bonds at a Yield higher than the Yield on the Bonds.

(m) Elections. The City hereby directs and authorizes each Authorized Official, either or any combination thereof, to make such elections in a Federal Tax Certificate or similar or other appropriate certificate, form, or document permitted or required pursuant to the provisions of the Code or the Regulations, as they deem necessary or appropriate in connection with the Bonds. Elections shall be deemed to be made on the Closing Date.

(n) General. The covenants contained herein are intended to assure compliance with the Code and any Regulations or rulings promulgated by the U.S. Department of Treasury pursuant thereto. In the event that Regulations or rulings are hereafter promulgated which modify or expand provisions of the Code, as applicable to the Bonds, the City will not be required to comply with any covenant contained herein to the extent that such modification or expansion, in the opinion of nationally-recognized bond counsel, will not adversely affect the exclusion from gross income of interest on the Bonds under section 103 of the Code. In the event that Regulations or rulings are hereafter promulgated which impose additional requirements which are applicable to the Bonds, the City agrees to comply with the additional requirements to the extent necessary, in the opinion of nationally-recognized bond counsel, to preserve the exclusion from gross income of interest on the Bonds under section 103 of the Code.

Proper officers of the City charged with the responsibility of issuing the Bonds are hereby authorized and directed to execute any documents, certificates, or reports required by the Code and to make such elections as described in Subsection (j), on behalf of the City, which may be permitted by the Code as are consistent with the purpose for the issuance of the Bonds.

Notwithstanding any other provision in this Ordinance, to the extent necessary to preserve the exclusion from gross income of interest on the Bonds under section 103 of the Code the covenants contained in this Section shall survive the later of the defeasance or discharge of the Bonds.

Section 31. Satisfaction of Obligation of City. If the City shall pay or cause to be paid, or there shall otherwise be paid to the Owners, the principal of and interest on the Bonds, at the times and in the manner stipulated in this Ordinance, then the pledge of taxes levied and all covenants, agreements, and other obligations of the City to the Owners shall thereupon cease, terminate, and be discharged and satisfied.

Bonds, or any principal amount(s) thereof, shall be deemed to have been paid within the meaning and with the effect expressed above in this Section when (i) money sufficient to pay in full such Bonds or the principal amount(s) thereof at Stated Maturity or to the redemption date therefor, together with all interest due thereon, shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar, or an authorized escrow agent, or (ii) Government Securities shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Securities have been certified by an independent accounting firm to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any money deposited therewith, if any, to pay when due the principal of and interest on such Bonds, or the principal amount(s) thereof, on and prior to the Stated Maturity thereof or (if notice of redemption has been duly given or waived or if irrevocable arrangements therefor acceptable to the Paying Agent/Registrar have been made) the redemption date thereof. The City covenants that no deposit of money or Government Securities will be made under this Section and no use made of any such deposit which would cause the Bonds to be treated as arbitrage bonds within the meaning of section 148 of the Code (as defined in Section 31).

Any money so deposited with the Paying Agent/Registrar, and all income from Government Securities held in trust by the Paying Agent/Registrar, or an authorized escrow agent, pursuant to this Section which is not required for the payment of the Bonds, or any principal amount(s) thereof, or interest thereon with respect to which such money has been so deposited shall be remitted to the City or deposited as directed by the City. Furthermore, any money held by the Paying Agent/Registrar for the payment of the principal of and interest on the Bonds and remaining unclaimed for a period of three years after the Stated Maturity, or applicable redemption date of the Bonds, such money was deposited and is held in trust to pay shall upon the request of the City be remitted to the City against a written receipt therefor, subject to the unclaimed property laws of the State of Texas.

Notwithstanding any other provision of this Ordinance to the contrary, it is hereby provided that any determination not to redeem defeased Bonds that is made in conjunction with the payment arrangements specified in Subsection (i) or (ii) above shall not be irrevocable, provided, however, that: (A) in the proceedings providing for such defeasance, the City expressly reserves the right to call the defeased Bonds for redemption; (B) gives notice of the reservation of that right to the owners of the defeased Bonds immediately following the defeasance; (C) directs that notice of the reservation be included in any redemption notices that it authorizes; and (D) at the time of the redemption, satisfies the conditions of (A) or (B) above with respect to such defeased debt as though it was being defeased at the time of the exercise of the option to redeem the defeased Bonds, after taking the redemption into account in determining the sufficiency of the provisions made for the payment of the defeased Bonds.

Any money so deposited may at the written direction of the City also be invested in Government Securities, maturing in the amounts and times as hereinbefore set forth, and all income from such Government Securities received by a depositary which is not required for the payment of the defeased Bonds and interest thereon, with respect to which such money has been so deposited, shall be used as directed in writing by the City.

Until all defeased Bonds shall have become due and payable, the Paying Agent/Registrar shall perform the services of Paying Agent/Registrar for such defeased Bonds the same as if they had not been defeased, and the City shall make proper arrangements to provide and pay for such services as required by this Ordinance.

The City reserves the right to purchase any of the Bonds for cancellation at any time and at any price.

Section 32. Ordinance a Contract; Amendments. The City acknowledges that the covenants and obligations of the City herein contained are a material inducement to the purchase of the Bonds. This Ordinance shall constitute a contract with the Owners from time to time, be binding on the City, and it shall not be amended or repealed by the City so long as any Bond remains Outstanding except as permitted in this Section. The City may, without the consent of or notice to any Owners, from time to time and at any time, amend this Ordinance in any manner not detrimental to the interests of the Owners, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the City may, with the written consent of Owners holding a majority in aggregate principal amount of the Bonds Similarly Secured then Outstanding affected thereby, amend, add to, or rescind any of the provisions of this Ordinance; provided, however, that, without the consent of all Owners of Bonds Similarly Secured, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof, affect the redemption price therefor, or modify the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds; (ii) give any preference to any Bond over any other Bond; or (iii) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission.

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APPENDIX C

EXCERPTS FROM 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.

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. Secondarily, the evaluation of costs and benefits require estimates and judgments by management.

Budgetary compliance is a significant tool for managing and controlling governmental activities, as well as ensuring conformance with the City's budgetary limits and specifications. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Levels of budgetary control, that is the levels at which expenditures cannot legally exceed appropriated amounts, are established by department within individual funds. The City utilizes an encumbrance system of accounting as one mechanism to accomplish effective budgetary control. Encumbered amounts lapse at year-end and are generally appropriated as part of the following year's budget. Another budgetary control is the monthly revenue and expenditure report detailing budget and actual balances with variances that are generated and reviewed by the Office of Management and Budget, Finance and the City Manager's Office. 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.

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 additional 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

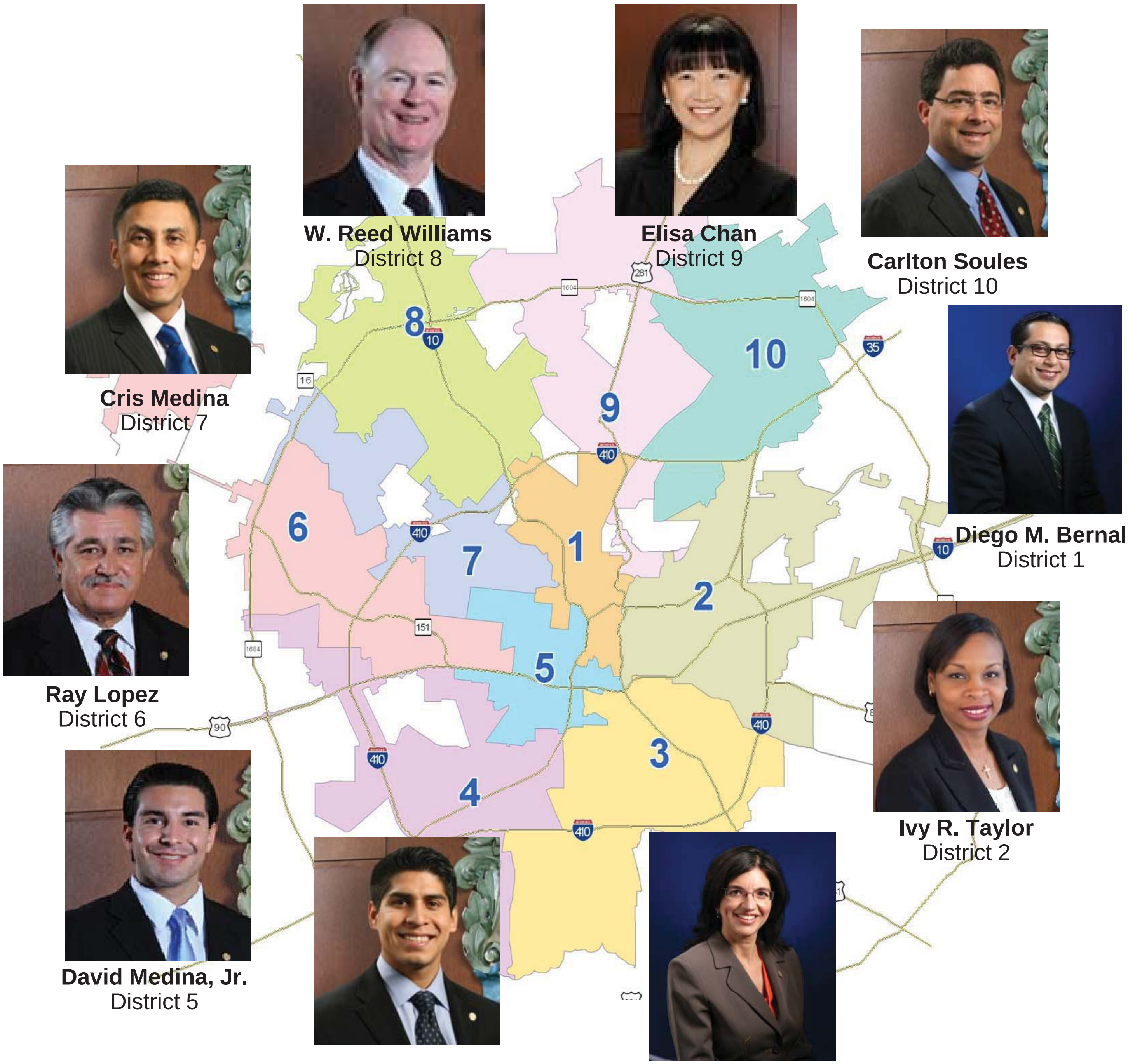
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

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

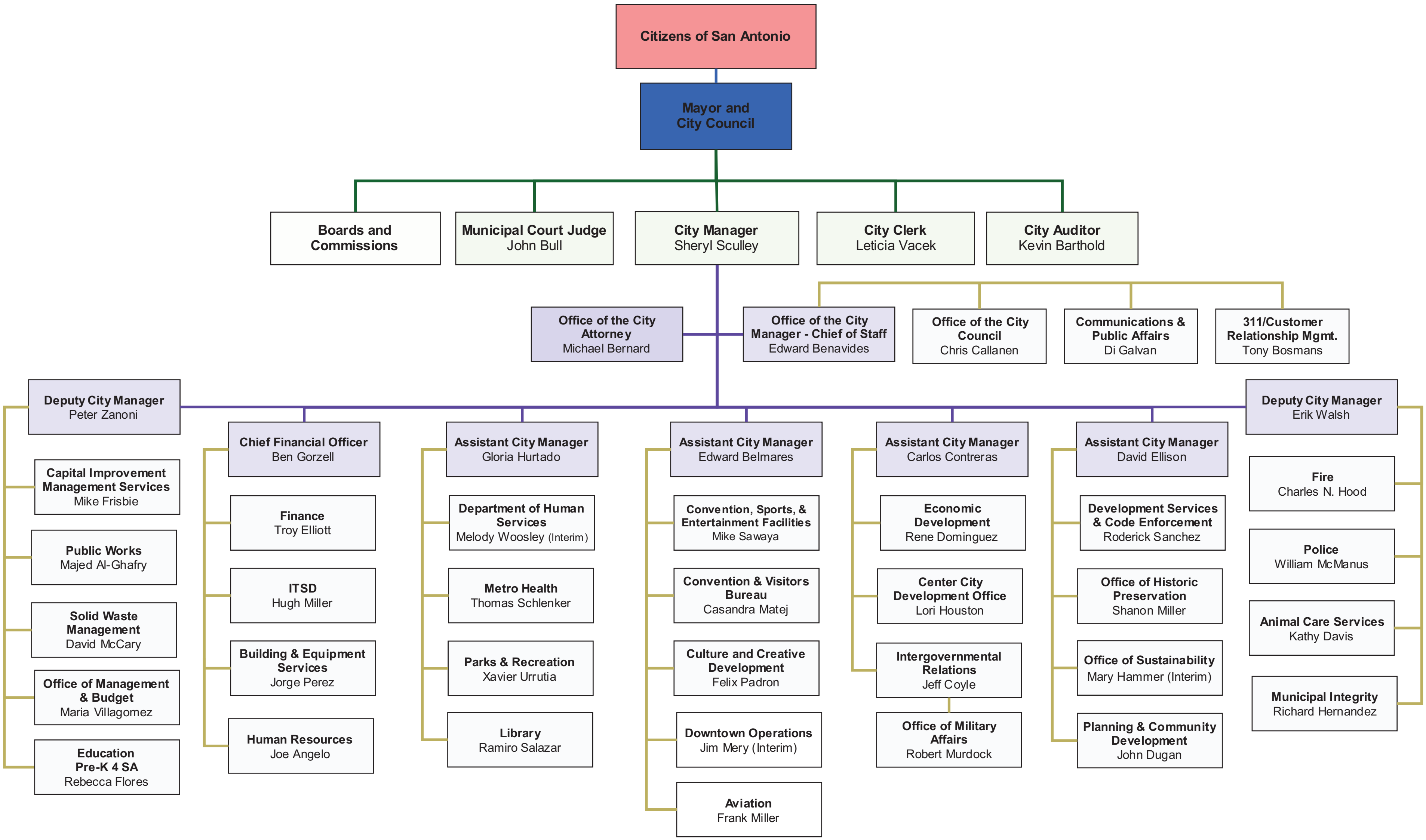
Ray Lopez
District 6

Ivy R. Taylor
District 2

David Medina, Jr.
District 5

Rey Saldaña
District 4

Leticia Ozuna
District 3



Citizens of San Antonio
Mayor and City Council
Boards and Commissions
Municipal Court Judge John Bull
City Manager Sheryl Sculley
City Clerk Leticia Vacek
City Auditor Kevin Barthold
Office of the City Attorney Michael Bernard
Office of the City Manager - Chief of Staff Edward Benavides
Office of the City Council Chris Callanen
Communications & Public Affairs Di Galvan
311/Customer Relationship Mgmt. Tony Bosmans
Deputy City Manager Peter Zanoni
Capital Improvement Management Services Mike Frisbie
Public Works Majed Al-Ghafry
Solid Waste Management David McCary
Office of Management & Budget Maria Villagomez
Education Pre-K 4 SA Rebecca Flores
Chief Financial Officer Ben Gorzell
Finance Troy Elliott
ITSD Hugh Miller
Building & Equipment Services Jorge Perez
Human Resources Joe Angelo
Assistant City Manager Gloria Hurtado
Department of Human Services Melody Woosley (Interim)
Metro Health Thomas Schlenker
Parks & Recreation Xavier Urrutia
Library Ramiro Salazar
Assistant City Manager Edward Belmares
Convention, Sports, & Entertainment Facilities Mike Sawaya
Convention & Visitors Bureau Casandra Matej
Culture and Creative Development Felix Padron
Downtown Operations Jim Mery (Interim)
Aviation Frank Miller
Assistant City Manager Carlos Contreras
Economic Development Rene Dominguez
Center City Development Office Lori Houston
Intergovernmental Relations Jeff Coyle
Office of Military Affairs Robert Murdock
Assistant City Manager David Ellison
Development Services & Code Enforcement Roderick Sanchez
Office of Historic Preservation Shanon Miller
Office of Sustainability Mary Hammer (Interim)
Planning & Community Development John Dugan
Deputy City Manager Erik Walsh
Fire Charles N. Hood
Police William McManus
Animal Care Services Kathy Davis
Municipal Integrity Richard Hernandez

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

PS&Co. Padgett Stratemann

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.

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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:

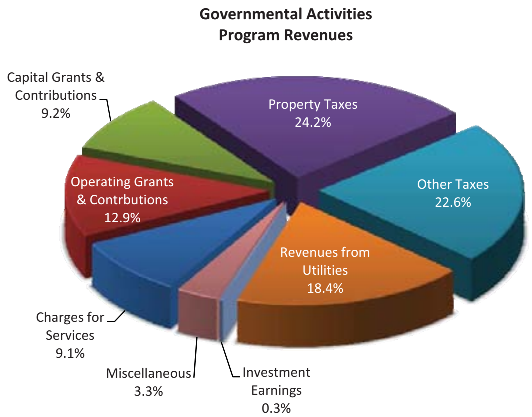
Changes in Net Assets
Year-Ended September 30, 2012
(With Comparative Totals for September 30, 2011)

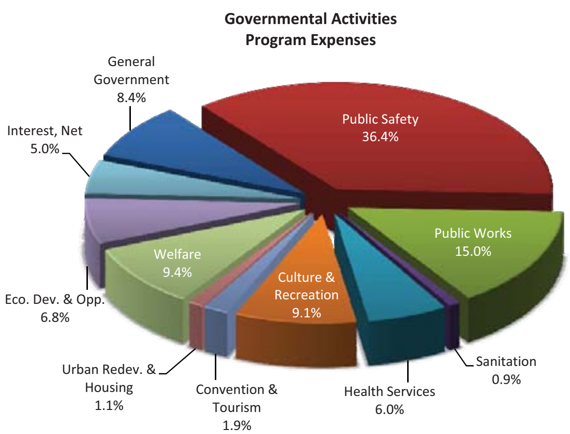
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011 (Restated)*	2012	2011	2012	2011 (Restated)*
Revenues:						
Program Revenues:						
Charges for Services	$ 149,205	$ 151,344	$ 212,066	$ 205,396	$ 361,271	$ 356,740
Operating Grants and Contributions	211,290	267,524			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





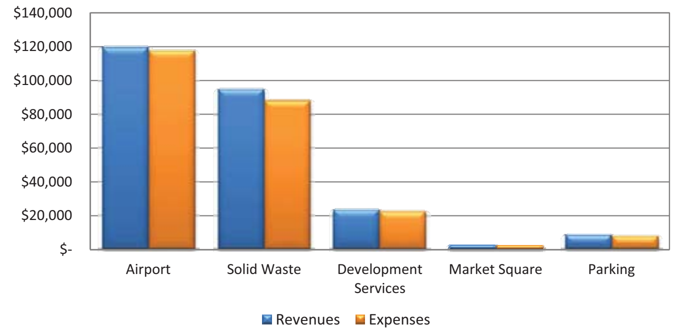
Governmental Activities decreased the City's net assets by $43,766. The reason for the change is as follows:

- 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.

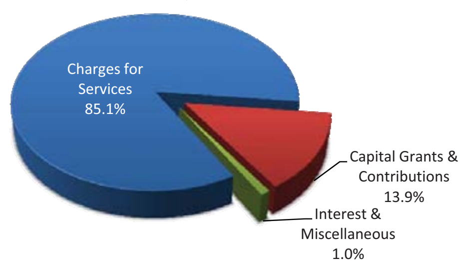
Business-Type Activities

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:

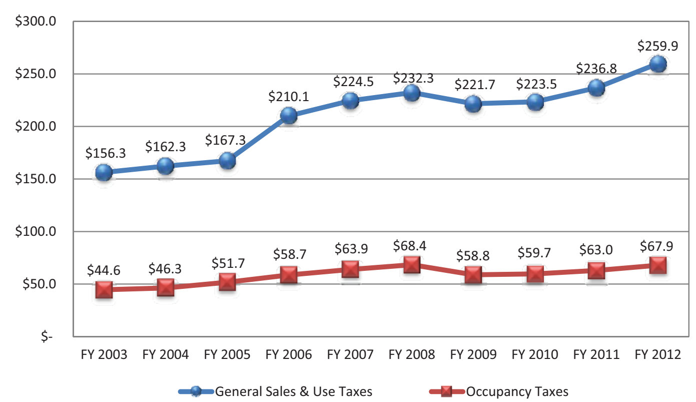
- Charges for Services increased by $6,670 primarily due to an increase in customer accounts at Solid Waste, which generated $3,266 more revenues in fiscal year 2012. Airport revenues also increased $1,494 in the current year as a result of increased international traffic and higher parking revenues. 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, open space, 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	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+
Aiport 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			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
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	1,306,701	230,599	1,537,300	2,576,078
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	3,935,304	644,220	4,579,524	12,140,761
Total Assets	5,242,005	874,819	6,116,824	14,716,839
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	496,901	56,314	553,215	760,559
Noncurrent Liabilities:				
Noncurrent Portion of Long-term Obligations	2,235,447	433,164	2,668,611	8,559,008
Total Noncurrent Liabilities	2,235,447	433,164	2,668,611	8,559,008
Total Liabilities	2,732,348	489,478	3,221,826	9,319,567
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	$ 2,509,657	$ 385,341	$ 2,894,998	$ 5,397,272

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: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS — PRIMARY GOVERNMENT: GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT: BUSINESS-TYPE ACTIVITIES	PRIMARY GOVERNMENT: TOTAL	COMPONENT UNITS
Primary Government:								
Governmental Activities:								
General Government	$ 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					(43,766)	6,381	(37,385)	98,829
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.

Amounts are expressed in thousands

Balance Sheet
Governmental Funds
As of September 30, 2012
(In Thousands)

	MAJOR FUNDS					
	GENERAL	DEBT SERVICE	CATEGORICAL GRANT-IN AID	2007 GENERAL OBLIGATION BONDS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL 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.

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	(2,317,149)	
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	(13,041)	
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	(192,013)	
		(2,381,359)
Net Assets of Governmental Activities		$ 2,509,657

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

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year-Ended September 30, 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	7,997		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	898,162	150,247	160,158	782	418,758	1,628,107
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	885,578	183,006	160,040	811	597,818	1,827,253
Excess (Deficiency) of Revenues Over (Under) Expenditures	12,584	(32,759)	118	(29)	(179,060)	(199,146)
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	(47,640)		(2,420)	(111,042)	(208,725)	(369,827)
Total Other Financing Sources (Uses)	(28,763)	25,550	5,099	(11,735)	220,318	210,469
Net Change in Fund Balances	(16,179)	(7,209)	5,217	(11,764)	41,258	11,323
Fund Balances, October 1 (restated)	232,692	93,569	(4,209)	217,775	389,533	929,360
Fund Balances, September 30	$ 216,513	$ 86,360	$ 1,008	$ 206,011	$ 430,791	$ 940,683

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year-Ended September 30, 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	(35,152)	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	(218,985)	
(Premium)/Discount on Long-term Debt	(30,617)	
Bond Issuance Costs	1,732	
Payments to Escrow Agent	37,892	
Amortization of Bond Premiums/Discounts, Deferred Charges, and Cost of Issuance, Net	4,615	
Principal Payments	117,265	(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.

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	24,431	13,336	14,288	52,055	137,777
Restricted Assets:					
Debt Service Accounts:					
Cash and Cash Equivalents	17,897	65	1,182	19,144	
Securities Lending Collateral			205	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	156,632	16,754	11,062	184,448	
Total Current Assets	181,063	30,090	25,350	236,503	137,777
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	804,500	49,094	50,553	904,147	192,995
Less: Accumulated Depreciation	235,838	17,409	15,939	269,186	118,682
Net Capital Assets	568,662	31,685	34,614	634,961	74,313
Unamortized Bond Issuance Costs	8,999	20	240	9,259	
Total Noncurrent Assets	577,661	31,705	34,854	644,220	74,313
Total Assets	$ 758,724	$ 61,795	$ 60,204	$ 880,723	$ 212,090

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

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	1,456	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		129		129	
Due To:					
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	528	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.

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)	(668)	(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.

Statement of Cash Flows
Proprietary Funds
Year-Ended September 30, 2012

(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	SOLID WASTE MANAGEMENT	NONMAJOR ENTERPRISE FUNDS	TOTALS	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.

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	116,323		86
Investments:			
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.

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.

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)

	CPS ENERGY	SAN ANTONIO WATER SYSTEM	NONMAJOR COMPONENT UNITS	TOTAL
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	349,588	47,191	23,512	420,291
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	195,375	104,959	39,934	340,268
Total Current Liabilities	544,963	152,150	63,446	760,559
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	5,732,278	2,166,954	659,776	8,559,008
Total Liabilities	6,277,241	2,319,104	723,222	9,319,567
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	$ 3,319,215	$ 1,862,440	$ 215,617	$ 5,397,272

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)

		PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	CPS ENERGY	SAN ANTONIO WATER SYSTEM	NONMAJOR COMPONENT UNITS	TOTALS
CPS Energy	$ 2,295,340	$ 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	$ 2,820,702	$ 2,787,929	$ 484	$ 88,926	(11,356)	77,199	(9,206)	56,637
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					32,630	6,180	3,382	42,192
Change in Net Assets					21,274	83,379	(5,824)	98,829
Net Assets - Beginning of Fiscal Year					3,297,941	1,779,061	221,441	5,298,443
Net Assets - End of Fiscal Year					$ 3,319,215	$ 1,862,440	$ 215,617	$ 5,397,272

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

Amounts are expressed in thousands

Comprehensive Annual Financial Report
Table of Notes to Financial Statements
Year-Ended September 30, 2012

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:

Convention Center Hotel Finance Corporation P.O. Box 839966 San Antonio, TX 78283-3966 Contact: Margaret Villegas Telephone No. (210) 207-5734	The Convention Center Hotel Finance Corporation (CCHFC) was established in fiscal year 2005 in accordance with state laws for the purposes of, and to act on behalf of the City in local economic development to stimulate business and commercial activity in the City. The CCHFC is governed by a board of directors, which is comprised of the City Council of San Antonio.
Empowerment Zone Development Corporation P.O. Box 839966 San Antonio, TX 78283-3966 Contact: Rene Dominguez Telephone No. (210) 207-8080	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.
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	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.

Year-Ended September 30, 2012 - 27 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 28 - Amounts are expressed in thousands

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.

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.

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.

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.

Brooks Development Authority
1 B.D.A. Crossing, Ste 100
Brooks City-Base, TX 78235-5355
Contact: Roland Lozano
Telephone No. (210) 678-3306

The Brooks Development Authority (BDA) is a special district and political subdivision of the State of Texas. It was established on September 27, 2001, as a defense base development authority in accordance with state laws for the purposes of, and to act on behalf of the City in, improving mission effectiveness, reducing the cost of providing quality installation support through improved capital asset management, and promoting economic development for Brooks Air Force Base and in the surrounding community. An eleven-member board of directors appointed by the City Council of San Antonio governs the BDA for two-year terms and oversees the Brooks Technology and Business Park in support of the Brooks City-Base Project. The City's ability to impose its will on BDA is through the City Council having the power to remove board members.

City South Management Authority
c/o City of San Antonio
1400 S. Flores
San Antonio, TX 78204
Contact: Christopher Looney
Telephone No. (210) 207-5889

City South Management Authority (CSMA) is a political subdivision of the State of Texas established at the request of the City for the purposes of supporting economic development, creating sustainable communities, and promoting the unique historical, cultural and environmental assets of the City's southern edge. CSMA was established by the City in fiscal year 2005, with a fifteen-member board; six appointed by the City, six by Bexar County, and three appointed collectively by Southwest, East Central, and Southside Independent School Districts. The issuance of bonds or notes must be approved by the City Council of San Antonio.

CPS Energy
P.O. Box 1771
San Antonio, TX 78296-1771
Contact: Gary W. Gold
Telephone No. (210) 353-2523

CPS Energy, a municipally owned utility, provides electricity and natural gas to San Antonio and the surrounding areas. CPS Energy is governed by a board of trustees, which is comprised of four members appointed by the City Council of San Antonio and has the City's Mayor as an ex-officio member. The user rates for services and charges and the issuance of bonds are approved by the City Council.

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Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

Main Plaza Conservancy
111 Soledad, Ste 825
San Antonio, TX 78205
Contact: Jane Pauley-Flores
Telephone No. (210) 225-9800

Main Plaza Conservancy (MPC), a nonprofit organization that provides the management of Main Plaza, was incorporated in October 2007. MPC operates and maintains Main Plaza in coordination with the City and Bexar County to develop and implement a strategy to increase awareness of the historical and cultural significance of Main Plaza, and to organize cultural and artistic events at Main Plaza for the benefit of the citizens, residents and visitors of San Antonio. MPC is governed by a seven-member board of directors, with one representative from both the City and Bexar County. MPC must obtain written permission from the City Manager or designee on such items as security guidelines, charges for admittance, improvements and changes to Main Plaza, and debt issuances.

Municipal Golf Association – San Antonio
2315 Avenue B
San Antonio, TX 78215
Contact: James E. Roschek
Telephone No. (210) 268-5110

Municipal Golf Association – San Antonio (MGA-SA) was established in fiscal year 2007 in accordance with state laws for the purposes of, and to act on behalf of the City in, operating and promoting the City's municipal golf facilities. MGA-SA is governed by a fifteen member board of directors, which is comprised of seven members selected by MGA-SA according to the approved process contained in its by-laws; two ex-officio member positions from City staff who are appointed by the City Manager; and six members appointed by the City Council of San Antonio.

Urban Renewal Agency of the City of San Antonio dba Office of Urban Redevelopment of San Antonio
c/o City of San Antonio
1400 S. Flores
San Antonio, TX 78204
Contact: Lori Houston
Telephone No. (210) 207-6357

The Urban Renewal Agency of the City of San Antonio dba Office of Urban Redevelopment of San Antonio (OUR SA) was created under the provisions of the Urban Renewal Law of the State of Texas. OUR SA is responsible for implementing the City's Urban Renewal Program and may designate for urban renewal in such areas as it deems advisable, subject to approval by the City Council of San Antonio. OUR SA receives a majority of its operating funds from the sale of land owned by the entity. OUR SA is governed by a six-member board of commissioners appointed by the City Council of San Antonio.

SA Energy Acquisition Public Facility Corporation
P.O. Box 1771
San Antonio, TX 78296-1771
Contact: Gary W. Gold
Telephone No. (210) 353-2523

SA Energy Acquisition Public Facility Corporation (SAEAPFC) was established in 2007, in accordance with state laws for the purposes of, and to act on behalf of the City in, the financing and acquisition of electric energy and power, oil, gas, coal and other liquid, gaseous or solid hydrocarbon fuels for the electric and gas systems of the City. SAEAPFC is governed by a seven-member board of directors appointed by the City Council of San Antonio for two-year terms. Board members are subject to removal by the City Council for cause, or at will.

Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

Port Authority of San Antonio dba Port San Antonio
907 Billy Mitchell Blvd,
San Antonio, TX 78226-1802
Contact: Maria Booth
Telephone No. (210) 362-7800

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 be 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 SAEAPFC 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.

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.

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.

Year-Ended September 30, 2012 - 47 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 48 - Amounts are expressed in thousands

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

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.

Year-Ended September 30, 2012 - 49 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 50 - Amounts are expressed in thousands

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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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	14,139	114,207	2,116		
Investments	336,331	2,030,123	230,633	135,640	69,413
Total Unrestricted	387,460	2,287,786	240,530	284,386	188,049
Restricted:					
Cash and Cash Equivalents	182,422			83,859	53,681
Security Lending Collateral	27,095				
Investments	702,964			1,012,121	287,031
Total Restricted	912,481			1,095,980	340,712
Total Cash and Cash Equivalents, Securities Lending Collateral and Investments	$ 1,299,941	$ 2,287,786	$ 240,530	$ 1,380,366	$ 528,761

[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	$ 219,412	$ 143,456	$ 7,781	$ 232,605	$ 172,317

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	1,188,077	2,173,357	233,571	1,353,967	413,913
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	$ 1,039,295	$ 2,030,123	$ 230,633	$ 1,147,761	$ 356,444

[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.

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 Amount [1]	Fair Value [1]	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	$ 1,187,707	$ 1,188,077	100.0%		

[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.

Year-Ended September 30, 2012 - 57 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 58 - Amounts are expressed in thousands

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.

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.

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.

Investment Type	Fair Value	Weighted-Average Maturity WAM (Years)
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	$ 421,261	

[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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Year-Ended September 30, 2012 - 61 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 62 - Amounts are expressed in thousands

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:

Country	Equities	Bonds	Cash	Total
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
	$ 312,680	$ 65,455	$ 942	$ 379,077

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	$ 114,207

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Year-Ended September 30, 2012 - 63 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 64 - Amounts are expressed in thousands

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.

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.

Year-Ended September 30, 2012 - 65 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 66 - Amounts are expressed in thousands

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	$ 232,605

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.

Year-Ended September 30, 2012 - 67 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 68 - Amounts are expressed in thousands

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	232,605
Gross Investments - current and noncurrent:	
CPS Energy - unrestricted and restricted	914,325
Decommissioning Trusts - restricted	439,642
Total Gross Investments	1,353,967
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	(206,206)
Net Current and Noncurrent Investments	1,147,761
Total Cash, Cash Equivalents and Investments	$ 1,380,366

CPS Energy's investments and the investments held in the Decommissioning Trusts are subject to the rules and regulations of the Public Funds Investment Act (PFIA). The PFIA regulates what types of investments can be made, requires written investment policies, mandates training requirements of investment officers, requires internal management reports to be produced at least quarterly, and provides for the selection of authorized brokers. In September 2005, the Texas legislature passed a law to allow the decommissioning trust funds for municipally owned nuclear power plants to hold investments authorized by Subtitle B, Title 9, of the Property Code (i.e., corporate bonds and equities such as common stocks).

CPS Energy's allowable investments are defined by CPS Energy Board Resolution, CPS Energy Investment Policy, bond ordinances, Tax-Exempt Commercial Paper (TECP) Ordinance and State law. These investments are subject to market risk, and their market value will vary as interest rates fluctuate. All CPS Energy direct investments are held in trust custodial funds by an independent bank.

CPS Energy's investments in the Decommissioning Trusts are held by an independent trustee. Investments are limited to those defined by CPS Energy Board Resolution, the South Texas Project Decommissioning Trust Investment Policy, the Investment Strategy Committee, the Trust Agreements and State law, as well as PUCT and Nuclear Regulatory Commission (NCR) guidelines. Allowable investments for the Decommissioning Trusts include those directly permissible for CPS Energy, as well as equities and corporate bonds (including international securities traded in U.S. dollars and on U.S. stock exchanges). In accordance with the Decommissioning Trusts' Investment Policy, total investments can include a maximum of 60.0% equity securities.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

Permissible Investments		
Investment Description	**CPS Energy Direct Investments**	**Decommissioning Trusts**
U.S. Government, Government Agency, or U.S. Government-guaranteed obligations	✓	✓
Collateralized mortgage obligation issued by the U.S. Government	✓	✓
Fully secured certificates of deposit issued by a state, national or savings bank domiciled in the State of Texas	✓	✓
Direct repurchase agreements	✓	✓
Reverse repurchase agreements	✓	✓
Defined bankers' acceptances and commercial paper	✓	✓
No-load money market mutual funds	✓	✓
Other specific types of secured or guaranteed investments	✓	✓
Equities	N/A	✓
Corporate bonds	N/A	✓
International securities	N/A	✓
Securities lending	✓	✓

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Year-Ended September 30, 2012 - 69 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 70 - Amounts are expressed in thousands

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)	284,386
Restricted	
Debt Service	
Cash and Cash Equivalents	518
Total Debt Service	518
Capital Projects	
Cash and Cash Equivalents	60,970
Investments	56,425
Total Capital Projects	117,395
Ordinance	
Investments	530,830
Total Ordinance	530,830
Other	
Project Warm	
Cash and Cash Equivalents	88
Investments	7,507
Total Project Warm	7,595
Decommissioning Trusts	
Cash and Cash Equivalents	22,283
Investments	417,359
Total Decommissioning Trusts	439,642
Total Other	447,237
Total Restricted	
Cash and Cash Equivalents	83,859
Investments	1,012,121
Total Restricted (noncurrent)	1,095,980
Total Cash, Cash Equivalents and Investments (unrestricted and restricted)	$ 1,380,366

CPS Energy's cash equivalents and fixed-income investments are exposed to interest rate risk, credit risk (including custodial credit risk and concentration of credit risk), and foreign currency risk. Equity investments are exposed to credit risk (including custodial credit risk and concentration of credit risk) and foreign currency risk. Interest rate risk is the exposure to fair market value losses resulting from rising interest rates. Credit risk is the risk that an issuer of an investment will not fulfill its obligations (will be unable to make timely principal and interest payments on the security). Foreign currency risk is the exposure to fair market value losses arising from changes in exchange rates. Cash, cash equivalents, and fixed-income investments are also exposed to inflation, liquidity, political, legal, event, reinvestment and timing (call) risks. Additionally, equity investments are exposed to political, legal, event and general economic risks. Due to market fluctuations, it is possible that substantial changes in the market value of investments could occur after the end of the reporting period.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

CPS Energy's investments and the investments in the Decommissioning Trusts are managed with a conservative focus. The investment policies are structured to ensure compliance with bond ordinances, the PFIA, the Public Funds Collateral Act, the NRC, the PUCT, other applicable state statutes, and CPS Energy board of trustee resolutions relating to investments. CPS Energy identifies and manages risks by following an appropriate investment oversight strategy, establishing and monitoring compliance with investment policies and procedures, and continually monitoring prudent controls over risks.

Summary of Investments by Organizational Structure and Type 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	239,991
Common Stock	199,651
Total Decommissioning Trusts	439,642
Grand Total - all Investments	$ 1,353,967

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.

Year-Ended September 30, 2012 - 71 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 72 - Amounts are expressed in thousands

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	$ 914,325	$ 914,360	100.0%	1.9

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	$ 914,325	$ 914,360	100.0%

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.

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:

	28% Interest			12% Interest		
Investment Type	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	$ 164,519	100.0%	5.0	$ 47,494	100.0%	5.4
Cash Collateral - Securities Lending	20,506			7,472		
Total Portfolio	$ 185,025			$ 54,966		
Combined Decommissioning Trust Funds Total	$ 239,991					

[1] Market Value and carrying value are the same amount.

Year-Ended September 30, 2012 - 73 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 74 - Amounts are expressed in thousands

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:

	28% Interest		12% Interest	
Credit Rating	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	$ 185,025	100.0%	$ 54,966	100.0%

[1] Market Value and carrying value are the same amount.

Foreign Currency Risk – With the exception of dedicated foreign-equity portfolios, all investments authorized for purchase by the Decommissioning Trusts are U.S. dollars. This reduces the potential foreign currency risk exposure to the portfolio. All foreign bonds outstanding were issued in the U.S. and amounted to $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 Decommissiong 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.

Year-Ended September 30, 2012 - 75 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 76 - Amounts are expressed in thousands

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.

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:

	Investments Maturities (in Days)					
Investment Type	90 Days or Less	91 to 180	181 to 365	Greater than 365	Fair Value	Reported
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
	$ 215,124	$ 114,512	$ 66,974	$ 17,292	$ 413,902	$ 413,913
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	$ 413,913	$ 413,902	100.0%	

Concentration of Credit Risk – SAWS' Investment Policy does not limit the amount it may invest in U.S. Treasury securities, government-guaranteed securities, or government-sponsored entity securities. However, in order to manage its exposure to credit risk, SAWS' Investment Policy does limit the amount that can be invested in any one government-sponsored issuer to no more than 50.0% of the total investment portfolio, and no more than 5.0% of the total investment portfolio on any non-government issuer unless it is fully collateralized. As of December 31, 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.

Year-Ended September 30, 2012 - 77 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 78 - Amounts are expressed in thousands

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	$ 528,761
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	$ 172,317
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	$ 185,143
Restricted noncurrent investments:	
Capital Project Accounts	$ 105,678
Other Restricted Accounts:	
Reserve Fund	65,623
Total Cash, Cash Equivalents and Investments	$ 528,761

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 expensed $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	1,991,393	258,330	(30,473)	(463,534)	1,755,716
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	4,101,282	36,486	(20,654)	463,534	4,580,648
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	(2,286,008)	(164,880)	15,057		(2,435,831)
Total Depreciable Assets, net	1,815,274	(128,394)	(5,597)	463,534	2,144,817
Total Capital Assets, net	$ 3,806,667	$ 129,936	$ (36,070)	$ -	$ 3,900,533

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	17,915
Total Depreciation Expense for Governmental Activities	$ 164,880

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.

Year-Ended September 30, 2012 - 79 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 80 - Amounts are expressed in thousands

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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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			2,340	9,210
Nonmajor Enterprise Fund	7,605			4,288	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

Year-Ended September 30, 2012 - 81 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 82 - Amounts are expressed in thousands

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:

Power Station	Generating Units	Type
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.

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	$	1,657,248
Total CPS Energy Capital Assets, net	$	7,275,397
STP Capital Investments as a percentage of total CPS Energy Capital Assets, net		22.8%

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Year-Ended September 30, 2012 - 83 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 84 - Amounts are expressed in thousands

Note 4 Capital Assets (Continued)

CPS Energy (Continued)

The following tables provide more detailed information on the activity of CPS Energy's net capital assets as presented on the balance 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 Depletion and Amortization	(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.

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

Year-Ended September 30, 2012 - 85 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 86 - Amounts are expressed in thousands

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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Note 5 Receivables and Payables

Primary Government (City)

Disaggregation of Receivables

Net receivables at September 30, 2012 are as follows:

	Accounts	Taxes	Note and Loans	Accrued Interest	Other	Total Net Receivables
Governmental Activities	$ 122,581	$ 26,303	$ 35,254	$ 1,258	$ 17,016	$ 202,412
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	$ 12,967	$ -	$ 1,000	$ 230	$ -	$ 14,197

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:

	Accounts	Accrued Payroll	Other	Total Payables
Governmental Activities	$ 161,950	$ 7,904	$ -	$ 169,854
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	$ 11,662	$ 1,246	$ 22	$ 12,930

Year-Ended September 30, 2012 - 87 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 88 - Amounts are expressed in thousands

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)

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.

Year-Ended September 30, 2012 - 89 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 90 - Amounts are expressed in thousands

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.

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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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:

Governmental Activity Long-Term Debt

	Time of Original Issuance						
Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2011	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2012
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 2003 Municipal Drainage	44,150	2028	3.500-5.000	34,780		(1,400)	33,380
Series 2005 Municipal Drainage	61,060	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.

Year-Ended September 30, 2012 - 93 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 94 - Amounts are expressed in thousands

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:

Principal and Interest Requirements									
	General Obligation Bonds [2]			Certificates of Obligation		Tax Notes		Revenue Bonds	
Year Ending September 30,	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.

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 October 1, 2011	Additions	Reductions	Balance September 30, 2012
$ 648	$ -	$ -	$ 648

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 October 1, 2011	Additions	Reductions	Balance 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	$ 9,402

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	16,741	$ 35,101	$ 51,842
Less: Interest	(2,548)		
Present Value of Future Minimum Lease Payments	14,193		
Less: Current Portion	(2,302)		
Capital Lease, Net of Current Portion	$ 11,891		

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 - 97 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 98 - Amounts are expressed in thousands

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.

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:

Business-Type Long-Term Debt							
	Time of Original Issuance						
Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2011	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2012
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

Year-Ended September 30, 2012 - 99 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 100 - Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

The annual requirements to amortize long-term debt for the City's Enterprise Funds related to general obligation bonds, certificates of obligation, and revenue bonds outstanding at September 30, 2012 are as follows:

Principal and Interest Requirements									
	Airport System			Parking System			Solid Waste Management		
Year Ending September 30,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
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	$ 379,665	$ 220,368	$ 600,033	$ 14,900	$ 5,961	$ 20,861	$ 3,205	$ 1,338	$ 4,543

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	$ 9,570

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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:

	Capital Leases	Operating Leases	Total
Fiscal Year Ending September 30,			
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	$ 1,512	$ 24,803
Less: Interest	(1,979)		
Present Value of Future Minimum Lease Payments	21,312		
Less: Current Portion	(5,207)		
Capital Leases, Net of Current Portion	$ 16,105		

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Year-Ended September 30, 2012 - 101 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 102 - Amounts are expressed in thousands

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 Long-Term Liabilities	$ 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 Long-Term Liabilities	$ 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.

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.

Year-Ended September 30, 2012 - 103 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 104 - Amounts are expressed in thousands

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.

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.

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			$ 4,484,440

[1] Direct Subsidy Build America Bonds

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Year-Ended September 30, 2012 - 107 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 108 - Amounts are expressed in thousands

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.

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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Year-Ended September 30, 2012 - 109 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 110 - Amounts are expressed in thousands

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.

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	$ 1,826,344	$ 270,942	$ 205,966	$ 1,891,320	$ 44,780

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Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

The following table shows the annual debt service requirements on SAWS' debt obligations for each of the next five years and then in five year increments:

Annual Debt Service Requirements
Revenue and Refunding Bonds

	Senior Lien				Junior Lien	
Year Ended December 31,	Principal	Interest Expense	Direct Subsidy[1]	Net Interest	Principal	Interest Expense
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	$ 1,507,950	$ 1,253,693	$ (77,535)	$ 1,176,158	$ 386,280	$ 130,701

[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

Year-Ended September 30, 2012 - 113 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 114 - Amounts are expressed in thousands

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.

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.

	Beginning Balance January 1, 2011	Additions	Reductions	Ending Balance December 31, 2011
Tax Exempt Commercial Paper Notes	$ 244,650	$ 35,000	$ 64,720	$ 214,930

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Year-Ended September 30, 2012 - 115 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 116 - Amounts are expressed in thousands

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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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	3,926
Total	6,161

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.

Year-Ended September 30, 2012 - 117 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 118 - Amounts are expressed in thousands

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 statues 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:

	Amount	Percentage of Covered Payroll
Employer	$ 70,389	24.6%
Employee	35,193	12.3%
Total	$ 105,582	

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 82^{nd} 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.

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

Year-Ended September 30, 2012 - 123 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 124 - Amounts are expressed in thousands

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

	2011
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.

Year-Ended September 30, 2012 - 125 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 126 - Amounts are expressed in thousands

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	2,529

[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.

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.

Year-Ended September 30, 2012 - 127 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 128 - Amounts are expressed in thousands

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*.

Three-Year Trend Information										
Pension Plan	Fiscal Year	Annual Required Contribution (ARC)	Interest on Net Pension Obligation (NPO)	Adjustment To ARC	Annual Pension Cost (APC)	Contributions In Relation to ARC	Increase (Decrease) in NPO	Net Pension Obligation (Asset) at Beginning of Year	Net Pension Obligation (Asset) at End of Year	Percentage of ARC Contributed
Fire and Police	2010	$ 64,498	$ -	$ -	$ 64,498	$ (64,498)	$ -	$ -	$ -	100.0%
Pension Plan City	2011	67,328			67,328	(67,328)				100.0%
of San Antonio	2012	70,389			70,389	(70,389)				100.0%
TMRS -	2010	$ 32,338	$ -	$ -	$ 32,338	$ (32,338)	$ -	$ -	$ -	100.0%
City of	2011	33,883			33,883	(33,883)				100.0%
San Antonio	2012	29,981			29,981	(28,171)	1,810		1,810	93.9%
CPS All	2010	$ 23,468	$ (156)	$ 191	$ 23,503	$ (23,732)	$ (229)	$ (1,944)	$ (2,173)	101.1%
Employee Plan [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 -	2009	$ 4,275	$ -	$ -	$ 4,275	$ (4,275)	$ 1,066	$ -	$ 1,066	100.0%
SAWS [2]	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 -	2009	$ 6,035	$ -	$ -	$ 6,035	$ (6,035)	$ -	$ -	$ -	100.0%
SAWS [2]	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.

Year-Ended September 30, 2012 - 129 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 130 - Amounts are expressed in thousands

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 compromises 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	$ 8,374

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.

Year-Ended September 30, 2012 - 133 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 134 - Amounts are expressed in thousands

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	3,878
Total Membership	6,883

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.

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	2,304

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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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:

	Annual Rate of Increase	
Year Beginning January 1	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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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:

Three-Year Trend Information

Pension Plan	Fiscal Year	Annual Required Contribution (ARC)	Interest on Net OPEB Obligation	Adjustment To ARC	Annual OPEB Cost	Contributions In Relation to ARC	Increase (Decrease) in Net OPEB	Net OPEB Obligation (Asset) at Beginning of Year	Net OPEB Obligation (Asset) at End of Year	Percentage of ARC Contributed
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		7,046	(37,650)	(30,604)	0.0%
	2012	8,152	(2,372)	2,839	8,619		8,619	(30,604)	(21,985)	0.0%
CPS - Life Plan[1]	2010	$ -	$ (45)	$ 58	$ 13	$ (140)	$ (127)	$ (558)	$ (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:

Funded Status and Funding Progress

Pension Plan	City of San Antonio	Fire and Police Health Care Fund	SAWS	CPS Energy Health Plan	CPS Energy Life Plan	CPS Energy Disability Plan
Actuarial value of plan assets (a)	$ -	$ 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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Year-Ended September 30, 2012 - 141 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 142 - Amounts are expressed in thousands

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.

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.

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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Year-Ended September 30, 2012 - 149 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 150 - Amounts are expressed in thousands

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.

Kopplow Development, Inc. v. City of San Antonio Plaintiff contends that the construction of a regional storm water detention facility was an inverse condemnation of its property by increasing the flood plain elevation on its property. The City also filed a statutory condemnation to acquire an easement involving Plaintiff's property to construct and maintain part of the facility. This matter was tried in July 2008 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.

Year-Ended September 30, 2012 - 151 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 152 - Amounts are expressed in thousands

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.

Year-Ended September 30, 2012 - 155 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 156 - Amounts are expressed in thousands

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:

Year Ended January 31,	Operating Lease Payments
2013	$ 7,403
2014	5,523
2015	3,302
2016	940
Total future minimum lease payments	$ 17,168

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:

Year Ended January 31,	Operating Lease Receipts
2013	$ 3,023
2014	3,046
2015	2,468
2016	2,434
2017	2,478
Later years	8,077
Total future minimum lease receipts	$ 21,526

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.

Year-Ended September 30, 2012 - 157 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 158 - Amounts are expressed in thousands

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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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.

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:

Fund	October 1,	Estimates	Claims	Payments	September 30,
Insurance Reserve[1]:					
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 Benefits[2]:					
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.

Year-Ended September 30, 2012 - 167 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 168 - Amounts are expressed in thousands

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.

Schedule of Changes in Claims Liability				
Fund	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.

Year-Ended September 30, 2012 - 169 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 170 - Amounts are expressed in thousands

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
				$ (27,673)	$ (22,232)

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

Year-Ended September 30, 2012 - 171 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 172 - Amounts are expressed in thousands

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.

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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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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Year-Ended September 30, 2012 - 175 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 176 - Amounts are expressed in thousands

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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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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Year-Ended September 30, 2012 - 177 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 178 - Amounts are expressed in thousands

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	$ 33,559	$ -	$ 18,325	$ 209,661	$ 454,009	$ 715,554

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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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.

Year-Ended September 30, 2012 - 179 - Amounts are expressed in thousands
Year-Ended September 30, 2012 - 180 - Amounts are expressed in thousands

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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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 statue. However, these contribution and benefit rates would only be required to be implemented if the amortization period of the UAAL exceeds 30 years with the actuarial valuation to be conducted in 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

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	903,791	899,898	917,039	17,141
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:	967,669	970,992	966,777	4,215
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	$ -	$ -	$ -	$ -

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 revenues for financial reporting purposes	(18,877)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 898,162
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 purposes	(18,537)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(62,662)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 885,578

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 DATE [1]	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)

Amounts are expressed in thousands

Required Supplementary Information - (Unaudited)
Pension Schedules
Schedules of Funding Progress
Last Three Fiscal Years
(In Thousands)

SAN ANTONIO WATER SYSTEM - TMRS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-11	$ 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%

(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)

Amounts are expressed in thousands

Required Supplementary Information - (Unaudited)
Postemployment Schedules
Schedules of Funding Progress
Last Three Fiscal Years
(In Thousands)

CITY OF SAN ANTONIO RETIREE HEALTH BENEFITS FUND

ACTUARIAL VALUATION DATE [1]	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-11	$ -	$ 324,516	$ 324,516	0.0%	$ 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

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	2012 ACTUAL	2012 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	

Amounts are expressed in thousands

Schedule of Revenues Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2012
(In Thousands)

	2012 FINAL BUDGET	2012 ACTUAL	2012 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)

Amounts are expressed in thousands

Schedule of Revenues Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2012
(In Thousands)

	2012 FINAL BUDGET	2012 ACTUAL	2012 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)

Schedule of Expenditures Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2012
(In Thousands)

	2012 FINAL BUDGET	2012 ACTUAL	2012 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)

Schedule of Expenditures Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2012
(In Thousands)

	2012 FINAL BUDGET	2012 ACTUAL	2012 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)

Schedule of Expenditures Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2012
(In Thousands)

	2012 FINAL BUDGET	2012 ACTUAL	2012 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)

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	2012 ACTUAL	2012 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	149,808	150,247	439
Expenditures:			
General Government:			
Contractual Services	16	2,072	(2,056)
Total General Government	16	2,072	(2,056)
Debt Service:			
Principal Retirement	111,145	111,145	
Interest	76,543	69,469	7,074
Issuance Costs		320	(320)
Total Debt Service:	187,688	180,934	6754
Total Expenditures	187,704	183,006	4,698
(Deficiency) of Revenues (Under) Expenditures	(37,896)	(32,759)	5,137
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	33,294	25,550	(7,744)
(Deficiency) of Revenues (Under) Expenditures	(4,602)	(7,209)	$ (2,607)
Fund Balances, October 1	93,569	93,569	
Fund Balances, September 30	$ 88,967	$ 86,360	

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	2012 ACTUAL	2012 VARIANCE WITH FINAL BUDGET
Revenues:			
General Sales and Use:			
City Sales Tax	$ 12,452	$ 12,861	$ 409
Investment Earnings	48	57	9
Total Revenues	12,500	12,918	418
Expenditures:			
General Government:			
Other Expenditures		12	(12)
Total General Government		12	(12)
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	2,440	2,556	(116)
Total Expenditures	2,440	2,568	(128)
Excess of Revenues Over Expenditures	10,060	10,350	290
Other Financing (Uses):			
Transfers Out	(11,717)	(14,417)	(2,700)
Total Other Financing (Uses)	(11,717)	(14,417)	(2,700)
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(1,657)	(4,067)	$ (2,410)
Fund Balances, October 1	12,942	12,942	
Add Encumbrances		5,951	
Fund Balances, September 30	$ 11,285	$ 14,826	

The City noted budget violations of excess expenditures transfers out, and encumbrancesover appropriations. As there was sufficient actual revenues or fund balances to cover these excesses, the City does not deem these violations to be material.

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community and Visitor Facilities
Year-Ended September 30, 2012
(In Thousands)

	2012 FINAL BUDGET	2012 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	50	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.

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	2012 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	

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	2012 ACTUAL	2012 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	14,025	15,262	1,237
Expenditures:			
Convention and Tourism:			
Contractual Service		54	(54)
Other Expenditures		14	(14)
Total Expenditures		68	(68)
Excess of Revenues Over Expenditures	14,025	15,194	1,169
Other Financing Sources (Uses):			
Transfer In		4,530	4,530
Transfers Out	(22,635)	(16,968)	5,667
Total Other Financing Sources (Uses)	(22,635)	(12,438)	10,197
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	(8,610)	2,756	$ 11,366
Fund Balances, October 1	15,584	15,584	
Add Encumbrances		381	
Fund Balances, September 30	$ 6,974	$ 18,721	

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	2012 ACTUAL	2012 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	27,028	27,604	576
Expenditures:			
General Government:			
Other Expenditures	27	36	(9)
Total General Government	27	36	(9)
Culture and Recreation:			
Contractual Services	539	541	(2)
Other Expenditures		23	(23)
Total Culture and Recreation	539	564	(25)
Total Expenditures	566	600	(34)
Excess of Revenues Over Expenditures	26,462	27,004	542
Other Financing Sources (Uses):			
Transfers In		3	3
Transfers Out	(21,534)	(26,456)	(4,922)
Total Other Financing Sources (Uses)	(21,534)	(26,453)	(4,919)
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing (Uses)	4,928	551	$ (4,377)
Fund Balances, October 1	33,036	33,036	
Add Encumbrances		20,634	
Fund Balances, September 30	$ 37,964	$ 54,221	

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.

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.

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.

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	2012 ACTUAL	2012 VARIANCE WITH FINAL BUDGET
Revenues:			
Charges for Services:			
Administrative Fee	$ 457	$ 308	$ (149)
Total Revenues	457	308	(149)
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	489	383	106
(Deficiency) of Revenues (Under) Expenditures	(32)	(75)	(43)
Other Financing (Uses):			
Transfers Out		(4)	(4)
Total Other Financing (Uses)		(4)	(4)
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(32)	(79)	$ (47)
Fund Balances, October 1	(153)	(153)	
Fund Balances, September 30	$ (185)	$ (232)	

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	2012 ACTUAL	2012 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	2,166	1,966	(200)
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	2,142	1,934	208
Excess of Revenues Over Expenditures	24	32	8
Other Financing (Uses):			
Transfers Out	(216)	(216)	
Total Other Financing (Uses)	(216)	(216)	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(192)	(184)	$ 8
Fund Balances, October 1	243	243	
Fund Balances, September 30	$ 51	$ 59	

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	2012 ACTUAL	2012 VARIANCE WITH FINAL BUDGET
Revenues:			
Miscellaneous	$ 300	$ 256	$ (44)
Total Revenues	300	256	(44)
Excess of Revenues Over Expenditures	300	256	(44)
Other Financing (Uses):			
Transfers Out	(106)	(89)	17
Total Other Financing (Uses)	(106)	(89)	17
Excess of Revenues Over Expenditures and Other Financing (Uses)	194	167	$ (27)
Fund Balances, October 1	(1,956)	(1,956)	
Fund Balances, September 30	$ (1,762)	$ (1,789)	

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	2012 ACTUAL	2012 VARIANCE WITH FINAL BUDGET
Revenues:			
Charges for Services:			
Juvenile Case Manager Fee	$ 712	$ 723	$ 11
Investment Earnings		2	2
Total Revenues	712	725	13
Expenditures:			
General Government:			
Personal Services	574	556	18
Contractual Services	3		3
Other Expenditures	33	34	(1)
Total Expenditures	610	590	20
Excess of Revenues Over Expenditures	102	135	33
Excess of Revenues Over Expenditures	102	135	$ 33
Fund Balances, October 1	419	419	
Fund Balances, September 30	$ 521	$ 554	

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	2012 ACTUAL	2012 VARIANCE WITH FINAL BUDGET
Revenues:			
Charges for Services:			
Building Security	$ 493	$ 470	$ (23)
Total Revenues	493	470	(23)
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	500	481	19
(Deficiency) of Revenues (Under) Expenditures	(7)	(11)	(4)
Other Financing (Uses):			
Transfers Out	(15)	(15)	
Total Other Financing (Uses)	(15)	(15)	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(22)	(26)	$ (4)
Fund Balances, October 1	76	76	
Fund Balances, September 30	$ 54	$ 50	

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	2012 ACTUAL	2012 VARIANCE WITH FINAL BUDGET
Revenues:			
Charges for Services:			
Technology Improvements	$ 653	$ 628	$ (25)
Investment Earnings		5	5
Total Revenues	653	633	(20)
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	725	402	323
Excess (Deficiency) of Revenues Over (Under) Expenditures	(72)	231	303
Other Financing (Uses):			
Transfers Out	(1,008)	(555)	453
Total Other Financing (Uses)	(1,008)	(555)	453
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(1,080)	(324)	$ 756
Fund Balances, October 1	2,057	2,057	
Fund Balances, September 30	$ 977	$ 1,733	

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	2012 ACTUAL	2012 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	352	300	(52)
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	653	625	28
(Deficiency) of Revenues (Under) Expenditures	(301)	(325)	(24)
Other Financing (Uses):			
Transfers Out	(132)	(132)	
Total Other Financing (Uses)	(132)	(132)	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(433)	(457)	$ (24)
Fund Balances, October 1	501	813	
Add Encumbrances		4	
Fund Balances, September 30	$ 68	$ 360	

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	2012 ACTUAL	2012 VARIANCE WITH FINAL BUDGET
Revenues:			
Charges for Services:			
Sales	$ 191	$ 162	$ (29)
Investment Earnings	10	11	1
Total Revenues	201	173	(28)
Expenditures:			
Culture and Recreation:			
Contractual Services	95	33	62
Commodities	64		64
Other Expenditures	10	12	(2)
Total Expenditures	169	45	124
Excess of Revenues Over Expenditures	32	128	96
Excess of Revenues Over Expenditures	32	128	$ 96
Fund Balances, October 1	2,535	2,535	
Add Encumbrances		3	
Fund Balances, September 30	$ 2,567	$ 2,666	

APPENDIX D

FORM OF BOND COUNSEL'S OPINION

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An opinion in substantially the following form will be delivered by Winstead PC, Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law

300 Convent Street
Suite 2700
San Antonio, Texas 78205

210.277.6800 OFFICE
210.277.6810 FAX
winstead.com

May 16, 2013

CITY OF SAN ANTONIO, TEXAS
MUNICIPAL DRAINAGE UTILITY SYSTEM
REVENUE REFUNDING BONDS, SERIES 2013
IN THE ORIGINAL PRINCIPAL AMOUNT OF $70,685,000

We have acted as "Bond Counsel" to the City of San Antonio, Texas (the "City") in connection with the issuance of the bonds described above (the "Bonds") for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds.

In our capacity as Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds that contains certified copies of certain proceedings of the City Council of the City (the "Council"); an ordinance of the Council authorizing the Bonds adopted on April 4, 2013 and an "Approval Certificate" dated April 24, 2013 (collectively, the "Ordinance"); the "Purchase Contract", dated April 24, 2013, between the underwriters named therein and the City; the approving opinion of the Attorney General of the State of Texas; customary certificates of officers, agents, and representatives of the City (including a "Federal Tax Certificate") and other public officials; the "Escrow Agreement", dated as of May 1, 2013 between the City and U.S. Bank National Association (the "Escrow Agent"); a special report of Causey Demgen & Moore P.C., certified public accountants, relating to the accuracy of certain mathematical computations as described in the Escrow Agreement (the "Report"); and other documents relating to the issuance of the Bonds. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the truth and accuracy of the statements contained in such certificates. We have also examined applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations, and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have examined executed Bond No. I-1.

Based on said examination and in accordance with customary legal opinion practice, it is our opinion that:

1. The City is a validly existing home-rule municipal corporation and political subdivision of the State of Texas with power to adopt the Ordinance, perform its agreements therein, and issue the Bonds.

2. The Bonds have been authorized, sold, and delivered in accordance with law.

3. The Bonds constitute valid and legally binding obligations of the City enforceable in accordance with their terms except as the enforceability thereof may be limited by principles of sovereign immunity and bankruptcy, insolvency, reorganization, moratorium, liquidation, and other similar laws now or hereafter enacted relating to creditors' rights generally.

4. The Bonds are special obligations of the City that are payable from and are secured by a first lien on a pledge of the Revenues of the City of San Antonio Municipal Drainage Utility System, as defined and provided in the Ordinance, which Revenues are required to be set aside and pledged to the payment of the Bonds and all additional bonds issued on a party therewith in the Interest and Sinking Fund and the Reserve Fund, to the extent required by the Ordinance maintained for the payment of all such bonds, all as more fully described and provided for in the Ordinance. The City has reserved the right to issue parity bonds, subject to the restrictions contained in the Ordinance, which may be equally and ratably payable from, and secured by a lien on and pledge of, the aforesaid Revenues in the same manner and to the same extent as this Bond and the series of which it is a part.

5. Under existing law, interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103 of the Code, and the Bonds will not be treated as "private activity bonds" within the meaning of section 141 of the Code. Accordingly, interest on the Bonds will not be included as an alternative minimum tax preference item for individuals and corporations under section 57(a)(5) of the Code, except that interest on the Bonds will be included in the "adjusted current earnings" of certain corporations for purposes of computing the alternative minimum tax imposed on corporations by section 55 of the Code.

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

In rendering these opinions, we have relied upon representations and certifications of the City, the City's Co-Financial Advisors, and the underwriter of the Bonds with respect to matters solely within the knowledge of such parties, respectively, which we have not independently verified, and we assume continuing compliance by the City with covenants pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such representations and certifications are determined to be inaccurate or incomplete, or the City fails to comply with the foregoing covenants, interest on the Bonds could become includable in gross income retroactively to the date of issuance of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any other federal, state, or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on or the acquisition, ownership, or disposition of the Bonds.

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

The opinions set forth above are based on existing laws of the United States and the State of Texas, which are 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 hereafter come to our attention, or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based on our review of existing law, and are made in reliance on the representations and covenants referenced above that we deem relevant to such opinions.

The Service has an ongoing audit program to determine compliance with rules relating to whether interest on state or local obligations is excludable from gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Bonds. If such an audit is commenced, under current procedures, the Service would treat the City as the taxpayer, and owners of the Bonds would have no right to participate in the audit process. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that, if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

This legal opinion expresses the professional judgment of this firm as to the legal issues explicitly addressed therein. In rendering a legal opinion, we do 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 our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Respectfully submitted,