

APPROVING THE FORM, CONTENT, AND DISTRIBUTION OF THE PRELIMINARY OFFICIAL STATEMENT PERTAINING TO THE ISSUANCE, SALE AND DELIVERY OF APPROXIMATELY \$17,000,000 IN PRINCIPAL AMOUNT OF CITY OF SAN ANTONIO, TEXAS TAXABLE GENERAL IMPROVEMENT REFUNDING BONDS, SERIES 2008; COMPLYING WITH THE REQUIREMENTS CONTAINED IN SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12; AUTHORIZING THE CITY'S STAFF, CO-FINANCIAL ADVISORS, BOND COUNSEL AND UNDERWRITERS TO TAKE ALL ACTIONS DEEMED NECESSARY IN CONNECTION WITH THE SALE OF SUCH BONDS; AUTHORIZING THE DIRECTOR OF FINANCE TO APPROVE ALL FINAL TERMS OF THE BONDS; SECURING THE PAYMENT THEREOF BY AUTHORIZING THE LEVY OF AN ANNUAL AD VALOREM TAX; CALLING CERTAIN BONDS FOR REDEMPTION; APPROVING AND AUTHORIZING THE EXECUTION OF A PAYING AGENT/REGISTRAR AGREEMENT, A BOND PURCHASE AGREEMENT, AND AN ESCROW AGREEMENT; AND AUTHORIZING ALL OTHER INSTRUMENTS AND PROCEDURES RELATED THERETO

THE STATE OF TEXAS	§
COUNTY OF BEXAR	§
CITY OF SAN ANTONIO	§

WHEREAS, the CITY OF SAN ANTONIO, TEXAS (the "*City*") in Bexar County, Texas, is a political subdivision of the State of Texas operating as a home-rule city pursuant to the Texas Local Government Code and its City Charter which was initially approved by the qualified voters of the City on October 2, 1951, and which has been amended from time to time, with the most recent amendments being approved by the qualified voters of the City on May 15, 2004; and

WHEREAS, pursuant to Ordinance No. 91602, adopted by the City Council of the City on April 13, 2000 (the "*Parking Bond Ordinance*"), the City (i) created a parking system for the purpose of owning, leasing and operating off-street and on-street public parking facilities within the City (the "*Parking System*") in accordance with the provisions of Subchapter D of Chapter 1506, Texas Government Code, as amended (i.e. Sections 1506.151 - 1506.164, Texas Government Code, as amended - the "*Parking Act*"), and (ii) authorized the issuance of \$24,845,000 in principal amount of CITY OF SAN ANTONIO, TEXAS PARKING SYSTEM REVENUE BONDS, SERIES 2000, dated as of May 1, 2000 (the "*Parking Revenue Bonds*"), for the purpose of acquiring, constructing, improving and equipping off-street parking facilities in the City; and

WHEREAS, the Parking Revenue Bonds are currently outstanding in the aggregate principal amount of \$22,115,000 and are more specifically described as maturing in the years and in the respective principal amounts and bearing interest as shown in the following table:

CITY OF SAN ANTONIO, TEXAS PARKING SYSTEM REVENUE BONDS, SERIES 2000			
MATURITY (AUGUST 15)	PRINCIPAL AMOUNT MATURING IN YEAR	STATED INTEREST RATE (%)	CUSIP No. (796329)
2009	\$ 850,000	5.10	AF7
2010	350,000	5.15	AG5
2011	575,000	5.15	AH3
2012	1,110,000	5.20	AJ9
2013	1,170,000	5.25	AK6
***	***	***	***
2017	5,345,000	5.50	AP5
2018	1,535,000	5.60	AQ3
2019	1,625,000	5.65	AR1
2020	1,700,000	5.70	AS9
***	***	***	***
2024	<u>7,855,000</u>	5.75	AT7
Totals	\$22,115,000	***	***

WHEREAS, the Parking Revenue Bonds were issued as tax-exempt bonds, the interest on which is excludable from federal income taxation for the holders of the Parking Revenue Bonds; consequently, the City is obligated to comply with certain rules and restrictions imposed by federal tax law relating to the use of the proceeds of the Parking Revenue Bonds and the facilities financed therewith; and

WHEREAS, as a result of extensive analysis performed by the City's management and staff, the City now deems it appropriate to issue taxable refunding bonds to defease all of the outstanding Parking Revenue Bonds in order to more efficiently and effectively manage and operate the City's parking facilities by (i) eliminating the restrictions imposed by federal income tax laws relating to the use of parking facilities financed with the tax-exempt obligations such as the Parking Revenue Bonds, (ii) eliminating all operating, revenue and other covenants imposed on the City under the Parking Bond Ordinance, and (iii) dissolving the Parking System and moving the financial responsibilities for the City's parking facilities back to the City's General Fund; and

WHEREAS, in order to accomplish the purposes described in the preceding recital, the City now desires to refund all of the outstanding Parking Revenue Bonds (referred to collectively herein as the "**Refunded Obligations**"); and

WHEREAS, all of the Refunded Obligations mature or are subject to redemption prior to maturity within 20 years of the date of the bonds hereinafter authorized; and

WHEREAS, the City will apply all unspent proceeds of the Parking Revenue Bonds, currently on deposit in the "Construction Fund" established by the Parking Bond Ordinance, towards the refunding and defeasance of the Refunded Obligations; and

WHEREAS, the City Council recognizes and acknowledges that the issuance of the refunding bonds authorized by the Ordinance to refund and defease the Refunded Obligations likely will result in a net present value debt service loss of up to \$3,000,000 after taking into account a contribution from the City from available funds of the City related to the Parking System of up to \$14,000,000; however, due to the fact that the final terms of the Bonds will be determined subsequent to the date of passage of this Ordinance, the manner in which the refunding is being executed does not make it practicable to make the determination required to be made pursuant to Section 1207.008(a)(2), Texas Government Code; and

WHEREAS, the City Council further finds that issuing the refunding bonds authorized by this Ordinance for the purposes described in these recitals is in the best interests of the City; and

WHEREAS, pursuant to the provisions of Section 1207.007, Texas Government Code, the City Council now desires to delegate to the Director of Finance of the City the authority to approve all final terms of the bonds issued hereunder; and

WHEREAS, Chapter 1207, Texas Government Code, as amended ("**Chapter 1207**"), authorizes the City to issue refunding bonds and to deposit the proceeds from the sale thereof, and any other available funds or resources, directly with a place of payment (paying agent) for the Refunded Obligations, or with another trust company or commercial bank that does not act as a depository for the City, in an amount sufficient to provide for the payment and/or redemption of the Refunded Obligations, and such deposit, if made before such payment dates, shall constitute the making of firm banking and financial arrangements for the discharge and final payment or redemption of the Refunded Obligations; and

WHEREAS, Chapter 1207 (specifically Section 1207.005 thereof) further provides that refunding bonds issued pursuant thereto "may be secured by and made payable from taxes, revenue, or both, another source, or a combination of sources to the extent the issuer is otherwise authorized to secure or pay any type of bond by or from that source or those sources"; therefore, the City is authorized to issue general obligation refunding bonds secured with ad valorem taxes levied by the City for the purpose of refunding the Refunded Obligations, which are secured with revenues derived from the Parking System; and

WHEREAS, Chapter 1207 (specifically Section 1207.062 thereof) further authorizes the City to enter into an escrow agreement with (i) any paying agent for the Refunded Obligations, or (ii) another trust company or commercial bank that does not act as a depository for the Board and is named in the proceedings authorizing such escrow agreement, with respect to the safekeeping, investment, reinvestment, administration and disposition of any such deposit, upon such terms and conditions as the City and such paying agent, trust company or commercial bank may agree; provided that such deposits may be invested and reinvested in direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States, which mature and bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment or redemption of the Refunded Obligations; and

WHEREAS, *The Bank of New York Mellon Trust Company, National Association* (as the successor to the paying agency services of the original paying agent/registrar for the Parking Revenue Bonds - then known as Chase Bank of Texas, N.A.) is the paying agent for the Refunded Obligations, and the Escrow Agreement hereinafter authorized, under which *The Bank of New York Mellon Trust Company, National Association* will serve as the initial Escrow Agent, constitutes an escrow agreement of the kind authorized and permitted by Chapter 1207; and

WHEREAS, the Bonds hereinafter authorized and designated are to be issued and delivered pursuant to Chapter 1207, Texas Government Code, as amended; and

WHEREAS, Securities and Exchange Commission Rule 15c2-12, codified at 17 C.F.R. §240.15c2-12 ("**Rule 15c2-12**"), requires that the Preliminary Official Statement prepared and distributed in connection with the issuance of the Bonds be "deemed final" as of its date by the City (except for the omission of no more than the information permitted by Rule 15c2-12); and

WHEREAS, such Preliminary Official Statement has been reviewed by the City Council and representatives of the City's staff; and

WHEREAS, the City Council deems it necessary to approve and authorize the distribution of the Preliminary Official Statement in preparation for the sale of the bonds being authorized by this Ordinance; and

WHEREAS, it is hereby officially found and determined that the meeting at which this Ordinance was passed was open to the public, and public notice of the time, place, and purpose of said meeting was given, all as required by Chapter 551, Texas Government Code.

THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF SAN ANTONIO, TEXAS:

SECTION 1. AMOUNT AND PURPOSE OF THE BONDS; DELEGATION OF AUTHORITY TO DIRECTOR OF FINANCE. (a) Authorization to Issue General Obligation Refunding Bonds. General obligation bonds of the City are hereby authorized to be issued and delivered in the aggregate principal amount as designated by the Director of Finance of the City pursuant to the provisions of Section 1(b) of this Ordinance **FOR THE PURPOSE OF**

PROVIDING FUNDS, TOGETHER WITH OTHER AVAILABLE FUNDS OF THE CITY, TO REFUND ALL OF THE OUTSTANDING "CITY OF SAN ANTONIO, TEXAS PARKING REVENUE SYSTEM BONDS, SERIES 2000", AND TO PAY FOR COSTS OF ISSUANCE.

(b) Delegation of Final Terms. As authorized by Section 1207.007, Texas Government Code, the Director of Finance of the City is hereby authorized, appointed, and designated as the officer of the City authorized to act on behalf of the City to effect the sale of the Bonds and to establish the terms and details related to the issuance and sale of the Bonds including the total aggregate principal amount of Bonds to be issued (but in no event to exceed **\$17,000,000**), the price at which the Bonds will be sold (but in no event to exceed an amount equal to par plus original issue premium in excess of **\$250,000**), the date of the Bonds, the aggregate principal amount of each maturity thereof, the due date of each maturity (but in no event later than *August 15, 2024*), the rate of interest to be borne on the principal amount of each such maturity, the interest payment periods, the dates, price and terms upon and at which the Bonds shall be subject to redemption prior to maturity at the option of the City, as well as any mandatory sinking fund redemption provisions for any maturity, if any, and all other matters relating to the issuance, sale and delivery of the Bonds. The Director of Finance, acting for and on behalf of the City, is further authorized to complete and attach *Exhibit A* of this Ordinance with the final terms of the Bonds approved pursuant to the authority granted herein and to enter into, execute and carry out an agreement to purchase the Bonds (the "Bond Purchase Agreement") with the Underwriters named in Section 11 herein.

SECTION 2. DESIGNATION, DATE, DENOMINATIONS, NUMBERS AND MATURITIES OF BONDS. Each Bond issued pursuant to this Ordinance shall be designated: **CITY OF SAN ANTONIO, TEXAS TAXABLE GENERAL IMPROVEMENT REFUNDING BOND, SERIES 2008** (a "**Bond**" and collectively, the "**Bonds**") and initially there shall be issued, sold and delivered hereunder one fully registered bond, without interest coupons, dated as of the date determined by the Director of Finance of the City set forth in *Exhibit A*, in the aggregate principal amount determined by the Director of Finance of the City set forth in *Exhibit A*, numbered T-1 (the "Initial Bond"), with Bonds issued in replacement thereof being in the denomination of \$5,000 or any integral multiple thereof, with Bonds issued and delivered in substitution for the Initial Bond being numbered consecutively from R-1 upward, all payable to the registered owner thereof (with the Initial Bond being payable to the initial purchaser designated in Section 11 hereof), or to the registered assignee or assignees of said bonds or any portion or portions thereof (in each case, the "**Registered Owner**").

(b) The Bonds shall mature and be payable on the dates and in the respective principal amounts determined by the Director of Finance of the City and as set forth in *Exhibit A* attached hereto.

SECTION 3. INTEREST. The Bonds shall bear interest calculated on the basis of a 360-day year composed of twelve 30-day months from the dates specified in the FORM OF BOND set forth in this Ordinance to their respective dates of maturity at the rates per annum determined by the Director of Finance of the City and as set forth in *Exhibit A* attached hereto. Said interest shall be payable in the manner provided and on the dates stated in the FORM OF BOND set forth in this Ordinance.

SECTION 4. CHARACTERISTICS OF THE BONDS. *(a) Registration, Transfer, and Exchange; Authentication.* The City shall keep or cause to be kept at the designated corporate trust office (initially located in Dallas, Texas) of **THE BANK OF NEW YORK MELLON TRUST COMPANY, NATIONAL ASSOCIATION** (the "**Paying Agent/Registrar**") books or records for the registration of the transfer and exchange of the Bonds (the "**Registration Books**"), and the City hereby appoints the Paying Agent/Registrar as its registrar and transfer agent to keep such books or records and make such registrations of transfers and exchanges under such reasonable regulations as the City and Paying Agent/Registrar may prescribe; and the Paying Agent/Registrar shall make such registrations, transfers and exchanges as herein provided. Attached hereto as *Exhibit B* is a copy of the Paying Agent/Registrar Agreement between the City and the Paying Agent/Registrar which is hereby approved in substantially final form, and the Mayor, Mayor Pro-Tem and City Clerk of the City are hereby authorized to execute the Paying Agent/Registrar Agreement and approve any changes in the final form thereof.

The Paying Agent/Registrar shall obtain and record in the Registration Books the address of the registered owner of each Bond to which payments with respect to the Bonds shall be mailed, as herein provided; but it shall be the duty of each registered owner to notify the Paying Agent/Registrar in writing of the address to which payments shall be mailed, and such interest payments shall not be mailed unless such notice has been given. To the extent possible and under reasonable circumstances, all transfers of Bonds shall be made within three business days after request and presentation thereof. The City shall have the right to inspect the Registration Books during regular business hours of the Paying Agent/Registrar, but otherwise the Paying Agent/Registrar shall keep the Registration Books confidential and, unless otherwise required by law, shall not permit their inspection by any other entity. The Paying Agent/Registrar's standard or customary fees and charges for making such registration, transfer, exchange and delivery of a substitute Bond or Bonds shall be paid as provided in the FORM OF BOND set forth in this Ordinance. Registration of assignments, transfers and exchanges of Bonds shall be made in the manner provided and with the effect stated in the FORM OF BOND set forth in this Ordinance. Each substitute Bond shall bear a letter and/or number to distinguish it from each other Bond.

Except as provided in (c) below, an authorized representative of the Paying Agent/Registrar shall, before the delivery of any such Bond, date and manually sign the Paying Agent/Registrar's Authentication Certificate, and no such Bond shall be deemed to be issued or outstanding unless such Certificate is so executed. The Paying Agent/Registrar promptly shall cancel all paid Bonds and Bonds surrendered for transfer and exchange. No additional ordinances, orders, or resolutions need be passed or adopted by the governing body of the City or any other body or person so as to accomplish the foregoing transfer and exchange of any Bond or portion thereof, and the Paying Agent/Registrar shall provide for the printing, execution, and delivery of the substitute Bonds in the manner prescribed herein, and said Bonds shall be of type composition printed on paper with lithographed or steel engraved borders of customary weight and strength. Pursuant to Subchapter D of Chapter 1201, Texas Government Code, the duty of transfer and exchange of Bonds as aforesaid is hereby imposed upon the Paying Agent/Registrar, and, upon the execution of said Certificate, the transferred and exchanged Bond shall be valid, incontestable, and enforceable in the same manner and with the same effect as the Bonds which initially were issued and delivered pursuant to this

Ordinance, approved by the Attorney General, and registered by the Comptroller of Public Accounts.

(b) Payment of Bonds and Interest. The City hereby further appoints the Paying Agent/Registrar to act as the paying agent for paying the principal of and interest on the Bonds, all as provided in this Ordinance. The Paying Agent/Registrar shall keep proper records of all payments made by the City and the Paying Agent/Registrar with respect to the Bonds.

(c) In General. The Bonds (i) shall be issued in fully registered form, without interest coupons, with the principal of and interest on such Bonds to be payable only to the registered owners thereof, (ii) may be redeemed prior to their scheduled maturities (notice of which shall be given to the Paying Agent/Registrar by the City at least 50 days prior to any such redemption date), (iii) may be transferred and assigned, (iv) may be exchanged for other Bonds, (v) shall have the characteristics, (vi) shall be signed, sealed, executed and authenticated, (vii) the principal of and interest on the Bonds shall be payable, and (viii) shall be administered and the Paying Agent/Registrar and the City shall have certain duties and responsibilities with respect to the Bonds, all as provided, and in the manner and to the effect as required or indicated, in the FORM OF BOND set forth in this Ordinance. The Initial Bond is not required to be, and shall not be, authenticated by the Paying Agent/ Registrar, but on each substitute Bond issued in exchange for the Initial Bond issued under this Ordinance the Paying Agent/Registrar shall execute the PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE, in the form set forth in the FORM OF BOND. In lieu of the executed Paying Agent/Registrar's Authentication Certificate described above, the Initial Bond delivered on the closing date (as further described in subparagraph (i) below) shall have attached thereto the Comptroller's Registration Certificate substantially in the form set forth in the FORM OF BOND below, manually executed by the Comptroller of Public Accounts of the State of Texas or by his duly authorized agent, which certificate shall be evidence that the Initial Bond has been duly approved by the Attorney General of the State of Texas and that it is a valid and binding obligation of the City, and has been registered by the Comptroller.

(d) Substitute Paying Agent/Registrar. The City covenants with the registered owners of the Bonds that at all times while the Bonds are outstanding the City will 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 for the Bonds under this Ordinance, and that the Paying Agent/Registrar will be one entity and shall be an entity registered with the Securities and Exchange Council. The City reserves the right to, and may, at its option, change the Paying Agent/Registrar upon not less than 120 days written notice to the Paying Agent/Registrar, to be effective not later than 60 days prior to the next principal or interest payment date after such notice. In the event that the entity at any time acting as Paying Agent/Registrar (or its successor by merger, acquisition, or other method) should resign or otherwise cease to act as such, the City covenants that promptly it will appoint a competent and legally qualified bank, trust company, financial institution, or other agency to act as Paying Agent/Registrar under this Ordinance. Upon any change in the Paying Agent/Registrar, the previous Paying Agent/Registrar promptly shall transfer and deliver the Registration Books (or a copy thereof), along with all other pertinent books and records relating to the Bonds, to the new Paying Agent/Registrar designated and appointed by the City. Upon any change in the Paying Agent/Registrar, the City promptly will cause a written notice thereof to be sent by the

new Paying Agent/Registrar to each registered owner of the Bonds, by United States mail, first-class postage prepaid, which notice also shall give the address of the new Paying Agent/Registrar. By accepting the position and performing as such, each Paying Agent/Registrar shall be deemed to have agreed to the provisions of this Ordinance, and a certified copy of this Ordinance shall be delivered to each Paying Agent/Registrar.

(e) Book-Entry Only System for Bonds. The Bonds issued in exchange for the Bonds initially issued to the purchaser specified in Section 11 herein shall be initially issued in the form of a separate single fully registered Bond for each of the maturities thereof. Upon initial issuance, the ownership of each such Bond shall be registered in the name of Cede & Co., as nominee of The Depository Trust Company of New York ("*DTC*"), and except as provided in subsection (i) hereof, all of the outstanding Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the City and the Paying Agent/Registrar shall have no responsibility or obligation to any securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created ("*DTC Participant*") to hold securities to facilitate the clearance and settlement of securities transaction among DTC Participants or to any person on behalf of whom such a DTC Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, the City and the Paying Agent/Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than a registered owner of the Bonds, as shown on the Registration Books, of any notice with respect to the Bonds, or (iii) the payment to any DTC Participant or any other person, other than a registered owner of Bonds, as shown in the Registration Books of any amount with respect to principal of or interest on the Bonds. Notwithstanding any other provision of this Ordinance to the contrary, the City and the Paying Agent/Registrar shall be entitled to treat and consider the person in whose name each Bond is registered in the Registration Books as the absolute owner of such Bond for the purpose of payment of principal and interest with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Paying Agent/Registrar shall pay all principal of and interest on the Bonds only to or upon the Ordinance of the registered owners, as shown in the Registration Books as provided in this Ordinance, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to payment of principal of and interest on the Bonds to the extent of the sum or sums so paid. No person other than a registered owner, as shown in the Registration Books, shall receive a Bond certificate evidencing the obligation of the City to make payments of principal and interest pursuant to this Ordinance. Upon delivery by DTC to the Paying Agent/Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in this Ordinance with respect to interest checks being mailed to the registered owner at the close of business on the Record Date, the words "Cede & Co." in this Ordinance shall refer to such new nominee of DTC.

(f) Successor Securities Depository: Transfers Outside Book-Entry Only Systems. In the event that the City determines that DTC is incapable of discharging its responsibilities described

herein and in the representation letter of the City to DTC or that it is in the best interest of the beneficial owners of the Bonds that they be able to obtain certificated Bonds, the City shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities and Exchange Act of 1934, as amended, notify DTC and DTC Participants of the appointment of such successor securities depository and transfer one or more separate Bonds to such successor securities depository or (ii) notify DTC and DTC Participants of the availability through DTC of Bonds and transfer one or more separate Bonds to DTC Participants having Bonds credited to their DTC accounts. In such event, the Bonds shall no longer be restricted to being registered in the Registration Books in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names registered owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Ordinance.

(g) Payments to Cede & Co. Notwithstanding any other provision of this Ordinance to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee for DTC, all payments with respect to principal of and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the representation letter of the City to DTC.

(h) DTC Letter of Representation. The officers of the City are herein authorized for and on behalf of the City and as officers of the City to enter into one or more Letters of Representation, if necessary, with DTC establishing the book-entry only system with respect to the Bonds.

(i) Delivery of Initial Bond. On the closing date, one Initial Bond representing the entire principal amount of the Bonds and, payable in stated installments to the initial registered owner named in Section 11 of this Ordinance or its designee, executed by manual or facsimile signature of the Mayor or Mayor Pro-Tem and City Clerk of the City, approved by the Attorney General of Texas, and registered and manually signed by the Comptroller of Public Accounts of the State of Texas, will be delivered to the initial purchaser or its designee. Upon payment for the Bonds, the Paying Agent/Registrar shall cancel the Initial Bond and deliver to the initial registered owner or its designee one registered definitive Bond for each year of maturity of the Bonds, in the aggregate principal amount of all of the Bonds for such maturity.

SECTION 5. FORM OF BONDS. The form of the Bonds, including the form of Paying Agent/Registrar's Authentication Certificate, the form of Assignment and the form of Registration Certificate of the Comptroller of Public Accounts of the State of Texas (to be attached only to the Bonds initially issued and delivered pursuant to this Ordinance), shall be, respectively, substantially as follows, with such appropriate variations, omissions, or insertions as are permitted or required by this Ordinance.

FORM OF BOND

R-1	UNITED STATES OF AMERICA STATE OF TEXAS COUNTY OF BEXAR CITY OF SAN ANTONIO, TEXAS	PRINCIPAL AMOUNT \$ _____
	TAXABLE GENERAL IMPROVEMENT REFUNDING BOND SERIES 2008	

<u>INTEREST RATE</u> _____	<u>DATE OF SERIES</u> _____, 2008	<u>MATURITY DATE</u> August 1, 20__	<u>CUSIP NO.</u> _____
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REGISTERED OWNER:

PRINCIPAL AMOUNT: _____ DOLLARS

ON THE MATURITY DATE specified above, the **CITY OF SAN ANTONIO, TEXAS** (the "*City*"), being a political subdivision and home-rule municipality of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "*Registered Owner*") the Principal Amount set forth above, and to pay interest thereon from _____, 2008, at the Interest Rate per annum specified above, on _____, 1, 200__ and semiannually on each February 1 and August 1 thereafter to the Maturity Date specified above or date of redemption prior to redemption; except that if this Bond is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such Principal Amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such Principal Amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Bond or Bonds, if any, for which this Bond is being exchanged or converted from is due but has not been paid, then this Bond shall bear interest from the date to which such interest has been paid in full.

THE PRINCIPAL OF AND INTEREST ON THIS BOND are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Bond shall be paid to the Registered Owner hereof upon presentation and surrender of this Bond at maturity or redemption prior to maturity, at the designated corporate trust office (initially located in Dallas, Texas) of **THE BANK OF NEW YORK MELLON TRUST COMPANY, NATIONAL ASSOCIATION**, which is the "*Paying Agent/Registrar*" for this Bond. The payment of interest on this Bond shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the City required by the ordinance authorizing the issuance of the Bonds (the "*Bond Ordinance*") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the Registered Owner hereof, at its address as it appeared on the 15th day of the month next

preceding each such date (the "**Record Date**") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid 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 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 shall be 15 days after the Special Record Date) shall 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 owner of a Bond appearing on the Registration Books at the close of business on the last business day next preceding the date of mailing of such notice. Any accrued interest due upon the redemption of this Bond prior to maturity as provided herein shall be paid to the Registered Owner upon presentation and surrender of this Bond for redemption and payment to the Paying Agent/Registrar at the Designated Trust Office (unless the redemption date is a regularly scheduled interest payment date, in which case accrued interest on such redeemed Bonds shall be payable in the regular manner described above). The City covenants with the Registered Owner of this Bond that on or before each principal payment date and interest payment date for this Bond it will make available to the Paying Agent/Registrar, from the "Interest and Sinking Fund" created by the Bond Ordinance, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Bonds, when due.

IF THE DATE FOR ANY PAYMENT DUE on this Bond shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Designated Trust Office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close, and payment on such date shall have the same force and effect as if made on the original date payment was due.

THIS BOND IS ONE OF A SERIES OF BONDS dated as of _____, 2008, authorized in accordance with the Constitution and laws of the State of Texas in the principal amount of \$ _____ **FOR THE PURPOSE OF PROVIDING FUNDS, TOGETHER WITH OTHER AVAILABLE FUNDS OF THE CITY, TO REFUND ALL OF THE OUTSTANDING "CITY OF SAN ANTONIO, TEXAS PARKING REVENUE SYSTEM BONDS, SERIES 2000", AND TO PAY FOR COSTS OF ISSUANCE.**

ON _____, 20__, **OR ON ANY DATE THEREAFTER**, the Bonds maturing on and after _____, 20__, may be redeemed prior to their scheduled maturities, at the option of the City, with funds derived from any available and lawful source, as a whole, or in part (provided that a portion of such Bond may be redeemed only in an integral multiple of \$5,000 in principal amount) at the redemption price equal to the principal amount being called for redemption plus unpaid accrued interest. If less than all of such Bonds are to be redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar at random and by lot.

[The following paragraph shall appear only if the Bonds include "Term Bonds"]

ADDITIONALLY, THE BONDS MATURING on _____ in the years 20__, 20__ and _____ (collectively, the "**Term Bonds**") are subject to mandatory redemption prior to maturity in part by lot, at a price equal to the principal amount thereof plus accrued interest to the date of redemption, on the dates and in the respective principal amounts shown below:

TERM BONDS MATURING _____, 20__		TERM BONDS MATURING _____, 20__	
Mandatory Redemption Date	Redemption Amount	Mandatory Redemption Date	Redemption Amount
_____, 20__	\$ _____	_____, 20__	\$ _____
_____, 20__	_____	_____, 20__	_____
_____, 20__ (maturity)	_____	_____, 20__ (maturity)	_____

TERM BONDS MATURING _____, 20__	
Mandatory Redemption Date	Redemption Amount
_____, 20__	\$ _____
_____, 20__	_____
_____, 20__ (maturity)	_____

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

AT LEAST 30 DAYS PRIOR to the date fixed for any redemption of Bonds or portions thereof prior to maturity, a written notice of such redemption shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, at least 30 days prior to the date fixed for any such redemption to the Registered Owner of each Bond to be redeemed at its address

as it appeared on the Registration Books maintained by the Paying Agent/Registrar on the day such notice of redemption is mailed. Any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the Registered Owner. By the date fixed for any such redemption, due provision shall 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 written notice of redemption is mailed 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 shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall 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. If a portion of any Bond shall be redeemed a substitute Bond or Bonds having the same maturity date, bearing interest at the same rate, in any denomination or denominations in any integral multiple of \$5,000, at the written request of the Registered Owner, and in an aggregate principal amount equal to the unredeemed portion thereof, will be issued to the Registered Owner upon the surrender thereof for cancellation, at the expense of the City, all as provided in the Bond Ordinance.

ALL BONDS OF THIS SERIES are issuable solely as fully registered Bonds, without interest coupons, in the denomination of any integral multiple of \$5,000. As provided in the Bond Ordinance, this Bond may, at the request of the Registered Owner or the assignee or assignees hereof, be assigned, transferred, converted into and exchanged for a like aggregate amount of fully registered Bonds, without interest coupons, payable to the appropriate Registered Owner, assignee or assignees, as the case may be, having any authorized denomination or denominations as requested in writing by the appropriate Registered Owner, assignee or assignees, as the case may be, upon surrender of this Bond to the Paying Agent/Registrar for cancellation, all in accordance with the form and procedures set forth in the Bond Ordinance. Among other requirements for such assignment and transfer, this Bond must be presented and surrendered to the Paying Agent/Registrar, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, evidencing assignment of this Bond or any portion or portions hereof in any authorized denomination to the assignee or assignees in whose name or names this Bond or any such portion or portions hereof is or are to be registered. The form of Assignment printed or endorsed on this Bond may be executed by the Registered Owner to evidence the assignment hereof, but such method is not exclusive, and other instruments of assignment satisfactory to the Paying Agent/Registrar may be used to evidence the assignment of this Bond or any portion or portions hereof from time to time by the Registered Owner. The Paying Agent/Registrar's reasonable standard or customary fees and charges for assigning, transferring, converting and exchanging any Bond or portion thereof will be paid by the City. In any circumstance, any taxes or governmental charges required to be paid with respect thereto shall be paid by the one requesting such assignment, transfer, conversion or exchange, as a condition precedent to the exercise of such privilege. The Paying Agent/Registrar shall not be required to make any such transfer or exchange of a Bond (i) during the period commencing with the close of business on any Record Date immediately preceding a principal or interest payment date for such Bond and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided,

however, such limitation of transfer shall not be applicable to an exchange by the Registered Owner of an unredeemed balance of a Bond called for redemption in part.

IN THE EVENT ANY PAYING AGENT/REGISTRAR for the Bonds is changed by the City, resigns, or otherwise ceases to act as such, the City has covenanted in the Bond Ordinance that it promptly will appoint a competent and legally qualified substitute therefor, and cause written notice thereof to be mailed to the registered owners of the Bonds.

IT IS HEREBY CERTIFIED, RECITED, AND COVENANTED that this Bond has been duly and validly authorized, issued, and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the authorization, issuance and delivery of this Bond have been performed, existed, and been done in accordance with law, that this Bond is a general obligation of the City, issued on the full faith and credit thereof; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of this Bond, as such interest comes due, and as such principal matures, have been levied and ordered to be levied against all taxable property in the City, and have been pledged for such payment, within the limits provided by law.

THE CITY HAS RESERVED THE RIGHT TO AMEND the Bond Ordinance as provided therein, and under some (but not all) circumstances amendments thereto must be approved by the registered owners of a majority in aggregate principal amount of the outstanding Bonds.

BY BECOMING THE REGISTERED OWNER of this Bond, the Registered Owner thereby acknowledges all of the terms and provisions of the Bond Ordinance, agrees to be bound by such terms and provisions, acknowledges that the Bond Ordinance is duly recorded and available for inspection in the official minutes and records of the governing body of the City, and agrees that the terms and provisions of this Bond and the Bond Ordinance constitute a contract between each Registered Owner hereof and the City.

IN WITNESS WHEREOF, the City has caused this Bond to be signed with the manual or facsimile signature of the Mayor or Mayor Pro-Tem of the City and countersigned with the manual or facsimile signature of the City Clerk of the City, and has caused the official seal of the City to be duly impressed, or placed in facsimile, on this Bond.

(facsimile signature)
City Clerk, City of San Antonio, Texas

(facsimile signature)
Mayor [Pro-Tem], City of San Antonio, Texas

(SEAL)

FORM OF REGISTRATION CERTIFICATE OF
THE COMPTROLLER OF PUBLIC ACCOUNTS:

COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO. _____

I hereby certify that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has been registered by the Comptroller of Public Accounts of the State of Texas.

Witness my signature and seal this

(COMPTROLLER'S SEAL)

Comptroller of Public Accounts
of the State of Texas

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FORM OF PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

(To be executed if this Bond is not accompanied by an executed Registration Certificate of the Comptroller of Public Accounts of the State of Texas)

It is hereby certified that this Bond has been issued under the provisions of the Bond Ordinance described in the text of this Bond; and that this Bond has been issued in conversion or replacement of, or in exchange for, a bond, bonds, or a portion of a bond or bonds of a Series which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

Dated

**THE BANK OF NEW YORK MELLON
TRUST COMPANY, NATIONAL ASSOCIATION
Dallas, Texas
Paying Agent/Registrar**

By _____
Authorized Representative

FORM OF ASSIGNMENT:

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned Registered Owner of this Bond, or duly authorized representative or attorney thereof, hereby assigns this Bond to

_____/_____
(Assignee's Social Security or Taxpayer Identification) (Print or typewrite Assignee's name and address, including zip code)

and hereby irrevocably constitutes and appoints _____
attorney to register the transfer of the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

NOTICE: Signature(s) must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company.

NOTICE: The signature above must correspond with the name of the Registered Owner as it appears upon the front of this Bond in every particular, without alteration or enlargement or any change whatsoever.

INITIAL BOND INSERTIONS

The Initial Bond shall be in the form set forth above except that:

- (A) Immediately under the name of the Bond, the headings "INTEREST RATE" and "MATURITY DATE" shall be completed with the words "As shown below" and "CUSIP NO. ____" shall be deleted.
- (B) The first paragraph shall be deleted and the following shall be inserted:

ON THE RESPECTIVE MATURITY DATES specified below, the *CITY OF SAN ANTONIO, TEXAS* (the "*City*"), being a political subdivision and home-rule municipality of the State of Texas, hereby promises to pay to the Registered Owner specified above, or registered assigns (hereinafter called the "*Registered Owner*"), the respective Principal Installments specified below, and to pay interest thereon (calculated on the basis of a 360-day year composed of twelve 30-day months) from _____, 2008 at the respective Interest Rates per annum specified below, payable on _____, 2009, and semiannually on each _____ and _____ thereafter to the respective Maturity Dates specified below, or the date of redemption prior to maturity. The respective Maturity Dates, Principal Installments and Interest Rates for this Bond are set forth in the following schedule:

MATURITY DATE ()	PRINCIPAL INSTALLMENT	INTEREST RATE

[Insert information from Exhibit A]

- (C) The Initial Bond shall be numbered "T-1."

SECTION 6. INTEREST AND SINKING FUND; TAX LEVY. A special "*Interest and Sinking Fund*" is hereby created and shall be established and maintained by the City at an official depository bank of the City. Said Interest and Sinking Fund shall be kept separate and apart from all other funds and accounts of the City, and shall be used only for paying the interest on and the principal of said Bonds. Immediately after the issuance and delivery of the Bonds, all accrued interest on the Bonds, together with any premium on the Bonds that is not used by the City to pay costs of issuance in accordance with the provisions of Section 1201.042(d), Texas Government Code, as amended, shall be deposited to the credit of the Interest and Sinking Fund. In addition, all ad valorem taxes levied and collected for and on account of said Bonds shall be deposited, as collected, to the credit of said Interest and Sinking Fund. For each fiscal year while any of the Bonds or interest thereon are outstanding and unpaid, the governing body of the City shall compute

and ascertain a rate and amount of ad valorem tax which will be sufficient to raise and produce the money required to pay the interest on the Bonds as such interest comes due, and to provide and maintain a sinking fund adequate to pay the principal of the Bonds as such principal matures (but never less than 2% of the original principal amount of the Bonds as a sinking fund each year); and said tax shall be based on the latest approved tax rolls of the City, with full allowance being made for tax delinquencies and the cost of tax collection. Said rate and amount of ad valorem tax is hereby levied, and is hereby ordered to be levied, against all taxable property in the City for each year while any of the Bonds or interest thereon are outstanding and unpaid; and said tax shall be assessed and collected each such year and deposited to the credit of the Interest and Sinking Fund created by this Ordinance. Said ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds, as such interest comes due and such principal matures, are hereby pledged for such payment, within the limit prescribed by law.

SECTION 7. INVESTMENTS. Funds on deposit in the Interest and Sinking Fund shall be secured by the depository bank of the City in the manner and to the extent required by law to secure other public funds of the City and may be invested from time to time in any investment authorized by applicable law, including but not limited to the Public Funds Investment Act (Chapter 2256, Texas Government Code), and the City's investment policy adopted in accordance with the provisions of the Public Funds Investment Act; provided, however, that investments purchased for and held in the Interest and Sinking Fund shall have a final maturity no later than the next principal or interest payment date on which such funds will be needed. Income and profits from such investments shall be deposited in the Interest and Sinking Fund.

SECTION 8. DEFEASANCE OF BONDS. (a) Any Bond and the interest thereon shall be deemed to be paid, retired and no longer outstanding (a "*Defeased Bond*") within the meaning of this Ordinance, except to the extent provided in subsection (d) of this Section, when payment of the principal of such Bond, plus interest thereon to the due date (whether such due date be by reason of maturity or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar in accordance with an escrow agreement or other instrument (the "*Future Escrow Agreement*") for such payment (1) lawful money of the United States of America sufficient to make such payment or (2) Defeasance Securities that mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment, and when proper arrangements have been made by the City with the Paying Agent/Registrar for the payment of its services until all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond hereunder, as aforesaid, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes or revenues herein levied and pledged as provided in this Ordinance, and such principal and interest shall be payable solely from such money or Defeasance Securities. 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 (a)(i) or (ii) of this Section shall not be irrevocable, provided that: (1) in the proceedings providing for such payment arrangements, the City expressly reserves the right to call the Defeased

Bonds for redemption; (2) gives notice of the reservation of that right to the owners of the Defeased Bonds immediately following the making of the payment arrangements; and (3) directs that notice of the reservation be included in any redemption notices that it authorizes.

(b) Any moneys so deposited with the Paying Agent/Registrar may at the written direction of the City be invested in Defeasance Securities, maturing in the amounts and times as hereinbefore set forth, and all income from such Defeasance Securities received by the Paying Agent/Registrar that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City, or deposited as directed in writing by the City. Any Future Escrow Agreement pursuant to which the money and/or Defeasance Securities are held for the payment of Defeased Bonds may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of the requirements specified in subsection (a)(i) or (ii) of this Section. All income from such Defeasance Securities received by the Paying Agent/Registrar which is not required for the payment of the Defeased Bonds, with respect to which such money has been so deposited, shall be remitted to the City or deposited as directed in writing by the City.

(c) The term "*Defeasance 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, on the date of the purchase thereof are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (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 on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (iv) any other then authorized securities or obligations under applicable state law that may be used to defease obligations such as the Bonds.

(d) 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.

(e) In the event that the City elects to defease less than all of the principal amount of Bonds of a maturity, the Paying Agent/Registrar shall select, or cause to be selected, such amount of Bonds by such random method as it deems fair and appropriate.

SECTION 9. DAMAGED, MUTILATED, LOST, STOLEN, OR DESTROYED BONDS.

(a) Replacement Bonds. In the event any outstanding Bond is damaged, mutilated, lost, stolen, or destroyed, the Paying Agent/Registrar shall cause to be printed, executed, and delivered, a new bond of the same principal amount, maturity, and interest rate, as the damaged, mutilated, lost, stolen, or destroyed Bond, in replacement for such Bond in the manner hereinafter provided.

(b) Application for Replacement Bonds. Application for replacement of damaged, mutilated, lost, stolen, or destroyed Bonds shall be made by the registered owner thereof to the Paying Agent/Registrar. In every case of loss, theft, or destruction of a Bond, the registered owner applying for a replacement bond shall furnish to the City and to the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft, or destruction of a Bond, the registered owner shall furnish to the City and to the Paying Agent/Registrar evidence to their satisfaction of the loss, theft, or destruction of such Bond. In every case of damage or mutilation of a Bond, the registered owner shall surrender to the Paying Agent/Registrar for cancellation the Bond so damaged or mutilated.

(c) No Default Occurred. Notwithstanding the foregoing provisions of this Section, in the event any such Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal of or interest on the Bond, the City may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Bond) instead of issuing a replacement Bond, provided security or indemnity is furnished as above provided in this Section.

(d) Charge for Issuing Replacement Bonds. Prior to the issuance of any replacement bond, the Paying Agent/Registrar shall charge the registered owner of such Bond with all legal, printing, and other expenses in connection therewith. Every replacement bond issued pursuant to the provisions of this Section by virtue of the fact that any Bond is lost, stolen, or destroyed shall constitute a contractual obligation of the City whether or not the lost, stolen, or destroyed Bond shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Ordinance equally and proportionately with any and all other Bonds duly issued under this Ordinance.

(e) Authority for Issuing Replacement Bonds. In accordance with Chapter 1201, Texas Government Code, as amended, this Section of this Ordinance shall constitute authority for the issuance of any such replacement bond without necessity of further action by the governing body of the City or any other body or person, and the duty of the replacement of such bonds is hereby authorized and imposed upon the Paying Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such Bonds in the form and manner and with the effect, as provided in Section 4(a) of this Ordinance for Bonds issued in conversion and exchange for other Bonds.

SECTION 10. CUSTODY, APPROVAL, AND REGISTRATION OF BONDS; BOND COUNSEL'S OPINION; CUSIP NUMBERS; AND OTHER MATTERS. The Mayor or Mayor Pro-Tem of the City is hereby authorized to have control of the Bonds initially issued and delivered

hereunder and all necessary records and proceedings pertaining to the Bonds pending their delivery and their investigation, examination, and approval by the Attorney General of the State of Texas, and their registration by the Comptroller of Public Accounts of the State of Texas. Upon registration of the Bonds said Comptroller of Public Accounts (or a deputy designated in writing to act for said Comptroller) shall manually sign the Comptroller's Registration Certificate attached to such Bonds, and the seal of said Comptroller shall be impressed, or placed in facsimile, on such Certificate. The approving legal opinion of the City's Bond Counsel (with an appropriate certificate pertaining thereto executed by facsimile signature of the City Clerk of the City) and the assigned CUSIP numbers may, at the option of the City, be printed on the Bonds issued and delivered under this Ordinance, but neither shall have any legal effect, and shall be solely for the convenience and information of the registered owners of the Bonds. If bond insurance is obtained, the Bonds may bear an appropriate legend as provided by the insurer.

SECTION 11. SALE AND DELIVERY OF BONDS. The Bonds are hereby authorized to be sold and shall be delivered to **PIPER JAFFRAY & CO.**, as representative of the Underwriters (collectively, the "*Underwriters*" at a price determined by the Director of Finance of the City and as set forth in *Exhibit A* attached hereto, and pursuant to the terms and provisions of a Bond Purchase Agreement in substantially the form attached hereto as *Exhibit C*. The Director of Finance of the City is hereby authorized to approve the Bond Purchase Agreement in final form and to execute and deliver Bond Purchase Agreement to the Underwriters on the City's behalf. The City will initially deliver to the Underwriters the Initial Bond described in Section 2 hereof, which shall be registered in the name of *Piper Jaffray & Co.*

SECTION 12. APPROVAL OF PRELIMINARY OFFICIAL STATEMENT AND FINAL OFFICIAL STATEMENT. The form and content of the Preliminary Official Statement, attached hereto as *Exhibit D*, in connection with the issuance and sale of the Bonds, is hereby approved. The City Manager, any Deputy or Assistant City Manager, and the Director of Finance of the City, and the City's Co-Financial Advisors (Coastal Securities and Estrada Hinojosa & Company, Inc.), Bond Counsel (McCall, Parkhurst & Horton L.L.P.) and the Underwriters are authorized to take all actions deemed necessary in connection with the sale of the Bonds, including but not limited to approving all changes deemed necessary to the Preliminary Official Statement and to print and distribute such Preliminary Official Statement to potential purchasers. Notwithstanding the foregoing, the City Manager and the Director of Finance are hereby authorized to make any changes to the Underwriters prior to the pricing of the Bonds (including but not limited to removing or replacing the Senior Managing Underwriter or any of the Co-Managers and approving other investment banking firms to serve as the Senior Managing Underwriter or a Co-Manager) if in their judgment such changes are in the best interest of the City due to events occurring in the financial and credit markets subsequent to the passage of this Resolution or for any other reason.

The City Council hereby further approves the form and content of the final Official Statement, which shall be substantially in the form of the Preliminary Official Statement approved by this Ordinance, and any addenda, supplement, or amendment thereto. The City Manager, any Deputy or Assistant City Manager, and the Director of Finance of the City, and the City's Co-Financial Advisors and Bond Counsel are further authorized to make and approve all changes

deemed necessary to the final Official Statement to correctly reflect the final terms of the Bonds. The City Council further approves the distribution of the Official Statement in the reoffering of the Bonds by the Underwriters in final form, with such changes therein or additions thereto as the officer executing the same may deem advisable, such determination to be conclusively evidenced by his execution thereof. The City Council finds and determines that the Preliminary Official Statement and the Official Statement were and are "deemed final" as of each of their respective dates within the meaning, and for the purpose, of Rule 15c2-12 promulgated under authority granted by the Federal Securities and Exchange Act of 1934.

SECTION 13. APPROVAL OF ESCROW AGREEMENT; REFUNDING OF REFUNDED OBLIGATIONS. Concurrently with the initial delivery of the Bonds the City shall deposit proceeds from the sale of the Bonds, together with other available funds of the City (including but not limited to all unspent proceeds of the Parking Revenue Bonds on deposit in the "Construction Fund" established by the Parking Bond Ordinance), with **THE BANK OF NEW YORK MELLON TRUST COMPANY, NATIONAL ASSOCIATION**, as "*Escrow Agent*," in an amount sufficient to provide for the refunding of the Refunded Obligations, all in accordance with Chapter 1207. Attached hereto as *Exhibit E* is an Escrow Agreement between the City and the Escrow Agent, which is hereby approved in substantially final form, and the Mayor or Mayor Pro-Tem and City Clerk of the City are hereby authorized, for and on behalf of the City, to approve any changes in the Escrow Agreement from the form attached hereto and to execute the Escrow Agreement in final form.

SECTION 14. REDEMPTION OF REFUNDED OBLIGATIONS. There is attached to this Ordinance as *Exhibit F* and made a part hereof for all purposes, is a *NOTICE OF DEFEASANCE AND REDEMPTION* with respect to the Refunded Obligations. The City hereby exercises its option to redeem prior to maturity the Refunded Obligations described in the *NOTICE OF DEFEASANCE AND REDEMPTION*, and the Refunded Obligations are hereby called for redemption, and shall be redeemed, prior to maturity, on the date, at the place, and at the price set forth therein. As soon as practicable after the adoption of this Ordinance, a copy such *NOTICE* shall be (i) published one time in the Texas Bond Reporter or such other financial newspaper or journal of general circulation among securities dealers published in the State of Texas, and (ii) sent to all registered owners of the respective Refunded Obligations by first class mail postage prepaid, addressed to such registered owners at their respective addresses shown on the registration books of the paying agent/registrar for the Refunded Obligations.

SECTION 15. AUTHORITY FOR OFFICERS TO EXECUTE DOCUMENTS AND APPROVE CHANGES. The Mayor, the Mayor Pro-Tem, the City Clerk, the City Manager, any Deputy or Assistant City Manager, and the Director of Finance of the City, and all other officers, employees, and agents of the City, and each of them, shall be and they are hereby expressly authorized, empowered, and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge, and deliver in the name and under the corporate seal and on behalf of the City all such instruments, whether or not herein mentioned, as may be necessary or desirable in order to carry out the terms and provisions of this Ordinance, the Bonds, the sale of the Bonds, the Official Statement, and the Paying Agent/Registrar Agreement. In addition, prior to

the initial delivery of the Bonds, the Mayor, the Mayor Pro-Tem, the City Clerk, the City Manager, any Deputy or Assistant City Manager, the Director of Finance, the City Attorney and Bond Counsel are hereby authorized and directed to approve any technical changes or correction to this Ordinance or to any of the instruments authorized and approved by this Ordinance necessary in order to (i) correct any ambiguity or mistake or properly or more completely document the transactions contemplated and approved by this Ordinance and as described in the Official Statement, (ii) obtain a rating from any of the national bond rating agencies or satisfy any requirements of the provider of a municipal bond insurance policy, if any, or (iii) obtain the approval of the Bonds by the Attorney General's office. In case any officer whose signature shall appear on any Bond shall cease to be such officer before the delivery of such Bond, such signature shall nevertheless be valid and sufficient for all purposes the same as if such officer had remained in office until such delivery. The Director of Finance of the City is further authorized to pay to the Attorney General of Texas prior to the delivery of the Bonds, for the Attorney General's review of the transcript of proceedings related to the Bonds, the amount required pursuant to Section 1202.004, Texas Government Code, as amended.

SECTION 16. ORDINANCE A CONTRACT; AMENDMENTS. This Ordinance shall constitute a contract with the Registered Owners of the Bonds, binding on the City and its successors and assigns, and shall not be amended or repealed by the City as long as any Bond remains outstanding except as permitted in this Section. The City may, with prior written notice to the Insurer but without the consent of or notice to any Registered Owners, amend, change, or modify this Ordinance as may be required (i) by the provisions hereof, (ii) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission herein, or (iii) in connection with any other change which is not to the prejudice of the Registered Owners. The City may, with the written consent of the Insurer and the Registered Owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, change, modify, or rescind any provisions of this Ordinance; provided that without the consent of the Insurer and all of the Registered Owners affected, no such amendment, change, modification, 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 or the rate of interest thereon, (ii) give any preference to any Bond over any other Bond, (iii) extend any waiver of default to subsequent defaults, or (iv) reduce the aggregate principal amount of Bonds required for consent to any such amendment, change, modification, or rescission. Whenever the City shall desire to make any amendment or addition to or rescission of this Ordinance requiring consent of the Registered Owners, the City shall cause notice of the amendment, addition, or rescission to be sent by first class mail, postage prepaid, to the Registered Owners at the respective addresses shown on the Registration Books. Whenever at any time within one year after the date of the giving of such notice, the City shall receive an instrument or instruments in writing executed by the Insurer and the Registered Owners of a majority in aggregate principal amount of the Bonds then outstanding affected by any such amendment, addition, or rescission requiring the consent of the Insurer and the Registered Owners, which instrument or instruments shall refer to the proposed amendment, addition, or rescission described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the City may adopt such amendment, addition, or rescission in substantially such form, except as herein provided. No Registered Owner may thereafter object to

the adoption of such amendment, addition, or rescission, or to any of the provisions thereof, and such amendment, addition, or rescission shall be fully effective for all purposes.

SECTION 17. INTERESTED PARTIES. Nothing in this Ordinance expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the City and the registered owners of the Bonds, any right, remedy or claim under or by reason of this Ordinance or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Ordinance contained by and on behalf of the City shall be for the sole and exclusive benefit of the City and the registered owners of the Bonds.

SECTION 18. COMPLIANCE WITH RULE 15c2-12.

(a) Definitions. As used in this Section, the following terms have the meanings ascribed to such terms below:

"**MSRB**" means the Municipal Securities Rulemaking Board.

"**NRMSIR**" means each person whom the SEC or its staff has determined to be a nationally recognized municipal securities information repository within the meaning of the Rule from time to time.

"**Rule**" means SEC Rule 15c2-12, as amended from time to time.

"**SEC**" means the United States Securities and Exchange Council.

"**SID**" means any person designated by the State of Texas or an authorized department, officer, or agency thereof as, and determined by the SEC or its staff to be, a state information depository within the meaning of the Rule from time to time.

(b) Annual Reports. The City shall provide annually to each NRMSIR and any SID, within six months after the end of each fiscal year ending in or after 2008, financial information and operating data with respect to the City of the general type included in the final Official Statement authorized by this Ordinance being the information described in *Exhibit G* hereto. Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in *Exhibit G* hereto, or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation, and (2) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within such period, then the City shall provide (1) unaudited financial statements for such fiscal year within such six month period, and (2) audited financial statements for the applicable fiscal year to each NRMSIR and any SID, when and if the audit report on such statements become available.

If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change (and of the date of the new fiscal year end) prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this paragraph (b).

The financial information and operating data to be provided pursuant to this paragraph (b) may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to each NRMSIR and any SID or filed with the SEC.

(c) Material Event Notices. The City shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws:

- A. Principal and interest payment delinquencies;
- B. Non-payment related defaults;
- C. Unscheduled draws on debt service reserves reflecting financial difficulties;
- D. Unscheduled draws on credit enhancements reflecting financial difficulties;
- E. Substitution of credit or liquidity providers, or their failure to perform;
- F. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- G. Modifications to rights of holders of the Bonds;
- H. Bond calls;
- I. Defeasances;
- J. Release, substitution, or sale of property securing repayment of the Bonds;
and
- K. Rating changes.

The City shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with paragraph (b) of this Section by the time required by such paragraph.

(d) Limitations, Disclaimers, and Amendments. The City shall be obligated to observe and perform the covenants specified in this Section for so long as, but only for so long as, the City remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the City in any event will give notice of any deposit made in accordance with Section 9 of this Ordinance that causes Bonds no longer to be outstanding.

The provisions of this Section are for the sole benefit of the Holders and beneficial owners of the Bonds, and nothing in this Section, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The City undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the City's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided herein. The City does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE CITY BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE CITY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the City in observing or performing its obligations under this Section shall comprise a breach of or default under the Ordinance for purposes of any other provision of this Ordinance.

Nothing in this Section is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws.

The provisions of this Section may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the Holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Ordinance that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the Holders and beneficial owners of the Bonds. 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 in the primary offering of the Bonds. If the City so amends the provisions of this Section, it shall include with any amended financial information or operating data next provided in accordance with paragraph (b) of this Section an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information or operating data so provided.

SECTION 19. SECURITY INTEREST. Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of the ad valorem taxes granted by the City under Section 6 of this Ordinance, and is therefore valid, effective, and perfected. If Texas law is amended at any time while the Bonds are outstanding and unpaid such that the pledge of the ad valorem taxes granted by the City under Section 6 of this Ordinance 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 the perfection of the security interest in said 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 said pledge to occur.

SECTION 20. REMEDIES IN EVENT OF DEFAULT. In addition to all the rights and remedies provided by the laws of the State of Texas, it is specifically covenanted and agreed particularly that in the event the City (i) defaults in the payment of the principal, premium, if any, or interest on the Bonds, (ii) defaults in the deposits and credits required to be made to the Interest and Sinking Fund, or (iii) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this Ordinance and the continuation thereof for 30 days after the City has received written notice of such defaults, the Holders 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. Notwithstanding the foregoing, the Insurer shall have the right to direct all remedies upon an event of default, and the Insurer shall be recognized as the registered owner of the Bonds for the purposes of exercising all rights and privileges available to the Holders.

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 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 21. INCORPORATION OF RECITALS. The City hereby finds that the statements set forth in the recitals of this Ordinance are true and correct, and the City hereby incorporates such recitals as a part of this Ordinance.

SECTION 22. SEVERABILITY. If any provision of this Ordinance or the application thereof to any circumstance shall be held to be invalid, the remainder of this Ordinance and the application thereof to other circumstances shall nevertheless be valid, and this governing body hereby declares that this Ordinance would have been enacted without such invalid provision.

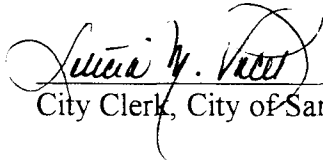
SECTION 23. EFFECTIVE DATE. Pursuant to the provisions of Section 1201.028, Texas Government Code, this Ordinance shall become effective immediately after its adoption by the City Council.

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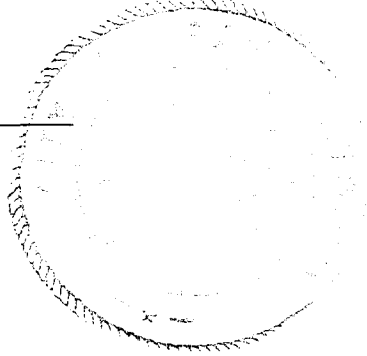
PASSED AND APPROVED BY THE CITY COUNCIL OF THE CITY OF SAN ANTONIO, TEXAS AT A REGULAR MEETING ON THE 2ND DAY OF OCTOBER, 2008, AT WHICH MEETING A QUORUM WAS PRESENT.


MAYOR

ATTEST:

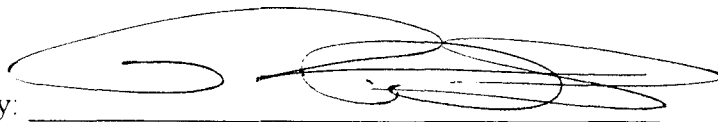


City Clerk, City of San Antonio, Texas



(CITY SEAL)

APPROVED AS TO FORM:


By: _____
City Attorney

** ** * * *

[SIGNATURE PAGE TO BOND ORDINANCE]

2008-10-02-0884

ORDINANCE NO. _____ (PRELIMINARY)

APPROVING THE FORM, CONTENT, AND DISTRIBUTION OF THE PRELIMINARY OFFICIAL STATEMENT PERTAINING TO THE ISSUANCE, SALE AND DELIVERY OF APPROXIMATELY \$17,000,000 IN PRINCIPAL AMOUNT OF *CITY OF SAN ANTONIO, TEXAS TAXABLE GENERAL IMPROVEMENT REFUNDING BONDS, SERIES 2008*; COMPLYING WITH THE REQUIREMENTS CONTAINED IN SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12; AND AUTHORIZING THE CITY'S STAFF, CO-FINANCIAL ADVISORS, BOND COUNSEL AND UNDERWRITERS TO TAKE ALL ACTIONS DEEMED NECESSARY IN CONNECTION WITH THE SALE OF SUCH BONDS

* * * * *

WHEREAS, the City Council of the City of San Antonio, Texas (the "***City***") hereby deems it necessary and desirable to issue and deliver, pursuant to applicable laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended (the "***Act***"), approximately \$17,000,000 in principal amount of general obligation refunding bonds to be designated **CITY OF SAN ANTONIO, TEXAS TAXABLE GENERAL IMPROVEMENT REFUNDING BONDS, SERIES 2008** (the "***Bonds***"), to refund all of the outstanding *City of San Antonio, Texas Parking System Revenue Bonds, Series 2000*; and

WHEREAS, Securities and Exchange Commission Rule 15c2-12, codified at 17 C.F.R. §240.15c2-12 ("***Rule 15c2-12***"), requires that the Preliminary Official Statement prepared and distributed in connection with the issuance of the Bonds be "deemed final" as of its date by the City (except for the omission of no more than the information permitted by Rule 15c2-12); and

WHEREAS, such Preliminary Official Statement has been reviewed by the City Council and representatives of the City's staff; and

WHEREAS, it is hereby officially found and determined that the meeting at which this Ordinance was passed was open to the public, and public notice of the time, place and purpose of said meeting was given, all as required by Chapter 551, Texas Government Code; ***NOW THEREFORE***:

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF SAN ANTONIO, TEXAS THAT:

SECTION 1. APPROVAL OF FORM OF PRELIMINARY OFFICIAL STATEMENT. The form and content of the Preliminary Official Statement, attached hereto as Exhibit A, in connection with the issuance and sale of the Bonds, is hereby approved.

SECTION 2. PRELIMINARY OFFICIAL STATEMENT DEEMED FINAL. The Preliminary Official Statement referenced above and relating to the proposed sale of the Bonds is hereby "deemed final" as of its date (subject to the permissible omissions described in Rule 15c2-12) within the meaning of the provision of 17 C.F.R. §240.15c2-12(b)(1).

SECTION 3. AUTHORITY TO PRINT AND DISTRIBUTE THE PRELIMINARY OFFICIAL STATEMENT. The City Manager, any Deputy or Assistant City Manager, and the Director of Finance of the City, and the City's Co-Financial Advisors (Coastal Securities and Estrada Hinojosa & Company, Inc.), Bond Counsel (McCall, Parkhurst & Horton L.L.P.) and the Underwriters (Piper Jaffray & Co., as Senior Managing Underwriter and Morgan Keegan & Company, Inc. and Loop Capital Markets, LLC as Co-Managers) are authorized to take all actions deemed necessary in connection with preparing for the sale of the Bonds, including but not limited to approving all changes deemed necessary to the Preliminary Official Statement and to print and distribute such Preliminary Official Statement to potential purchasers.

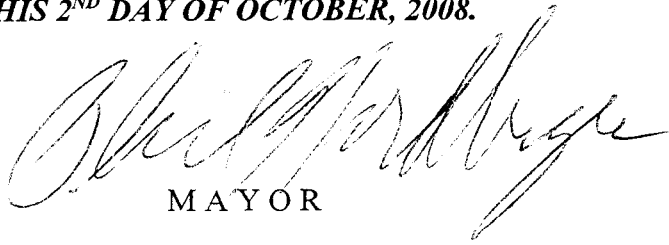
SECTION 4. INCORPORATION OF RECITALS. The City hereby finds that the statements set forth in the recitals of this Ordinance are true and correct, and the City hereby incorporates such recitals as a part of this Ordinance.

SECTION 5. EFFECTIVE DATE. This Ordinance shall become effective ten days following its passage.

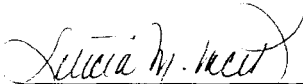
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10/02/08
Item #18

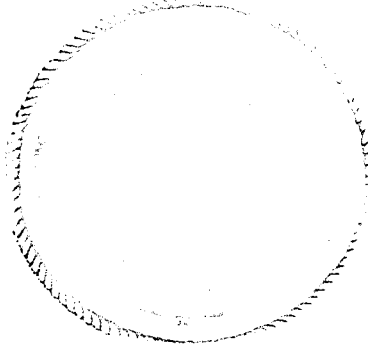
PASSED AND APPROVED THIS 2ND DAY OF OCTOBER, 2008.


MAYOR


Attest:



City Clerk, City of San Antonio, Texas



APPROVED AS TO FORM:

By: 

City Attorney

CERTIFICATE FOR ORDINANCE

I, the undersigned City Clerk of the CITY OF SAN ANTONIO, TEXAS (the "City"), hereby certify as follows:

1. The City Council of the City convened in REGULAR MEETING ON THE 2ND DAY OF OCTOBER, 2008 at the designated meeting place, and the roll was called of the duly constituted officers and members of said City Council, to wit:

Phil Hardberger, Mayor
Mary Alice P. Cisneros, Councilmember, District 1
Sheila D. McNeil, Councilmember, District 2
Jennifer V. Ramos, Councilmember, District 3
Philip A. Cortez, Councilmember, District 4
Lourdes Galvan, Councilmember, District 5

Delicia Herrera, Councilmember, District 6
Justin Rodriguez, Councilmember, District 7
Diane G. Cibrian, Councilmember, District 8
Louis E. Rowe, Councilmember, District 9
John G. Camp, Councilmember District 10

and all of said persons were present, except the following absentees: GALVAN & RODRIGUEZ, thus constituting a quorum. Whereupon, among other business, the following was transacted at said Meeting: a written Ordinance entitled:

ORDINANCE APPROVING THE FORM, CONTENT, AND DISTRIBUTION OF THE PRELIMINARY OFFICIAL STATEMENT PERTAINING TO THE ISSUANCE, SALE AND DELIVERY OF APPROXIMATELY \$17,000,000 IN PRINCIPAL AMOUNT OF CITY OF SAN ANTONIO, TEXAS TAXABLE GENERAL IMPROVEMENT REFUNDING BONDS, SERIES 2008; COMPLYING WITH THE REQUIREMENTS CONTAINED IN SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12; AND AUTHORIZING THE CITY'S STAFF, CO-FINANCIAL ADVISORS, BOND COUNSEL AND UNDERWRITERS TO TAKE ALL ACTIONS DEEMED NECESSARY IN CONNECTION WITH THE SALE OF SUCH BONDS

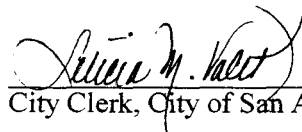
was duly introduced for the consideration of said City Council. It was then duly moved and seconded that said Ordinance be passed; and, after due discussion, said motion, carrying with it the passage of said Ordinance, prevailed and carried by the following vote:

AYES: 9 NOES: 0 ABSTENTIONS: 0

2. A true, full and correct copy of the aforesaid Ordinance passed at the Meeting described in the above and foregoing paragraph is attached to and follows this Certificate; said Ordinance has been duly recorded in said City Council's minutes of said Meeting; the above and foregoing paragraph is a true, full and correct excerpt from said City Council's minutes of said Meeting pertaining to the passage of said Ordinance; the persons named in the above and foregoing paragraph are the duly chosen, qualified and acting officers and members of said City Council as indicated therein; each of the officers and members of said City Council was duly and sufficiently notified officially and personally, in advance, of the time, place and purpose of the aforesaid Meeting, and that said Ordinance would be introduced and considered for passage at said Meeting, and each of said officers and members consented, in advance, to the holding of said Meeting for such purpose; and said Meeting was open to the public and public notice of the time, place and purpose of said Meeting was given, all as required by Texas Government Code, Chapter 551.

SIGNED AND SEALED THE 2ND DAY OF OCTOBER, 2008.

(SEAL)



City Clerk, City of San Antonio, Texas



Request for
**COUNCIL
ACTION**



Agenda Voting Results - 18

Name:	5, 6, 8, 11, 13, 14, 15, 16, 18, 20, 23, 24, 25, 27, 28, 30B
Date:	10/02/2008
Time:	10:40:42 AM
Vote Type:	Motion to Approve
Description:	An Ordinance approving the terms and authorizing the distribution of a Preliminary Official Statement pertaining to the issuance of approximately \$17,000,000.00 “City of San Antonio, Texas Taxable General Improvement Refunding Bonds, Series 2008”; authorizing the City’s staff, co-financial advisors, and co-bond counsel to take all actions deemed necessary in connection with the sale of such obligations; and providing for an effective date. [Pat DiGiovanni, Deputy City Manager; Ben Gorzell, Director, Finance]
Result:	Passed

Voter	Group	Not Present	Yea	Nay	Abstain	Motion	Second
Phil Hardberger	Mayor		x				
Mary Alice P. Cisneros	District 1		x			x	
Sheila D. McNeil	District 2		x				
Jennifer V. Ramos	District 3		x				
Philip A. Cortez	District 4		x				x
Lourdes Galvan	District 5	x					
Delicia Herrera	District 6		x				
Justin Rodriguez	District 7	x					
Diane G. Cibrian	District 8		x				
Louis E. Rowe	District 9		x				
John G. Clamp	District 10		x				

EXHIBIT A

FORM OF APPROVAL CERTIFICATE

CERTIFICATE APPROVING THE FINAL TERMS OF THE BONDS

I, the Director of Finance of the CITY OF SAN ANTONIO, TEXAS (the "*City*"), pursuant to authority granted by the provisions of Section 1207.007, Texas Government Code, and by the City Council of the City in Section 1(b) of an ordinance approved by the City Council on October 2, 2008, relating to the issuance of the Bonds defined below (the "*Ordinance*"), hereby certify as follows:

1. This Certificate is given in connection with the issuance by the City of the CITY OF SAN ANTONIO, TEXAS TAXABLE GENERAL IMPROVEMENT REFUNDING BONDS, SERIES 2008 (the "*Bonds*") which, pursuant to the Ordinance, have been authorized by the City Council.

2. All capitalized terms used in this Certificate which are not otherwise defined herein shall have the same meanings as set forth in the Ordinance.

3. The Bonds shall be dated October 1, 2008, and shall be issued in the aggregate principal amount of \$_____.

4. The Bonds shall (i) mature on _____ in each of the years and in the respective principal amounts, and (ii) bear interest from _____, 2008, to their respective date of maturity or prior redemption at the respective interest rates, all as set forth below:

CITY OF SAN ANTONIO, TEXAS TAXABLE GENERAL IMPROVEMENT REFUNDING BONDS, SERIES 2008					
YEAR OF MATURITY	PRINCIPAL AMOUNT (\$)	INTEREST RATE (%)	YEAR OF MATURITY	PRINCIPAL AMOUNT (\$)	INTEREST RATE (%)

5. As provided in Section 3 of the Ordinance and in the FORM OF BOND contained in Section 5 of the Ordinance, interest on the Bonds shall be payable on each February 1 and August 1, commencing on _____, 2009, until stated maturity or redemption.

7. The Bonds maturing on and after August 1, 20__, may be redeemed prior to their scheduled maturities, at the option of the City on August 1, 20__, or on any date thereafter at the redemption price equal to par plus accrued interest to the date fixed for redemption. The Bonds are not subject to mandatory sinking fund redemption.

8. The Bonds shall be purchased at a price equal to \$_____ (which amount is equal to par, plus/less an original issue premium/discount of \$_____, and less Underwriters' discount of \$_____), plus accrued interest on the Bonds from _____, 2008 to the date of delivery.

9. Pursuant to the Ordinance, the City Council authorized the issuance of the Bonds for the purposes described in the recitals thereto and recognized and acknowledged that the issuance thereof would likely result in a net present value loss of up to \$3,000,000, after taking into account a contribution of up to \$14,000,000 in available funds of the City related to the City's Parking System. The final terms of the Bonds as set forth in this Certificate are consistent with the City Council's expectations and will result in a net present value loss of \$_____, after taking into account a contribution from the City in the amount of \$_____.

[The remainder of this page intentionally left blank]

***APPROVED BY THE DIRECTOR OF FINANCE OF THE CITY OF SAN ANTONIO,
TEXAS ON THE ___ DAY OF _____, 2008 IN ACCORDANCE WITH SECTION 1(b) OF
THE ORDINANCE.***

**DIRECTOR OF FINANCE
CITY OF SAN ANTONIO, TEXAS**

[SIGNATURE PAGE TO "CERTIFICATE APPROVING FINAL TERMS OF THE BONDS"]

EXHIBIT B

FORM OF PAYING AGENT/REGISTRAR AGREEMENT

THE PAYING AGENT/REGISTRAR AGREEMENT IS OMITTED AT THIS POINT AS IT APPEARS IN EXECUTED FORM ELSEWHERE IN THE TRANSCRIPT OF PROCEEDINGS RELATING TO THE BONDS.

EXHIBIT C

FORM OF BOND PURCHASE AGREEMENT

THE BOND PURCHASE AGREEMENT IS OMITTED AT THIS POINT AS IT APPEARS IN EXECUTED FORM ELSEWHERE IN THE TRANSCRIPT OF PROCEEDINGS RELATING TO THE BONDS.

EXHIBIT D

FORM OF PRELIMINARY OFFICIAL STATEMENT

THE PRELIMINARY OFFICIAL STATEMENT IS OMITTED AT THIS POINT AS IT APPEARS ELSEWHERE IN THE TRANSCRIPT OF PROCEEDINGS RELATING TO THE BONDS.

EXHIBIT E

FORM OF ESCROW AGREEMENT

THE ESCROW AGREEMENT IS OMITTED AT THIS POINT AS IT APPEARS IN EXECUTED FORM ELSEWHERE IN THE TRANSCRIPT OF PROCEEDINGS RELATING TO THE BONDS.

EXHIBIT F

NOTICE OF DEFEASANCE AND REDEMPTION

To the Holders of the
**CITY OF SAN ANTONIO, TEXAS
PARKING SYSTEM REVENUE BONDS, SERIES 2000**

NOTICE IS HEREBY GIVEN that the City of San Antonio, Texas (the "City"), in Bexar County, Texas, has deposited cash and direct obligations of the United States government into an irrevocable Escrow Fund in order to pay, and has legally defeased, all of the City's outstanding **PARKING SYSTEM REVENUE BONDS, SERIES 2000**, dated May 1, 2000, which are more specifically described as follows (the "*Refunded Obligations*"):

CITY OF SAN ANTONIO, TEXAS PARKING SYSTEM REVENUE BONDS, SERIES 2000			
MATURITY (AUGUST 15)	PRINCIPAL AMOUNT MATURING IN YEAR	STATED INTEREST RATE (%)	CUSIP No. (796329)
2009	\$ 850,000	5.10	AF7
2010	350,000	5.15	AG5
2011	575,000	5.15	AH3
2012	1,110,000	5.20	AJ9
2013	1,170,000	5.25	AK6
***	***	***	***
2017	5,345,000	5.50	AP5
2018	1,535,000	5.60	AQ3
2019	1,625,000	5.65	AR1
2020	1,700,000	5.70	AS9
***	***	***	***
2024	<u>7,855,000</u>	5.75	AT7
Totals	\$22,115,000	***	***

NOTICE IS FURTHER GIVEN that the City has called for redemption at par on **February 15, 2010** (the "*Redemption Date*") all of the Refunded Obligations *at the Redemption Price equal to 100% of par plus accrued interest to the Redemption Date*. The Refunded Obligations shall be redeemed and shall become due and payable on the Redemption Date, and the interest thereon shall cease to accrue from and after the Redemption Date.

NOTICE IS FURTHER GIVEN THAT the Refunded Obligations will be payable at and should be submitted either in person or by certified mail to the following address:

First Class/Registered/Certified Mail:
Bank of New York Mellon Trust Company, N.A.
Institutional Trust Services
P.O. Box 2320
Dallas, Texas 75221-2320

By Overnight or Courier:
Bank of New York Mellon Trust Company, N.A.
Institutional Trust Services
2001 Bryan Street, 9th Floor
Dallas, Texas 75201

By Hand:
Bank of New York Mellon Trust Company, N.A.
GIS Unit Trust Window
4 New York Plaza, 1st Floor
New York, New York 10004

To avoid a backup withholding tax required by Section 3406 of the Internal Revenue Code of 1986, holders must submit a properly completed IRS Form W-9.

* THE ABOVE REFERENCED CUSIP NUMBERS ARE PROVIDED FOR THE CONVENIENCE OF THE HOLDERS. NEITHER THE PAYING AGENT NOR THE CITY ARE RESPONSIBLE FOR ANY ERROR OF ANY NATURE RELATING TO THE CUSIP NUMBERS.

EXHIBIT G

DESCRIPTION OF ANNUAL FINANCIAL INFORMATION

The following information is referred to in Section 19 of this Ordinance.

Annual Financial Statements and Operating Data

The financial information and operating data with respect to the City to be provided annually in accordance with such Section are as specified (and included in the Appendix or under the headings of the Official Statement referred to) below:

1. The annual audited financial statements of the City or the unaudited financial statements of the City in the event audited financial statements are not completed within six months after the end of any fiscal year.
2. All quantitative financial information and operating data with respect to the City of the general type included in the Official Statement under Tables 1 through 14 and 16 through 19.

Accounting Principles

The accounting principles referred to in such Section are the accounting principles described in the notes to the financial statements referred to in paragraph 1 above.

CERTIFICATE FOR ORDINANCE

I, the undersigned City Clerk of the CITY OF SAN ANTONIO, TEXAS (the "*City*"), hereby certify as follows:

1. The City Council of the City convened in REGULAR MEETING ON THE 2ND DAY OF OCTOBER, 2008 at the designated meeting place, and the roll was called of the duly constituted officers and members of said City Council, to wit:

Phil Hardberger, Mayor	Delicia Herrera, Councilmember, District 6
Mary Alice P. Cisneros, Councilmember, District 1	Justin Rodriguez, Councilmember, District 7
Sheila D. McNeil, Councilmember, District 2	Diane G. Cibrian, Councilmember, District 8
Jennifer V. Ramos, Councilmember, District 3	Louis E. Rowe, Councilmember, District 9
Philip A. Cortez, Councilmember, District 4	John G. Camp, Councilmember District 10
Lourdes Galvan, Councilmember, District 5	

and all of said persons were present, except the following absentees: Galvan and Rodriguez, thus constituting a quorum. Whereupon, among other business, the following was transacted at said Meeting: a written Ordinance entitled:

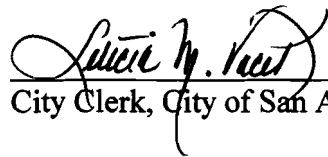
ORDINANCE APPROVING THE FORM, CONTENT, AND DISTRIBUTION OF THE PRELIMINARY OFFICIAL STATEMENT PERTAINING TO THE ISSUANCE, SALE AND DELIVERY OF APPROXIMATELY \$17,000,000 IN PRINCIPAL AMOUNT OF CITY OF SAN ANTONIO, TEXAS TAXABLE GENERAL IMPROVEMENT REFUNDING BONDS, SERIES 2008; COMPLYING WITH THE REQUIREMENTS CONTAINED IN SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12; AUTHORIZING THE CITY'S STAFF, CO-FINANCIAL ADVISORS, BOND COUNSEL AND UNDERWRITERS TO TAKE ALL ACTIONS DEEMED NECESSARY IN CONNECTION WITH THE SALE OF SUCH BONDS; AUTHORIZING THE DIRECTOR OF FINANCE TO APPROVE ALL FINAL TERMS OF THE BONDS; SECURING THE PAYMENT THEREOF BY AUTHORIZING THE LEVY OF AN ANNUAL AD VALOREM TAX; CALLING CERTAIN BONDS FOR REDEMPTION; APPROVING AND AUTHORIZING THE EXECUTION OF A PAYING AGENT/REGISTRAR AGREEMENT, A BOND PURCHASE AGREEMENT, AND AN ESCROW AGREEMENT; AND AUTHORIZING ALL OTHER INSTRUMENTS AND PROCEDURES RELATED THERETO

was duly introduced for the consideration of said City Council. It was then duly moved and seconded that said Ordinance be passed; and, after due discussion, said motion, carrying with it the passage of said Ordinance, prevailed and carried by the following vote:

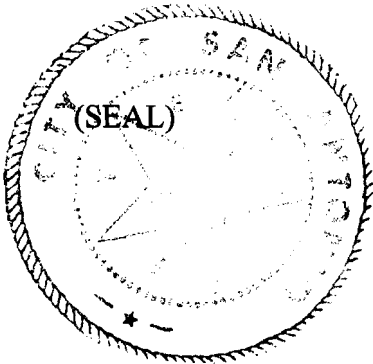
AYES: 9 NOES: 0 ABSTENTIONS: 0

2. A true, full and correct copy of the aforesaid Ordinance passed at the Meeting described in the above and foregoing paragraph is attached to and follows this Certificate; said Ordinance has been duly recorded in said City Council's minutes of said Meeting; the above and foregoing paragraph is a true, full and correct excerpt from said City Council's minutes of said Meeting pertaining to the passage of said Ordinance; the persons named in the above and foregoing paragraph are the duly chosen, qualified and acting officers and members of said City Council as indicated therein; each of the officers and members of said City Council was duly and sufficiently notified officially and personally, in advance, of the time, place and purpose of the aforesaid Meeting, and that said Ordinance would be introduced and considered for passage at said Meeting, and each of said officers and members consented, in advance, to the holding of said Meeting for such purpose; and said Meeting was open to the public and public notice of the time, place and purpose of said Meeting was given, all as required by Texas Government Code, Chapter 551.

SIGNED AND SEALED THE 27th DAY OF OCTOBER, 2008.



City Clerk, City of San Antonio, Texas



This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT
Dated October 8, 2008

Draft dated 9/26/08

NEW ISSUE – BOOK-ENTRY-ONLY

RATINGS: (See “RATINGS” herein.)

In the opinion of Bond Counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, as of the date of issuance of the 2008 Refunding Bonds, the 2008 Refunding Bonds are not obligations described in section 103(a) of the Internal Revenue Code of 1986. See “CERTAIN FEDERAL INCOME TAX CONSIDERATIONS” herein.



\$10,170,000*
CITY OF SAN ANTONIO, TEXAS
Taxable General Improvement Refunding Bonds, Series 2008

Date: October 1, 2008

Due: August 1, as shown herein

The \$10,170,000* “City of San Antonio, Texas Taxable General Improvement Refunding Bonds, Series 2008” (the “2008 Refunding Bonds”) are being issued by the City of San Antonio, Texas (the “City”) pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended; the Home Rule Charter of the City (the “City Charter”); and an ordinance (the “Ordinance”) adopted by the City Council of the City (the “City Council”) on October 2, 2008. (See “THE 2008 REFUNDING BONDS - Authority for Issuance” herein.)

Interest on the 2008 Refunding Bonds will accrue from October 1, 2008 and will be payable on February 1 and August 1 of each year, commencing February 1, 2009, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The 2008 Refunding Bonds will be issued as fully registered obligations in book-entry-only form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository (the “Securities Depository”). Book-entry interests in the 2008 Refunding Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the 2008 Refunding Bonds (the “Beneficial Owners”) will not receive physical delivery of certificates representing their interest in the 2008 Refunding Bonds. So long as the Securities Depository is the registered owner of the 2008 Refunding Bonds, the principal of and interest on the 2008 Refunding Bonds will be payable by _____, as the initial Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners. (See “THE 2008 REFUNDING BONDS - Book-Entry-Only System” herein.)

The 2008 Refunding Bonds are payable from annual ad valorem taxes levied against all taxable property located within the City, within the limitations prescribed by law, including the constitutional tax limit of \$2.50 per \$100 of assessed valuation. (See “THE 2008 REFUNDING BONDS – Security” herein.)

Proceeds of the 2008 Refunding Bonds will be used to refund all of the City’s outstanding parking system revenue indebtedness in which the proceeds thereof were used to finance certain parking facilities owned and operated by the City. Refunding such obligations with the 2008 Refunding Bonds, which are taxable obligations, is being undertaken to more efficiently and effectively manage and operate the City’s parking facilities by eliminating certain operating and revenue covenants and certain restrictions imposed by federal income tax laws relating to the use of facilities financed with the tax-exempt obligations. Following the issuance of the 2008 Refunding Bonds, there will be no outstanding obligations of the City secured in whole or in part with a pledge of revenues of the City’s parking system or facilities.

SEE INSIDE COVER PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE 2008 REFUNDING BONDS

The 2008 Refunding Bonds are offered for delivery, when, as and if issued and received by the initial purchasers (the “Underwriters”), and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., San Antonio, Texas as Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their legal counsel, Andrews Kurth LLP, Houston, Texas, and for the City by the City Attorney. (See “LEGAL MATTERS” herein.) It is expected that the 2008 Refunding Bonds will be available for initial delivery through the services of DTC on or about November 13, 2008.

Piper Jaffray & Co., Inc.

Loop Capital Markets

Morgan Keegan & Co., Inc.

* Preliminary, subject to change.

**ESTIMATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL YIELDS
(Due August 1)**

\$10,170,000*

**CITY OF SAN ANTONIO, TEXAS
TAXABLE GENERAL IMPROVEMENT REFUNDING BONDS, SERIES 2008**

<u>Stated Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate (%)</u>	<u>Yield (%)</u>	<u>CUSIP No.¹ 796237:</u>
2017	\$1,030,000			
2018	1,090,000			
2019	1,155,000			
2020	1,225,000			
2021	1,295,000			
2022	1,375,000			
2023	1,455,000			
2024	1,545,000			

Optional Redemption: The 2008 Refunding Bonds having stated maturities on and after August 1, 2019, 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 August 1, 2018, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. (See “THE 2008 REFUNDING BONDS – Redemption Provisions” herein.)

* Preliminary, subject to change.

¹ CUSIP numbers will be assigned to the 2008 Refunding Bonds by Standard & Poor’s CUSIP Service Bureau, A Division of The McGraw-Hill Companies, Inc., and are included solely for the convenience of the owners of the 2008 Refunding Bonds. Neither the City, the Underwriters, nor the Co-Financial Advisors shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

**CITY OF SAN ANTONIO, TEXAS
ADMINISTRATION**

CITY COUNCIL:

<u>Name</u>	<u>Years on City Council</u>	<u>Term Expires</u>	<u>Occupation</u>
Phil Hardberger, Mayor	3 Years, 4 Months	May 31, 2009	Retired, Appellate Court Judge
Mary Alice P. Cisneros, District 1	1 Year, 5 Months	May 31, 2009	Small Business Owner
Sheila D. McNeil, District 2	3 Years, 5 Months	May 31, 2009	Self Employed
Jennifer V. Ramos, District 3	9 Months	May 31, 2009	Self Employed
Philip A. Cortez, District 4	1 Year, 5 Months	May 31, 2009	Community Liaison
Lourdes Galvan, District 5	1 Year, 4 Months	May 31, 2009	Manager of Small Business
Delicia Herrera, District 6	3 Years, 5 Months	May 31, 2009	Self Employed
Justin Rodriguez, District 7	1 Year, 5 Months	May 31, 2009	Attorney
Diane G. Cibrian, District 8	1 Year, 4 Months	May 31, 2009	Small Business Owner
Louis E. Rowe, District 9	9 Months	May 31, 2009	President and CEO, Engineering Firm
John G. Clamp, District 10	1 Year, 5 Months	May 31, 2009	Small Business Owner

CITY OFFICIALS:

<u>Name</u>	<u>Position</u>	<u>Years with City of San Antonio</u>	<u>Years in Current Position</u>
Sheryl L. Sculley	City Manager	3 Years	3 Years
Pat DiGiovanni	Deputy City Manager	2 Years, 8 Months	2 Years, 8 Months
A.J. Rodriguez	Deputy City Manager	4 Months	4 Months
Frances A. Gonzalez	Assistant City Manager	24 Years, 1 Month	5 Years
Erik J. Walsh	Assistant City Manager	14 Years, 5 Months	2 Years, 9 Months
Penny Postoak Ferguson	Assistant City Manager	2 Years, 2 Months	2 Years, 2 Months
T.C. Broadnax	Assistant City Manager	1 Year, 11 Months	1 Year, 11 Months
Sharon De La Garza	Assistant City Manager	4 Years, 6 Months	7 Months
Richard Varn	Chief Information Officer	1 Year, 5 Months	11 Months
Michael D. Bernard	City Attorney	3 Years	3 Years
Leticia M. Vacek	City Clerk	4 Years, 4 Months	4 Years, 4 Months
Ben Gorzell, Jr.	Director of Finance	17 Years, 11 Months	2 Years, 4 Months
Peter Zaroni	Director of Management and Budget	11 Years, 7 Months	4 Years, 9 Months

CONSULTANTS AND ADVISORS:

Bond Counsel

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

Certified Public Accountant

Grant Thornton, L.L.P.* , San Antonio, Texas

Co-Financial Advisors

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

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

USE OF INFORMATION IN THE OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, as amended (the "Rule"), and in effect on the date of this Preliminary Official Statement, this document constitutes a Preliminary Official Statement of the City with respect to the 2008 Refunding Bonds that has been deemed "final" by the City as of its date except for the omission of no more than the information permitted by the Rule.

This Official Statement and the information contained herein are subject to completion and amendment. The 2008 Refunding Bonds may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2008 Refunding Bonds in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation with respect to the 2008 Refunding Bonds, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by the Co-Financial Advisors or the Underwriters and is not to be construed as a promise or guarantee of the Co-Financial Advisors or the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth hereinafter the date of this Official Statement.

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

THE 2008 REFUNDING BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE 2008 REFUNDING BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

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

The agreements of the City and others related to the 2008 Refunding Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the 2008 Refunding 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.

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

OFFICIAL STATEMENT
Relating to the
\$10,170,000*
CITY OF SAN ANTONIO, TEXAS
Taxable General Improvement Refunding Bonds, Series 2008

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 Taxable General Improvement Refunding Bonds, Series 2008," in the principal amount of \$10,170,000* (the "2008 Refunding Bonds").

There follow in this Official Statement descriptions of the 2008 Refunding Bonds and the Ordinance (defined herein) and certain other information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City at the Office of the Director of Finance, 111 Soledad, 5th Floor, San Antonio, Texas 78205; or from the City's Co-Financial Advisors, Coastal Securities, Inc., 600 Navarro, Suite 350, San Antonio, Texas 78205, and Estrada Hinojosa & Company, Inc., 100 West Houston Street, Suite 1400, San Antonio, Texas 78205, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

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

PURPOSES AND PLAN OF FINANCING

Purpose of the 2008 Refunding Bonds

The 2008 Refunding Bonds are being issued to (1) discharge and refund all outstanding parking system revenue debt of the City hereinafter described in Schedule I hereto (the "Refunded Obligations") and (2) pay the costs of issuance of the 2008 Refunding Bonds. Proceeds of the Refunded Obligations were used to finance certain parking facilities owned and operated by the City. Refunding such obligations with the 2008 Refunding Bonds, which are taxable obligations, is being undertaken to more efficiently and effectively manage and operate the City's parking facilities by eliminating certain operating and revenue covenants and certain restrictions imposed by federal income tax laws relating to the use of facilities financed with the tax-exempt obligations. Following the issuance of the 2008 Refunding Bonds, there will be no outstanding obligations of the City secured in whole or in part with a pledge of revenues of the City's parking system or facilities.

Refunded Obligations

The Refunded Obligations, and interest due thereon, are to be paid on the scheduled payment or redemption dates from funds to be deposited with _____, _____ (the "Escrow Agent") pursuant to the escrow agreement, dated as of the date hereof (the "Escrow Agreement"), by and between the City and the Escrow Agent.

The ordinance authorizing the issuance of the 2008 Refunding Bonds adopted by the City Council (defined herein) on October 2, 2008 (the "Ordinance") provides that the City will deposit certain proceeds of the sale of the 2008 Refunding Bonds, along with the City's cash contribution, if any, with the Escrow Agent in the amount necessary to accomplish the discharge and final payment of the Refunded Obligations. Such funds will be held by the Escrow

* Preliminary, subject to change.

Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Obligations and will be used to purchase Government Securities (defined herein). Such maturing principal of and interest on the Government Securities will not be available to pay the debt service requirements on the 2008 Refunding Bonds.

Simultaneously with the sale of the 2008 Refunding Bonds, the City will give irrevocable instructions to provide notice to the owners of the Refunded Obligations which are subject to prior redemption that such Refunded Obligations will be redeemed prior to stated maturity, on which date money will be made available to redeem the Refunded Obligations from money held under the Escrow Agreement.

_____, independent certified public accountants, will verify pursuant to a written report (the "Report") the calculations which indicate that at the time of delivery of the Government Securities and cash to the Escrow Fund, the same will mature at such times and yield interest in such amounts, with other available funds, so that sufficient money will be available from the maturing principal and interest thereof to pay, when due, the principal of and interest on the Refunded Obligations (see "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS" herein).

By the deposit of the Government Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of the Refunded Obligations pursuant to the terms of the ordinance authorizing the issuance thereof. It is the opinion of Bond Counsel that, as a result of such defeasance, the Refunded Obligations will no longer be payable from the City's parking system revenues, but will instead be payable solely from the principal of and interest on the Government Securities and cash on deposit in the Escrow Fund and held for such purpose by the Escrow Agent, and that the Refunded Obligations will be defeased and are not to be included in or considered to be indebtedness of the City for the purpose of a limitation of indebtedness or for any other purpose (see "APPENDIX C - FORM OF OPINION OF BOND COUNSEL" attached hereto).

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 Obligations if for any reason the cash balances on deposit or scheduled to be on deposit in the Escrow Fund should be insufficient to make such payment.

Sources and Uses of the 2008 Refunding Bonds

The following table summarizes the application of the proceeds resulting from the sale of the 2008 Refunding Bonds, exclusive of accrued interest, and the sources and uses of funds.

Sources of Funds

Principal Amount of the 2008 Refunding Bonds
Accrued Interest
Net Original Issue Discount
Interest and Sinking Fund Contribution
Issuer Contribution

Total Sources of Funds

Uses of Funds

Escrow Fund Deposits
Interest and Sinking Fund Deposit
Costs of Issuance
Underwriters' Discount

Total Uses of Funds

THE 2008 REFUNDING BONDS

General Description

Interest on the 2008 Refunding Bonds accrues from October 1, 2008, and is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2009. The principal of and interest on the 2008 Refunding Bonds are payable in the manner described herein under "Book-Entry-Only System." In the event the Book-Entry-Only System is discontinued, the interest on the 2008 Refunding Bonds will be payable to the registered owner as shown on the security register maintained by _____, _____, as the initial Paying Agent/Registrar, as of the fifteenth (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 security register, or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, the principal of the 2008 Refunding Bonds will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the designated payment office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the 2008 Refunding Bonds is a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized to close or the United States Post Office is not open for business, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

Authority for Issuance

The 2008 Refunding Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State" or "Texas"), particularly Chapter 1207, Texas Government Code, as amended; the Home Rule Charter of the City (the "City Charter"); and the Ordinance.

Security

Ad Valorem Tax Pledge

In the Ordinance, the City covenants that it will levy and collect an annual ad valorem tax within the limitations prescribed by law against all taxable property located within the City sufficient to meet the debt service requirements on the 2008 Refunding Bonds. The City had outstanding, as of September 30, 2008, \$1,039,105,000 in principal amount of tax-supported obligations prior to the issuance of the 2008 Refunding Bonds. After effectuating delivery of the 2008 Refunding Bonds on or about November 13, 2008, the City's outstanding principal amount of indebtedness payable from ad valorem taxes will be \$1,049,275,000*, assuming no other obligations are issued prior to such date.

Tax Rate Limitations

The State Constitution and the City Charter provide that the ad valorem taxes levied by the City for general purposes and for the purpose of paying the principal of and interest on the City's indebtedness must not exceed \$2.50 for each \$100 of assessed valuation of taxable property. There is no constitutional or statutory limitation within the \$2.50 rate for interest and sinking fund purposes; however, the Texas Attorney General, who must approve the issuance of the 2008 Refunding Bonds, has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from \$1.50 of the foregoing \$2.50 maximum tax rate calculated at 90% collections. In addition, the City has a City Charter provision that limits the amount of debt payable from the ad valorem tax proceeds. This City Charter provision prohibits the total debt of the City from exceeding 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of any indebtedness secured in whole or in part by special assessments, exclusive of the debt of any improvement district, and exclusive of any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. The issuance of the 2008 Refunding Bonds does not result in the City's violation of these provisions.

* Preliminary, subject to change.

Redemption Provisions

Optional Redemption

The City reserves the right, at its sole option, to redeem 2008 Refunding Bonds stated to mature on or after August 1, 2019, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on August 1, 2018, 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 2008 Refunding Bonds within each maturity to be redeemed. If less than all of the 2008 Refunding Bonds within a stated maturity are to be redeemed, the particular 2008 Refunding 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 2008 Refunding 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 of the 2008 Refunding Bonds or a portion thereof to be redeemed at its address as it appeared on the registration books of the Paying Agent/Registrar 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 2008 Refunding 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 2008 Refunding 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

2008 Refunding Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any integral multiple thereof). Any 2008 Refunding Bonds to be partially redeemed may be surrendered in exchange for one or more new 2008 Refunding 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 2008 Refunding Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance, or other notices with respect to the 2008 Refunding Bonds only to DTC (defined herein). Any failure by DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify the Beneficial Owner, will not affect the validity of the redemption of the 2008 Refunding Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the 2008 Refunding Bonds by the City will reduce the outstanding principal amount of such 2008 Refunding Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such 2008 Refunding 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 2008 Refunding Bonds from the Beneficial Owners. Any such selection of 2008 Refunding 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 to DTC Participants, Indirect Participants, or the persons for whom DTC Participants act as nominees, with respect to the payments on the 2008 Refunding Bonds or the providing of notice to DTC Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the 2008 Refunding Bonds for redemption. (See "Book-Entry-Only System" herein.)

Paying Agent/Registrar

The initial Paying Agent/Registrar is _____, _____. 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 2008 Refunding Bonds are duly paid. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the City, must be a bank, trust company, financial institution, or other entity duly qualified and legally authorized to serve as a Paying Agent/Registrar for the 2008 Refunding Bonds. Upon a change in the Paying Agent/Registrar for the 2008 Refunding Bonds, the City will promptly cause written notice thereof to be sent to each registered owner of the 2008 Refunding Bonds by United States mail, first-class, postage prepaid.

Transfer, Exchange and Registration

In the event the 2008 Refunding Bonds are not in the Book-Entry-Only System, the 2008 Refunding Bonds may be registered, transferred, assigned, and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration, transfer, and exchange will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, transfer, and exchange. A 2008 Refunding Bond may be assigned by the execution of an assignment form on the 2008 Refunding Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new 2008 Refunding Bond will be delivered by the Paying Agent/Registrar in lieu of the 2008 Refunding Bonds being transferred or exchanged at the designated payment office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk, and expense. New 2008 Refunding Bonds issued in an exchange or transfer of 2008 Refunding Bonds will be delivered to the registered owner or assignee of the registered owner, to the extent possible, within three business days after the receipt of the 2008 Refunding Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New 2008 Refunding Bonds registered and delivered in an exchange or transfer will be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount, series, and rate of interest as the 2008 Refunding 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 2008 Refunding Bonds.)

Mutilated, Destroyed, Lost or Stolen 2008 Refunding Bonds

The City has agreed to replace damaged, mutilated, destroyed, lost, or stolen 2008 Refunding Bonds upon surrender of the damaged or mutilated 2008 Refunding Bonds to the Paying Agent/Registrar or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the City and the Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The City may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

Limitation on Transfer

Neither the City nor the Paying Agent/Registrar will be required to transfer or exchange any 2008 Refunding Bonds (1) during the period commencing at the close of business on the Record Date (as hereinafter defined) and ending at the opening of business on the next interest payment date; and (2) with respect to the 2008 Refunding Bonds selected for redemption in whole or in part, within 45 days of the date fixed for redemption; provided, however, that this limitation is not applicable to the transfer or exchange of the unredeemed balance of the 2008 Refunding Bonds called for redemption in part.

Defaults and Remedies

The Ordinance establishes specific events of default with respect to the 2008 Refunding Bonds. If the City defaults in the payment of the principal of or interest on the 2008 Refunding Bonds when due or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinances, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a

writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the 2008 Refunding Bonds, the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the 2008 Refunding 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 registered owners 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. On June 30, 2006, 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, holders of the 2008 Refunding Bonds may not be able to bring such a suit against the City for breach of the 2008 Refunding Bonds or covenants in 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. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the 2008 Refunding Bonds. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce 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 that all opinions relative to the enforceability of the 2008 Refunding Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

Record Date for Interest Payment

The record date for determining the person to whom the interest is payable on any interest payment date (the "Record Date") is the fifteenth (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 2008 Refunding Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the day next preceding the date of mailing of such notice.

Amendments

The City may amend, change, or modify the Ordinance without the consent of or notice to any registered owners, as may be required (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 2008 Refunding Bonds then outstanding and affected thereby, amend, change, modify, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the 2008 Refunding 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 the 2008 Refunding Bonds is due and payable, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, redemption price, or interest on the 2008 Refunding Bonds; (ii) give any preference to any bonds over any other bonds; (iii) extend any waiver of default to subsequent defaults; or (iv) reduce the

respective aggregate principal amount of 2008 Refunding Bonds required for consent to any amendment, change, modification, or rescission.

Defeasance

The Ordinance provides for the defeasance of the 2008 Refunding Bonds when the payment of the principal thereof, 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 sufficient to make such payment; and/or (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 2008 Refunding Bonds. The Ordinance provides that "Government Securities" means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; (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; (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 issuer 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; and (iv) any other then authorized securities or obligations under applicable state law that may be used to defease obligations such as the 2008 Refunding Bonds.

Upon such deposit as described above, such 2008 Refunding 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 2008 Refunding Bonds, to call for redemption at an earlier date those 2008 Refunding 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 2008 Refunding Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the 2008 Refunding 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.

Holders of the 2008 Refunding Bonds should be aware that the deposit by the City of monies or Government Securities with a paying agent and the release of the Ordinance (a "defeasance") for federal income tax purposes could result in the recognition by the holder of taxable income (or loss), without any corresponding receipt of monies by the holder. In addition, for federal tax purposes, the character and time of receipt of payments on the 2008 Refunding Bonds subsequent to any such defeasance also could be affected. Holders are advised to consult their own tax advisors with respect to the tax consequences resulting from such events.

Payment Record

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

Book-Entry-Only System

This section describes how ownership of the 2008 Refunding Bonds is to be transferred and how the principal of, premium, if any, and interest on the 2008 Refunding Bonds are to be paid to and credited by DTC while the 2008 Refunding Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Co-Financial Advisors and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the 2008 Refunding Bonds, or redemption or other notices, to DTC Participants, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the 2008 Refunding Bonds),

or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (iii) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the 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 2008 Refunding Bonds. The 2008 Refunding Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for the 2008 Refunding Bonds in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for about 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA". The DTC Rules applicable to its participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the 2008 Refunding Bonds under the DTC system must be made by or through Direct Participants, who will receive a credit for the 2008 Refunding Bonds on DTC's records. The ownership interest of each actual purchaser of the 2008 Refunding Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the 2008 Refunding Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2008 Refunding Bonds, except in the event that use of the book-entry system for the 2008 Refunding Bonds is discontinued.

To facilitate subsequent transfers, all 2008 Refunding 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 2008 Refunding Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2008 Refunding Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2008 Refunding Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2008 Refunding Bonds may wish to take certain steps to augment the transmission to them of

notices of significant events with respect to the 2008 Refunding Bonds, such as: redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of 2008 Refunding Bonds may wish to ascertain that the nominee holding the 2008 Refunding Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices are provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2008 Refunding Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2008 Refunding Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2008 Refunding Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest payments on the 2008 Refunding Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the City or the Paying Agent/Registrar on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or 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 shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its 2008 Refunding Bonds purchased or tendered, through its Participant, to the Paying Agent/Registrar, and shall effect delivery of such 2008 Refunding Bonds by causing the Direct Participant to transfer the Participant's interest in the 2008 Refunding Bonds, on DTC's records, to the Paying Agent/Registrar. The requirement for physical delivery of 2008 Refunding Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2008 Refunding Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2008 Refunding Bonds to the Paying Agent/Registrar's DTC account.

DTC may discontinue providing its services as securities depository with respect to the 2008 Refunding Bonds at any time by giving reasonable notice to the City and the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, 2008 Refunding 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, 2008 Refunding Bonds will be printed and delivered to DTC.

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

So long as Cede & Co. is the registered owner of the 2008 Refunding Bonds, the City will have no obligation or responsibility to the DTC Participants or Indirect Participants, or to the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the 2008 Refunding Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to

include the person for which the Direct Participant or Indirect Participant acquires an interest in the 2008 Refunding Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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

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

Assessed Valuation ¹	Table 1A
Tax Year 2008 Actual Market Value of Taxable Property	\$83,909,309,357
Less: Residence Homestead Exemptions - Optional 65 or Older	\$ 4,307,883,346
Residence Homestead Exemptions - Disabled	125,061,885
Disabled/Deceased Veterans' Exemptions	193,111,133
Historical Property Exemptions	56,852,542
Freeport Goods Exemptions	549,400,457
Tax Abatement/Phase-In Exemptions	658,359,163
Residence Homestead Appraised Value 10% Limitations	579,086,313
Agricultural Productivity Loss	561,434,064
Pollution Control Exemptions	73,402,289
Community Housing Development Organization Exemptions	33,376,657
Energy Exemptions	13,259,344
Absolute Exemptions	3,847,975,271
Pro-Rated Exemptions	18,289,630
Total Exemptions	\$11,017,492,094
Tax Year 2008 Net Taxable Assessed Valuation (100% of Actual Market) ²	\$72,891,817,263

¹ See "AD VALOREM TAXATION" herein for a description of the City's taxation procedures. Based on Tax Year 2008 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 26, 2008.

² The City anticipates that the taxable assessed value of real property subject to the over-65 and disabled homeowners tax freeze (see "AD VALOREM TAXATION – Residence Homestead Exemptions") totals approximately \$1,126,296,505, resulting in a fiscal year 2009 loss in ad valorem tax revenue of approximately \$6,387,678.

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

The Outstanding Ad Valorem Tax Debt (at 9/30/08)	
General Obligation Bonds	\$ 726,770,000
Combination Tax and Revenue Certificates of Obligation	294,185,000
Taxable Combination Tax and Revenue Certificates of Obligation	225,000
Tax Notes	17,925,000
Total Gross Outstanding Ad Valorem Tax Debt (at 9/30/08)	\$ 1,039,105,000
The 2008 Refunding Bonds*	\$ 10,170,000
Total Gross Outstanding Ad Valorem Tax Debt*	\$ 1,049,275,000
<i>Less: Self-Supporting Debt *¹</i>	<i>54,450,000</i>
Total Net Debt Payable from Ad Valorem Taxes*	\$ 994,825,000
Interest and Sinking Fund Balance at 9/30/07	\$ 76,098,095
Ratio of Gross Debt to Actual Market Value ²	1.25%
Ratio of Gross Debt to Net Taxable Assessed Value ²	1.44%
Ratio of Net Debt to Actual Market Value ²	1.19%
Ratio of Net Debt to Net Taxable Assessed Value ²	1.36%
Tax Year 2008 Actual Market Value of Taxable Property ²	\$83,909,309,357
Tax Year 2008 Net Taxable Assessed Valuation (100% of Actual Market) ²	\$72,891,817,263
Per Capita 2008 Net Taxable Assessed Valuation ^{2,3}	\$54,632
Per Capita Gross Debt ³	\$786
Per Capita Net Debt ³	\$746

*Preliminary, subject to change.

¹ To maintain this debt as self-supporting, payments will be made from the Parking System Revenue, Solid Waste Management Fees, Advanced Transportation District Sales Tax Revenue, Police Confiscated Property Funds, and Houston Street Tax Increment Financing Revenue. Includes the 2008 Refunding Bonds.

² Based on Tax Year 2008 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 26, 2008. See "AD VALOREM TAXATION" for a description of the City's taxation procedures, including determination of net assessed valuation.

³ Based on the City's Department of Planning and Community Development estimated population of 1,334,244 as of September 1, 2008.

EXISTING DEBT SERVICE AND PRINCIPAL AND INTEREST REQUIREMENTS

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

Principal and Interest Requirements

Table 2

Fiscal <u>Year</u>	Existing Debt <u>Service</u> ¹	<u>The 2008 Refunding Bonds*</u>			Annual <u>Debt Service</u>	Total <u>Debt Service Requirement</u>
		<u>Principal</u>	<u>Interest</u>			
2009	\$ 140,975,205	\$ 0	\$ 508,500	\$ 508,500	\$ 141,483,705	
2010	139,536,036	0	610,200	610,200	140,146,236	
2011	139,974,368	0	610,200	610,200	140,584,568	
2012	118,048,943	0	610,200	610,200	118,659,143	
2013	114,504,236	0	610,200	610,200	115,114,436	
2014	98,033,853	0	610,200	610,200	98,644,053	
2015	84,173,754	0	610,200	610,200	84,783,954	
2016	68,546,298	0	610,200	610,200	69,156,498	
2017	63,877,140	1,030,000	610,200	1,640,200	65,517,340	
2018	63,868,574	1,090,000	548,400	1,638,400	65,506,974	
2019	62,013,623	1,155,000	483,000	1,638,000	63,651,623	
2020	58,685,833	1,225,000	413,700	1,638,700	60,324,533	
2021	53,698,596	1,295,000	340,200	1,635,200	55,333,796	
2022	51,382,761	1,375,000	262,500	1,637,500	53,020,261	
2023	40,052,388	1,455,000	180,000	1,635,000	41,687,388	
2024	32,750,338	1,545,000	92,700	1,637,700	34,388,038	
2025	28,520,994				28,520,994	
2026	24,391,575				24,391,575	
2027	13,407,825				13,407,825	
2028	13,410,075				13,410,075	
	<u>\$1,409,852,415</u>	<u>\$10,170,000</u>	<u>\$7,710,600</u>	<u>\$17,880,600</u>	<u>\$1,427,733,015</u>	

* Preliminary, subject to change.

¹ As of September 30, 2008.

Tax Adequacy**Table 3**

2008 Net Taxable Assessed Valuation ¹	\$72,891,817,263
Maximum Annual Debt Service Requirements, Fiscal Year Ended 2009	141,483,705
Indicated Interest and Sinking Fund Tax Rate	0.1991
Indicated Interest and Sinking Fund Tax Levy at 97.5% Collections	141,499,418

¹ Based on Tax Year 2008 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 26, 2008.

Note: See "TAX DATA" herein.

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

Interest and Sinking Fund Balance, Fiscal Year Ended 2007	\$ 76,098,095
2007 Actual Interest and Sinking Fund Rate	0.2115
2007 Interest and Sinking Fund Tax Levy at 97.5% Collections Produces ¹	<u>150,312,039</u>
Total Available for Debt Service	\$226,410,134
Less: Ad Valorem Debt Service Requirements, Fiscal Year Ended 2009	<u>141,483,705</u>
Estimated Surplus at Fiscal Year Ended 2009	\$ 84,926,429

¹ Does not include revenues derived from self-supporting debt operations, delinquent tax collections, penalties and interest on delinquent tax collections, or investment earnings.

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Ad Valorem Tax Debt Principal Repayment Schedule*

Table 5

<u>Fiscal Year</u>	<u>Currently Outstanding Obligations¹</u>	<u>Series 2008 Refunding Bonds</u>	<u>Combined Principal</u>	<u>Obligations Remaining Outstanding End of Year</u>	<u>Cumulative Percent of Principal Retired</u>
2009	\$ 91,885,000	\$ 0	\$ 91,885,000	\$ 957,390,000	8.76%
2010	94,435,000	0	94,435,000	862,955,000	17.76%
2011	99,375,000	0	99,375,000	763,580,000	27.23%
2012	82,365,000	0	82,365,000	681,215,000	35.08%
2013	82,985,000	0	82,985,000	598,230,000	42.99%
2014	70,455,000	0	70,455,000	527,775,000	49.70%
2015	60,020,000	0	60,020,000	467,755,000	55.42%
2016	47,335,000	0	47,335,000	420,420,000	59.93%
2017	45,005,000	1,030,000	46,035,000	374,385,000	64.32%
2018	47,255,000	1,090,000	48,345,000	326,040,000	68.93%
2019	47,735,000	1,155,000	48,890,000	277,150,000	73.59%
2020	46,720,000	1,225,000	47,945,000	229,205,000	78.16%
2021	43,970,000	1,295,000	45,265,000	183,940,000	82.47%
2022	43,800,000	1,375,000	45,175,000	138,765,000	86.78%
2023	34,370,000	1,455,000	35,825,000	102,940,000	90.19%
2024	28,535,000	1,545,000	30,080,000	72,860,000	93.06%
2025	25,495,000	0	25,495,000	47,365,000	95.49%
2026	22,395,000	0	22,395,000	24,970,000	97.62%
2027	12,180,000	0	12,180,000	12,790,000	98.78%
2028	12,790,000	0	12,790,000	0	100.00%
	<u>\$1,039,105,000</u>	<u>\$10,170,000</u>	<u>\$1,049,275,000</u>		

* Preliminary, subject to change.

¹ As of September 30, 2008.

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Debt Obligations – Capital Leases Payable

Table 6

The City has entered into various lease purchase agreements for the acquisition of various fire trucks, golf cars, printers, an inventory theft detection system, self-contained breathing apparatus, hybrid vehicles, a mainframe computer, electrocardiograms, refuse collection containers, refuse collection trucks, brush grapppler trucks, and brush tractor/trailer combinations. Shown below is the gross value of the assets at September 30, 2008. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council. The following is a schedule of the projected remaining future minimum lease payments under these capital leases together with the net minimum lease payments as of September 30, 2008.

Description	Lease Termination Date	Minimum Lease Payment	Amount Representing Interest	Total Minimum Lease Payments
Heidelberg Printer	11/1/2008	\$ 18,917	\$ 161	\$ 19,078
Garbage Containers	5/1/2009	50,280	673	50,953
Refuse Collection Containers	11/1/2009	845,372	22,034	867,406
Self-Contained Breathing Apparatus	5/1/2010	422,772	13,250	436,022
Mainframe Computer System & Software	5/1/2010	535,740	16,791	552,531
One Platform Truck	8/1/2010	264,079	9,777	273,856
Electric Golf Cars	11/1/2010	1,010,363	49,633	1,059,996
One Pumper Truck, Four Aerial Trucks, and One Partial Aerial Truck	2/1/2011	1,725,488	101,687	1,827,175
Five Aerial Trucks	2/1/2011	1,657,159	97,290	1,754,449
13 Electrocardiograms	5/1/2011	90,449	5,461	95,910
154,587 Refuse Containers	8/1/2011	7,693,158	380,178	8,073,336
19 Pumper Trucks	11/1/2011	4,781,115	303,929	5,085,044
Library Theft Detection System Phase I	8/1/2012	813,884	63,797	877,681
Library Theft Detection System Phase II	2/1/2013	763,809	69,442	833,251
Hybrid Vehicles	5/1/2013	600,615	49,984	650,599
Automated Sideload & Manual Rearload Refuse Collection Trucks	11/1/2013	913,060	94,946	1,008,006
17 Refuse Collection Trucks, 5 Brush Grapppler Trucks, 10 Brush Tractor/Trailers	11/1/2015	<u>5,443,291</u>	<u>827,984</u>	<u>6,271,275</u>
Total		<u>\$27,629,551</u>	<u>\$2,107,017</u>	<u>\$29,736,568</u>

The adopted budget for fiscal year 2009 includes appropriations for lease purchase arrangements to acquire refuse collection trucks (diesel and compressed natural gas), personal protective equipment, and additional components of an inventory theft detection system for the City’s Library Department. The funding for these lease purchase arrangements is anticipated to occur in fiscal year 2009.

On May 15, 2001, the City became obligated to pay \$14,465,000 in lease revenue bonds issued through the City of San Antonio, Texas Municipal Facilities Corporation (the “Corporation”) to provide funds for the construction of the “One Stop Development Services Center,” a municipal office facility. The City and the Corporation entered into a lease whereby the Corporation agreed to cause such facility to be built and leased by the City, and the City agreed to annually appropriate funds to pay lease payments sufficient to pay principal and interest on the bonds when due. The lease commenced on May 15, 2001 and the City has budgeted \$1.182 million for principal and interest payments during fiscal year 2009. The table below shows the debt service schedule for the aforementioned bonds. In addition to the debt service on these bonds, the lease payments include other expenses related to the operation and maintenance of the facility.

Fiscal Year Ended 09/30	Principal	Interest	Annual Debt Service
2009	\$ 670,000	\$ 512,930.00	\$ 1,182,930.00
2010	695,000	483,785.00	1,178,785.00
2011	725,000	452,857.50	1,177,857.50
2012	760,000	420,232.50	1,180,232.50
2013	800,000	384,892.50	1,184,892.50
2014	835,000	346,492.50	1,181,492.50
2015	875,000	305,577.50	1,180,577.50
2016	920,000	261,827.50	1,181,827.50
2017	965,000	215,367.50	1,180,367.50
2018	1,015,000	166,152.50	1,181,152.50
2019	1,065,000	113,880.00	1,178,880.00
2020	1,125,000	58,500.00	1,183,500.00
	<u>\$10,450,000</u>	<u>\$3,722,495.00</u>	<u>\$14,172,495.00</u>

AD VALOREM TAXATION

Authority to Levy Ad Valorem Taxes; Tax Rate Limitations

The City is authorized to levy an annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City in an amount sufficient to pay the principal of and interest on debt payable therefrom. The City is also authorized to levy an annual ad valorem tax for operations and maintenance purposes. The maximum rate that may be levied by the City for all City purposes is \$2.50 per \$100 assessed valuation as provided in Article XI, Section 5 of the Texas Constitution and as provided in the City Charter, which adopts this constitutional limitation. No direct funded debt limitation is imposed on the City under current Texas law; however, the Texas Attorney General has adopted an administrative policy that prohibits the issuance of general obligation debt by a municipality, such as the City, if the issuance produces debt service requirements exceeding that which can be paid from \$1.50 of the foregoing \$2.50 maximum tax rate calculated at 90% of collections. In addition, the City Charter provides that the total bonded debt of the City must never exceed 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of (1) any indebtedness secured in whole or in part by special assessments; (2) the bonded debt of any improvement district; and (3) any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. The issuance of the 2008 Refunding Bonds does not violate these limitations. (See “DEBT AND TAX RATE LIMITATIONS” herein.)

Texas Property Tax Code and County-Wide Appraisal District

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

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

Once an appraisal roll is prepared and approved by the Bexar Appraisal Review Board, it is used by the City in calculating its tax rates and preparing a tax roll. Assessments under the Property Tax Code are based on 100% of appraised value. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal

of property to update appraised values. The plan shall provide for reappraisal of all real property at least once every three years.

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

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

Property Subject to Taxation by the City

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

Residential Homestead Exemptions

The Property Tax Code authorizes the governing body of each political subdivision in the State, at its option, to exempt up to 20% of the appraised value of residential homesteads from ad valorem taxation. The City may be required to offer such an exemption if a majority of voters approve it at an election. The City would be required to call such an election upon petition by 20% of the number of qualified voters who voted in the preceding election. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of this additional residence homestead exemption may be considered each year, but must be adopted by July 1. Additionally, the City may grant an exemption to an individual who is disabled or is 65 years of age or older in a fixed amount of no less than \$3,000 of assessed value. The City currently grants a \$60,000 residential homestead exemption to only persons 65 years of age or older effective immediately upon their 65th birthday.

Disabled/Deceased Veterans' Exemptions

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

Historical Property Exemptions

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

Historical Preservation Area Exemptions

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

Freeport Goods Exemptions

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

Tax Phase-In Agreements

The City may designate areas within the City as a reinvestment zone. Thereafter, the City may enter into a tax phase-in agreement with owners of property within the zone. Before entering into a tax phase-in agreement, each entity must adopt guidelines and criteria for establishing tax phase-ins in the zone, which each entity with taxing authority over the designated property will follow in granting tax phase-ins. The tax phase-in agreement may exempt from ad valorem taxation all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed. The property is exempt on the condition that the property owner makes specified improvements or repairs to the property in conformity with the terms of the tax phase-in agreement. The agreement may include each of the applicable taxing jurisdictions, including the City, for a period of up to 10 years. The respective City and Bexar County tax phase-in agreements are not required to be substantially the same, with the exception of projects located in a State-designated enterprise zone. Since 1989, the City has entered into 79 tax phase-in agreements; 42 are active; and 37 have expired or are inactive. The City anticipates that the taxable assessed value of real property subject to Tax Abatement/Phase-In Exemptions totals approximately \$658,359,163, resulting in a Fiscal Year 2009 loss in ad valorem tax revenue of approximately \$3,733,818.

The following table depicts, as of June 30, 2008, 42 active tax phase-in agreements:

Active Tax Phase-In Agreements

<u>Company</u>	<u>Phase-In Period</u>	<u>Phase-In Term (Years)</u>	<u>Percent of Phase-In (Type of Property)</u>
Capital Group/American Funds	1999-2008	10	Real & Personal @ 100%
Boeing Aerospace	1999-2008	10	Personal @ 90%
LCWW Partners (Westin La Cantera Resort Hotel)	1999-2008	10	Personal @ 100%
HEB (Meat Packing)	2004-2009	6	Real @ 100%
S.A. Aerospace	2001-2010	10	Real @ 100%
Chase Bank Credit Card Services – Phase 1	2001-2010	10	Personal @ 100%
Chase Bank Credit Card Services – Phase 2	2002-2011	10	Real & Personal @ 100%
Chase Bank Credit Card Services – Phase 4	2002-2011	10	Personal @ 100%

(Table Continues on next page)

Company	Phase-In Period	Phase-In Term (Years)	Percent of Phase-In (Type of Property)
H.B. Zachry	2002-2011	10	Real @ 100%
First Health	2006-2011	6	Real @ 100%
CEDRA Clinical Research, LLC	2006-2011	6	Real @ 100%
Chase Bank Credit Card Services – Phase 3	2002-2011	10	Real & Personal @ 100%
MedLine	2003-2012	10	Real @ 100%
Texas Machining Enterprises II, L.L.P.	2003-2012	10	Real & Personal @ 100%
Karta Technologies, Inc.	2007-2012	6	Real @ 100%
Maxim Integrated Products	2005-2014	10	Real & Personal @ 100%
DPT	2006-2015	10	Real & Personal @ 100%
Washington Mutual Bank	2006-2015	10	Personal @ 100%
Ark, Inc.	2007-2016	10	RPIS* @ 80%
Avanzar Interior Technologies, Ltd.	2007-2016	10	RPIS* @ 100%
Curtis-Maruyasu America, Inc.	2007-2016	10	RPIS* @ 100%
Futaba Industrial Texas Corp.	2007-2016	10	RPIS* @ 80%
Green Metals, Inc.	2007-2016	10	RPIS* @ 80%
HERO Assemblers, LP	2007-2016	10	RPIS* @ 100%
HERO Logistics, LP	2007-2016	10	RPIS* @ 80%
Kautex, Inc.	2007-2016	10	RPIS* @ 100%
Metakote Corporation	2007-2016	10	RPIS* @ 80%
Metalsa Light Truck, Inc.	2007-2016	10	RPIS* @ 80%
Millennium Steel of Texas, LP	2007-2016	10	RPIS* @ 100%
Reyes Automotive Group, LLC	2007-2016	10	RPIS* @ 80%
Reyes-Amtex Automotive, LLC	2007-2016	10	RPIS* @ 80%
Takumi Stamping Texas, Inc.	2007-2016	10	RPIS* @ 80%
Tenneco Automotive Services Texas, Inc.	2007-2016	10	RPIS* @ 80%
Toyoda Gosei Texas, LLC	2007-2016	10	RPIS* @ 80%
Toyotetsu Texas, Inc.	2007-2016	10	RPIS* @ 80%
Vutex, Inc.	2007-2016	10	RPIS* @ 80%
Lowe's Home Centers, Inc	2008-2017	10	Real & Personal @ 100%
Sino Swearingen	2008-2017	10	Real & Personal @ 100%
Vistana, Ltd	2008-2017	10	Real @ 100%
Higuchi Manufacturing Company, Ltd	2008-2017	10	Real @ 100%
Microsoft Corporation	2008-2017	10	Real & Personal @ 100%
Tindall Corporation ¹	2009-2018	10	Real @ 100% & Personal @ 50%

* RPIS: Real and Personal Property Improvements, Inventory and Supplies.

¹ The Tindall Corporation contract is a ten (10) year term beginning the January 1 following substantial completion of property improvements. The Base Year Value of the contract was effective as of January 1, 2008.

Residence Homestead Appraised Value 10% Limitations

All real property of the City within Bexar County must be appraised by the Appraisal District at market value as of January 1 of each year. State law, however, provides for limitations on appraised value of residential homesteads. The appraised value of a residential homestead may not exceed the lesser of:

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

Agricultural Productivity Loss

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

Pollution Control Exemptions

Real or personal property used wholly or partly as a facility, device, or method for the control of air, water, or land pollution is exempt from ad valorem taxation. Property used for residential purposes is ineligible for this exemption.

Community Housing Development Organization Exemptions

An organization is exempt from ad valorem taxation of improved or unimproved real property if the organization owns the property for the purpose of building or repairing housing on the property to sell without profit to a low/moderate income individual/family or to rent without profit to such an individual/family.

Energy Exemptions

A person is entitled to an exemption from taxation of the amount of appraised value of his property that arises from the installation or construction of a solar or wind-powered energy device that is primarily for production and distribution of energy for on-site use.

Absolute Exemptions

Property owned by the following organizations is exempt from ad valorem taxation:

1. Property exempt from taxation by federal law.
2. Property owned by the state or political subdivisions of the state (municipalities, counties, etc.) if the property is used for public purposes.
3. Property owned by a school, operated primarily for the purpose of engaging in educational functions and organized as a nonprofit corporation.
4. Property held for non-profit entity and used exclusively for human burial (cemeteries).
5. Property owned by an organization that qualifies as a religious organization.
6. Property owned by organizations engaged primarily in performing charitable functions.

Pro-Rated Exemptions

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

Effective Tax Rate and Rollback Tax Rates

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

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

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

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

Taxpayer Remedies

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

Levy and Collection of Taxes

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

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

The City does not allow for discounts for early payment, but does allow for split payment of property taxes (one-half before December 1, and the remaining one-half without penalty and interest before July 1 of the following year). The City also allows for installment payments for homeowners who are disabled or at least 65 years of age and who qualify for the residential homestead exemption (one-fourth before January 31, one-fourth before April 1, one-fourth before June 1, and the remaining one-fourth before August 1).

City’s Rights in the Event of Tax Delinquencies

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

At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem a residence homestead property within two years after the purchaser’s deed is filed for record) or by bankruptcy

proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

Tax Increment Reinvestment Zone Financing

The City has approved a “TIF Manual” for the utilization of Tax Increment Financing (“TIF”) and the creation of Tax Increment Reinvestment Zones (“TIRZ”) pursuant to Chapter 311 of the Texas Tax Code, as amended. Since 1998, the City has utilized TIF as a vehicle to fund in whole or in part eligible capital costs for public infrastructure related to economic development, commercial, and residential projects. As of September 30, 2008, there are 22 existing TIRZs with a total taxable captured value of \$840,122,063. For Fiscal Year 2008, this total taxable captured value produced \$4.5 million in tax increment revenues for use by the City to pay for the capital costs of certain public infrastructure improvements in the TIRZs. The existing TIRZs have terms ranging from 10 years to 30 years which are anticipated to expire starting in Fiscal Year 2009 through Fiscal Year 2032. It is estimated that the City will contribute approximately \$400 million in tax increment revenues over the 30 years for these TIRZs projects. The existing TIRZs are referred to as the Rosedale, Highland Heights, New Horizons, Mission Del Lago, Brookside, Houston Street, Stablewood Farms, Inner City, Plaza Fortuna, Lackland Hills, Sky Harbor, North East Crossing, Brooks City Base, Mission Creek, Hallie Heights, Heathers Cove, Ridge Stone, Palo Alto Trails, Hunters Pond, Rosillo Ranch, River North and Verano Projects.

Tax Data

Table 7

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation ¹	Tax Rate	Tax Levy	Percent Collections Current	Percent Collected Total
1999	2000	\$33,315,478,862	\$0.57979	\$193,159,815	98.14%	99.84%
2000	2001	36,033,321,329	0.57979	208,917,594	97.89	99.30
2001	2002	39,587,584,280	0.57854	229,030,010	97.78	99.25
2002	2003	41,535,547,008	0.57854	240,299,754	97.78	99.23
2003	2004	44,583,138,927	0.57854	257,931,292	97.96	99.58
2004	2005	46,481,974,620	0.57854	268,916,816	98.32	100.27
2005	2006	49,868,955,425	0.57854	288,511,855	98.43	100.29
2006	2007	56,767,701,702	0.57854	326,326,395	98.43	99.67
2007	2008	65,970,484,420	0.57230	372,908,564	In Process of Collection	
2008	2009	72,891,817,263 ²	0.56714	407,010,974	In Process of Collection	

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

² Based on Tax Year 2008 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 26, 2008.

DEBT AND TAX RATE LIMITATIONS

No direct debt limitation is imposed on the City under current Texas law; however, the City Charter provides that the total bonded debt of the City must never exceed 10% of the total assessed valuation of property shown by the last assessment roll, exclusive of (1) any indebtedness secured in whole or in part by special assessments; (2) the bonded debt of any improvement district; and (3) any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. In addition, Article XI, Section 5 of the State Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. The City Charter adopts this constitutional provision. The Texas Attorney General has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from \$1.50 of the foregoing \$2.50 maximum tax rate calculated at 90% collection. The issuance of the 2008 Refunding Bonds will not exceed the above described limits or violate the Texas Attorney General’s administrative policy. The following obligations, among others, may be issued by the City:

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

Tax Rate Distribution

Table 8

Tax Rate	Fiscal Year Ended September 30				
	2009*	2008	2007	2006	2005
General Fund	\$0.35564	\$ 0.36080	\$ 0.36704	\$ 0.36704	\$ 0.36704
Interest and Sinking Fund	0.21150	0.21150	0.21150	0.21150	0.21150
Total Tax Rate	\$0.56714	\$ 0.57230	\$ 0.57854	\$ 0.57854	\$ 0.57854

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

Principal Taxpayers

Table 9

Name	Type of Property	FY 2008 Taxable Assessed Valuation	Percent of FY 2008 Taxable Assessed Valuation
H.E. Butt Grocery Company	Retail/Grocery	\$ 793,539,174	1.09%
Toyota Motor Manufacturing Texas	Automobile Manufacturer	551,362,277	0.76
VHS San Antonio Partners LP	Hospital/Healthcare	404,849,190	0.56
AT&T	Telecommunications	374,235,968	0.51
Hyatt Regency Hotels	Hotel Chain	355,942,616	0.49
United Services Automobile Association	Insurance/Banking	349,107,830	0.48
Wal-Mart Stores, Inc.	Retail/Grocery	343,968,939	0.47
Marriott Corporation	Hotel Chain	334,768,492	0.46
La Cantera Retail LTD Partnership	Shopping Center	170,770,750	0.23
Alamo Stonecrest Holdings	Shopping Center	145,171,245	0.20
Total		\$3,823,716,481	5.25%

Net Taxable Assessed Valuation for Tax Years 1999-2008

Table 10

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation ¹	Change From Preceding Year	
			Amount	Percent
1999	2000	\$33,315,478,862	---	---
2000	2001	36,033,321,329	\$2,717,842,467	8.16%
2001	2002	39,587,584,280	3,554,262,951	9.86
2002	2003	41,535,547,008	1,947,962,728	4.92
2003	2004	44,583,138,927	3,047,591,919	7.34
2004	2005	46,481,974,620	1,898,835,693	4.26
2005	2006	49,868,955,425	3,386,980,805	7.29
2006	2007	56,767,701,702	6,898,746,277	13.83
2007	2008	65,970,484,420	9,202,782,718	16.21
2008	2009	72,891,817,263 ²	6,921,332,843	10.49

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

² Based on Tax Year 2008 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 26, 2008.

Net Taxable Assessed Valuation and Ad Valorem Tax Debt

Table 11

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation ¹	Ad Valorem Gross Debt	Debt Ratios
				Percent
1999	2000	\$33,315,478,862	\$ 780,378,108	2.34%
2000	2001	36,033,321,329	768,693,108	2.13
2001	2002	39,587,584,280	838,428,108	2.12
2002	2003	41,535,547,008	881,038,108	2.12
2003	2004	44,583,138,927	821,843,108	1.84
2004	2005	46,481,974,620	872,090,124	1.88
2005	2006	49,868,955,425	850,300,000	1.71
2006	2007	56,767,701,702	945,755,000	1.67
2007	2008	65,970,484,420	1,039,105,000	1.57
2008	2009	72,891,817,263 ²	1,049,275,000 ³	1.44

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

² Based on Tax Year 2008 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 26, 2008.

³ Preliminary, subject to change.

Authorized but Unissued Ad Valorem Tax Debt

Table 12

Date of Authorization	Improvements	Amount Authorized	Debt Issued To Date*	Debt Authorized But Unissued
5/12/2007	Streets, Bridges, & Sidewalks	\$306,997,413	\$27,641,000	\$279,356,413
5/12/2007	Drainage	152,051,818	16,692,528	135,359,290
5/12/2007	Parks, Recreation, Open Space, & Athletics	79,125,293	59,251,000	19,874,293
5/12/2007	Library	11,025,476	5,088,000	5,937,476
5/12/2007	Public Health Facilities	<u>800,000</u>	<u>675,000</u>	<u>125,000</u>
		<u>\$550,000,000</u>	<u>\$109,347,528</u>	<u>\$440,652,472</u>

* \$43.5 million has been issued pursuant to City of San Antonio, Texas, Tax Notes, Series 2007, which the City will count against its voted general obligation authorization.

Classification of Assessed Valuation

Table 13

	Fiscal Year 2009 ¹	% of Total	Fiscal Year 2008	% of Total	Fiscal Year 2007	% of Total	Fiscal Year 2006	% of Total	Fiscal Year 2005	% of Total
Real, Residential, Single-Family	\$42,423,851,754	50.56	\$40,002,579,894	52.32	\$34,474,233,006	53.01	\$30,761,632,234	54.21	\$28,522,603,105	55.04
Real, Residential, Multi-Family	6,374,028,444	7.60	5,356,848,807	7.01	4,315,228,900	6.64	3,795,667,205	6.69	3,111,991,529	6.00
Real, Vacant Lots/Tracts	2,184,595,879	2.60	1,765,979,159	2.31	1,201,167,255	1.85	896,748,745	1.58	1,148,225,953	2.22
Real, Acreage (Land Only)	1,962,814,786	2.34	1,635,710,747	2.14	810,546,430	1.24	606,403,394	1.07	617,964,288	1.19
Real, Farm and Ranch Improvements	28,192,817	0.03	29,156,990	0.04	22,546,014	0.03	18,599,326	0.03	13,675,489	0.02
Real, Commercial	19,005,708,274	22.65	16,206,709,241	21.20	13,667,670,211	21.02	11,764,992,536	20.73	10,851,533,970	20.94
Real, Industrial	795,642,107	0.95	746,363,031	0.98	365,995,100	0.56	354,663,906	0.63	309,271,374	0.60
Real, Minerals Oil and Gas	-0-	0.00	459,910	0.00	280,560	0.00	166,660	0.00	39,040	0.00
Real and Tangible Personal Utilities	496,330,696	0.59	540,466,328	0.71	511,600,850	0.79	528,221,546	0.93	550,530,280	1.06
Tangible Personal, Commercial	6,916,437,114	8.24	6,355,485,369	8.31	5,710,337,902	8.78	5,176,198,004	9.12	5,067,130,053	9.78
Tangible Personal, Industrial	2,050,249,546	2.44	2,005,434,790	2.62	1,470,270,661	2.26	1,299,607,879	2.29	1,200,010,400	2.32
Tangible Personal, Mobile Homes	89,893,062	0.11	97,802,259	0.13	96,111,850	0.15	96,339,510	0.17	98,392,969	0.19
Real Property, Inventory	234,548,180	0.28	238,721,707	0.31	195,850,078	0.30	198,819,688	0.35	191,479,359	0.37
Special Inventory Tax	346,448,620	0.41	319,323,960	0.42	280,856,850	0.43	252,524,270	0.44	22,990	0.00
Exempt Property	1,000,568,078	1.19	1,157,624,272	1.51	1,910,930,577	2.94	1,000,322,338	1.76	141,337,410	0.27
Total Assessed Value	\$83,909,309,357	100.00	\$76,458,666,464	100.00	\$65,033,626,244	100.00	\$56,750,907,241	100.00	\$51,824,208,209	100.00
Less:										
Residence Homestead Exemptions - Optional 65 or Older	\$4,307,883,346		\$4,280,506,661		\$4,110,067,258		\$3,912,184,972		\$3,817,600,447	
Residence Homestead Exemptions - Disabled	125,061,885		131,077,156		126,244,040		119,597,187		-0-	
Disabled /Deceased Veterans' Exemptions	193,111,133		193,915,796		189,172,020		180,072,214		174,102,776	
Historical Property Exemptions	56,852,542		37,071,769		49,916,153		29,673,115		33,822,228	
Historical Preservation Area ²	-0-		-0-		-0-		-0-		2,905,902	
Freeport Goods Exemptions	549,400,457		519,912,323		385,837,970		332,875,270		270,308,370	
Tax Abatement/Phase-In Exemptions	658,359,163		507,946,373		411,961,519		418,909,527		448,091,914	
Residence Homestead Appraised Value 10% Limitations	579,086,313		943,538,066		609,240,240		193,890,523		131,060,193	
Agricultural Productivity Loss	561,434,064		539,674,719		346,926,222		268,148,584		278,168,180	
Pollution Control Exemptions	73,402,289		62,760,278		9,903,790		5,675,890		-0-	
Community Housing Development Organization Exemptions	33,376,657		61,899,641		42,779,850		45,248,643		689,895	
Energy Exemptions	13,259,344		11,864,658		32,610,802		-0-		-0-	
Absolute Exemptions	3,847,975,271		3,165,254,260		1,924,485,214		1,345,024,320		150,616,496	
Pro-Rated Exemptions	18,289,630		32,760,344		26,779,464		30,651,571		34,867,188	
Less: Total Exemptions	\$11,017,492,094		\$10,488,182,044		\$ 8,265,924,542		\$ 6,881,951,816		\$ 5,342,233,589	
Net Taxable Assessed Valuation	\$72,891,817,263		\$65,970,484,420		\$56,767,701,702		\$49,868,955,425		\$46,481,974,620	

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¹ Based on Tax Year 2008 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 26, 2008.

² Beginning in FY 2006, Historical Preservation Area Exemptions are combined with Historical Property Exemptions.

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

<u>Governmental Subdivision</u>	<u>FY 2008 Gross Assessed Valuation ¹</u>	<u>FY 2008 Net Taxable Valuation ¹</u>	<u>FY 2008 Tax Rate</u>
Alamo Community College District	\$97,215,177,555	\$90,051,064,661	\$0.134550
Alamo Heights Independent School District	4,994,325,420	4,787,568,725	1.156600
Bexar County	97,226,101,485	86,877,145,499	0.295104
Bexar County Flood Control	97,226,114,405	91,094,300,960	0.031762
Bexar County Hospital District d.b.a. University Health System	97,215,177,555	92,060,858,177	0.237408
East Central Independent School District	1,922,624,625	1,679,475,950	1.190000
Edgewood Independent School District	1,353,839,572	945,631,967	1.405000
Harlandale Independent School District	1,606,143,451	1,312,407,807	1.349000
Judson Independent School District	6,082,328,754	5,391,013,090	1.410000
North East Independent School District	28,745,627,217	26,110,701,779	1.402900
Northside Independent School District	31,149,926,007	27,940,428,838	1.262500
San Antonio Independent School District	13,819,252,799	11,332,453,808	1.249700
San Antonio River Authority	97,215,177,555	90,158,477,545	0.015951
Somerset Independent School District	387,471,471	329,145,515	1.195000
South San Antonio Independent School District	1,388,465,246	1,138,640,831	1.445000
Southside Independent School District ²	598,010,398	482,276,650	1.360000
Southwest Independent School District	2,246,565,666	2,002,969,131	1.195000

¹ Assessed and taxable valuation data provided by Bexar County Tax Assessor-Collector's Office and Bexar Appraisal District.

² The tax rate is not officially adopted due to rollback election results not yet certified by applicable school boards.

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Direct and Overlapping Debt Data and Information

Table 15

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

Taxing Entity ¹	As of	Amount of Tax Debt Outstanding ²	Percent Overlapping ³	Amount of Tax Debt Overlapping
Alamo Community College District	9/30/07	\$ 546,087,830	77.64%	\$ 423,982,591
Alamo Heights Ind. School District	9/30/07	77,959,333	47.85	37,303,541
Bexar County	9/30/07	244,143,901	76.40	186,525,940
Bexar County Hospital District d.b.a. University Health System	9/30/07			
East Central Independent School District	9/30/07	44,463,377	45.56	20,257,515
Edgewood Independent School District	9/30/07	107,956,720	100.00	107,956,720
Harlandale Independent School District	9/30/07	193,565,940	100.00	193,565,940
Judson Independent School District	9/30/07	350,279,980	34.26	120,005,921
North East Independent School District	9/30/07	814,121,723	86.37	703,156,932
Northside Independent School District	9/30/07	1,163,588,259	80.45	936,106,754
San Antonio Independent School District	9/30/07	470,173,632	99.32	466,976,451
San Antonio River Authority	9/30/07	46,485,918	96.50	44,858,911
Somerset Independent School District	9/30/07	25,976,250	1.69	438,999
South San Antonio Ind. School District	9/30/07	146,716,253	100.00	146,716,253
Southside Independent School District	9/30/07	67,864,671	32.53	22,076,377
Southwest Independent School District	9/30/07	<u>111,497,156</u>	36.08	<u>40,228,174</u>
Total Overlapping Tax Debt		\$4,410,880,943		\$3,450,157,019
City of San Antonio	9/30/07	<u>\$ 945,755,000</u>		<u>\$ 945,755,000</u>
Total Direct and Overlapping Tax Debt		<u>\$5,356,635,943</u>		<u>\$4,395,912,019</u>

Tax Year 2008 Actual Market Value of Taxable Property	\$83,909,309,357
Tax Year 2008 Net Taxable Assessed Valuation (100% of Actual Market)	\$72,891,817,263
Ratio of Direct and Overlapping Tax Debt to Actual Market Value	5.24%
Ratio of Direct and Overlapping Tax Debt to Net Taxable Assessed Value	6.03%
Per Capita Direct and Overlapping Debt ⁴	\$3,295

Note: The City's total net tax debt is \$869,656,905⁵ as of September 30, 2007. Calculations on the basis of total net tax debt would change the above figures as follows:

Total Net Direct and Overlapping Tax Debt	\$4,319,813,924
Ratio of Net Direct and Overlapping Tax Debt to Actual Market Value	5.15%
Ratio of Net Direct and Overlapping Tax Debt to Net Taxable Assessed Value	5.93%
Per Capita Net Direct and Overlapping Tax Debt ⁴	\$3,238

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

² The amount of Tax Debt outstanding was obtained from each taxing entity.

³ For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value.

⁴ Based on the City's Planning Department estimated population of 1,334,244 as of September 1, 2008 for the City of San Antonio (figure includes those individuals residing within areas annexed by the City by such date).

⁵ The audited interest and sinking fund balance for fiscal year ended September 30, 2007 was used to calculate this number.

REVENUE SOURCES AND EXPENDITURES

Sources of Revenues

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

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

Table 16

The following statements set forth in condensed form reflect the historical operations of the City. The City has prepared such summary for inclusion herein based upon information obtained from the City's Comprehensive Annual Financial Report and financial records. Reference is made to such statements for further and complete information. For additional information relating to the General Fund balance re-estimates by the City for Fiscal Year 2008, see the section captioned "General Fund Update" on the following page.

	Fiscal Year Ended September 30				
	2007	2006	2005	2004	2003
Fund Balance - Beginning of Year	\$ 161,476,026	\$ 118,413,742	\$ 98,510,654	\$ 81,642,072	\$ 62,452,494
Revenues					
Taxes	\$ 430,451,032	\$ 399,359,902	\$ 367,030,243	\$343,707,952	\$ 320,518,083
Licenses and Permits	6,926,703	19,764,737	20,715,743	17,026,379	13,912,258
Intergovernmental	4,035,641	3,445,582	3,055,128	2,695,842	2,878,131
Revenues from Utilities	257,687,224	256,367,822	221,774,673	196,405,099	210,466,156
Charges for Services	25,220,809	35,276,831	33,622,089	30,029,118	27,283,429
Fines and Forfeits	15,114,609	10,947,472	12,025,344	11,713,073	11,282,396
Miscellaneous	<u>14,306,653</u>	<u>13,830,931</u>	<u>14,286,093</u>	<u>10,758,387</u>	<u>9,810,913</u>
Total Revenues	<u>\$753,742,671</u>	<u>\$ 738,993,277</u>	<u>\$ 672,509,313</u>	<u>\$612,335,850</u>	<u>\$ 596,151,366</u>
Expenditures ¹					
General Government	\$ 79,705,071	\$ 71,139,682	\$ 66,746,538	\$ 54,214,920	\$ 53,416,465
Public Safety	437,206,950	429,051,592	404,491,342	376,925,001	361,835,168
Streets and Roadways	10,759,958	10,769,261	10,477,765	10,656,685	11,920,629
Health Services	13,109,799	12,412,664	14,378,887	13,409,924	13,814,613
Sanitation	3,007,740	2,864,299	2,582,840	2,380,287	2,515,192
Welfare	42,124,122	23,504,261	21,578,358	16,480,979	16,317,480
Culture and Recreation	69,728,940	71,938,565	63,478,741	57,918,951	59,119,473
Economic Dev. and Opportunity	<u>3,505,293</u>	<u>4,067,281</u>	<u>4,552,704</u>	<u>8,043,283</u>	<u>5,537,792</u>
Total Expenditures	<u>\$ 659,147,873</u>	<u>\$ 625,747,605</u>	<u>\$588,287,175</u>	<u>\$540,030,030</u>	<u>\$ 524,476,812</u>
Excess of Revenues Over Expenditures	<u>\$ 94,594,798</u>	<u>\$ 113,245,672</u>	<u>\$ 84,222,138</u>	<u>\$ 72,305,820</u>	<u>\$ 71,674,554</u>
Other Financing Sources (Uses)					
Operating Transfers In	\$ 15,972,026	\$ 11,466,466	\$ 14,121,847	\$ 15,348,182	\$ 13,120,941
Operating Transfers Out	<u>(126,065,404)</u>	<u>(90,280,712)</u>	<u>(86,649,587)</u>	<u>(76,440,760)</u>	<u>(70,377,939)</u>
Total Other Financing Sources (Uses)	\$(110,093,378)	\$(78,814,246)	\$(72,527,740)	\$(61,092,578)	\$(57,256,998)
Add Encumbrances ¹	<u>13,713,122</u>	<u>8,630,858</u>	<u>8,208,690</u>	<u>5,655,340</u>	<u>4,772,022</u>
Fund Balance - End of Year	<u>\$ 159,690,568</u>	<u>\$161,476,026</u>	<u>\$ 118,413,742</u>	<u>\$ 98,510,654</u>	<u>\$ 81,642,072</u>

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

General Fund Update

As part of its annual budget process, the City re-estimates revenues and expenditures for the current fiscal year. During the most recent budget process, the General Fund undesignated fund balance for FY 2008 was projected at \$63.3 million with budgeted financial reserves of \$42.8 million. This compares to an FY 2007 undesignated fund balance of \$80.3 million and budgeted financial reserves of \$19.6 million.

Sales Taxation

Authority to Levy Sales Taxes

Chapter 321 of the Texas Tax Code, as amended, authorizes the City to levy and collect a municipal sales and use tax on the receipts from the sale of taxable items within the City at a rate of 1%.

The Texas Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional sales tax on retail sales or taxable items to reduce the property tax levy. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year. The City is disqualified from adopting this additional sales and use tax because the City is included within the boundaries of a rapid transit authority created under Chapter 451, Transportation Code.

Legislation

Advanced Transportation District. A proposition was passed at the November 2, 2004 election which allows VIA Metropolitan Transit to create an Advanced Transportation District (“District”) within the City and impose an additional one-fourth of one percent (“1/4 of 1%”) sales and use tax. The 1/4 of 1% sales and use tax will be allocated as follows: 50% will be used for advanced transit services, operations, passenger amenities, equipment and other advanced transportation purposes; 25% will be used to construct, improve and maintain streets and sidewalks and related infrastructure to improve mobility and other advanced transportation purposes in the District; and 25% will be used as the local share to obtain state and federal grants for highways, transportation infrastructure designed to improve mobility and other advanced transportation purposes in the District. With the imposition of this additional sales and use tax, the City’s sales tax rate increased to eight percent effective April 1, 2005.

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

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

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

Edwards Aquifer Protection Venue Project. The City Council has designated an Edwards Aquifer Protection Venue Project (“Edwards Venue Project”) under Chapter 334 of the Texas Local Government Code (“Venue Code”). As required by the Venue Code, the City forwarded a copy of the Resolution to the Texas Comptroller for her determination as to whether the implementation of the Edwards Venue Project would have a significant negative impact on State revenue. This determination is required prior to the City Council calling an election on the matter. The Comptroller determined that implementation of this Resolution would not have a significant negative fiscal impact on State revenue.

As such, City Council authorized an election held on May 7, 2005 to authorize the implementation of the Edwards Venue Project under the Venue Code and the imposition of a one-eighth of one percent (“1/8 of 1%”) sales and use tax. The Edwards Venue Project was approved and provides for the protection of water quality in the Edwards Aquifer by establishing a watershed protection and preservation project to acquire and preserve land or interests in land in the Edwards Aquifer recharge and contributing zones both inside and outside Bexar County.

Parks Development and Expansion Venue Project. The City Council has also designated a Parks Development and Expansion Venue Project (“Parks Venue Project”) under the “Venue Code.” As required by the Code, the City forwarded a copy of the Resolution to the Texas Comptroller for her determination as to whether the implementation of the Parks Venue Project would have a significant negative impact on State revenue. This determination was required prior to the City Council calling an election on the matter. The Comptroller determined that implementation of this Resolution would not have a significant negative fiscal impact on State revenue.

As such, City Council authorized an election held on May 7, 2005 to authorize the implementation of the Parks Venue Project under the Venue Code and the imposition of a 1/8 of 1% sales and use tax. The Parks Venue Project was approved and provides for the planning, acquisition, establishment, development, construction or renovation of the Parks Venue Project which includes the acquisition of open space and linear parks along Leon Creek, Salado Creek, Medina River and San Antonio River, and for improvements and additions to the Municipal Parks and Recreation System.

The two Venue Projects share in the use of the 1/8 of 1% sales and use tax, and have a \$90 million and \$45 million ceiling, respectively. This sales and use tax took effect October 1, 2005, contributing to the City’s current sales and use tax rate of eight and one-eighth percent (“8.125%”).

Crime Control and Prevention District. Pursuant to Texas Local Government Code, Chapter 363, entitled the “Crime Control and Prevention District Act” (in this subsection the “Act”), a governing body of a municipality may propose the creation of a crime control and prevention district (“CCPD”) and the imposition of a sales and use tax for the financing of the CCPD. The sales and use tax may be authorized only if the creation and the tax are approved by a majority of the qualified voters of the proposed CCPD voting at the election called and held for that purpose. On March 10, 2005, the City Council proposed the creation of the City of San Antonio, Texas Crime Control and Prevention District through an ordinance. On April 28, 2005, the City Council, by resolution, appointed seven persons that reside in the proposed CCPD to serve as Temporary Board of Directors (the “Temporary Board”).

Sections of the Act authorize the Temporary Board to order an election on the question of creating the City of San Antonio, Texas Crime Control and Prevention District and approving a sales and use tax for the purpose of financing the CCPD, after a majority of the temporary directors of the proposed CCPD have approved a budget plan and a crime control plan in accordance with the Act. The Temporary Board of the proposed CCPD formulated and on August 10, 2005 approved a two-year crime control plan and a two-year budget plan. On August 17, 2005, the Temporary Board adopted an order calling a special election on the creation of a CCPD and the imposition of a 1/8 of 1% sales and use tax. The election was held on Tuesday, November 8, 2005, but the Crime Control and Prevention District Proposition failed. As a result, the sales and use tax rate for the City of San Antonio remains at 8.125%. The Act provides that if a CCPD has not been created before the fifth anniversary of the date the district was proposed by the City, the Temporary Board is dissolved and a CCPD may not be created.

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Collections and Equivalent Rates

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

Municipal Sales Taxes

Table 17

<u>Fiscal Year Ended 9/30</u>	<u>Sales Tax Collected ¹</u>	<u>Ad Valorem Tax Levy ^{1,2}</u>	<u>Percent of Ad Valorem Tax Levy</u>	<u>Net Taxable Assessed Valuation ³</u>	<u>Equivalent Tax Rate</u>
1998	\$ 118,991,708	\$ 170,587,464	69.75%	\$29,422,284,674	\$0.4044
1999	126,472,730	181,204,963	69.80	31,253,551,025	0.4047
2000	135,130,522	193,159,815	69.96	33,315,478,862	0.4056
2001	136,810,787	208,917,594	65.49	36,033,321,329	0.3797
2002	157,593,310	229,030,010	68.81	39,587,584,280	0.3981
2003	156,322,600	240,299,754	65.05	41,535,547,008	0.3764
2004	162,383,500	257,931,292	62.96	44,583,138,927	0.3642
2005	167,331,757	268,916,816	62.22	46,481,974,620	0.3600
2006	210,141,500	288,511,855	72.84	49,868,955,425	0.4214
2007	224,479,807	326,326,395	68.79	56,767,701,702	0.3954

¹ Includes the City's General Fund component of sales tax as well as the special venue sales tax beginning in fiscal year 2001 and the Advanced Transportation District Tax beginning in fiscal year 2005.

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

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

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Comparison of Selected Sources of Revenues

Table 18

Fiscal Year Ended 9/30	Taxes ¹	Charges for Services	Miscellaneous	Fines and Forfeits	Licenses and Permits	Inter-Governmental	City Public Service (CPS) Electric & Gas Systems	San Antonio Water System (SAWS)	Total
1998	\$245,430,127	\$21,676,353	\$10,862,192	\$11,525,034	\$11,159,736	\$2,354,189	\$146,145,982	\$4,687,162	\$453,840,775
1999	261,392,418	21,726,181	12,705,684	11,838,121	12,164,099	2,526,778	145,170,683	4,785,430	472,309,394
2000	277,833,729	23,010,824	13,017,615	11,593,504	12,257,775	2,669,780	167,138,876	5,161,798	512,683,901
2001	291,378,953	23,211,576	14,249,362	11,116,047	12,683,156	2,865,885	182,411,012	5,528,890	543,444,881
2002	310,912,963	24,631,495	12,054,469	10,828,974	13,302,392	2,888,626	165,118,018	6,116,065	545,853,002
2003	320,518,083	27,283,429	9,810,913	11,282,396	13,912,258	2,878,131	204,016,870	6,449,286	596,151,366
2004	343,707,952	30,029,118	10,758,387	11,713,073	17,026,379	2,695,842	189,505,855	6,899,244	612,335,850
2005	367,030,243	33,622,089	14,286,093	12,025,344	20,715,743	3,055,128	213,384,307	8,390,366	672,509,313
2006	399,359,902	35,276,831	13,830,931	10,947,472	19,764,737	3,445,582	246,084,171 ²	10,283,651	738,993,277
2007	430,451,032	25,220,809	14,306,653	15,114,609	6,926,703 ³	4,035,641	248,539,890 ⁴	9,147,334	753,742,671

¹ Comprised of property, sales, alcoholic beverage, business taxes, penalties, and interest and judgments; excludes hotel/motel occupancy tax.

² Includes an additional transfer of \$8,438,363.

³ Beginning in fiscal year 2007, Planning and Development Services revenues are no longer included in the general fund and are now a special revenue fund.

⁴ Includes an additional transfer of \$8,294,548.

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Expenditures for Selected Functions ¹**Table 19**

Fiscal Year Ended 9/30	General Government	Public Safety	Streets and Roadways	Health Services	Sanitation	Welfare	Culture and Recreation	Economic Development & Opportunity	Total
1998	\$44,617,078	\$267,566,794	\$9,162,860	\$10,753,132	\$2,780,539	\$10,232,506	\$42,809,012	\$4,783,117	\$392,705,038
1999	49,438,915	289,777,427	9,467,167	11,277,893	2,399,358	11,407,269	48,025,859	5,189,929	426,983,817
2000	55,180,174	305,859,236	9,909,813	12,299,792	2,600,995	12,857,131	52,938,397	5,864,158	457,509,696
2001	68,364,225	326,227,746	9,804,123	13,401,383	2,754,077	16,464,593	58,137,342	6,394,692	501,548,181
2002	56,154,675	350,755,902	10,179,816	13,933,748	2,653,746	16,991,511	59,454,085	7,330,135	517,453,618
2003	52,283,057	361,305,240	11,855,629	13,689,587	2,513,841	15,763,551	58,917,420	5,368,634	521,696,959
2004	53,456,752	375,315,914	10,656,685	13,383,921	2,380,287	15,920,832	57,072,648	7,687,550	535,874,589
2005	64,019,958	402,544,348	10,477,732	13,994,642	2,576,616	19,757,168	63,010,213	4,391,706	580,772,383
2006	66,956,066	427,598,173	10,769,231	12,032,617	2,857,185	21,738,552	71,495,663	3,973,352	617,420,839
2007	74,049,275	436,295,038	10,759,928	12,927,741	2,823,782	38,673,480	68,900,503	3,449,979	647,879,726

¹ Expenditures for selected functions do not include encumbrances.

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THE CITY

Governmental Structure

The City is a Home Rule Municipality that operates pursuant to the Charter of the City of San Antonio (the “City Charter”), which was adopted on October 2, 1951 and became effective on January 1, 1952. The City Charter provides for a council-manager form of government, whereby subject only to the limitations imposed by the Texas Constitution and the City Charter, all powers of the City are vested in an elective Council (the “City Council”) which enacts legislation, adopts budgets and determines policies. The City Council is comprised of eleven (11) members, with ten (10) members elected from single-member districts, and the Mayor elected at-large. Each member of the City Council serves two (2) year terms, and each member is limited to a maximum of two (2) full terms. The office of Mayor is considered a separate office. The terms of all members of the City Council currently sitting in office expire on May 31, 2009. The City Council also appoints a City Manager who executes the laws and administers the government of the City, and serves as the City’s chief administrative officer. The City Manager serves at the pleasure of City Council.

City Charter

Under current Texas law, 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 six separate occasions; November 1974; January 1977; May 1991; May 1997; November 2001 and May 2004. Significant amendments to the City Charter include the amendment passed in May of 1991, which limited the service by the Mayor and the City Council members to two full terms, each of which is two years in duration. Two separate City Charter review committees sitting in the early and mid-1990’s charged with conducting a comprehensive review of the City Charter, resulted in the passage of five propositions, each containing numerous amendments to the City Charter in May 1997.

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

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

On June 19, 2008, City Council called a Special Election to be held on Tuesday, November 4, 2008, on the question of whether the City should amend the City Charter by revising the terms of office for the mayor or a member of the City Council to four full 2-year terms of office, from two full 2-year terms, but prohibit the current or former mayor or current or former member of the City Council from being elected to more than two full 2-year terms.

Services

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

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

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 19 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, 2007 were \$248,539,890. (See “CERTAIN SIGNIFICANT ISSUES AFFECTING THE CITY” herein and “SAN ANTONIO ELECTRIC AND GAS SYSTEM” in Appendix A attached hereto.)

Water services are provided by the San Antonio Water System (“SAWS”), San Antonio’s municipally-owned water supply, water delivery, and wastewater treatment utility. SAWS is in its 15th 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, 2007 were \$9,147,334. (See “CERTAIN SIGNIFICANT ISSUES AFFECTING THE CITY” herein and “SAN ANTONIO WATER SYSTEM” in Appendix A attached hereto.)

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

Economic Overview

The City’s economic strength is enhanced by a favorable business environment and economic diversification. San Antonio’s economic base is comprised of various industries including domestic and international trade, convention and tourism, medical and health care, government employment, manufacturing, information security, financial services, telemarketing, telecommunications, finance and insurance, and oil and gas refining. The City’s cultural and geographic proximity to Mexico provides favorable conditions for international business relations therewith. In addition to the favorable economic climate, excellent weather conditions year round help to encourage and enhance the operation of many of San Antonio’s most important industries. (See “Appendix A – Economic Factors” attached hereto.)

While many local economies are struggling as a result of the difficulties in the financial markets, the decline in the housing market, and other national economic issues, San Antonio’s economy remains stable. With continued employment growth, the area’s unemployment rate, while increasing the past several months, remains low at 4.8% as of July 2008, as compared to the State’s unemployment rate of 5.0% and the United States unemployment rate of 6.0%. While home sales are declining and housing starts are down, San Antonio has not experienced the decline as significantly as other regions. Furthermore, home prices continue to remain steady in the area. Also, in contrast to other regions with a large tourism industry that are seeing a slowing in their tourist business, San Antonio’s tourist business is having a record year due to an increase in travelers who live in close proximity to the City.

As a result of the Base Realignment and Closure Commission, San Antonio will see a net increase of military employment of about 3,600 and an estimated increase in investment of about \$2.1 billion. While many of the military missions are being relocated from Brooks City-Base, private development is increasing with the continued expansion of Port San Antonio, the expansions of DPT Laboratories, and the recent announcement by Southeast Baptist Hospital System of plans to build a hospital at Brooks City-Base.

Employee Pension Plan and Benefits

The City’s employees participate in a variety of defined pension plans. These plans and contributions made to such plans are further described in Note 8 in the City’s Comprehensive Annual Financial Report, attached hereto as Appendix B for the fiscal year ended September 30, 2007. (See “CITY PENSION AND OTHER POSTEMPLOYMENT RETIREMENT BENEFIT LIABILITIES” herein.)

Employees

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

	Fiscal Year Ended September 30									
	2008*		2007		2006		2005		2004	
	Filled	Authorized	Filled	Authorized	Filled	Authorized	Filled	Authorized	Filled	Authorized
Employees										
Police	2,093	2,185	2,040	2,105	1,913	2,044	1,925	2,037	1,984	2,033
Police Grant Funded	17	17	17	18	17	18	16	17	0	30
Total Police	2,110	2,202	2,057	2,123	1,930	2,062	1,941	2,054	1,984	2,063
Fire	1,485	1,564	1,487	1,529	1,455	1,490	1,436	1,439	1,097	1,441
Fire Grant Funded	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	335	-0-
Total Fire	1,485	1,564	1,487	1,529	1,455	1,490	1,436	1,439	1,432	1,441
Total Police & Fire	3,595	3,766	3,544	3,652	3,385	3,552	3,377	3,493	3,416	3,504
Civilian	7,487	9,710	7,112	9,687	7,124	9,631	7,354	9,375	6,749	9,580
Civilian Grant Funded	527	752	567	745	575	900	607	928	1,540	980
Total Civilian	8,014	10,462	7,679	10,432	7,699	10,531	7,961	10,303	8,289	10,560
Total	11,609	14,228	11,223	14,804	11,084	14,083	11,338	13,796	11,705	14,064

* As of September 23, 2008.

Note: The adopted budget for fiscal year 2009 added a total of 261 positions, 101 were civilian positions and 160 were uniformed positions. Additionally, the adopted budget for fiscal year 2009 eliminated 155 civilian positions, including 126 vacant positions and 29 filled positions.

Financial Accounting and Financial Policies

Basic 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. The MD&A introduces the basic financial statements and provides an analytical overview of the City's financial activities. As part of the implementation of GASB Statement No. 34, the City has early implemented requirements for infrastructure reporting. GASB Statement No. 34 requires the historical cost of infrastructure assets, retroactive to 1980, to be included as part of the capital assets, as well as the related depreciation to be reported in the government-wide financial statements. In addition, for the most part, the effect of interfund activity has been removed from the statements.

The statement of net assets reflects both short-term and long-term assets and liabilities. In the government-wide statement of net assets, governmental activities are reported separately from business-type activities. Governmental activities are supported by taxes and intergovernmental revenues, whereas business-type activities are normally supported by fees and charges for services. Long-term assets, such as capital assets, infrastructure assets, and long-term obligations are now reported with the assets of governmental activities. The components of net assets, previously shown as fund balances, are presented in three separate components: (1) Invested in Capital Assets, Net of Related Debt, (2) Restricted, and (3) Unrestricted. Interfund receivables and payables between 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. 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 tax, intergovernmental revenues, etc.). Direct

(gross) expenses of a given function or segment are offset by program revenues, and operating and capital grants. Program revenues must be directly associated with the function of business-type activity. The presentation allows users to determine which functions are self-supporting and which rely on the tax base in order to complete their mission. Internal service fund balances, whether positive or negative, have been eliminated against the expenses and program revenues shown in the governmental and business-type activities of the statement of activities.

A reconciliation detailing the change in net assets between the government-wide financial statements and the fund financial statements is presented separately for governmental funds. In order to achieve a break-even result in the internal service fund activity, differences in the basis of accounting and reclassifications are allocated back to user departments. These allocations are reflected in the government-wide statements. Any residual amounts of the internal service funds are reported in the governmental activity column.

The proprietary funds have a reconciliation presented in the proprietary funds' statement of net assets and statement of revenues, expenses, and changes in fund net assets. The only reconciling item is the internal service fund allocation.

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets and other debits, liabilities, fund equity and other credits, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The City has three types of Funds: governmental funds, enterprise funds, and fiduciary funds. The Fund Financial Statements provide more detailed information about the City's most significant funds, but not on the City as a whole. Major individual governmental funds and major enterprise funds are reported separately in the Fund Financial Statements. Nonmajor funds are independently presented in the combining statements.

The criteria used to determine if a governmental or enterprise fund should be reported as a major fund are as follows: the total assets, liabilities, revenues or expenditure/expenses of that individual 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 individual governmental or proprietary fund is at least 5.0% of the corresponding element total for all governmental and enterprise funds combined.

Governmental Funds

General Fund is the primary operating fund for the City, which accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

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

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

Permanent Fund are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs - that is, for the benefit of the government or its citizenry.

Proprietary Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the expenses (including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges.

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

Fiduciary Funds

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. These include Pension Trust and Retiree Health Care Trust, which account for resources for pension fund and health care benefits for the City's firefighters and police officers. The Private Purpose Trust Funds includes an assistance fund and a scholarship fund for City employees, as well as reporting on funds restricted for the City's literacy programs. The Agency Funds account for the City's sales tax to be remitted to the state, various fees for other governmental entities, unclaimed property, and holds various deposits. Pension Trust, Retiree Health Care Trust, and Private Purpose Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Fiscal Year 2006 Restatement

In connection with the audit of the basic financial statements of the City as of and for the year ended September 30, 2007, it became known that the City's accounting for certain capital assets in the Prior Financial Statements (September 30, 2006) were in error. The errors primarily relate to the improper capitalization of expenses as capital assets and the understatement of depreciation expense during these periods. Accordingly, the governmental activities, business-type activities, airport system fund, and aggregate remaining fund opinion units of the Prior Financial Statements were restated as a result of the aforementioned misstatements, which have been explained in Note 17 of the City's Comprehensive Annual Financial Report ("CAFR") for its fiscal year ended September 30, 2007 (selected provisions of the CAFR are attached hereto as Appendix B).

Fiscal Year 2007 Management Letter

New accounting standards effective beginning in fiscal year 2007 reduced the threshold level and classification of findings reported in the Letter on Internal Control and Accounting Procedures (the "Management Letter"). The FY 2007 Management Letter includes three material weakness comments, four significant deficiency comments, two control deficiency comments, and five management advisory (general) comments.

The material weakness comments concern the City's 1) capitalization, transfer and depreciation of construction in progress ("CIP"), 2) generally accepted accounting principles ("GAAP") application of debt issuance discount or premium amortization, and 3) airport operations concerning tracking and maintaining lease agreements where the City is the lessor.

The material weakness comment regarding the City's CIP was based on the City's lack of effective top-level controls for ensuring projects were transferred out of CIP and in service, being depreciated timely, and that projects in CIP met the definition of a City owned capital asset. As a result of an extensive review and validation effort of CIP projects:

- \$37.9 million of Airport System Fund CIP was reclassified to depreciable capital assets for assets that were placed into service from FY 2001 - FY 2006; depreciation expense of \$2.4 million, related to

- those assets, was recognized; \$21.6 million in projects not meeting the definition of capital assets was removed from CIP; and an additional \$0.5 million in project clean up was recognized.
- \$157.8 million of Governmental Type Activities CIP was reclassified to depreciable capital assets for assets that were placed into service from FY 1990 – FY 2006; depreciation expense of \$18.9 million, related to those assets, was recognized: and an additional \$4.6 million in project clean up was recognized.
 - \$1.3 million of Parking System Fund CIP was reclassified to depreciable capital assets for assets that were placed into service and \$0.2 million in depreciation expense was recognized.
 - It was noted that there were project costs that were not properly settled into CIP but were shown as expenses. These unsettled costs resulted in an increase of \$11.2 million in Governmental Activities net assets and a decrease of \$1.6 million in Business Type Activities net assets.

Furthermore, as a result of depreciation testing, it was determined that a portion of depreciable assets had not been properly depreciated resulting in an (under)/overstatement of accumulated depreciation in the Governmental, Business Type, Airport System, Aggregate Remaining Funds of \$8.1 million, \$0.4 million, \$0.2 million and (\$0.2 million), respectively. All of the expenses and changes to net assets recognized above were applied toward the beginning net asset balance of the funds, resulting in the funds restatement. These adjustments had no impact on the City's budget.

The material weakness comment regarding the City's GAAP application of debt issuance discount or premium amortization was a result of the City having elected to utilize the "straight-line" method as opposed to the "effective interest" method (required by GAAP) even though the difference between the two methods was deemed material to the financial statements. It is important to note that over the life of debt the two methods produce identical results, the primary difference is the timing of the amount recognized in each fiscal year related to the amortization of the discount or premium.

The material weakness comment regarding the City's airport operations was based on the difficulty experienced by the auditors to reconcile airport lease revenue per the trial balance to supporting documentation and footnote disclosure. It was noted that there was incomplete and inconsistent information between airport accounting and contract management that maintains the agreements. It was further noted that a significant majority of airport leases were not captured in the City's accounting system, SAP, but were maintained in a separate system. The City's footnote disclosure was compiled based on the information accumulated via spreadsheets generated by the Airport, who currently does not have a reliable method for tracking and maintaining lease agreements, which results in the disclosure possibly not reflecting all of the City's airport lease revenue commitments.

The four significant deficiencies include (i) accounting errors in the calculation of the annual bonus accrual; (ii) difficulty surrounding the year-end accounts payable cut-off and recording of City obligations for goods and services performed in one fiscal year but invoiced in the next; (iii) accounting errors and policy documentation regarding the accrual and recording of tax revenues; and (iv) security administration policies and review.

The two control deficiencies include (i) the timely preparation and review of postclosure care liability estimates based on currently known factors; and (ii) access/security policies and procedures.

While certain challenges were identified in the FY 2007 Management Letter, the City received an "unqualified opinion" on its Comprehensive Annual Financial Report. City Management has taken a number of steps to significantly improve fiscal accountability, including the development of a corrective action plan to specifically address the issues noted in the FY 2007 Management Letter. The following is a brief summary of the steps taken:

- Finance Department – A number of substantial improvements have been implemented in an effort to attract and retain qualified financial staff and provide quality financial services. A substantial reorganization of the Finance Department has been completed which focused on the realignment and redirection of resources based on functional areas of specialization, key business processes, and the City's new financial system, SAP. Under this reorganization, highly specialized resources are dedicated to each of the major functional areas and significant emphasis was placed on addressing staff turnover and the development and retention of key institutional knowledge. The Finance Department also relocated to new professional office space in

order to more efficiently deliver financial services under the new organizational design as well as promote a professional environment. As of September 11, 2008, the Department had minimal vacancies out of its total FY 2008 personnel complement of authorized positions, as a result of normal business turnover.

- Capital Assets – Over the course of the past two years, the Finance Department in coordination with other City Departments has been validating/reconciling the City’s capital projects. That process is now complete and we believe this issue has been resolved for FY 2008.
- GAAP Application – The City implemented the effective interest method in FY 2007’s financial statements and we believe this issue has been resolved.
- Airport Operations – A comprehensive reconciliation of Airport leases will be completed by October 31, 2008. The Aviation Department is currently in the process of migrating the accounting for its leases to SAP and this effort is anticipated to be completed by the second quarter of FY 2009.
- Accounting Errors – Accounting for Accounts Payable; Revenue Recognition; Landfill Liability all relate to the fiscal year end closing processes and the development of the City’s financial statements. These comments will be resolved as part of the year-end closing process for FY 2008.
- Policies and Procedures related to Information Technology (IT) Services – The City is currently developing the necessary policies and procedures to address the issues noted surrounding user network access, physical security of IT assets, review of unauthorized network access attempts, anti virus protection, and change management process for development/configuration changes to the SAP. These policies are anticipated to be completed by October 31, 2008.

Information Regarding GASB Statements for Pension/Retirement Program

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes uniform financial reporting standards for other postemployment benefits (“OPEB”) plans and supersedes the interim guidance included in Statement No. 26. GASB Statement No. 43 follows a similar approach to GASB Statement No. 25 with modifications to reflect differences between pension plans and OPEB plans. The provisions of this statement are effective for fiscal periods beginning after December 15, 2005 and were implemented by the City in fiscal year 2007.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for fiscal periods beginning after December 15, 2006. The City’s first fiscal year after the effective date is fiscal year 2008, in which the City will implement this statement.

GASB Statement No. 47, *Accounting for Termination Benefits*, requires employers to disclose termination benefit arrangements, the cost of the termination benefits, and significant methods and assumptions used to determine termination benefit liabilities. Termination benefits that are provided through an existing defined benefit OPEB plan should be implemented for the fiscal period beginning after December 15, 2006 (simultaneously with GASB Statement No. 45). For all other termination benefits, the provisions of this statement are effective for periods beginning after June 15, 2005. The City implemented this statement in phases as it related to the associated implementations of GASB No. 43 and GASB No. 45. The City is implementing the final phase of this statement in fiscal year 2008.

The City has included additional footnotes in its fiscal year 2007 financial statements for GASB Statement No. 43. The City has not fully determined the effect that implementation of the other statements will have on the City’s financial statements.

Debt Management

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

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

Utilization of comprehensive financial analysis and computer modeling in the debt management plan incorporates numerous variables such as sensitivity to interest rates, changes in assessed values, annexations, current ad valorem tax collection rates, self-supporting debt, and fund balances. The analytical modeling and effective debt management has enabled the City to maximize efficiencies through refundings and debt structuring. Strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its "AA+", "Aa1", and "AA+" bond ratings by Standard & Poor's Ratings Group ("S&P"), Moody's Investors Service, Inc. ("Moody's"), and Fitch Ratings ("Fitch"), respectively. The positive trend in the City's credit strength is evidenced by the Moody's rating upgrade in November 2007 from the "Aa2" to its current "Aa1."

Debt Authorization

General Obligation Bonds

The City is authorized to issue bonds payable from ad valorem taxes pursuant to the City Charter, the general laws of the State, and ordinances adopted by the City Council. Such bonds must be authorized by the voters of the City at elections held within the City. The City currently has \$550,000,000 ad valorem tax-supported debt previously approved by its voters on May 12, 2007 and \$440,652,472 remains unissued. For the fiscal year ended September 30, 2008, the City had \$726,770,000 in total general obligation bonds outstanding.

On November 29, 2007, the City sold \$121,220,000 "City of San Antonio, Texas General Improvement and Refunding Bonds, Series 2007," (the "2007 Bonds"). The 2007 Bonds were issued to provide funds (1) to finance the construction of general improvements to the City, including (a) streets, bridges and sidewalks; (b) drainage improvements; (c) parks, recreation, open space and athletics; (d) library improvements; and (e) public health facilities; (2) refund the City's Tax Notes, Series 2007 in the principal amount of \$60,000,000; and (3) pay costs of issuance of the 2007 Bonds. The 2007 Bonds represent the first installment of the \$550,000,000 bonds approved at an election held in the City on May 12, 2007.

Tax Notes

The City is authorized to issue short term tax notes, having a maturity not exceeding seven years, pursuant to the

general laws of the State and ordinances authorized by the City Council. Tax notes are payable from ad valorem taxes and generally are used as an interim funding mechanism in anticipation of issuing longer term bonds to refund outstanding tax notes. For the fiscal year ended September 30, 2008, the City had \$17,295,000 tax notes outstanding.

On November 29, 2007, the City sold \$21,270,000 "City of San Antonio, Texas Tax Notes, Series 2007A" (the "2007A Notes"). The 2007A Notes were issued to provide funds to (1) finance the costs of technology improvements to various City-owned systems (including, but not limited to, timekeeping administration, communications, business reporting, fiber optics, emergency citizen notification and response, procurement, recruiting, information, and data storage) and improvements to the City's sanitary sewage system; and (2) pay the costs of issuance.

Certificates of Obligation

The City is authorized to issue certificates of obligation pursuant to the City Charter, applicable State laws, and ordinances adopted by the City Council. Certificates of Obligations are issued for various purposes to include financing revenue producing capital improvements and for infrastructure support and development. For the fiscal year ended September 30, 2008, the City had \$294,410,000 certificates of obligation outstanding, which comprises 28.33% of the total outstanding ad valorem tax-supported debt.

On November 29, 2007, the City sold \$106,755,000 "City of San Antonio, Texas Combination Tax and Revenue Certificates of Obligation, Series 2007," (the "2007 Certificates"). The 2007 Certificates 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 as follows: (1) constructing, renovating, and improving municipal facilities including the animal care facility and community family resource learning centers; (2) constructing the new Haven for Hope Homeless Campus; (3) acquiring, constructing, improving, and renovating park facilities, including the West End Park/Frank Garrett Park, La Villita historic buildings and Maverick Park, the Spanish Governor's Palace, Southside Lions Park, Voelcker Park, West Side YMCA, and Lockwood Park; (4) acquiring Mission Drive In Theatre land for open space; (5) constructing and renovating Environmental Services facilities including a compress natural gas fueling facility at the Northeast Service Center and the Pearsall Landfill; (6) acquiring, constructing, and renovating library facilities including converting the Hertzberg Library building into a western art museum; (7) constructing improvements for flood control including dams and bridge improvements, communications equipment, landscaping, accessible walkways and landings, and amenities along the San Antonio River; (8) constructing and improving municipal golf courses including a learning center for the "First Tee" program at Brackenridge Park polo field; (9) constructing parking facilities at the Witte Museum and the Zoo area; (10) acquiring, constructing, and improving public safety facilities, including a public safety headquarters, other police and fire station facilities, and software for automated field police reporting and integrated report management system; (11) constructing street improvements and drainage incidental thereto, including Bulverde Road from Evans to Marshall, 36th Street (US 90 to Port San Antonio entrance), Jones Maltsberger from US 281 to Basse Road, streets within the Medical Center, Prue Road extension to Huebner, Stahl Road at O'Connor and Judson, and infrastructure in connection with the Texas A&M University campus; (12) purchasing material, supplies, equipment, machinery, land, and rights-of-way for authorized needs and purposes relating to public safety, drainage, flood control, streets, libraries, utility infrastructure, and public works purposes; and (13) the payment of professional services related to the construction and financing of the aforementioned projects.

Revenue Bonds

The City is authorized to issue revenue bonds under the provisions of the City Charter, applicable state laws, and ordinances adopted by City Council. For fiscal year ended September 30, 2008, the City's outstanding revenue bonds were: Airport System Revenue Bonds in the aggregate principal amount of \$232,930,000; Passenger Facility Charge and Subordinate Lien Airport System Revenue Bonds in the aggregate principal amount of \$140,650,000; Parking System Revenue Bonds in the aggregate principal amount of \$22,115,000 following the issuance of the 2008 Refunding Bonds, there will be no outstanding obligations of the City secured in whole or in part with a pledge of revenues of the City's parking system or facilities; Municipal Drainage Utility System (Stormwater

System) Bonds in the aggregate principal amount of \$95,615,000; and Henry B. Gonzalez Convention Center Expansion Project Revenue Bonds aggregating to \$222,465,000.

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

On July 9, 2008, the City sold \$135,000,000 "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Variable Rate Demand Revenue Refunding Bonds, Series 2008" (the "Series 2008 HOT Bonds"). The Series 2008 HOT Bonds were sold for the purpose of (i) refunding its outstanding "City of San Antonio, Texas Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, Series 2004B;" (ii) constructing renovations and making improvements to the Lila Cockrell Theatre, as well as other expansion related improvements; and (iii) paying costs of issuance of the bonds.

On November 29, 2007, the City sold \$82,400,000 "City of San Antonio, Texas Airport System Revenue Improvement Bonds, Series 2007" (Alternative Minimum Tax Bonds) (the "GAR Bonds"). The GAR Bonds were sold for the purpose of paying costs related to constructing, improving, renovating, enlarging and equipping the Airport including (i) construction of renovations and improvements to existing terminals and airport maintenance facilities; (ii) construction of two new terminals (Concourse B and Concourse C), parking structures, cargo facilities, holding aprons, and an elevated terminal roadway; (iii) construction of drainage improvements; (iv) construction of infrastructure, roadway and utility improvements related to the redevelopment of the former Northside Service Center site located near the west entrance of the Airport; (v) acquisition and installation of equipment related to such projects, (vi) acquisition and installation of terminal road signage, (vii) engineering, architectural and other professional services related to such projects, (viii) funding capitalized interest and a debt service reserve fund, and (ix) costs of issuance of the GAR Bonds.

On November 29, 2007, the City sold \$74,860,000 "City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2007" (Alternative Minimum Tax Bonds) (the "PFC Bonds"). The PFC Bonds were sold for the purpose of paying costs related to constructing, improving, renovating, enlarging and equipping the Airport, which improvements and projects qualify, and have been approved by the Secretary of the U.S. Department of Transportation, as "eligible airport-related projects" under 49 USC §40117, including (i) construction of renovations and improvements to existing terminals, (ii) construction of two new terminals (Concourse B and Concourse C), and (iii) construction of an elevated terminal roadway, upgrades to the central plant, apron replacement, and new utilities. Proceeds of the PFC Bonds also will be used to fund a debt service reserve fund and pay costs of issuance of the PFC Bonds.

Refundings

The City routinely reviews the possibility of refunding certain of its outstanding debt to effectuate interest cost savings.

Commercial Paper Program

On May 7, 2005, the voters of the City approved a 1/8 cent sales and use tax for the purpose of collecting an aggregate of \$90,000,000 to be used to acquire property for a conservation easement or open-space preservation program intended to protect water in the Edwards Aquifer which took effect October 1, 2005. Passage of the Aquifer Protection Proposition will enable the City to help protect the Edwards Aquifer water supply from pollution by acquiring land over the Edwards Aquifer Recharge Zone. It is expected that the land acquisition over the Edwards Aquifer will occur over a 60-month period. An accelerated land acquisition program will be financed through the implementation and issuance of Sales Tax Revenue Commercial Paper Notes. The commercial paper program was authorized by the City Council on May 10, 2007, for \$50,000,000 in Sales Tax Revenue Commercial Paper Notes (the "Notes"). Funds collected in accordance with the Aquifer Protection Proposition, in addition to

being available to pay the Notes, will be used to pay costs and expenses incurred in relation to eligible projects, including, without limitation, acquisition costs of land, interests in land, rights-of-way and easements, engineering and legal costs, and real estate sales commissions and closing costs. For the fiscal year ended September 30, 2008, the City had \$10,500,000 commercial paper notes outstanding.

Debt Limitations

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

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

Long-Term Debt Planning

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

The assumptions utilized in the FY 2008-2009 Debt Plan include: (i) assessed valuation actual growth at 10.49% in fiscal year 2009, decreasing to a projected growth rate of 5.00% in fiscal year 2010, decreasing to 3.00% in fiscal years 2011 through fiscal year 2013, decreasing 0.50% per year beginning in fiscal year 2014 and continuing until fiscal year 2016, when a growth rate of 1.50% is reached and held constant through fiscal year 2021; (ii) tax collections at 97.5%; (iii) tax freeze for elderly and disabled (proposition 3); (iv) the adopted debt service tax rate which remains constant at 21.15 cents in fiscal years 2009 through 2024 and decreases annually from fiscal years 2025 through 2041; and (v) \$550,000,000 General Improvement Bonds authorized by the voters in the May 12, 2007 election of which \$109,347,528 has been previously issued, with issuances anticipated to be sold as follows: \$76,095,000 in FY 2009, \$115,827,000 in FY 2010, \$168,042,000 in FY 2011, and \$80,688,000 in FY 2012. Based on these assumptions and the projected maximum debt service tax rate of 21.15 cents, additional estimated bond authorizations in the Fall of 2012 and the Fall of 2017 are approximately \$596,000,000 million and \$550,000,000 million respectively. In addition, the FY 2008-2009 Debt Plan includes the issuance of Certificates of Obligation, which are scheduled to be sold as follows: approximately \$222,555,000 for fiscal years 2009 through 2012, approximately \$57,575,000 for fiscal years 2013 through 2017, and approximately \$45,000,000 for fiscal years 2018 through 2022 for: fire station improvements, Metropolitan Planning Organization ("MPO") streets and other street projects, drainage projects, land acquisition, parks and recreation projects, municipal facility improvements, environmental services improvements, economic development, library improvements, health, public safety improvements, and San Antonio River improvements. Additionally, the FY 2008-2009 Debt Plan includes the issuance of approximately \$9,655,000 self-supporting Certificates of Obligation to be sold in fiscal year 2009 and \$30,800,000 in short-term Tax Notes to be sold from fiscal years 2009 through 2011.

New Money Issues

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

The FY 2008-2009 debt plan includes the sale of \$76,095,000 of the 2007 authorized bonds. The bonds will be sold to finance improvements to streets, bridges and sidewalk, drainage, libraries, parks, recreation, open space and

athletics, and public health facilities. The FY 2008-2009 debt plan also includes the sale of approximately \$85,055,000 of certificates of obligation and \$15,800,000 in short-term Tax Notes. The certificates of obligation and Tax Notes will be sold to fund fire station improvements, MPO streets and other street projects, environmental services improvements, municipal facilities, parks and recreation improvements, economic development, library improvements, drainage projects, and health, and information technology improvements. These issuances are anticipated to occur in November 2008.

Debt Service Tax Rate

The combination of successful refundings and low interest rates for bonds and certificates of obligation sales has resulted in a decrease in the projected maximum debt service tax rate of \$0.3049 per \$100 valuation prior to 1992, 1993, 1996, 1998, 2001, 2002, 2003, 2004, 2005, 2006, 2007, and 2008 refundings to a projected maximum debt service tax rate of \$0.2115 per \$100 through fiscal year 2024.

The Budget Process

Fiscal Year 2009 Budget

The FY 2009 Budget Process included several budgetary steps and input practices which allowed for more community and employee input. Each phase of the FY 2009 Budget Process is explained below.

Five-Year Financial Forecast. The Budget Process is guided with the development and presentation of the Five-Year Financial Forecast (the “Forecast”). The Forecast is a financial and budgetary planning tool that provides a current and long-range assessment of financial conditions and costs for City service delivery plans including the identification of service delivery policy issues that will be encountered in the next five years and that will have a fiscal impact upon the City’s program of services. The Forecast also examines the local and national economic conditions that have an impact on the City’s economy and ultimately, its budget.

The Forecast also 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. Although the FY 2009 Forecast focused primarily on the City’s General Fund, the Environmental Services Fund, the Development and Planning Services Fund, and Hotel Occupancy Tax Related Funds were also included. On April 30, 2008, the Five-Year Financial Forecast was presented to the City Council.

Public Input. Beginning in March 2008, the Budget Input Box gave citizens and employees the opportunity to offer their suggestions on how the City could increase efficiencies, generate revenues, and make effective changes to service delivery. The dropboxes were placed at 170 sites within the City including public libraries, the City’s office lobbies, Chamber of Commerce, and other venues. Information and access for this budget initiative was provided to citizens and City employees in English and Spanish. Budget Input Box resources were also available on the City’s internet website. In addition, the FY 2009 Budget process continued with the City’s Frontline Focus Initiative for the third year. This initiative is designed to engage employees from specific departments to identify process improvements that could be considered during the development of the FY 2009 Proposed Budget.

City Council Goal Setting Work Session. The Goal Setting Work Session for the annual budget is a formal mechanism for the City Council as a body to provide City staff with budget policy direction. This year’s work session was held on May 13, 2008, and utilized a facilitator to guide City Council in their goals and priorities. Prior to the work session, the City Council was provided with a ballot that included 54 service issues, four (4) revenue topics, and three (3) fiscal policies to be rated.

The 54 City service issues were separated into nine major categories:

- Police Protection/Public Safety
- Infrastructure Management
- Fire Protection/Emergency Management Services (“EMS”)

- Business and Economic Development
- Parks & Recreation
- Fiscal Policies
- Quality of Life (Health & Human Development)
- Library Services
- Housing and Neighborhood Services

The results of this rating process were discussed with City Council in order to provide City staff with a clear set of priorities to be included in the FY 2009 Budget.

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

FY 2009 Proposed Budget. After obtaining the priorities of the City Council, as well as conducting reviews of each City department, the City Manager presented the FY 2009 Proposed Budget to City Council on August 14, 2008. The Proposed Budget represented City staff's professional recommendation on how to utilize revenues and expenditures in order to achieve a balanced budget, while optimizing City service deliveries.

Major enhancements in the FY 2009 Proposed Budget included a two-year balanced budget, increased financial reserves, street and sidewalk, pavement markings and traffic signal enhancements, enhanced funding for additional staffing for police, fire and EMS, funding to address neighborhood issues such as code compliance, graffiti enforcement and animal care, as well as provided funding for expanded youth employment services and parks improvements.

Public Input on Budget Priorities. After the FY 2009 Budget was proposed on August 14, 2008, the City held District Community Budget Hearings in all 10 City Districts between August 19 and August 28, 2008. In each community hearing, an explanatory video regarding the FY 2009 Proposed Budget was shown and citizens were given the opportunity to direct questions to their City Council Representative and City Officials. These District Community Budget Hearings were attended by over 750 individuals and over 200 community comments were heard. The City also held a Budget Public Hearing in which citizens/groups provided input. Additionally, two Tax Rate Public Hearings and eight Work Sessions for City Council were held. The Public Hearings and Work Sessions resulted in the City Council being aware of issues important to citizens and community groups, while the District Community Budget Hearings allowed City Council to hear feedback from the citizens on the FY 2009 Proposed Budget.

Included in the FY 2009 Proposed Budget, were adjustments to the financial reserves. The establishment and maintenance of appropriate reserves within the General Fund is critical to prudent financial management. The FY 2009 Proposed Budget included an additional \$15.5 million in Budgeted Financial Reserves allowing for a 9% Reserve. The City Council policy direction is to obtain a 10% reserve goal by FY 2010.

Fiscal Year 2009 Adopted Budget. After receipt of the Proposed Budget, the City Council held eight work sessions to review the proposed service program details and discuss potential City Council budget amendments. The budget work sessions provided a forum for public discourse on significant policy issues as well as an opportunity to review departmental service plans highlighting proposed program enhancements, reductions, efficiencies, redirections, and revenue adjustments. After considering all the recommendations and receiving input from citizens at a public hearing on September 3, 2008; the budget was adopted on September 11, 2008, including amendments added by the City Council. Highlights of the FY 2009 Adopted Budget include \$15.5 million added to the General Fund's financial reserves for a total of \$83.7 million; a \$28.3 Reserve for a Two-Year Balanced Plan, 10% increase in Street Maintenance Program for a total of \$67 million in FY 2009; 100 new Police Officers added, making three

year total more than in the past decade; 60 new Firefighters added to improve firefighting and EMS Services; increased Graffiti abatement resources for volunteer initiative by nearly \$350,000; added 5 new Graffiti Abatement positions; added \$750,000 more in resources for free/low cost Spay/Neuter surgeries with Mobile Unit, and added 2 new Animal Care Officer positions; doubled the number of youth in Summer Employment Programs (500 served in FY 2009).

Annexation

Through annexation, the City has grown from its original size of 36 square miles to its current area, encompassing 472.66 square miles (full purpose annexations only) or 510 square miles (both full purpose and limited purpose annexations), and having a tax year 2008 total taxable value of \$72.892 billion. The City expects to continue to utilize the practice of annexation as a growth and development management tool, as well as an opportunity to enhance the City's fiscal position.

Previous statistics have shown the city limits, through annexation, to be as high as 519 square miles. This included areas fully annexed into the City, as well as areas under "Limited Purpose Annexation." Between 2003 and 2005, approximately 70 square miles were taken into Limited Purpose Annexation. In 2007 and 2008, approximately 49 square miles were released from Limited Purpose Annexation, and the remaining 21 square miles annexed for full purposes. City regulations are extended, but City taxes are not assessed or collected within areas under Limited Purpose Annexation.

Since 2002, the City has experienced a net increase of 24 square miles (from 446 to 470 square miles) within the City limits through Full Purpose Annexation. Approximately 21 square miles were areas that had been previously placed under "Limited Purpose Annexation." The remaining 3 square miles were a combination of City-initiated and voluntary annexations.

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

Three-Year Annexation Plan Process

By City Charter, City Council has the power to annex territory by passage of an ordinance. As of January 2003, state law mandates that municipalities prepare an annexation plan specifically identifying annexations that may occur beginning on the third anniversary of the date such plan was adopted. The City is required to maintain the annexation plan on the City's web site and notify property owners and public entities.

Public Improvement District

Pursuant to the Public Improvement District Assessment Act, Chapter 372, Texas Local Government Code, as amended, on April 29, 1999, the City Council created a Public Improvement District ("PID") in the central business district. The purpose of the PID is to provide public improvement services to properties within the boundaries of the PID to include: (1) sidewalk sweeping and washing; (2) graffiti abatement; (3) landscaping/streetscaping services; (4) a marketing and promotional program; and (5) a public service representative program. On July 1, 1999, the City Council authorized the City to execute a contract with Centro San Antonio Management Corporation, a non-profit Texas corporation, to manage the PID programs. A 15-member Board of Directors of the PID meets at least quarterly to assure performance of Centro San Antonio Management Corporation. The supplemental services and improvements to be provided are detailed in the annual Service and Assessment Plan, which must be approved by the City Council. The fiscal year 2009 plan reflects a total budget of \$2,555,000 based on an assessment rate of \$0.11 per \$100 valuation. In addition to assessment revenues from private property, which are expected to yield approximately \$1,985,628 in fiscal year 2009 estimated additional funds are to be received from annual contributions from the City and City Public Service combined of \$85,208, from VIA Metropolitan Transit and Bexar County combined of \$90,000, from other revenue sources combined of \$26,328, and from interest on

deposits and delinquent payments of \$55,000. The PID will operate on these collected revenues and will not issue bonds. The PID is authorized for a term of five years through the end of fiscal year 2009.

Investments

Available investable funds of the City are invested as authorized and required by the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "Investment Act"), and in accordance with an Investment Policy approved by the City Council. The Investment Act requires that the City establish an investment policy to ensure that City funds are invested only in accordance with State law. The City established a written investment policy adopted September 30, 2008. The City's investments are managed by the City's Department of Finance, who, in accordance with the Investment Policy, report investment activity to the City Council.

Legal Investments

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

Entities such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (5) and clause (13) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (5) and clause (13) above, clause (9) above and clauses (10) and (11) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City or a third party selected and approved by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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

Investment Policies

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

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

The City is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt an ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in said ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require

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

Current Investments

At June 30, 2008, investable City funds, in the approximate amount of \$1,433,459,502, were 94.25% invested in obligations of the United States, or its agencies and instrumentalities, 5.67% invested in a money market fund, and 0.08% in a collateralized repurchase agreement, with the weighted average maturity of the portfolio being less than one year. The investments and maturity terms are consistent with State law, and the City's Investment Policy objectives to satisfy cash flow requirements, preservation and safety of principal, liquidity and diversification, minimize risk, maximize yield, and proactive portfolio management.

The market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 100.02% of their book value. No funds of the City are invested in derivative securities; *i.e.*, securities whose rate of return is determined by reference to some other instrument, index, or commodity.

Certain Significant Issues Affecting the City

Water Supply

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

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

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

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

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

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

The Edwards Aquifer Authority has finalized the permitting process. The Edwards Aquifer Authority staff proposed permit(s) for 193,305 acre-feet for SAWS permanent Edwards Aquifer water right holdings as of December 2005. In addition to the 193,305 acre-feet, SAWS held an additional 25,806 acre-feet of Edwards' leases, bringing SAWS total inventory to 219,111 acre-feet. SAWS pumped 190,329 acre-feet of Edwards Aquifer water during 2006.

In 2007, the Texas Legislature passed Senate Bill 3 on the final day of the 80th legislative session, establishing a cap on annual pumping from the Edwards Aquifer of 572,000 acre-feet and placing restrictions on supply availability during drought periods into state statute. The System currently has access to 40% of this figure. Senate Bill 3 incorporates restrictions on supply availability during drought periods into state statute, thus making these restrictions state law. In addition, to support ongoing efforts to identify and evaluate methods to protect threatened and endangered species, the Texas Legislature prescribed in detail a Recovery Implementation Plan ("RIP") for the Edwards Aquifer region. The RIP, which will be undertaken in coordination with U.S. Fish and Wildlife Service, is intended to help the region meet the needs of endangered species, while respecting and protecting the legal rights of water users.

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

Water Reuse Program

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

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

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

Electric and Gas Supply

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

The City Council exercises original electric and gas rate regulatory jurisdiction over the CPS retail service areas, with appellate jurisdiction in the PUCT and Texas Railroad Commission for electric and gas rates, respectively, for areas outside the City. Pursuant to amendments made by the Texas Legislature in 1995 to the Texas Public Utility Regulatory Act ("PURA"), municipally-owned utilities, including CPS, became subject to the regulatory and rate jurisdiction of the PUCT relating to transmission of wholesale energy. The PURA amendments require the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers, and other transmission customers. (For further information, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS - Service Area and Rates" in Appendix A attached hereto.)

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

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

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

LITIGATION

General Litigation and Claims

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. 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, 2007, the amount of \$19.2 million is included as a component of the reserve for claims liability. The estimated liability, including an estimate of incurred but not reported claims is recorded in the City's Insurance Reserve Fund. The status of such litigation ranges from early discovery stage to various levels of appeal of judgments both for and against the City. The City intends to defend vigorously against the lawsuits; including the pursuit of 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 Audited Financial Statements for the year ended September 30, 2007 attached hereto as Appendix B. In addition, the City provides the following updated information related to the lawsuits not contained in Appendix B:

Charles and Tracy Pollock, individually and as next friend of Sarah Jane Pollock, a minor child v. City of San Antonio. This case involves allegations that benzene gas emitted from the West Avenue Landfill caused chromosomal damage to a fetus during the period of gestation, resulting in the child's contraction of acute lymphoblastic leukemia. Although the jury at trial entered a judgment of more than \$23 million against the City, the trial court immediately reduced the judgment by \$6 million. On appeal, the Fourth Court of Appeals sided with the City and reduced the judgment further by eliminating \$10 million in exemplary damages. The remaining issue is whether personal injuries are recoverable under the theory of nuisance. The City believes they are not and that even if they are recoverable, damages are capped at \$250,000 under the Texas Tort Claims Act. The case was argued to the Texas Supreme Court on October 18, 2006.

Brooks Hardee, et al. v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio; En Seguido, Ltd. v. City of San Antonio; VWC Ltd. v. City of San Antonio, et al.; Lakeside Joint Venture, et al. v. City of San Antonio. These are similar cases brought by the same developer/landowner under different entities. These cases all raise complex issues of fact and law and collectively, challenge the City's authority to regulate land development, including but not limited to challenging the City's vested rights determinations for the landowner's projects. There are approximately six (6) related cases. The City's legal team is confident that many of the allegations are without merit. Nevertheless, it is proceeding carefully and deliberately to defend its regulations and its power to protect the public. The City has coordinated its defense with the San Antonio Water System.

Ricardo Arizpe, Jr. d/b/a Astro Affordable Auto Services, Rufino & Marcela Bombin d/b/a Rumar Manufacturing Co/Resco, Jose & Amelia Castillo, Irene Duque, Adelaida Garcia, Gloria Garcia, Abel Canales Garza, Victor Gil, William & Sixta Hernandez, Zenaida Leos, George & Shannon Molleda, Henry & Maricela Terrazas v. City of San Antonio. This case concerns flooding of a number of properties during November 2001. There was a very heavy localized rain event that produced flooding in a concentrated area. Plaintiffs claim "alteration of a nearby property by Defendant." It appears at this stage that the City did not cause flooding but the damage claims aggregate well over \$100,000. Discovery is ongoing and the City has brought in a third party Defendant.

Samantha Rivera v. et al. v. City of San Antonio and SAPD Officers Reynaldo Montes & Rachel Barnes. This is a case involving use of deadly force. Plaintiff claims that Defendant officers entered her home forcibly and with deadly force, killed Plaintiff's decedent husband in violation of his civil rights. Plaintiff alleges federal constitutional violations as well as battery under state law. The claims against the City have been dismissed, only claims pending are against the police officers. Damages could range from \$250,000 to \$500,000. The case is set for trial on September 29, 2008.

Rebecca Moreau Bordelon & Vernon Paul Bordelon, Jr. v. Jaime Gonzales & City of San Antonio. Plaintiffs claim injuries from an auto accident on November 9, 2004, when a City garbage truck driver allegedly took faulty evasive action to avoid another car. Both Plaintiffs suffered back injuries. Ms. Bordelon underwent a cervical discectomy and fusion and is alleging medical expenses of over \$78,000. She is seeking compensation for past and future medical expenses, pain and suffering, lost wages, lost earning capacity, disfigurement, mental anguish, etc. Mr. Bordelon was hospitalized for heart and blood pressure problems he claims were related to the accident and his medical expenses at this time are over \$15,000. The City's liability is capped at \$250,000. The case is in discovery with no current trial setting.

Cynthia Galvan, Individually, and A/N/F of Sergio Galvan, Minor v. City of San Antonio, et al. On March 23, 2007 Sergio Galvan (deceased) was confronted by SAPD officers as he was exhibiting erratic behavior and causing property damage. The Defendant officers reported that he attacked police and managed to take away a pepper spray canister. A struggle ensued and the officers used tasers to subdue Galvan. Galvan was tasered several times before collapsing and dying. This case is still in the discovery stages, but potential liability could be in a range of \$150,000 to \$300,000. This matter has been set for trial on October 20, 2008.

Argonaut Southwest Insurance Company v. City of San Antonio. Plaintiff insurance company sued the City alleging breach of an insurance contract related to the Convention Center Expansion Project and failure to pay premiums. Plaintiff claims damages in excess of \$500,000. This case is in preliminary stages.

John Foddrill v. City of San Antonio. Plaintiff was employed as a Telecommunications Manager in the City's Information and Technology Services Department. Plaintiff was terminated in April, 2006 for job performance. Plaintiff had previously filed complaints with the City's Municipal Integrity Unit alleging misuse of funds, which were unfounded. He filed suit against the City under the Texas Whistleblower Act and seeks damages in excess of \$500,000. Potential liability could be in a range of \$100,000 to \$500,000. This case is set for trial on October 20, 2008.

Ila Faye Miller, et al. v. City of San Antonio. Plaintiffs own property south of San Antonio which was included in a limited purpose annexation that was enacted in 2003 as part of the Southside Initiative. Plaintiffs contend that the annexation and rezoning of their property constituted a takings under the Texas Constitution for which they are entitled to compensation. Liability could range from \$300,000 to \$500,000. This matter is not currently set for trial.

Christine Esteinon, et al. v. City of San Antonio, et al. Plaintiffs were patrons of a bar known for drug activities. SAPD officers entered bar for inspection. Plaintiffs allege that they were detained and improperly searched in violation of their constitutional rights. Damages could range from \$300,000 to \$500,000. This case is set for trial on February 23, 2009.

Diana Borjas, et al. v. City of San Antonio et al. Plaintiff's husband, the decedent, was riding in a vehicle involved in a single car accident, leading to his death. Plaintiffs assert that the road was an unsafe condition due to its design. Damages are capped at \$250,000. This case is set for trial on February 9, 2009.

Kopplow Development, Inc. v. City of San Antonio. Plaintiff contends that certain public work drainage and detention improvements resulted in an easement across its property and effectively constituted a taking of property. This matter was tried in July 2008 and a verdict of \$1.5 million was entered against the City. This case is currently on appeal.

Vanessa Samudio v. City of San Antonio. Plaintiff was involved in a motor vehicle accident with a San Antonio Police Officer whom it is alleged was traveling at an excessive speed. Plaintiff suffered severe injuries, including brain damage. Liability could reach the damage cap of \$250,000. This case is not currently set for trial.

CITY PENSION AND OTHER POSTEMPLOYMENT RETIREMENT BENEFIT LIABILITIES

City Pension Benefit Plans

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

As a part of its valuation of the City Pension Benefits Plans, the actuary calculates and reports any "unfunded actuarial accrued liability" ("UAAL") relating to any of such plans. The UAAL is calculated on a present value basis and includes assumptions such as (among others) rates of mortality, retirement, and disability, respectively; the estimated number of participants expected to withdraw from the subject plan; expected base salary increases; overtime rates; and investment returns. The UAAL includes liabilities for current retirees, active employees that are fully eligible, and for active employees that are not fully eligible.

Based on actuarial valuations, the City's current fire and police pension plan is funded in accordance with Texas law, and the UAAL as of October 1, 2007 was \$183.0 million with an amortization period for the UAAL of 8.7 years. The Texas Municipal Retirement System's UAAL as of December 31, 2007 was \$317.7 million. See the following for additional information on these two plans.

Fire and Police Pension Plan. The Board of the Pension Fund has historically recommended changes to benefits provided by the governing statute controlling the Fund that are actuarially prudent, keeping in mind the goal of reducing the unfunded liability of the Pension Fund over time. The Legislative Program has worked by soliciting the input of all affected interest groups and the advice of external professionals to reach agreement on a package of benefits that is actuarially prudent.

The Board reaffirms this commitment to a program of prudent legislative changes that result in greater retirement security for its members while at the same time moving towards full funding from an actuarial perspective. To evidence this policy, the Board adopted several guidelines for determining whether to recommend legislative amendments in the future. Two highlights of these guidelines include utilizing external actuarial analysis to determine the years to full funding based on reports as of October 1 every two years, commencing with the 2005 Actuarial Valuation Report, adjusted to include the 2007 Legislative Package. The actuarial cost of benefits enhancements recommended by the Board will not exceed 50.0% of any actuarial improvements, as measured by the years to full funding in any two year cycle. Any improvements in years to full funding not used for legislative benefit changes in any two year cycle may be banked for future benefits in subsequent two year cycles.

Another guideline adopted by the Board is that any decrease in the years to full funding resulting from modifications of actuarial assumptions may form the basis for recommending legislative benefits enhancements, except for any modification of the Inflation Rate Assumption regarding the amount of the rate that would reduce such rate below 4.3%.

This policy reflects the current statement of Board policy and may be changed at any time by the current Pension Board or any future Board.

On October 1, 2007, new legislation became effective that modified the description for the pension plan. The major changes enacted during the 2007 legislative session are (i) the creation of a catastrophic injury disability annuity (87.5% of average total salary) to be granted to members who suffer irreparable physical bodily injury during the performance of high-risk line of duty activities, when the injury results in the individual being unable to obtain any sort of employment sufficient to generate income above the poverty level, (ii) a revision of the spousal death benefit to provide that a spouse who married a retiree after retirement, and at least five years prior to the date of the retiree's death, is treated in the same manner as a spouse who married a member prior to retirement, (iii) a modification of the retirement pension computation, (iv) the implementation of a \$200 per month increase in all pensions awarded prior to October 1, 1989, (v) the establishment of a \$1,850 minimum monthly pension (vi) the expansion of the "BackDROP" lump-sum payment option from three to four years, (vii) the elimination of the requirement that a member serve at least five years before becoming entitled to a refund of contributions upon termination of employment, and (viii) the establishment of the Mayor's ability to appoint a representative to serve as a Trustee in place of the Mayor.

The Pension Fund's annual required contribution for fiscal year 2008 is determined by Pension Law. The Pension Fund's October 1, 2007 actuarial valuation used the entry-age normal cost method. Significant assumptions included (a) 8.0% investment rate of return and (b) projected annual salary increase of 4.3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial liability is amortized as a level percentage of projected payrolls on an open basis.

Texas Municipal Retirement System. At its December 8, 2007 meeting, TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (CAFR).

Since its inception, TMRS has used the traditional Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date but does not project the potential future liability of provisions adopted by a participating government. Two-thirds of the governments participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. These provisions are considered to be "committed" benefits (or likely to be guaranteed); as such, for the December 31, 2007 valuation, TMRS' Board has adopted the Projected Unit Credit (PUC) actuarial funding method, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis.

In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee 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 will likely result initially in higher required contributions and lower funded ratios. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow governments the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate). The actuarial valuation for year ended December 31, 2007 resulted in a \$317,700 unfunded actuarial accrued liability utilizing the adopted actuarial assumption and changed funding method. The projected calendar year 2009 contribution rate under a 30-year amortization period for the City was estimated by TMRS to be 16.6%. However, under the phase in option the rate for 2009 would be 13.0% for calendar year 2009 from the current rate of 12.5%.

The City created a work plan to review and address the changes made by TMRS. The City was successful in obtaining a voting seat on the TMRS Board. City staff also conducted six focus groups with employees and retirees during the spring of 2008. City employees, as well as retirees, were mailed a survey in April 2008 asking input on their TMRS benefits and priorities. The survey results will provide valuable input as the City continues to evaluate its options.

The City has also contracted with a legal firm to provide legal advice and assistance on TMRS and other pension related issues. The legal firm has engaged an actuarial firm to evaluate the assumptions and results of TMRS'

report, to provide a historical performance analysis of the funds within TMRS, and will assist in exploring viable pension alternatives. A task force of current employees and retirees will be formed to provide input regarding the work to be completed by this actuarial firm.

Finally, City staff is being proactive in preparing for increased future costs. The City has included in its financial forecast the additional costs to include a phased in approach in order to increase contributions gradually to the full rate if necessary. Throughout this process, the City will work with TMRS, current employees and retirees to determine the best course of action.

Other City Postemployment Retirement Benefits

In addition to the Pension Benefits, the City provides all retired employees with certain health benefits under two postemployment retirement benefit programs. Pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 45, the City will be required to account for and disclose its other postemployment liability for these programs. GASB Statement No. 45 became applicable to the City in Fiscal Year 2008 and the City continues to actively review each of these plans and has had actuarial valuations performed for these programs. In addition to the disclosure provided in Note 9 of the CAFR (as hereinafter defined), the following information is provided for each of the City's other postemployment retirement benefit programs.

The first program provides benefits for all non-uniformed City retirees, and for all pre-October 1, 1989, uniformed (fire and police) retirees. This program is funded on a pay-as-you-go basis with a sharing of required costs based on the following targets: 67% by the City and 33% by the retiree. Employees become eligible to participate in this Program based on eligibility for participation in the TMRS Pension Plan. 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.

During FY 2006, the City engaged an actuarial consultant to perform an actuarial valuation of this program and assist in a review of the retirement health plan. Based on the actuarial valuation as of January 1, 2006, the UAAL was projected at \$581.3 million. Based on a review, certain changes were made to the retirement health plan and were approved on September 7, 2006, as a component of the City's FY 2007 Adopted Budget. These changes resulted in a reduction of the UAAL from \$581.3 million to approximately \$400 million.

With the adoption of the FY 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% of the pay-as-you-go contributions to the Program and the City will contribute 50%. The ability to participate in the Program remains based on eligibility for the TMRS Pension Plan.

The second program provides retirement healthcare benefits to the City's fire fighters and police officers who retired on or after October 1, 1989. The benefits of this plan are financed on a prefunded basis. Contribution and benefit levels are established pursuant to the collective bargaining agreements between the City and Fire and Police Associations, respectively. The program is administered as a separate and distinct statutory trust governed by a nine-member Board of Trustees.

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

During the last State legislative session, the City, Board of Trustees of the Fund, Fire Association, and Police Association actively pursued amendments to the Fund's governing legislation, which amendments were enacted. These amendments

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

The Fire and Police Health Care Fund's actuarial study with a valuation date of October 1, 2007 indicates that the UAAL, calculated in compliance with GASB regulations, was reduced from \$540,100 to \$325,300. The study further indicates that after a 10 year period maintaining the City's contribution at 9.4%, with an additional 10.0% increase in fiscal year 2018 and a 2.6% increase in fiscal year 2019, the Health Care Fund's amortization period for the UAAL is projected to be 30 years.

Use of Assumptions and Estimates

As set forth herein, as well as in Notes 8 and 9, respectively, of the City's Comprehensive Annual Financial Report for its fiscal year ended September 30, 2007 (the "CAFR", selected provisions of which are attached hereto as Appendix B), the disclosure relating to the City Pension and Retiree Health Benefits Plans are based upon certain actuarial assumptions and estimates, reasonably made based upon information available at such time, that are subject to variance. To the extent these assumptions and estimates do not materialize or are inaccurate, the financial information disclosed herein and in Notes 8 and 9, respectively, of the CAFR, including the estimated-as-compared-to-actual values of the assets and liabilities for each of the City Pension and Retiree Health Benefits Plans, could change substantially and in a materially adverse manner.

CAFR Discussion

In the CAFR, the City's existing pension and other OPEB plans are described (see, for example, "FINANCIAL INFORMATION - Fiscal Management and Administrative Topics" included in the CAFR, as well as Notes 8 and 9 thereof discussed above). In addition, the pension schedules included in the CAFR under the heading "REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES OF FUNDING PROGRESS LAST THREE FISCAL YEARS" disclose certain pension plan funding liabilities, including the UAAL. Investors should carefully review this information and the information contained herein prior to investing in the 2008 Refunding Bonds.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

General

The following discussion is a summary of certain expected material federal income tax consequences of the purchase, ownership and disposition of the 2008 Refunding Bonds. It is based in part on an opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, and on the Internal Revenue Code of 1986 (the "Code"), the regulations promulgated thereunder, published revenue rulings and court decisions currently in effect, all of which are subject to change. The Internal Revenue Service has not yet issued regulations or rulings relating to the treatment of obligations such as the 2008 Refunding Bonds, and as such said opinion and this summary of federal income tax consequences are subject to modification by the eventual issuance of regulations or rulings or by subsequent administrative or judicial interpretation, which could apply retroactively. The following discussion is applicable to investors other than those investors who are subject to special provisions of the Code, such as life insurance companies, tax-exempt organizations, foreign taxpayers and taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code. This summary is further limited to investors who will hold the 2008 Refunding Bonds as "capital assets" (generally, property held for investment) within the meaning of Section 1221 of the Code.

INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE

ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE 2008 REFUNDING BONDS IN THEIR PARTICULAR CIRCUMSTANCES BEFORE DETERMINING WHETHER TO PURCHASE 2008 REFUNDING BONDS.

IRS Circular 230 Notice

In compliance with IRS requirements, we inform you that (i) any U.S. tax advice contained in this communication is not intended or written to be used, and cannot be used, by holders for purposes of avoiding tax penalties that may be imposed under the Code, (ii) such discussion is written in connection with marketing or promotion (within the meaning of Treasury Department Circular 230) of the transactions or matters addressed herein; and (iii) prospective investors should seek advice based on their particular circumstances from an independent tax advisor.

Periodic Interest Payments and Original Issue Discount

On the date of issue, McCall, Parkhurst & Horton L.L.P., Bond Counsel, will render an opinion that the 2008 Refunding Bonds are not obligations described in section 103(a) of the Code. Accordingly, the stated interest paid on the 2008 Refunding Bonds or original issue discount, if any, accruing on the 2008 Refunding Bonds will be included in "gross income" within the meaning of section 61 of the Code of the owners and be subject to federal income taxation when received or accrued, depending upon the tax accounting method applicable to the owner thereof.

Disposition of 2008 Refunding Bonds

An owner will recognize gain or loss on the redemption, sale or exchange of a 2008 Refunding Bond equal to the difference between the redemption or sale price (exclusive of any amount paid for accrued interest) and the owner's tax basis in the 2008 Refunding Bond. Generally, the owner's tax basis in the Series 2008 Refunding Bond will be the owner's initial cost. Any gain or loss generally will be a capital gain or loss and either will be long-term or short-term depending on whether the 2008 Refunding Bond has been held for more than one year.

Under current law, purchasers of the 2008 Refunding Bonds who do not purchase the 2008 Refunding Bonds in the initial public offering at the initial public offering price (a "subsequent purchaser") will generally be required, on the disposition of a 2008 Refunding Bond, to recognize as ordinary income a portion of the gain, if any, to the extent of the accrued "market discount". Market discount is the amount by which the price paid for a 2008 Refunding Bond by a subsequent purchaser is less than the 2008 Refunding Bond's "stated redemption price at maturity" (or, in the case of a 2008 Refunding Bond issued at an original issue discount, if any, the 2008 Refunding Bond's "revised issue price"). In such instances, section 1277 of the Code also may apply so as to defer the deductibility of all or a portion of the interest incurred by a subsequent purchaser with respect to amounts borrowed to acquire a 2008 Refunding Bond with market discount.

Required Reporting to Internal Revenue Service

Subject to certain exceptions, interest payments made to the owners with respect to the 2008 Refunding Bonds will be reported to the Internal Revenue Service. Such information will be filed each year with the Internal Revenue Service on Form 1099 which will reflect the name, address and taxpayer identification number of the registered owner. A copy of Form 1099 will be sent to each registered owner of a 2008 Refunding Bond for federal income tax reporting purposes.

Other Federal Income Tax Consequences

The Code requires debt obligations, such as the 2008 Refunding Bonds, to be issued in registered form and denies certain tax benefits to the issuer and the holders of obligations failing this requirement. The City will issue the 2008 Refunding Bonds in registered form.

Interest paid to an owner of a 2008 Refunding Bond ordinarily will not be subject to withholding of federal income tax if such owner is a United States person. A United States person, however, will be subject to withholding of such

tax at a rate set forth in section 3406 of the Code. This withholding generally applies if the owner of a 2008 Refunding Bond (i) fails to furnish to the issuer such owner's social security number or other taxpayer identification number ("TIN"), (ii) furnishes the issuer an incorrect TIN, (iii) fails to report properly interest, dividends or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the issuer or such owner's broker with a certified statement, signed under penalty or perjury, that the TIN provided to the issuer is correct and that such owner is not subject to backup withholding.

State and Local Taxes and Foreign Persons

Investors should consult their own tax advisors concerning the tax implications of holding and disposing of the 2008 Refunding Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

REGISTRATION AND QUALIFICATION OF THE 2008 REFUNDING BONDS FOR SALE

The sale of the 2008 Refunding Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the 2008 Refunding Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the 2008 Refunding Bonds been qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for qualification of the 2008 Refunding Bonds under the securities laws of any jurisdiction in which the 2008 Refunding Bonds may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the 2008 Refunding Bonds must not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended,) provides that the 2008 Refunding Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the 2008 Refunding Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, (Chapter 2256, Texas Government Code, as amended,) requires that the 2008 Refunding Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. (See "RATINGS" herein.) In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the 2008 Refunding Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The 2008 Refunding Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

The City has made no investigation of other laws, rules, regulations, or investment criteria which might apply to such institutions or entities or which might limit the suitability of the 2008 Refunding Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the 2008 Refunding Bonds for such purposes. The City has made no review of laws in other states to determine whether the 2008 Refunding Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the 2008 Refunding Bonds, including the unqualified approving legal opinion of the Attorney General of the State to the effect that the 2008 Refunding Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the legal opinion of Bond Counsel to the effect that the 2008 Refunding Bonds are valid and legally binding obligations of the City. Bond Counsel has been retained by and only represents the City. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the 2008 Refunding Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the 2008

Refunding Bonds will also be furnished. In its capacity as Bond Counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas has reviewed the information appearing in this Official Statement under the captions "THE 2008 REFUNDING BONDS," (except for the information under the caption "Defaults and Remedies," "Payment Record," and "Book-Entry-Only System" as to which no opinion is expressed) "TAX MATTERS," "REGISTRATION AND QUALIFICATION OF 2008 REFUNDING BONDS FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "LEGAL MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (except under the caption "Compliance with Prior Undertakings" as to which no opinion is expressed) to determine whether such information fairly summarizes the material and documents referred to therein and is correct as to matters of law. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for, or an expression of 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 2008 Refunding Bonds are contingent on issuance and delivery of the 2008 Refunding Bonds. The legal opinions of Bond Counsel will accompany the obligations deposited with DTC or will be printed on the definitive obligations in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Andrews Kurth LLP, Houston, Texas.

The various legal opinions to be delivered concurrently with the delivery of the 2008 Refunding Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

RATINGS

Applications for ratings have been made to Moody's Investors Service, Inc., Standard & Poor's Ratings Group, a Division of the McGraw-Hill Corporation, and Fitch Ratings. The ratings of the 2008 Refunding Bonds reflect only the view of the rating agencies at the time the ratings are given, and the Issuer makes no representation as to the appropriateness of the ratings. There is no assurance that any rating will continue for any given period of time, or that a rating will not be revised downward or withdrawn entirely if, in the judgment of the applicable rating agency, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the 2008 Refunding 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 2008 Refunding Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the 2008 Refunding Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

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

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

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited information within the required time and audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City’s fiscal year ends September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change.

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the 2008 Refunding Bonds, if such event is material to a decision to purchase or sell 2008 Refunding Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the status of the 2008 Refunding Bonds; (7) modification to rights of holders of the 2008 Refunding Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the 2008 Refunding Bonds; and (11) rating changes. (Neither the 2008 Refunding Bonds nor the Ordinance make any provision for debt service reserves, 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 any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board (“MSRB”).

The Municipal Advisory Council of Texas has also received SEC approval to operate, and has begun to operate, a “central post office” for information filings made by municipal issuers, such as the City. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at www.DisclosureUSA.org (“DisclosureUSA”). The City may utilize DisclosureUSA for the filing of information relating to the 2008 Refunding Bonds.

Availability of Information from NRMSIRs and SID

The City has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to holders of the 2008 Refunding Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State as a SID. The address of the Municipal Advisory Council is 600 West 8th Street, Austin, Texas 78701, or Post Office Box 2177, Austin, Texas 78768-2177 and its telephone number is (512) 476-6947.

The Municipal Advisory Council of Texas has also received SEC approval to operate, and has begun to operate, a “central post office” for information filings made by municipal issuers, such as the City. A municipal issuer may

submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at www.DisclosureUSA.org (“DisclosureUSA”). The City may utilize DisclosureUSA for the filing of information relating to the 2008 Refunding Bonds.

Limitations and Amendments

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell 2008 Refunding Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the 2008 Refunding Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

This continuing disclosure agreement may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the 2008 Refunding Bonds in the primary offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering, as well as such changed circumstances; and (2) either (i) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorize such an amendment) of the outstanding 2008 Refunding Bonds consent to such amendment or (ii) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the registered owners and Beneficial Owners of the 2008 Refunding Bonds. The City may also repeal or amend the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling 2008 Refunding Bonds in the primary offering of the 2008 Refunding Bonds.

Compliance with Prior Undertakings

The City has complied in all material respects with all of its previous continuing disclosure agreements in accordance with the Rule.

FORWARD-LOOKING STATEMENTS

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

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the 2008 Refunding Bonds from the City at a purchase price of \$ _____ plus accrued interest. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the 2008 Refunding Bonds if any 2008 Refunding Bonds are purchased. The 2008 Refunding Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed from time to time by the Underwriters.

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

CO-FINANCIAL ADVISORS

Coastal Securities, Inc. and Estrada Hinojosa & Company, Inc. (the "Co-Financial Advisors") are employed by the City in connection with the issuance of the 2008 Refunding Bonds and, in such capacity, have assisted the City in the preparation of certain documents related thereto. The Co-Financial Advisors fee for service rendered with respect to the sale of the 2008 Refunding Bonds is contingent upon the issuance and delivery of the 2008 Refunding Bonds.

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

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL CALCULATIONS

The issuance of the 2008 Refunding Bonds will be subject to delivery by _____, _____, certified public accounts (the "Accountants"), of a report of the mathematical accuracy of certain computations. The Accountants will verify from the information provided to them the mathematical accuracy as of the date of delivery of the 2008 Refunding Bonds of the computations contained in the provided schedules to determine that the anticipated receipts from the Federal Securities and cash deposits listed in the schedules provided by Coastal Securities, Inc. to be held in the Escrow Fund, will be sufficient to pay, when due, the principal and interest requirements of the Refunded Obligations. The Accountants will express no opinion on the assumptions provided to them. Such verification of accuracy of such mathematical computations will be based upon information and assumptions supplied by the City and Coastal Securities, and such verification, information and assumptions will be relied on by Bond Counsel in rendering their opinion described herein relating to the defeasance of the Refunded Obligations.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the 2008 Refunding Bonds, the Underwriters will be furnished a certificate, executed by proper officers of the City, acting in their official capacity, to the effect that to the best of their knowledge and belief (1) the descriptions and statements of or pertaining to the City contained in this Official Statement, and any addenda, supplement, or amendment thereto, for the 2008 Refunding Bonds, on the date of sale of the 2008 Refunding Bonds and on the date of the initial delivery of the 2008 Refunding Bonds, were and are true and correct in all material respects; (2) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (3) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (4) there has been no material adverse change in the financial condition of the City, since the date of the last financial statements of the City appearing in the Official Statement.

AUTHORIZATION OF THE OFFICIAL STATEMENT

This Official Statement has been approved as to form and content and the use thereof in the offering of the 2008 Refunding 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 2008 Refunding Bonds, a certified copy of such approval, duly executed by the proper officials of the City.

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

/s/

Mayor, City of San Antonio, Texas

ATTEST:

/s/

City Clerk, City of San Antonio, Texas

SCHEDULE I

Table of Refunded Obligations

**City of San Antonio, Texas
Parking System Revenue Bonds, Series 2000**

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>
8/15/2009	5.10%	\$ 850,000		
8/15/2010	5.15	350,000	2/15/2010	100.00
8/15/2011	5.15	575,000	2/15/2010	100.00
8/15/2012	5.20	1,110,000	2/15/2010	100.00
8/15/2013	5.25	1,170,000	2/15/2010	100.00
8/15/2018	5.60	1,535,000	2/15/2010	100.00
8/15/2019	5.65	1,625,000	2/15/2010	100.00
8/15/2020	5.70	1,700,000	2/15/2010	100.00
8/15/2017*	5.50	5,345,000	2/15/2010	100.00
8/15/2024*	5.75	<u>7,855,000</u>	2/15/2010	100.00
Total		<u>\$22,115,000</u>		

* Term Bond

APPENDIX A

**City of San Antonio, Texas
General Demographic and Economic Information**

APPENDIX A

CITY OF SAN ANTONIO GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

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

Population and Location

The Census 2000, prepared by the United States Census Bureau (“U.S. Census Bureau”), found a City population of 1,144,646. The City’s Department of Planning and Community Development estimated the City’s population to be 1,334,244 at September 1, 2008. The U.S. Census Bureau ranks the City as the second largest in the State of Texas and the seventh largest in the United States.

The City is the county seat of Bexar County, which had a population of 1,392,931 according to the Census 2000. The City’s Department of Planning and Community Development estimated Bexar County’s population to be 1,638,710 at September, 1, 2008. The City is located in south central Texas approximately 75 miles south of the state capital in Austin, 140 miles northwest of the Gulf of Mexico, and approximately 150 miles from the United States (“U.S.”) / Mexico border cities of Del Rio, Eagle Pass, and Laredo, respectively.

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

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

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

Area and Topography

The area of the City has increased through numerous annexations, and now contains approximately 467 square miles. The topography of San Antonio is generally hilly with heavy black to thin limestone soils. There are numerous streams fed with underground spring water. The average elevation is 788 feet above mean sea level.

Annexation

Through annexation, the City has grown from its original size of 36 square miles to its current area, encompassing 472.66 square miles (full purpose annexations only) or 510 square miles (both full purpose and limited purpose annexations), and having a tax year 2008 total taxable value of \$72.892 billion. The City expects to

continue to utilize the practice of annexation as a growth and development management tool, as well as an opportunity to enhance the City's fiscal position.

Previous statistics have shown the city limits, through annexation, to be as high as 519 square miles. This included areas fully annexed into the City, as well as areas under "Limited Purpose Annexation." Between 2003 and 2005, approximately 70 square miles were taken into Limited Purpose Annexation. In 2007 and 2008, approximately 49 square miles were released from Limited Purpose Annexation, and the remaining 21 square miles annexed for full purposes. City regulations are extended, but City taxes are not assessed or collected within areas under Limited Purpose Annexation.

Since 2002, the City has experienced a net increase of 24 square miles (from 446 to 470 square miles) within the City limits through Full Purpose Annexation. Approximately 21 square miles were areas that had been previously placed under "Limited Purpose Annexation." The remaining 3 square miles were a combination of City-initiated and voluntary annexations.

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

Three-Year Annexation Plan Process

By City Charter, City Council has the power to annex territory by passage of an ordinance. As of January 2003, state law mandates that municipalities prepare an annexation plan specifically identifying annexations that may occur beginning on the third anniversary of the date such plan was adopted. The City is required to maintain the annexation plan on the City's web site and notify property owners and public entities.

Governmental Structure

The City is a Home Rule Municipality that operates pursuant to the Charter of the City of San Antonio City (the "City Charter"), which was adopted on October 2, 1951 and became effective on January 1, 1952. The City Charter provides for a council-manager form of government, whereby subject only to the limitations imposed by the Texas Constitution and the City Charter, all powers of the City are vested in an elective Council (the "City Council") which enacts legislation, adopts budgets, and determines policies. The City Council is comprised of eleven (11) members, with ten (10) members elected from single-member districts, and the Mayor elected at-large. Each member of the City Council serves two (2) year terms, and each member is limited to a maximum of two (2) full terms. The office of Mayor is considered a separate office. The terms of all members of the City Council currently sitting in office expire on May 31, 2009. The City Council also appoints a City Manager who executes the laws and administers the government of the City, and serves as the City's chief administrative officer. The City Manager serves at the pleasure of City Council.

City Charter

Under current Texas law, 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 six separate occasions; November 1974; January 1977; May 1991; May 1997; November 2001; and May 2004. Significant amendments to the City Charter include the amendment passed in May of 1991, which limited the service by the Mayor and the City Council members to two full terms, each of which is two years in duration. Two separate City Charter review committees sitting in the early and mid-1990's charged with conducting a comprehensive review of the City Charter, resulted in the passage of five propositions, each containing numerous amendments to the City Charter in May 1997.

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

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

On June 19, 2008, City Council called a Special Election to be held on Tuesday, November 4, 2008, on the question of whether the City should amend the City Charter by revising the terms of office for the Mayor or a member of the City Council to four full 2-year terms of office, from two full 2-year terms, but prohibit the current or former Mayor or current or former member of the City Council from being elected to more than two full 2-year terms.

Services

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

In addition to the above described general government services, the City provides services financed by user fees set at levels adequate to provide coverage for operating expenses and the payment of outstanding debt. These services include airport, parking, 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 19 generating unit electric system and the gas system that serves the San Antonio area. CPS' operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. CPS is obligated to transfer a portion of its revenues to the City. CPS revenue transfers to the City for the City's fiscal year ending September 30, 2007 were \$248,539,890. (See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS" herein.)

Water services are provided by the San Antonio Water System ("SAWS"), San Antonio's municipally-owned water supply, water delivery, and wastewater treatment utility. SAWS is in its 16th year of operation as a separate, consolidated entity. SAWS operating and debt service requirements for capital improvements are paid from revenues received from charges to its customers. SAWS is obligated to transfer a portion of its revenues to the City. SAWS revenue transfers to the City for the City's fiscal year ending September 30, 2007 were \$9,147,334. (See "SAN ANTONIO WATER SYSTEM" herein.)

Economic Factors

The City supports a favorable business environment and economic diversification which is represented by various industries, including domestic and international trade, convention and tourism, medicine and health care, government employment, manufacturing, information security, financial services, telecommunications, telemarketing, insurance, and oil and gas refining. Support for these economic activities is demonstrated by the City's commitment to its ongoing infrastructure improvements and development and its dedicated work force. Total employment in the San Antonio MSA for July 2008 was 906,800, which is 14,800 or 1.66% more jobs than that of the July 2007 total of 892,000. Trade, government, and education & health services represent the largest employment sectors in the San Antonio MSA. Finance (including insurance), healthcare and bioscience, tourism, and the military represent the largest industries in San Antonio.

Finance Industry

According to a study conducted by the Finance San Antonio Ad Hoc Committee, the finance industry is San Antonio's largest economic generator with an annual economic impact of \$20.5 billion in 2004. The industry employs 50,469 people to whom it pays an average annual wage of \$52,612. Total wages paid in the industry amounted to \$2.66 billion in 2004. As a percent of total employment, the finance industry in San Antonio is the largest of any major metropolitan area in Texas. Compared to the growth in wages and employment in San Antonio overall, the finance industry experienced higher levels of average annual growth in these areas since 2001. Average annual growth in total wages paid by the finance industry for years 2001 through 2004 was 4.5%, compared to 4% for all industries. Average annual growth in employment in the finance industry over this same time period was 2.18%, compared to 0.36% for all other industries.

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

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

Healthcare & Bioscience Industry

The healthcare and bioscience industry remains one of the largest industries in the San Antonio economy. The industry is diversified, with related industries such as research, pharmaceuticals, and manufacturing contributing approximately the same economic impact as health services. According to the *San Antonio's Healthcare and Bioscience Industry Economic Impact Study* commissioned by the Greater San Antonio Chamber of Commerce, the total economic impact from this industry sector totaled approximately \$15.3 billion in 2006. The industry provided 112,762 jobs, or approximately 14.1 percent of the City's total employment. The healthcare and bioscience industry's annual payroll in 2006 approached \$4.4 billion. The 2006 average annual wage of San Antonio workers was \$36,699, compared to \$39,267 for healthcare and bioscience employees. These 2006 economic impact figures represent growth of 7.7 percent over the previous year, or approximately \$1.1 billion.

Health Care. The 900-acre South Texas Medical Center (the "Medical Center") has ten major hospitals and nearly 80 clinics, professional buildings, and health agencies with combined budgets of over \$3.141 billion as of January 2008. Approximately 27,987 Medical Center employees provided care for over 4.8 million outpatients and over 104,671 inpatients. Physical plant values, not adjusted for inflation, representing the original investments in physical facilities and equipment (less depreciation) represents approximately \$2.113 billion. The Medical Center has about 300 acres of undeveloped land still available for expansion. Capital projects planned for the years 2008 through 2012 total approximately \$547 million.

Central to the Medical Center is The University of Texas Health Science Center at San Antonio (the "UTHSC") with its five professional schools awarding more than 63 degrees and certificates, including Doctor of Medicine, Doctor of Dental Surgery, and Doctor of Philosophy in nursing, allied sciences, and other fields. The UTHSC has over 2 million square feet of education, research, treatment, and administrative facilities with a faculty and staff of approximately 5,000. The UTHSC oversees the federally-funded Regional Academic Health Center in the Rio Grande Valley with facilities in Harlingen, McAllen, Brownsville, and Edinburg. Another UTHSC South Texas campus is located in Laredo.

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

Military Health Care. San Antonio currently has two major military hospitals, each of which has positively impacted the City for decades. Brooke Army Medical Center ("BAMC") conducts treatment and research in a 1.5

million square-foot facility at Fort Sam Houston U.S. Army Base, providing health care to nearly 640,000 military personnel and their families annually. BAMC is a Level-one trauma center (the only one in the U. S. Army medical care system) and contains the world-renowned Institute of Surgical Research Burn Center. BAMC also conducts bone marrow transplants in addition to more than 600 ongoing research studies.

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

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

BRAC 2005 actions will have a major positive impact on military medicine in San Antonio resulting in \$2.2 billion in construction and the addition of over 12,000 personnel in San Antonio by 2011. Currently, all U.S. Army combat medic training is conducted at Fort Sam Houston. As a result of BRAC 2005, all military combat medic training, Army, Air Force, Navy, Marines and Coast Guard will be undertaken at the new Medical Education and Training Campus at Fort Sam Houston.

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

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

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

The Texas Research Park (the “Park”) is the site for the University of Texas Institute of Biotechnology/Department of Molecular Medicine, the Cancer Therapy and Research Center (“CTRC”), and CTRC’s Research Center’s Institute for Drug Development, The Southwest Oncology Group, and dozens of new biotechnology-related companies, whose work involves various stages of the very complicated drug development process. The Park has over \$140 million invested in its facilities. The Park is owned and operated by the Texas Research and Technology Foundation, whose mission includes building a world-class center for life-science research and medical education and promoting economic development through job creation. The Park is also one of five sites throughout the country being considered by the U.S. Department of Homeland Security for the National Bio-Agro Defense Facility. If it is selected as the site, this will result in the construction of a 520,000 square-foot facility containing Biosafety Level (“BLS”) 3 and 4 laboratories. It is estimated the construction of the facility will cost approximately \$450 million. The operations of the facility will result in the creation of 350 jobs with an average annual salary of \$75,000.

The Southwest Foundation for Biomedical Research (the “Foundation”), which conducts fundamental and applied research in the medical sciences, is one of the largest independent, non-profit, biomedical research institutions in the U.S., and is internationally renowned. The Foundation has a full time staff of 85 doctoral level

employees, a technical staff of 125, and an administrative and supporting staff of approximately 200 persons. Research departments include Departments of Genetics, Physiology and Medicine, Virology and Immunology, and Organic and Biological Chemistry. The Department of Laboratory Animal Medicine maintains the animal care facilities. The Foundation is also home to one of the few BLS 4 labs in the country, and its Genomics Computing is the world's largest computer cluster devoted to statistical genetic analysis.

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

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

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

Hospitality Industry

The City's diversified economy includes a significant sector relating to the hospitality industry. A study by the Greater San Antonio Chamber of Commerce found that in 2006 the hospitality industry had an economic impact of nearly \$10.5 billion. The estimated annual payroll for the industry in 2006 was \$1.88 billion, and the industry employed an estimated 100,294.

In 2007, the City's overall performance for hotel occupancy decreased by 3.1%. However, this is in light of room supply increasing by 3.5%. Total room nights sold in the destination increased by 0.3%. Average daily room rate increased 4.6%, revenue per available room increased by 1.4%, and overall revenue increased 4.9%.

Tourism. During 2006, San Antonio attracted 26 million visitors. Of these, 11 million were overnight leisure visitors, placing San Antonio as one of the top U.S. destinations in Texas. The list of attractions in the San Antonio area includes, among many others, the Alamo, and other sites of historic significance, the River Walk, two major theme parks (SeaWorld of Texas and Six Flags Fiesta Texas), and the professional basketball team, the San Antonio Spurs.

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Conventions. San Antonio is one of the top convention cities in the country. The City is proactive in attracting convention business through its management practices and marketing efforts. The following table shows both overall City performance as well as convention activity booked by the San Antonio Convention & Visitors Bureau for the years indicated:

Calendar Year	Hotel Occupancy ¹	Revenue per Available		Convention Attendance ²	Convention Room Nights ²	Convention Delegate Expenditures (\$ Millions) ^{2, 3}
		Room (RevPAR) ¹	Room Nights Sold ¹			
1998	64.9%	\$53.01	6,064,659	445,151	724,882	\$401.0
1999	64.2%	52.91	6,225,808	406,539	678,014	366.2
2000	64.7%	55.34	6,549,812	389,448	696,215	350.8
2001	62.7%	54.10	6,486,944	419,970	712,189	378.3
2002	63.9%	55.42	6,741,011	483,452	693,921	435.5
2003	63.8%	53.26	6,903,131	429,539	613,747	387.0
2004	64.6%	55.11	7,022,152	491,287	621,640	510.5
2005	69.1%	62.36	7,569,655	503,601	699,932	523.3
2006	69.2%	68.38	7,699,411	467,426	736,659	485.8
2007	67.4%	75.15	7,635,949	455,256	647,386	473.1

¹ Data obtained from Smith Travel Research based on hotels in the San Antonio selected zip code reports dated March 2007 and January 2008.

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

³ Beginning in 1998, the estimated dollar value is calculated in accordance with the 1998 DMAI Foundation Convention Income Survey Report conducted by Deloitte & Touche LLP, which reflected the average expenditure of \$900.89 per convention and trade show delegate. Calendar years 2004 and 2005 are based on an average expenditure of \$1,039.20 per convention and trade show delegate, according to a Veris Consulting, LLC study for the DMAI.

Source: City of San Antonio, Convention and Visitors Bureau.

Military Industry

The military represents a principal component of the City's economy providing an annual economic impact for the City of over \$5 billion. Three major military installations are currently located in Bexar County, including Lackland Air Force Base ("Lackland AFB"), Fort Sam Houston Army Base ("Fort Sam"), and Randolph Air Force Base ("Randolph AFB"). In addition, the property of Brooks Air Force Base ("Brooks AFB"), a fourth major military installation, was transferred from the United States Air Force (the "Air Force") to the City-created Brooks Development Authority ("BDA") in 2002, as part of the Brooks City-Base Project ("Brooks City-Base"). Furthermore, the military is still leasing over two million square feet of space at Port San Antonio, which is the former Kelly Air Force Base that was closed in 2001.

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

With a stable tenant base of over 65 companies and seven remaining Air Force agencies, the Port has over 8,500 workers which generate a payroll of over \$520 million a year. Two new announcements at the Port include the Boeing Company's decision to bring their 787 Dreamliner to the Port for final assembly and completion. This new investment will create another 440 aerospace jobs. A decision in mid-2008 by BRAC 2005 will consolidate 2,800 personnel at the Port, half of these workers will relocate to San Antonio, bringing the tenant employee base to 11,740 people. Major commercial employers at the Port include Boeing, Lockheed Martin, General Dynamics, Standard Aero, Pratt & Whitney, Chromalloy, Gore Design Completions, and EG&G.

In September 2007, Boeing was awarded a ten-year, \$1.1 billion contract with the U.S. Air Force to continue providing programmed depot maintenance for the country's fleet of KC-135 Stratotanker aircraft. Much of this work will be done in Boeing's facility at the Port resulting in the company hiring an additional 200 employees in San Antonio.

With over 8.8 million square-feet of commercial space, the Port is the largest commercial property leasing firm in the San Antonio. In April 2007, the East Kelly Railport opened with a 360,000 square foot speculative building offered by a private developer that today is 100% occupied. Already proving to be a busy passageway, the East Kelly Railport has seen 2,040 railcars pass through between January and August 2008, with revenues totaling \$149,600 during this eight-month period. The developer, Santa Barbara Development, had recently begun construction on a second 265,000 sq. ft. speculative building.

Brooks City-Base. Brooks City-Base continues to draw private business investment; however, the military missions will be relocated over the next three to five years as a result of the BRAC 2005 recommendations. Despite the BRAC 2005 decision, Brooks City-Base is continuing its goal of sustainability by creating a Tax Increment Reinvestment Zone ("TIRZ"). The TIRZ has been established and the City is planning to utilize the tax increments generated to assist in the New Braunfels Infrastructure Project Phase I – V.

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

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

In July 2008, Vanguard Health Systems, Inc. and its affiliate Baptist Health System ("BHS") purchased 28 acres at Brooks City-Base and have an option for another 20 acres under contract. BHS plans to relocate Southeast Baptist Hospital to Brooks City-Base. The new hospital will initially be sized for 175 beds, but ultimately the hospital could grow to more than 400 beds. The new hospital will bring 700 to 800 jobs to the South side of San Antonio and represents a significant economic investment in the community. Ultimately, the hospital will be part of a medical campus with one medical office building being constructed concurrently with the hospital and six additional buildings constructed under a phased timeline.

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

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

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

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

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

Fort Sam and Lackland AFB. Fort Sam is engaged in military-community partnership initiatives to help reduce infrastructure costs and pursue asset management opportunities using military facilities. In April 2000, the U.S. Army (the "Army") entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. ("FSHRP"), for the redevelopment of the former Brooke Army Medical Center and two other

buildings at Fort Sam Houston. These three buildings, totaling about 500,000 square feet in space and located in a designated historic district, had been vacant for some time and were in a deteriorating condition. On June 21, 2001, FSHRP signed a 50-year lease with the Army to redevelop and lease these three properties to commercial tenants.

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

This project supports the City's economic development strategy to promote development in targeted areas of the City, leverage military installation economic assets to create jobs, and assist our military installations in reducing base support operating costs. The Army intends to extend the public-private partnership initiative to include other properties at Fort Sam Houston currently available for redevelopment.

San Antonio also received funding for two large projects that serve all of the military branches. On September 11, 2007, it was announced that the Veterans Administration will build a new \$67 million Level-One Polytrauma Center at the Audie Murphy Veterans Administration hospital campus. These hospitals are designed to be the most advanced in the world and are capable of providing state-of-the art medical care to veterans with multiple serious injuries.

San Antonio is also home to the National Trauma Institute ("NTI"), a collaborative military-civilian trauma institute involving BAMC, Wilford Hall, University Hospital, the UTHSC, and the U.S. Army Institute of Surgical Research. The NTI coordinates resources from the institutions to most effectively treat the trauma victims and their families. The NTI received \$1 million in funding from Congressional grants in FY 2007 and is expected to receive \$2 million in FY 2008.

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

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

Other Major Industries

Aerospace. The aerospace industry's annual economic impact to the City is about \$3.3 billion. This industry provides approximately 9,535 jobs, with employees earning total annual wages of over \$406 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 San Antonio, Randolph AFB, Lackland AFB, and training institutions. Many of the major aerospace industry participants have significant operations in San Antonio such as Boeing, Lockheed Martin, General Electric, Pratt & Whitney, Raytheon, Cessna, San Antonio Aerospace – a division of Singapore Technologies, Southwest Airlines, American Airlines, Delta Airlines, Continental Airlines, FedEx, UPS, and others. The industry in San Antonio is diversified with continued growth in air passenger service, air cargo, maintenance, repair, overhaul, and general aviation.

Applied Research & Development. The Southwest Research Institute is one of the original and largest independent, nonprofit, applied engineering and physical sciences research and development organizations in the U.S., serving industries and governments around the world in the engineering and physical sciences field. Southwest Research Institute has contracts with the Federal Aviation Administration, General Electric, Pratt & Whitney, and other organizations to conduct research on many aspects of aviation, including testing synthetic jet fuel, developing software to assist with jet engine design, and testing turbine safety and materials stability. Southwest Research Institute occupies 1,200 acres and provides nearly two million square feet of laboratories, test facilities, workshops, and offices for more than 2,700 scientists, engineers, and support personnel.

Telecommunications Industry. In June 2008, AT&T announced that its corporate headquarters would be moved to Dallas, Texas and it is expected to be completed by the end of 2008. AT&T is locating 700 positions as they move their corporate headquarters to Dallas, Texas and these positions account for approximately 0.08% of total employment in San Antonio. AT&T has 310,070 employees worldwide as of August 2008 and will still have 5,300 employees in San Antonio and will continue to be the home to the company's Telecom Operations Group. The San Antonio economy is large enough and diversified enough with many strong industries that this move is expected to have only a minimal effect on the local economy.

Information Technology. A study conducted in 2005, indicates that the Information Technology ("IT") industry in San Antonio registered an overall economic impact of approximately \$5.3 billion and employs about 11,283 people with a total annual payroll of approximately \$632 million. These numbers only include the impact of IT-specific companies. There are also a substantial number of people employed in IT jobs in non-IT companies. For example, the study also found that there are approximately 6,000 IT workers employed in the 13 largest non-IT companies in San Antonio. The IT industry is particularly strong in the areas of information security and government contracting. The Center for Infrastructure Assurance and Security at the UTSA is one of the leading research and education institutions in the area of information security in the country. In 2005, the U.S. National Security Agency (the "NSA") re-designated the UTSA as a National Center of Excellence in Information Assurance for three academic years. Our Lady of the Lake University also received this designation over the past year. San Antonio is also home to the Air Intelligence Agency, which is the premier IT agency for the U.S. Air Force and the U.S. Department of Defense.

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

Creative Industry. The creative industry in San Antonio registers a \$1.84 billion economic impact, employs 15,839 people, and pays annual wages of over \$650 million as of 2006. Recognizing the overall impact of this industry, *The Cultural Collaborative: A Plan for San Antonio's Creative Economy*, was created and a strategic plan was developed to provide focus and initiative for the future of this industry. Seventy-eight percent of these strategies have either been fully implemented or are in the process of being implemented.

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

Growth Indices

San Antonio Electric and Gas Customers

<u>For the Month of December</u>	<u>Electric Customers</u>	<u>Gas Customers</u>
1998	548,468	301,842
1999	560,628	302,991
2000	575,461	305,181
2001	589,426	305,702
2002	594,945	306,503
2003	602,185	306,591
2004	617,261	308,681
2005	638,344	310,699
2006	662,029	314,409
2007	681,312	319,122

Source: CPS.

San Antonio Water System Average Customers per Fiscal Year

<u>Fiscal Year Ended May 31</u> ^{1,2}	<u>Water Customers</u> ³
1998	270,897
1999	279,210
2000	285,887
2001	293,299
2002	298,215
2003	303,917
2004	311,556
2005	320,661
2006	331,476
2007	341,220

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

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

³ Excluding SAWS irrigation customers.

Source: SAWS.

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Construction Activity

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

Calendar Year	Residential Single Family		Residential Multi-Family ¹		Other ²	
	Permits	Valuation	Permits	Valuation	Permits	Valuation
1998	5,630	363,747,169	85	23,194,475	8,193	892,766,648
1999	5,771	398,432,375	404	157,702,704	9,870	911,543,958
2000	5,494	383,084,509	201	81,682,787	10,781	957,808,435
2001	6,132	426,766,091	449	142,506,920	12,732	1,217,217,803
2002	6,347	435,090,131	246	101,680,895	14,326	833,144,271
2003	6,771	521,090,684	141	2,738,551	13,813	1,041,363,980
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

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

	Calendar Year				
	2007	2006	2005	2004	2003
Arlington	80,701,278	77,179,657	61,983,154	49,344,578	46,483,314
Austin	147,310,525	133,503,393	118,853,520	112,515,478	105,044,871
Corpus Christi	58,502,801	55,663,395	51,046,479	47,647,095	43,498,880
Dallas	223,708,825	217,223,165	199,585,955	192,972,586	184,263,151
El Paso	64,508,591	60,737,389	54,217,823	51,461,838	48,949,656
Fort Worth	98,863,541	92,739,620	83,754,760	76,202,528	72,772,964
Garland	21,661,679	20,990,296	18,204,516	17,163,038	16,902,258
Houston	471,684,021	440,687,609	380,871,932	355,616,488	325,284,697
Plano	63,267,699	62,015,005	53,036,662	49,453,998	46,876,867
SAN ANTONIO	209,599,573	195,966,662	161,951,337	157,284,972	152,360,840

Source: State of Texas, Comptroller's Office.

Education

There are 15 independent school districts within Bexar County with a combined enrollment of 292,479 encompassing 54 high schools, 95 middle/junior high schools, and 268 elementary schools as of October 2007. There are an additional 25 charter school districts with 61 open enrollment charter schools at all grade levels. In addition, Bexar County has 127 accredited private and parochial schools at all education levels. Generally, students attend school in the districts in which they reside. There is currently no busing between school districts in effect.

The six largest accredited and degree-granting universities, which include a medical school, a dental school, a law school, and five public community colleges, had combined enrollments of 94,190 for Fall 2007.

Source: Texas Education Agency.

Employment Statistics

The following table shows current nonagricultural employment estimates by industry in the San Antonio MSA for the period of July 2008, as compared to the prior periods of June 2008 and July 2007.

Employment by Industry

<u>San Antonio MSA¹</u>	<u>July 2008</u>	<u>June 2008</u>	<u>July 2007</u>
Mining	3,700	3,700	3,400
Construction	52,800	52,900	50,600
Manufacturing	48,300	48,600	49,300
Trade, Transportation, and Utilities	151,500	151,000	149,600
Information	21,700	21,700	21,800
Financial Activities	65,800	66,000	65,300
Professional and Business Services	106,600	107,000	105,100
Educational and Health Services	116,200	117,000	111,700
Leisure and Hospitality	104,200	103,900	102,600
Other Services	30,500	30,700	28,800
Government	<u>146,900</u>	<u>152,100</u>	<u>142,100</u>
Total Nonagricultural	848,200	854,600	830,300

The following table shows civilian labor force estimates, the number of persons employed, the number of persons unemployed, and the unemployment rate in the San Antonio MSA, Texas, and the United States for the period of July 2008, as compared to the prior periods of June 2008 and July 2007.

Unemployment Information (all estimates are in thousands)

<u>San Antonio MSA¹</u>	<u>July 2008</u>	<u>June 2008</u>	<u>July 2007</u>
Civilian Labor Force	952.9	950.4	934.3
Number of Employed	906.8	906.3	892.0
Number of Unemployed	46.1	44.1	42.3
Unemployment Rate %	4.8	4.6	4.5
<u>Texas (Actual)¹</u>	<u>July 2008</u>	<u>June 2008</u>	<u>July 2007</u>
Civilian Labor Force	11,809.3	11,776.3	11,578.3
Number of Employed	11,215.0	11,206.5	11,031.3
Number of Unemployed	594.3	569.8	547.0
Unemployment Rate %	5.0	4.8	4.7
<u>United States (Actual)¹</u>	<u>July 2008</u>	<u>June 2008</u>	<u>July 2007</u>
Civilian Labor Force	156,300.0	155,582.0	154,871.0
Number of Employed	146,867.0	146,649.0	147,315.0
Number of Unemployed	9,433.0	8,933.0	7,556.0
Unemployment Rate %	6.0	5.7	4.9

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

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

Firm	Product/Service	Firm	Product/Service
Construction:			
CCC Group, Inc.	Industrial Contractor	Urban Concrete Contractors, Ltd.	Exterior Concrete Contractor
Design Electric	Electrical Contractor	Zachry Group	Industrial General Contracting
Finance, Insurance, & Real Estate:			
American Funds	Mutual Funds & Investments	San Antonio Federal Credit Union	Credit Union/Financial Services
Argonaut Group	Insurance	Security Service Federal Credit Union	Credit Union/Financial Services
Bank of America - San Antonio	Commercial & Individual Banking	The Hartford	Personal Insurance
Frost National Bank	Financial Services & Insurance	The Lynd Company	Real Estate Brokerage
Humana	Medical Insurance Plans	USAA	Insurance/Financial Services
JP Morgan Chase Bank	Commercial & Individual Banking	Washington Mutual Bank	Banking, Financial Services
Pacificare	Medical Insurance Plans	Wells Fargo Bank	Banking, Financial Services
Randolph-Brooks FCU	Credit Union/ Financial Services	Wachovia	Banking, Financial Services
SWBC	Insurance, Residential Mortgages		
Government:			
Bexar County	County Government	Randolph Air Force Base	Military Installation
Brooks City-Base	Military Installation	San Antonio Housing Authority	Public Housing Assistance
City of San Antonio	Municipal Government	Texas Department of Transportation	Highway Construction/Maint.
Education Service Center Region 20	State Education Service Agency	Texas Dept. of Family & Child Protective Services	State Social Services
Fort Sam Houston-US Army Base	Military Installation	Texas Dept. of Health & Human Services	State Social Services
Guadalupe County	County Government	VIA Metropolitan Transit	Urban Public Transportation
Lackland Air Force Base	Military Installation		
Manufacturing:			
Alamo Concrete Products	Concrete Products	Miller Curtain Company	Curtains, Draperies, & Bedspreads
Cardell Cabinetry	Cabinetry	Motorola	Electronics
Clarke American	Check Printing	SAS Shoemakers	Shoes
Coca-Cola Bottling Co. of the SW	Soft Drinks, Beverages	SMI-Texas	Steel
DPT Laboratories, Ltd.	Pharmaceuticals	San Antonio Aerospace	Aircraft Modification/Maint.
Friedrich Air Conditioning Co.	HVAC Systems	San Antonio Express-News	Daily Newspaper
Frito-Lay, Inc.	Snack Foods	Sino-Swearingen Aircraft Co.	Aircraft Design, Marketing/Sales
Kinetic Concepts, Inc.	Specialty Medical Products	Tesoro Corporation	Refining/Sales of Petroleum Prod.
L & H Packing Company	Meat Packing	The Scooter Store, Inc.	Medical & Dental Equipment
Lancer Corporation	Beverage Dispensing Equipment	Valero Energy Corporation	Refining/Sales of Petroleum Prod.
Martin Marietta Materials SW, Inc.	Concrete, Limestone, & Asphalt	Vulcan Materials	Materials, Cement, & Concrete
Medical:			
Advanced Living Technologies	Skilled Nursing Care Facilities	Methodist Healthcare System	General Acute Care Hospitals
Allied Primary Home Care Svcs.	Home Health Care Services	Methodist Specialty & Transplant Hosp.	Specialty Care Hospital
Baptist Health System	General Acute Care Hospitals	Metropolitan Methodist Hospital	General Acute Care Hospital
Brooke Army Medical Center	Military Hospital	Nix Health Care System	Hospital/Health Care Services
Caremark Prescription Service	Mail Order Pharmacy	Outreach Health Services	Home Health Care
Center for Health Care Services	Mental Health/Mental Retardation	San Antonio State Hospital	Mental Health/Mental Retardation
Christus Santa Rosa Health Care	General Acute Care Hospitals	San Antonio State School	Residential Care Facility
Girling Health Care, Inc.	Home Health Care Services	South Texas Blood & Tissue Center	Collect/Distribute Blood & Tissue
Guadalupe Valley Hospital	Hospital/Health Care Services	South Texas Veterans Health Care Sys.	Hospital/Health Care Services
Home Nursing & Therapy Svcs.	Home Health Care	Southwest General Hospital	Hospital/Health Care Services
Interim Healthcare San Antonio	Nurses' Registry	University of Texas Health Science Center at San Antonio	Medical School
McKenna Memorial Hospital	Hospital/Health Care Services	University Health System	Public Hospital/Clinics
Medical Team, Inc.	Home Health Care		
Methodist Children's Hospital	Children's Hospital		
Retail:			
Aaron Rents and Sells Furniture	Office & Residential Furniture	H-E-B Grocery Company	Groceries & Distribution
Ancira Enterprises	Automotive Sales & Service	HOLT CAT	Caterpillar Heavy Equipment
Brylane	Mail Order & Catalog Shopping	QVC San Antonio Inc.	Electronic Retail Sales
CVS/Pharmacy	Pharmacy Stores	R & L Foods, Inc.	Fast Foods
Dillard's Department Stores	Department Stores	Sun Harvest Farms, Inc.	Natural Food Grocery Stores
Eye Care Centers of America, Inc.	Eyewear	Target Stores	Discount Retail Stores
Macy's	Department Stores	Twigland Fashions Ltd.	Women's Apparel
Gunn Automotive Group	Auto Dealerships		

¹ January 2006, The Greater San Antonio Chamber of Commerce Largest Employer's Directory.

(Table continues on next page.)

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

Firm	Product/Service	Firm	Product/Service
Services:			
AT & T Center	Sports/Events Arena	New Braunfels I.S.D.	Public School District
Able Body Labor	Temporary Staffing	Northside I.S.D.	Public School District
Administaff, Inc.	Professional Staffing	Our Lady of The Lake University	Higher Education, Private
Advance'd Temporaries, Inc.	Temporary Staffing	Palo Alto College	Junior/Community College
Advantage Rent-A-Car	Vehicle Rental	Parent/Child Inc.	Early Childhood Development
Air Force Village Foundation	Military Retirement Communities	Pioneer Drilling Company	Oil & Gas Drilling
Alamo Community College District	Public College District	RK Group	Catering
Alamo Heights I.S.D.	Public School District	Regal Cinemas	Movie Theaters
Alamodome	Domed Stadium	San Antonio College	Junior/Community College
Allen Tharp & Associates	Catering	San Antonio I.S.D.	Public School District
American Building Maintenance	Janitorial Contractor	Sanitors, Inc.	Commercial Janitorial
Archdiocese of San Antonio	Catholic Archdiocese	Schertz-Cibolo-Universal City I.S.D.	Public School District
Avance Inc.	Family Support & Education	Schlitterbahn Waterpark & Resort	Resort & Waterpark
Bill Miller Bar-B-Q Ent., Ltd	Restaurants & Catering	SeaWorld San Antonio	Entertainment/Amusement Park
Boeing Aerospace Support Center	Aerospace Support Center	Sears Customer Service Center	Customer Service Center
Cadbeck Staffing	Temporary Staffing	Securitas Security Services USA	Guard/Security Service
Calling Solutions, Inc.	Telemarketing	Seguin I.S.D.	Public School District
Citicorp – U.S. Service Center	Service Center	Six Flags Fiesta Texas	Entertainment/Amusement Park
Comal I.S.D.	Public School District	Somersel I.S.D.	Public School District
East Central I.S.D.	Public School District	South San Antonio I.S.D.	Public School District
Edgewood I.S.D.	Public School District	Southside I.S.D.	Public School District
Employers Resource Management	Temporary Staffing	Southwest I.S.D.	Public School District
Enterprise/Rent-A-Car Company	Vehicle Rental	Southwest Research Institute	Research & Development
Floresville I.S.D.	Public School District	Spectrum Health Club	Health Clubs
Frontier Enterprises	Restaurant Headquarters	St. Mary's University	Higher Education, Private
Goodwill Industries of S.A.	Vocational Training	St. Philip's College	Junior/Community College
Harcourt Assessment, Inc.	Test Publishers	Standard Aero, Inc.	Repair Aircraft Engines
Harlandale I.S.D.	Public School District	Taco Cabana, Inc.	Fast Food Restaurants
Hospital Klean of Texas, Inc.	Hospital Housekeeping	Talent Tree, Inc.	Temporary Staffing
Hyatt Hill Country Resort and Spa	Hotel Resort & Spa	Tansec Inc./Div. of Radio Shack	Alarms & Monitoring
Infonxx	Information Retrieval Services	Treco Services, Inc.	Janitorial, Window Cleaning
Judson I.S.D.	Public Education	Trinity University	Higher Education, Private
Little Caesar's of San Antonio, Inc.	Pizza Take Out Stores	University of Texas at San Antonio	Higher Education, Public
Lockheed Martin Kelly Aviation	Aviation Consultants	University of The Incarnate Word	Higher Education, Private
Luby's Cafeterias, Inc.	Cafeterias	VIP Temporaries	Temporary Staffing
MTC, Inc.	Full Service Restaurants	Waste Management Inc.	Refuse Systems
Marriott Rivercenter/Riverwalk Hotels	Hotels	Wendy's of San Antonio Inc.	Fast Food Restaurants
McDonald's-Haljohn, Inc.	Fast Food Restaurants	Westaff	Temporary Staffing
Mi Tierra Cafe & Bakery, Inc.	Restaurant & Bakery	Whataburger of Alice	Fast Food Restaurants
Morningside Ministries	Retirement & Nursing Homes	YMCA of Greater of San Antonio	Health & Wellness
Transportation, Communications, & Utilities:			
AT&T, Inc.	Voice, Data, Telecommunications	Time Warner	Voice, Data, Telecommunications
CPS Energy	Natural Gas & Electric Service	U.S. Postal Service	Postal Delivery
San Antonio Water System	Water Services	United Parcel Service	Parcel Delivery
Southwest Airlines	Air Transportation		
Wholesale:			
Advantage Sales & Marketing	Sales & Marketing	SYGMA Network, Inc.	Distributor - Groceries
CARQUEST Auto Parts	Automotive Replacement Parts	San Antonio Auto Auction	Auto Auction
Color Spot Nurseries/SW Division	Plant Nurseries	Tyson Foods, Inc.	Poultry Slaughtering & Packing

¹January 2006, The Greater San Antonio Chamber of Commerce Largest Employer's Directory.

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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 and Commercial Paper Notes establish management requirements and provide that the complete management and control of the City's electric and gas systems (the "EG Systems") is vested in a Board of Trustees consisting of five citizens of the United States of America permanently residing in Bexar County, Texas, known as the "CPS Board of Trustees, San Antonio, Texas" (referred to herein as the "CPS Board" or "CPS"). The Mayor of the City is a voting member of the Board, represents the City Council, and is charged with the duty and responsibility of keeping the City Council fully advised and informed at all times of any actions, deliberations, and decisions of the CPS Board and its conduct of the management of the EG Systems.

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

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

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

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

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

Service Area

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

CPS is currently the exclusive provider of electric service within the service area, including the provision of electric service to some Federal military installations located within the service area that own their own distribution facilities. As discussed below under “Electric Utility Restructuring in Texas; Senate Bill 7”, until and unless the City Council and the CPS Board exercise the option to opt-in to retail electric competition (called “Texas Electric Choice” by the PUCT), CPS has the sole right to provide retail electric energy services in its service area. On April 26, 2001, after a thorough feasibility study was conducted and reviewed, the City Council passed a resolution stating that the City did not intend to opt-in to the deregulated electric market beginning January 1, 2002, the date Texas Electric Choice became effective. Senate Bill 7 (“SB 7”), adopted by the Texas Legislature in 1999, provides that electric opt-in decisions are to be made by the governing body or the body vested with the power to manage and operate a municipal utility such as CPS. Given the relationship of the CPS Board and the City Council, any decision to opt-in to electric competition would be based upon the adoption of resolutions of both the CPS Board and the City Council. If the City and CPS choose to opt-in, other retail electric energy suppliers would be authorized to offer retail electric energy in the CPS service area and CPS would be authorized to offer retail electric energy in any other service areas open to retail competition in the Electric Reliability Council of Texas (“ERCOT”). ERCOT is the independent entity that monitors and administers the flow of electricity within the interconnected grid that operates wholly within Texas. (See “Electric Utility Restructuring In Texas; Senate Bill 7.”). CPS has the option of acting in the role of the “Provider of Last Resort” for its service area in the event it and the City choose to opt-in.

In addition to the area served at retail rates, CPS sells electricity at wholesale prices to the Floresville Electric Light & Power System, the City of Hondo, and the City of Castroville. These three wholesale supply agreements have remaining terms ranging from less than one to ten years until expiration, although all of the agreements provide for extensions. Discussions are ongoing with all three entities to renew their respective long-term wholesale power agreements. Additionally, CPS has recently entered into several one-year to three-year wholesale supply agreements with other various municipalities and cooperatives. CPS will seek additional opportunities to enter into long-term wholesale electric power agreements in the future. The requirements under the existing and any new wholesale agreements would be 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. Pursuant to the authority provided by Section 181.026, Texas Utilities Code, among other applicable laws, the City has executed a license agreement (“License Agreement”) with the City of Grey Forest, Texas (“Licensee”), dated as July 28, 2003, for a term through May 31, 2028. Pursuant to this License Agreement, the City permits the Licensee to provide, construct, operate and maintain certain natural gas lines within the boundaries of the City which it originally established in 1967 and to provide extensions and other improvements thereto upon compliance with the provisions of the License Agreement and upon the payment to the City of a quarterly license fee of 3.0% of the gross revenues received by the Licensee from the sale of natural gas within the Licensed Area (as defined in the License Agreement). Thus, in the Licensed Area, CPS is in direct competition with Grey Forest Utilities as a supplier of natural gas.

CPS also has 20-year franchise agreements with 28 incorporated communities (“Suburban Cities”) in the San Antonio area. These franchise agreements permit CPS to operate its facilities in the cities' streets and public ways in exchange for a franchise fee of 3% on electric and natural gas revenues earned within their respective municipal boundaries. Of these 28 agreements, 24 expire in 2010; the others expire in 2011, 2017, 2023, and 2024, 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. Since the electric deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT’s jurisdiction over electric investor-owned utility (“IOU”) companies primarily encompasses only the transmission and distribution functions. PURA generally excludes municipally-owned utilities (“Municipal Utilities”), such as CPS, from PUCT jurisdiction, although the PUCT has jurisdiction over electric wholesale transmission rates. Under the PURA, a municipal governing body or the body vested with the power to manage and operate a Municipal Utility such as CPS has exclusive jurisdiction to set rates applicable to all services provided by

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

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

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

Base rate changes over the past 17 years have consisted of; a 4.0% combined electric and gas base rate increase effective January 31, 1991; a 3.5% electric base rate adjustment; effective May 19, 2005 that was more than offset by a reduction in fuel costs, resulting from the purchase of an increased interest in STP 1 & 2; a 12.1% gas base rate adjustment effective June 26, 2006; and a 3.5% system average electric and gas base rate increase became effective September 1, 2008. The City Council approved this latest 3.5% base rate increase on May 15, 2008. CPS had initially requested a 5% system average electric and gas base rate increase. The City Staff reviewed CPS Energy's rate case for several months and the City Staff recommended to City Council that Council approve a 5% increase for gas and electric rates that would be implemented on June 1, 2008. City Council unanimously approved a 3.5% rate increase to take effect on September 1, 2008. CPS staff is evaluating with its Board the impacts that the lower and delayed rate increase will have on its business planning and budgeting process and CPS will make adjustments in its near-term plans to budget within the rate increases that have been approved. CPS expects to continue to periodically seek similar electric and gas base rate increases during the next five to seven years.

The 2005 electric rate adjustment was intended to offset the incremental costs to be incurred due to acquiring an additional 12% share in the South Texas Project. This acquisition was completed in May 2005. CPS projects that the net effect of the base rate adjustment and fuel cost savings from additional nuclear-fueled generation will result in lower overall bills for CPS' electric customers (See “Electric System – Generating System” herein). CPS also offers a monthly contract for renewable energy service (currently this is wind-generated electricity) under Rider E15, which became effective May 2000. The rate for Rider E15 was reduced to its current level effective on September 30, 2002. A rider to the SLP rate, the Economic Incentive Rider E16, became effective March 10, 2003, and offers discounts off the SLP demand charge for a period up to four years for new or added load of at least 10 megawatts (“MW”). Under certain conditions, the discount may be extended an additional three years. Customers that choose Economic Incentive Rider E16 must also meet City employment targets and targets for purchases of goods or services from local businesses in order to qualify. CPS also has rates that permit recovery of certain miscellaneous customer charges and for extending lines to provide gas and electric service to its customers. In May 2005, the CPS Board adopted a change to its policies for both miscellaneous customer charges and line extensions, which became effective January 1, 2006, to increase charges that had not been raised since 1986. On December 15, 2005, the City Council adopted Ordinance Nos. 101819 and 101820 approving certain of the price changes in the CPS Board-approved policy; however, the City ordinance prevented recovery of increased line extension charges from developers of affordable housing and the City delayed implementation of certain miscellaneous customer charges until April 1, 2006 (fees for disconnection, reconnection, and field notification).

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

Each of CPS' retail and wholesale rates contains an electric fuel adjustment or gas cost adjustment clause, which provides for current recovery of fuel costs. The fuel cost recovery adjustments are set at the beginning of each CPS billing cycle month.

Transmission Access and Rate Regulation

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

The 1999 Texas Legislature amended the PURA95 to expressly authorize rate authority over Municipal Utilities for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method which sets the price for transmission at the system average for ERCOT. CPS' wholesale open access transmission charges are set out in tariffs filed at the PUCT, and are based on its transmission cost of service approved by the PUCT, representing CPS' input to the calculation of the statewide postage stamp pricing method. The PUCT's rule, consistent with provisions in PURA §35.005(b), also provides that the PUCT may require construction or enlargement of transmission facilities in order to facilitate wholesale transmission service. Pursuant to P.U.C. Docket No. 31540, "Proceeding to Consider Protocols to Implement a Nodal Market in the Electric Reliability Council of Texas Pursuant SUBST. R. 25.501", the PUCT has made substantial progress in evaluating the shift from postage stamp pricing to nodal pricing for transmission transactions. Until the PUCT takes final action on nodal pricing, it will not be possible to predict the effects on CPS' transmission costs or its ability to recover costs from other participants in ERCOT. Additional information on recovery of ERCOT transmission fees is discussed in "CUSTOMER RATES – Governmentally Imposed Fees, Taxes or Payments" and with respect to the transition to the nodal market is discussed in "Post Senate Bill 7 Wholesale Market Design Developments" herein.

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

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

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

SYSTEMS – Service Area” herein.

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

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

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

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

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

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

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

they implement retail choice, to adopt alternative procurement processes under which less restrictive competitive bidding requirements can apply and to implement more liberal policies for the sale and exchange of real estate. Also, matters affecting the competitiveness of Municipal Utilities are made exempt from disclosure under the open meetings and open records acts and the right of municipal utilities to enter into risk management and hedging contracts for fuel and energy is clarified.

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

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

Post Senate Bill 7 Wholesale Market Design Developments. In the summer of 2003, the PUCT adopted rules requiring that ERCOT transition from a zonal to a nodal wholesale market by October 1, 2006, and requiring that new protocols to accomplish this transition be submitted to the PUCT for review. Implementation of the nodal market will include, among other elements: direct assignment of the costs of local transmission congestion to market participants that cause the congestion; implementation of an integrated, financially binding day-ahead market; and nodal energy prices for resources and zonal energy prices for loads. Consistent with the rule, ERCOT and industry stakeholders have developed and submitted to the PUCT protocols and proposed energy load zones to implement these market design elements, together with an independent cost-benefit analysis. The PUCT in 2005 reaffirmed its intent to implement the nodal market in ERCOT, but modified the implementation date to January 1, 2009. In December 2005, the PUCT conducted a hearing on the nodal protocols submitted by ERCOT, and in April 2006, it issued an order approving the implementation of the nodal market. In response to the PUCT implementation date, ERCOT established an earlier implementation date of December 1, 2008. ERCOT has completed its process of design specification and is currently early in the implementation phase of its nodal systems. Market participants, including CPS, are also in the implementation phase for the upgrade of their systems necessary to operate in the nodal market. On May 20, 2008, ERCOT issued a press release stating that it would not meet its targeted initiation date of December 1, 2008 due to delayed software deliveries. A new implementation date has not been determined. In its press release, ERCOT stated that it would meet with the PUCT, market participants and vendors over the next few weeks to arrive at an updated project schedule. See “SAN ANTONIO ELECTRIC AND GAS SYSTEMS – Transmission Access and Rate Regulation” herein.

The 81st Texas Legislative Regular Session will commence on January 13, 2009.

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

Although SB 7 instituted many of the changes to environmental emission controls which affect grandfathered electric generating plants, another TCEQ regulation, Chapter 117, is directed at all units in the state, including CPS' coal plants. These regulations required a 50% reduction in NO_x emissions statewide beginning May 1, 2005 and system-wide on an annual basis. The first reporting period for CPS' power plants subject to the Chapter 117 cap was for the compliance period of May 1, 2005 to April 2006. CPS has met the Chapter 117 cap for each compliance period. As a result of the J.K. Spruce Plant Unit 2 (“JKS 2”) air permitting process, CPS has committed

to tighter NO_x emission limitations than what is required under Chapter 117 at the Calaveras Lake site once the JKS 2 unit comes on line. The final Clean Air Interstate Rule (“CAIR”) has imposed even more NO_x restrictions on CPS power plants. Changes to environmental emission controls may have the greatest effect on coal plants. For example, mercury emission limits while initially finalized by the Environmental Protection Agency (“EPA”), are now subject to additional EPA review and which may require new controls at the coal plants in the near future. Further statutory changes and additional regulations may change existing cost assumptions for electric utilities. While it is too early to determine the extent of any such changes, such changes could have a material impact on the cost of power generated at affected electric generating units.

SB 7 established the State’s goal for renewable energy in 1999 but made no special provisions for transmission to interconnect renewable resources. The rapid development of wind power in west Texas since 2001 has shown that wind farms can be built more quickly than traditional transmission facilities; This timing difference poses a dilemma for planning as it is difficult to know whether a new line will be needed if the generation facilities do not yet exist. A wind farm is difficult to finance if there is no certainty that sufficient transmission will be available to deliver generated electricity. Senate Bill 20, enacted by the Texas Legislature in 2005 (“SB 20”), authorized the PUCT to regulate in this area, and specifically authorized the PUCT to identify an area with sufficient renewable energy potential, known as competitive renewable energy zones (“CREZs”) and pre-designate the need for transmission facilities serving the area even if no specific renewable generation projects exist or are under construction. The designation of CREZs in regions with developable renewable resources would be partially based on financial commitments of wind project developers desirous of building in the CREZ. In July 2008 the PUCT voted to create five CREZs in west Texas and the Panhandle.

Wind-powered resources account for 90% of the 6,301 MW of installed renewable capacity. About 2.1% of the electricity generated in Texas during 2006 came from renewable energy resources, up from 1.5% for all of 2005. Within the ERCOT power region, renewable resources provided 2.1% of peak-period generation during 2006 (up from 1.5% in 2005), and 3.2% of off-peak generation (up from 2.2% in 2005). Significant amounts of wind energy have created challenges for those who manage the ERCOT system. On February 26, 2008, ERCOT implemented the second stage of its emergency grid procedures (out of 4 stages) following a sudden drop in the system frequency. The drop in system frequency was attributed to a combination of events including a drop in wind energy production at the same time the evening electricity load was increasing, accompanied by multiple power providers, other than CPS, falling below their scheduled energy production. The loss of wind energy also resulted in congestion in certain parts of the ERCOT transmission system. Implementing the stage two emergency procedures stabilized ERCOT system frequency. Other than interruptible loads, no other customers in the ERCOT region lost power due to the event. Because of the challenges associated with scheduling wind energy, ERCOT has chosen to count only 8.6% of nameplate wind capacity toward ERCOT’s reserve margin requirements.

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

Response to Competition

Strategic Planning Initiatives. CPS has a comprehensive corporate strategic plan that is designed to make CPS more efficient and competitive, while delivering value to its various customer groups and the City. On August 22, 2005, the Board approved a new strategic plan, developed by a cross-functional team. The plan built on the CPS mission, vision, and core values as well as long-term goals adopted in 2004 as part of the Vision 2020 process. The strategic plan has evolved to formulate plans for its wholesale, retail, transmission and distribution, gas, and shared services business units. Each plan will be the responsibility of the business unit and will focus on market tactics, organizational development, business information, process improvement, legal/regulatory issues, and financial accomplishment. The senior executive for each business unit has accountability for development and delivery of the plan. The CPS Board reviewed and approved business unit plans, consistent with the corporate strategy, during the

2007 review cycle. An update to the plans will be presented to the Board for approval during the 2008 Strategic and Financial Plan presentation.

Major initiatives and key action plans necessary to accomplish the objectives and meet or exceed the targets are also included in each plan. Status reports on strategies, risks and market changes are provided to the Board and senior management on a regular basis. An oversight team, appointed by senior management, ensures consistency with the corporate vision and directs the resolution of cross-business unit issues.

Debt and Asset Management Program. CPS has developed a debt and asset management program (the “Debt Management Program”) for the purposes of lowering the debt component of energy costs, maximizing the effective use of cash and cash equivalent assets, and enhancing financial flexibility. 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 to redeem debt ahead of scheduled maturities as a means of reducing outstanding debt. The Debt Management Program is designed to lower interest costs, fund strategic initiatives, and increase net cash flow. CPS has a Debt Management Policy (“Policy”), providing guidelines under which financing and debt transactions are managed. The Policy focuses on financial options intended to lower debt service costs on outstanding debt; facilitate alternative financing methods to capitalize on the present market conditions and optimize capital structure; and maintain favorable financial ratios. The Policy limits CPS’ gross variable rate exposure to 25% of total outstanding debt.

Electric System

Generating System. CPS operates 19 electric generating units, three of which are coal-fired and 16 of which are gas-fired. Some of the gas-fired generating units may also burn fuel oil, which provides greater fuel flexibility and reliability. With the acquisition of an additional 300 MW purchased from AEP Texas Central Company on May 19, 2005, CPS has a 40.0% interest in STP’s two nuclear generating units. The nuclear units supplied 33.5% of the electric system load for the 12 months ended July 31, 2008.

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

While more work is needed to complete this year’s evaluation, it initially appears that the costs of all physically constructed infrastructures are increasing. Material and labor costs for all types of generation continue to rise. Additionally, regulatory charges may also raise the costs of operating plants, such as those that have been proposed for units that use carbon-based fuels.

To mitigate the pressure on new generation construction requirements, CPS management is expanding its efforts towards expanding community-wide energy efficiency and conservation. These mitigation efforts are increasingly referred to as the “5th Fuel” and are very important to CPS’ strategic energy plans and specifically to its new generation needs. Additionally, CPS management intends to explore opportunities with San Antonio 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 expects that it will complete its current assessment of various generation construction options by the summer or early fall of 2008. Before a commitment would be made to fully construct the next layer of new generation facilities, CPS management will pursue several objectives. These objectives include the pursuit of additional public input; expanded community education about the long-term energy and conservation needs of the San Antonio community; continued option analyses and evaluations, including CPS’ own formalized cost estimates; additional Board approval to move forward; and expanded presentations to the San Antonio City Council, which governs the related rate increases and bond issuances required to support any generation construction project.

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

Ownership
Effective February 2, 2006

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

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

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

During the twelve months ended July 31, 2008, the STP Units 1 and 2 operated at approximately 98.1% and 107.4% of net capacities, respectively. Unit 1 and Unit 2 completed normal refueling outages in the spring of 2006 and in the spring of 2007, respectively. The replacement of low pressure turbines and other plant upgrades during these outages improved plant efficiency and yielded an average increase in electrical output of approximately 68 MW in each unit.

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

According to the filings in one recent suit brought against DOE, at least sixty-six cases have been filed in the Court of Federal Claims against DOE related to its failure to meet its obligations under the NWP by the existing owners or operators of nuclear facilities seeking damages related to ongoing used nuclear fuel storage costs. On August 31, 2000, in *Maine Yankee Atomic Power Company, et. al. v. US*, the United States Court of Appeals for the Federal Circuit affirmed that DOE has breached its obligations to commercial nuclear power plant owners for failing to live up to its obligations to dispose of used nuclear fuel. Subsequent to that decision, DOE has settled with certain commercial nuclear power plant owners and agreed to provide funds to pay for storage costs while DOE continues to develop a permanent high-level waste repository. STP is concurrently participating in litigation to cover its long-term storage costs and negotiating to obtain a reasonable settlement that would provide for those costs.

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

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

Additional Nuclear Generation Opportunities. This section describes some of the initial CPS management investigation, study, analysis, and work product that has been undertaken to explore one type of possible generation infrastructure, additional nuclear capacity. CPS has received Board of Trustee approval to participate in the early development phase of two nuclear projects, both with third-party partners. In providing this preliminary approval, a spending cap of \$216 million, covering an approximate two-year period, was established. The relevant spending period is expected to extend through January 31, 2009.

The first possible nuclear project has been scoped as the development of two additional reactors at the current STP site. These new units are referred to preliminarily as STP 3 & 4. The second possible nuclear project would be a new two-unit facility tentatively located in Victoria County, which is also located in south Texas. Either or both projects, if fully developed by CPS, would deliver a portion of its power for use by San Antonio customers in the ERCOT market.

At this time, CPS’ Board of Trustees has not committed to complete the development of either project and has capped nuclear development spending at \$216 million. In addition, the City Council has not yet received CPS management’s formal assessments and evaluations of these options compared to other possible new generation types. As noted previously, the completion of that information is expected by the late summer or early fall of 2008.

In the interim, the preliminary phases of the nuclear projects continue under their current scopes and general status information is available as follows:

- In June 2007, STP Nuclear Operating Company had signed a technical services agreement with Toshiba Corporation, a major Japanese manufacturer of heavy electrical equipment and developer of ABWRs in Japan. Under this agreement, Toshiba agreed to perform early engineering and procurement work for STP Units 3 and 4. STPNOC, NRG, and CPS are engaged in continuing negotiations with Toshiba, its potential consortium members, and with other vendors about a definitive engineering, procurement and construction agreement. Concurrently, STP Nuclear Operating Company is in the process of reserving the major, long-lead components for STP Units 3 and 4. STP Nuclear Operating Company has already made a reservation for the Unit 3 reactor pressure vessel forgings. Rights and obligations in the agreements with GE-H, Toshiba and other vendors for long-lead equipment and services are now shared with CPS under the terms of the NRG-CPS Supplemental Agreement.
- Regarding the first project, on September 24, 2007, NRG and CPS signed the South Texas Project Supplemental Agreement (“Supplemental Agreement”) under which CPS elected to participate in the preliminary development of two new nuclear units at the STP nuclear power station site, STP Units 3 and 4, pursuant to the terms of the current participation agreement among the STP owners. CPS could own up to 50% of STP Units 3 and 4. The Supplemental Agreement provides for CPS to reimburse NRG for its pro rata share, based on its ownership percentage, of initial project costs incurred and to pay its pro rata share of future development costs. The Supplemental Agreement also provides CPS and NRG with preferred rights of first refusal in the event of certain types of transfers of either NRG’s or CPS’ interests in STP.
- Also on September 24, 2007, CPS, subsidiaries of NRG, and the STP Nuclear Operating Company filed a combined construction and operating license application (“COLA”) with the NRC to build and operate STP Units 3 and 4. The COLA for STP Units 3 and 4 was the first complete application for new commercial reactors to be filed with the NRC in nearly thirty years. In the COLA, the owners propose to use advanced boiling water reactor (“ABWR”) technology, which has been proven in four operating units in Japan. The total projected rated capacity of STP Units 3 and 4 is expected to equal or exceed 2,700 MW. On November 29, 2007, the NRC announced that it had accepted the COLA for review.

In order to develop the COLA and to provide on-going licensing support, STP Nuclear Operating Company had entered into an interim services agreement with General Electric Company (“GE”). Subsequent to

entering into that agreement, GE entered into a joint venture in which it transferred its nuclear business to a company called GE-Hitachi Nuclear Company (“GE-H”). GE assigned its responsibilities under the interim services agreement to GE-H. Despite its obligations in the interim services agreement, GE-H suspended licensing support for the COLA soon after it was filed with the NRC. CPS and NRG are continuing to hold discussions with vendors, including GE-H, to develop STP Units 3 and 4. Until these vendor issues are resolved, STP Nuclear Operating Company asked the NRC to limit its review of the COLA to environmental and other generic issues and the NRC has suspended closure of the public intervention period.

- Turning to the second project, in December 2007, CPS and Exelon Generation Company LLC (“Exelon”) signed an agreement granting CPS an option to participate in a possible joint investment in a nuclear-powered electric generation facility in southeast Texas (“Exelon Project”). Preliminary plans indicate that the Exelon Project would be located in Victoria County and would involve the development of two Economic Simplified Boiling Water Reactors, nominally rated at 1,550 megawatts each. Under this agreement, CPS has the option to acquire between a 25% and a 40% ownership in the Exelon Project. Exelon is continuing its due diligence and development of a COLA for the Exelon Project. Exelon is expected to make its decision on whether to build the Exelon Project sometime in late 2009.

Qualified Scheduling Entity. CPS operates as an ERCOT Level 4 Qualified Scheduling Entity (“QSE”) representing all of CPS’ assets and load. The communication with ERCOT and the CPS power plants is monitored and dispatched 24 hours per day/365 days a year. Functions are provided from the Energy Market Center housed within the main office. Backup facilities have also been created. QSE functions include load forecasting, day ahead and real time scheduling of load, generation and bilateral transactions, generator unit commitment and dispatch, communications, invoicing and settlement.

The QSE will update systems and prepare personnel to accommodate the newly designed ERCOT “Nodal” Market design. See “Post Senate Bill 7 Wholesale Market Design Developments”. The new market design will vastly change the procedures to dispatch generation and schedule bilateral transactions. CPS is currently designing new processes and systems to continue to operate as a QSE in the new market.

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

Distribution System. The distribution system is supplied by 73 substations strategically located on the high voltage 138 kV transmission system. The central business district of the City is served by nine underground networks, each consisting of four primary feeders operated at 13.8 kV, transformers equipped with network protectors, and both a 4-wire 120/208 volt secondary grid system and a 4-wire 277/480 volt secondary spot system. This system is well designed for both service and reliability.

Approximately 7,580 circuit miles (three-phase equivalent) of overhead distribution lines are included in the distribution system. These overhead lines also carry secondary circuits and street lighting circuits. The underground distribution system consists of 348 miles of three-phase equivalent distribution lines, 83 miles of three-phase Downtown Network distribution lines, and 4,323 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground residential distribution systems. At July 31, 2008, the number of street lights in service was 76,988. The vast majority of the lights are high-pressure, sodium vapor units.

Gas System

Supply Pressure System. The supply pressure system consists of a network of approximately 200 miles of steel mains that range in size from 4 to 30 inches. The entire system is coated and cathodically protected to mitigate corrosion. The supply pressure system operates at pressures between 50 pounds per square inch gauge (“psig”) and 274 psig, and supplies gas to 266 pressure regulating stations throughout the gas distribution system which reduce the pressure to between 9 psig and 59 psig for the distribution system. A Supervisory Control and Data Acquisition

computer system (“SCADA”) monitors the gas pressure and flow rates at many strategic locations within the supply pressure system, and most of the critical pressure regulating stations and isolation valves are remotely controlled by SCADA.

Distribution System. The gas distribution system consists of approximately 4,841 miles (including the supply pressure system). The system consists of 2 to 16-inch steel mains and 1-1/4 to 8-inch high-density polyethylene (plastic) mains. The distribution system operates at pressures between 9 psig and 59 psig. All steel mains are coated and cathodically protected to mitigate corrosion. The vast majority of the gas services are connected to the distribution system, and the gas normally undergoes a final pressure reduction at the gas meter to achieve the required customer service pressure. Critical areas of the distribution system are remotely monitored by SCADA.

Implementation of New Accounting Policies

For the fiscal year ended January 31, 2008, CPS implemented:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement establishes additional guidance for financial reporting for other postemployment benefit plans (“OPEB”). It provides standards for the measurement, recognition, and display of OPEB expense and the related balance sheet items. Disclosure requirements have been incorporated into Note 9 – Other Postemployment Benefits.

Prior to Fiscal Year (“FY”) 2008, the City Public Service Disability Income Plan, Group Life Insurance Plan, and Group Health Plans (“Employee Benefit Plans”) were reported as component units of CPS, and their financial results were blended with those of CPS. In order to properly implement GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, the Employee Benefit Plans have been removed as component units from the CPS financial statements for FY 2008. Additionally, the FY 2007 financial statements have been restated with the removal of these component units for ease of comparability to current-year results. The financial statements of the Employee Benefit Plans are separately audited and reported.

- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The statement provides guidance on how to account for sales and pledges of receivables. As of January 31, 2008, CPS had not engaged in this type of activity.
- GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. The statement establishes more extensive disclosure requirements for pension plans similar to the OPEB disclosure requirements in GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, implemented in FY 2007 by the Employee Benefit Plans. Disclosure requirements for the employer have been incorporated into Note 8 – Employee Pension Plan.

Other than the aforementioned changes, there were no additional significant accounting principles or reporting changes implemented in the fiscal year ending January 31, 2008. Other accounting and reporting changes that occurred during the prior reporting year continued into the fiscal year ending January 31, 2008.

Recent Financial Transactions

On December 1, 2007, CPS redeemed \$5,000,000 and remarketed for a three-year term rate, \$152,000,000 of obligations designated as City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Series 2004.

On May 29, 2008, City Council authorized CPS to issue approximately \$300,000,000 in tax-exempt revenue bonds. The bond proceeds were received June 26, 2008, and will be utilized for general system improvements.

City Public Service Historical Net Revenues and Coverage

	Fiscal Years Ended January 31, (Dollars in Thousands)				
	2004	2005	2006	2007	2008
Gross Revenues ¹	\$ 1,526,904	\$ 1,473,254	\$ 1,754,927	\$ 1,822,230	\$ 1,943,313
Maintenance & Operating Expenses	942,471	882,508	1,057,035	1,104,037 ²	1,177,337
Available For Debt Service	<u>\$ 584,433</u>	<u>\$ 590,746</u>	<u>\$ 697,892</u>	<u>\$ 718,193</u>	<u>\$ 765,976</u>
Actual Principal and Interest Requirements:					
Senior Lien Obligations ³	<u>\$ 230,250</u>	<u>\$ 245,984</u>	<u>\$ 256,442</u>	<u>\$ 271,931</u>	<u>\$ 290,954</u>
Junior Lien Obligations ⁴	<u>\$ 2,111</u>	<u>\$ 4,386</u>	<u>\$ 10,964</u>	<u>\$ 15,006</u>	<u>\$ 15,179</u>
Actual Coverage-Senior Lien	2.54x	2.40x	2.72x	2.64x	2.63x
Actual-Senior and Junior Lien	2.52x	2.36x	2.61x	2.50x	2.50x

¹ Calculated in accordance with the ordinances.

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

³ Net of accrued interest where applicable.

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

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San Antonio Water System

History and Management

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

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

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

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

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

Service Area

SAWS provides water and wastewater service to the majority of the population within the corporate limits of the City and Bexar County, which totals approximately 1.6 million residents. SAWS employs approximately 1,600 personnel and maintains over 9,500 miles of water and sewer mains. The tables that follow show historical water consumption and water consumption by class for the fiscal years indicated.

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Historical Water Consumption (Million Gallons) ⁽¹⁾

Fiscal Year	Gallons of Water Production	Gallons of Water Usage	Gallons of Water Unbilled	Average Percent Unbilled	Gallons of Wastewater Treated	Total Direct Rate			
						Water		Sewer	
						Base Rate ^(b)	Usage Rate ^(c)	Base Rate ^(d)	Usage Rate ^(e)
1999	57,913	53,520	4,393	7.59%	49,476	\$ 5.13	\$ 5.74	\$ 5.70	\$ 7.14
2000	60,021	57,144	2,877	4.79%	53,016	5.61	6.20	5.70	7.14
2001	57,243	53,047	4,196	7.33%	52,344	5.61	9.19	5.70	7.14
2001 ^(a)	36,883	34,716	2,167	5.88%	29,561	5.61	9.19	5.70	7.14
2002	52,698	51,850	848	1.61%	52,180	5.61	11.97	5.70	7.14
2003	54,540	50,576	3,964	7.27%	49,669	5.61	13.20	5.70	7.14
2004	52,588	49,366	3,222	6.13%	49,593	5.61	15.47	6.60	8.19
2005	58,489	55,005	3,484	5.96%	49,287	6.11	18.42	7.33	9.10
2006	63,388	57,724	5,664	8.94%	53,268	6.56	19.59	7.37	9.14
2007	55,043	49,511	5,532	10.05%	49,218	6.56	19.59	7.37	9.14

⁽¹⁾ Unaudited.

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

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

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

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

^(e) 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									
	2007	2006	2005	2004	2003	2002	2001 ^(a)	2001	2000	1999
Water Sales ^(b) :										
Residential Class	26,651	33,162	30,917	27,054	27,624	28,227	19,398	28,621	31,008	29,496
General Class	19,166	20,232	19,769	18,851	19,464	20,155	13,444	23,042	25,512	23,496
Wholesale Class	90	114	121	98	137	173	347	535	624	528
Irrigation Class	3,604	4,216	4,198	3,364	3,350	3,295	1,527	848	0	0
Total Water	49,511	57,724	55,005	49,367	50,575	51,850	34,716	53,046	57,144	53,520
Wastewater Sales:										
Residential Class	27,384	28,857	25,293	25,421	24,860	25,564	13,594	26,472	26,124	23,820
General Class	18,670	21,152	21,414	20,952	21,418	22,319	13,209	21,516	22,980	21,660
Wholesale Class	3,164	3,259	2,580	3,220	3,391	4,297	2,758	4,356	3,912	3,996
Total Wastewater	49,218	53,268	49,287	49,593	49,669	52,180	29,561	52,344	53,016	49,476
Conservation -										
Residential Class ^(c)	2,432	4,276	3,613	2,634	2,636	2,742	2,757	1,460	3,629	3,541
Recycled Water Sales	1,164	1,801	1,014	592	608	727	219	258	0	0

¹ Unaudited.

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

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

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

Source: SAWS.

SAWS System

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

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

Waterworks System. The City originally acquired its waterworks system in 1925 through the acquisition of the San Antonio Water Supply Company, a privately owned company. Since such time and until the creation of SAWS in 1992, management and operation of the waterworks system was under the control of the City Water Board. The SAWS’ waterworks system currently extends over approximately 620 square miles, making it the largest water purveyor in Bexar County. SAWS serves more than 80% of the water utility customers in Bexar County and provides potable water service on average to approximately 341,220 customers, which includes residential, commercial, multifamily, industrial, and wholesale accounts. To service its customers, the waterworks system utilizes 24 elevated storage tanks and 39 ground storage reservoirs, of which 13 act as both, with combined storage capacities of 164 million gallons. As of December 31, 2007, the waterworks system had in place 4,673 miles of distribution mains, ranging in size from 6 to 61 inches in diameter (the majority being between six and 12 inches), and 25,004 fire hydrants distributed evenly throughout the SAWS service area.

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

SAWS serves the residents of the City, 18 governmental entities, and other customers outside the corporate limits of the City. As Regional Agent, SAWS has certain prescribed boundaries that currently cover an area of approximately 517 square miles. SAWS also coordinates with the City for wastewater planning for the City’s total planning area, ETJ, of approximately 956 square miles. The population for this planning area is approximately 1.2 million people. SAWS currently provides wastewater services to approximately 380,000 customers.

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

The wastewater system is composed of approximately 4,877 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 a combined treatment capacity of 177.5 million gallons per day. The permitted flows from the wastewater system’s three regional treatment plants represent approximately 98% of the municipal discharges within the 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 to the ETJ boundary of the City of San Antonio. When the TCEQ grants a CCN to a water or sewer purveyor, it provides that purveyor with a monopoly for retail service. By expanding the CCN’s to the ETJ, developments needing retail water and sewer service within the ETJ

must apply to SAWS. Service can then be provided according to System standards and small, undersized systems can be avoided. The System's CCN application for water covers about 60,000 acres and the application for sewer about 435,000 acres. The expansion of the CCN to the ETJ also supports development regulations for the City. Within the ETJ, the City has certain standards for development. These standards somewhat insure the City that areas developed in the ETJ and then annexed by the City, will already have some City development regulations in place. The applications are currently proceeding through the TCEQ administrative and legal processes.

Recycling Water System. SAWS is permitted to sell Type I (higher quality) recycled water from its wastewater treatment plants and has been doing so since 2000. The water recycling program is designed to provide 35,000 acre-feet per year of recycled water to commercial and industrial businesses in San Antonio. This system is comprised of two north/south transmission lines. Approximately 80 miles of pipeline delivers highly treated effluent to 82 customers consisting of golf courses, parks, and commercial and industrial customers throughout the city. The system was also designed to provide baseflows in the upper San Antonio River and Salado Creek, and the result has been significant and lasting environmental improvements for the aquatic ecosystems in these streams.

Chilled Water and Steam System. SAWS owns and operates eight thermal energy facilities providing chilled water and steam services to governmental and private entities. Two of the facilities, located in the City's downtown area, provide chilled water and/or steam service to 23 customers. Various City facilities, that include the Convention Center and Alamodome, constitute approximately 75% of the downtown system's chilled water and steam annual production requirements. The remaining six thermal energy facilities, owned and operated by SAWS, provide chilled water and steam services to large industrial customers located in the Port industrial area. SAWS' chilled water-producing capacity places it as one of the largest producers of chilled water in South Texas. SAWS also operates and maintains the thermal energy plants at Brooks City Base under an agreement with the Brooks Development Authority. Together, chilled water and steam services produced \$13,101,371 in revenues in fiscal year 2007.

Stormwater System. In September 1997, the City created its Municipal Drainage Utility and established its Municipal Drainage Utility Fund to capture revenues and expenditures for services related to the management of the municipal drainage activity in response to Environmental Protection Agency-mandated stormwater runoff and treatment requirements. The City, along with SAWS, has the responsibility, pursuant to the "Authorization to Discharge under the National Pollutant Discharge Elimination System" (the "Permit"), for water-quality monitoring and maintenance. The City and SAWS have entered into an interlocal agreement to set forth the specific responsibilities of each regarding the implementation of the requirements under the Permit. The approved annual budget for the SAWS share of program responsibilities for fiscal year 2008 is \$4,210,843, for which SAWS is reimbursed \$3,358,241 from the stormwater utility fee imposed by the City.

Water Supply

In August 2005, the System completed a comprehensive analysis of its existing water supply projects and developed a series of conservation and water resource strategies that will enable it to provide adequate water supplies, even during critical drought periods; postpone dependence on more costly resources, when possible; promote greater use of non-Edwards Aquifer supplies in the long-term; fulfill the needs of San Antonio customers, while providing the Bexar County region with the option to utilize the System as a regional wholesale provider; and recognize the reality that future water supplies must be affordable.

These strategies are outlined in the 2005 Update to the System's Water Resource Plan (the "2005 Update"). The 2005 Update is a continuation of the process that began in 1996 to develop a fifty-year plan. In 1996, the City Council appointed a 34-member citizen's committee to develop strategic policies and goals for water resource management. The Citizens Committee on Water Policy report, entitled "A Framework for Progress: Recommended Water Policy Strategy for the San Antonio Area," was unanimously accepted by City Council, becoming the foundation for the System's "Water Resources Plan." On November 5, 1998, the City Council accepted the Water Resources Plan "Securing Our Water Future Together" as the first comprehensive widely-supported water resource plan for San Antonio. The 1998 plan established programs for immediate implementation, as well as a process for developing long-term water resources. In October 2000, the City Council created a permanent funding mechanism (known as the Water Supply Fee) for water supply development and water quality protection through Ordinance No. 92753. The Water Supply Fee provides a specific fund for the development of water resources.

In August 2005, the System's Board of Trustees unanimously approved the 2005 Update. The 2005 Update is a comprehensive review of the assumptions governing population and per capita consumption projections in Bexar County through 2050. The 2005 Update includes an analysis of each water supply alternative available for meeting future needs and demonstrates the System's commitment to increasing the diversification of its water inventory. The estimated cost opinion for the water supply projected identified in the 2005 Update totaled approximately \$2.8 billion; however, recent cost re-estimates have increased this amount to approximately \$3.5 billion. As a result of some of the identified cost increases as well as changes in personnel, in June 2008, a Water Supply Task Force was assembled to review, evaluate, and perform an update of the 2005 Update. This task force, currently in the middle of considerations, is scheduled to perform its review with a desire to develop recommendations to be delivered to the SAWS Board of Trustees in late 2008 (the "2008 Update").

Edwards Aquifer

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

Much of the Edwards Aquifer region consists of agricultural land, but it also includes areas of population ranging from communities with only a few hundred residents to the City, which serves as a home for well over one million residents. In 2007, the Edwards Aquifer will supply 93% of the water for municipal, domestic, industrial, commercial, and agricultural needs in the greater San Antonio area. Naturally occurring artesian springs, such as the Comal Springs and the San Marcos Springs, are fed by Edwards Aquifer water and are utilized for commercial, municipal, agricultural, and recreational purposes, while at the same time supporting ecological systems containing rare and unique aquatic life.

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

In 1993, the Texas Legislature created the Edwards Aquifer Authority ("EAA") to manage groundwater withdrawals from the Edwards Aquifer through a permitting system and to provide for appropriate springflow during drought periods. As a consequence of the EAA's permitting regime, the System's access to Edwards Aquifer supplies is now limited to its historic use and subject to regulation during periods of drought.

As part of its long-term water supply plan, the System has initiated a program to acquire up to 60,000 acre-feet of additional Edwards Aquifer groundwater withdrawal rights by the purchase of these groundwater withdrawal rights in the open market. The direction outlined in the 2005 Update contemplated the acquisition of Edwards Aquifer water rights by purchase only. Due to variations in market conditions, SAWS acquisition effort has evolved into a program that is a mix of purchases and leases. The combined total of Edwards Aquifer groundwater rights added to the System's inventory since 2005 is approximately 27,000 acre-feet. This includes leases that are expiring and those that have been added. This number is dynamic primarily due to the fluctuations in lease inventory in any given year.

In 2007, the Texas Legislature passed Senate Bill 3, which established a new pumping cap and placed restrictions on supply availability during drought periods into state statute. Senate Bill 3 established a regional pumping cap of 572,000 acre-feet. The System currently has access to 40% of this figure. Senate Bill 3

incorporates restrictions on supply availability during drought periods into state statute, thus making these restrictions state law. In addition, to support ongoing efforts to identify and evaluate methods to protect threatened and endangered species, the Texas Legislature prescribed in detail a Recovery Implementation Plan (“RIP”) for the Edwards Aquifer region. The RIP, which will be undertaken in coordination with U.S. Fish and Wildlife Service, is intended to help the region meet the needs of endangered species, while respecting and protecting the legal rights of water users.

Edwards Aquifer Recharge Initiatives

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

The Nueces, San Antonio, and Guadalupe River Basins are favorable for development of recharge projects. Of the three basins, the Nueces Basin is the most prolific in terms of recharge effectiveness. With assistance from the U.S. Army Corps of Engineers and other regional partners, studies are currently under way within the Cibolo Creek Watershed and the Nueces River Basin. The results of these studies will identify which sites will have the most potential for recharge enhancement. With the recharge structures tentatively identified, the 2005 Update predicted a yield of 13,400 acre-feet per year. This project will cost an estimated \$118 million in capital cost and \$1.7 million in annual operation and maintenance.

The System is evaluating the feasibility of the development of recharge structures in the Cibolo Creek Watershed and the Nueces River Basin in concert with a host of local agencies, including the Guadalupe-Blanco River Authority, San Antonio River Authority, and the U.S. Army Corps of Engineers. In 2007, feasibility analyses continued to refine sites for potential dams, evaluate surface water storage potential, and prepare for environmental permitting.

Oliver Ranch (Massah Corporation) and BSR Water Company (Sneckner Partners Ltd.) Projects

The System reached a milestone in February 2002 with the introduction of the first non-Edwards drinking water supply from the Lower Glen Rose/Cow Creek formation of the Trinity Aquifer in northern Bexar County. The System has wholesale contracts with Massah Corporation (Oliver Ranch) and Sneckner Partners, Ltd. (BSR Water Company) for delivery of up to 5,000 acre-feet per year of non-Edwards groundwater from the Trinity Aquifer from two properties located in north-central Bexar County. The construction cost to produce and deliver this water supply is approximately \$12 million. Initial delivery of water from the Oliver Ranch project began in February 25, 2002 with BSR Water Company wells 1 and 2 production in July 2003. The BSR Water Company project was fully operational in June 2004 with the connection of BSR Water Company wells 3 and 4 to the System's distribution system.

In 2007, production from Oliver Ranch and BSR projects was 3,126 acre-feet. In 2008, production from these combined projects is expected to total approximately 3,500 acre-feet.

Western Canyon Project

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

The System began receiving water from this project in April 2006. In 2006, the System received 4,957 acre-feet of supplies from this project. In 2007, the System produced approximately 6,956 acre-feet of supplies

from this project, in addition to completing the addition of a storage tank and integration pipeline to facilitate delivery of this supply into our distribution system. In 2008, 9,500 acre-feet is the anticipated delivery from this project. Pursuant to the terms of the contract with GBRA, this contract will terminate in 2037, with an option to extend until 2077 under new payment terms.

Brackish Groundwater Desalination Project

The 2005 Update includes a recommendation that the System develop a brackish groundwater desalination project. This project involves the development of a moderately-sized water supply facility with the capacity to treat at least 20 mgd. Such a project is well suited for the south central Texas region, which contains more than 4,000,000 acre-feet of brackish groundwater. Hydrologic research on the sustainability of supply and water quality parameters began in December 2005.

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

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

This technical analysis is being accompanied by an evaluation of the potential benefit and feasibility of applying innovative procurement methods, such as Design Build, Design Build Operate, and Design Build Own Operate Transfer strategies. In 2007, the System supported efforts to enable Design Build to be used for brackish groundwater and wastewater projects. During the 80th Legislative Session, the Texas Legislature passed HB 1886, which authorized Design Build for water and wastewater projects.

Carrizo Aquifer Projects

In 2008, the System continues the development of plans to deliver and treat up to 56,200 acre-feet of groundwater from the Carrizo Aquifer in Gonzales and Wilson Counties. The project will be developed in phases, with delivery of water from the first phase (22,600 acre-feet) planned for 2013. Phase I has an estimated capital cost of approximately \$204 million. If all phases of the project are completed, the combined capital costs are approximately \$325 million.

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

Throughout 2007 and continuing into 2008, the System participated in several public hearings and multiple mediation sessions as part of the contested case hearing process. Resolution is anticipated in 2009 with construction activities commencing soon after permits are issued.

Lower Colorado River Authority Project

The Lower Colorado River Authority-San Antonio Water System (LCRA-SAWS) Water Project would conserve, develop, and make available up to 150,000 acre-feet per year of surface water supplies for San Antonio by 2025 while firming up water supplies in the Colorado River basin. In February 2001, a Memorandum of Agreement with LCRA outlining the terms for a future binding contract was signed. That same year, legislation was passed to authorize LCRA to sell water outside its statutory boundary to the System. The System and LCRA executed a definitive agreement (2002) outlining LCRA's and the System's obligations consistent with the Memorandum of Agreement. The System and LCRA are now entering the fifth year of the study period to assess the environmental, engineering, and cost impacts. Finalization of studies and obtaining appropriate permits for the project are expected to be complete between 2013 and 2015. The estimated project cost, including study period costs, design, and construction, is approximately \$2.3 billion.

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

Bexar County Aquifer Storage and Recovery

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

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

In 2006, the ASR was an integral component of the System's drought management strategy. By the end of the first quarter 2006, the System was able to amass more than 26,000 acre-feet of water stored since the project's inception. Approximately 5,800 acre-feet of supplies were withdrawn primarily during the hot, dry summer months in order to reduce peak demand during the drought period. Effective scheduling and use of this additional inventory enabled the System to ensure its compliance with the EAA's rules for groundwater withdrawals.

In 2008, the System continues capital improvements to complete Phase II of the project, which involves well field expansion through the completion of thirteen additional wells, the addition of a 7.5 million gallon tank, and the addition of various pumping facilities, among other improvements. The \$55 million Phase II expansion is on schedule for completion in November 2008 and will effectively double the System's ability to inject or recover Edwards Aquifer to 60,000 acre-feet per year. While underway, the System has continued to store water in the ASR. At the end of July 2008, the total ASR storage volume was approximately 48,000 acre-feet. During July 2008, ASR water was recovered and returned to the System's distribution system when the Edwards Aquifer Authority implemented State I water restrictions. The System ASR facility was recognized in 2007 by the National Groundwater Association as the "2007 Outstanding Groundwater Project."

Local Carrizo Water Supply Project

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

The approximately \$17 million Local Carrizo Water Supply program is being constructed in two phases: an ASR onsite phase and an ASR offsite phase. The onsite phase has been completed with the offsite phase anticipated to be complete by February 2010.

Water Reuse Program

The System owns the treated effluent from its wastewater treatment plants and has the authority to contract to acquire and to sell non-potable water inside and outside the System's water and wastewater service area. The System has developed a water reuse program utilizing the wastewater stream. Currently, approximately 23,000 acre-feet are under contractual commitment and 12,600 acre-feet are on-line. The System will deliver up to 35,000 acre-feet per year of reuse water for non-potable water uses including golf courses and industrial uses that are currently being supplied from the Edwards Aquifer. This represents approximately 20% of the System's current usage. Reuse water will be delivered for industrial processes, cooling towers, and irrigation, which would otherwise rely on potable quality water. Combined with the 45,000 acre-feet per year used by CPS, this is the largest reuse water project in the country. The System has a contract with CPS through 2030 for provision of such reused water. The revenues derived from the CPS contract have been excluded from the calculation of Gross Revenues, and are not included in any transfers to the City.

Conservation

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

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

Indoor Residential Conservation

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

“Toilet Retrofits,” which involve the distribution of high-efficiency toilets, provide a substantial water savings for San Antonio. The System sponsors activities like the “Season to Save Community Challenge,” which tests the idea that non-profit organizations are effective at motivating ratepayers to

participate in resource management programs. In 2007, the System distributed 27,000 high-efficiency toilets, in comparison to its annual goal of 16,900 high-efficiency toilets.

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

Outdoor Residential Conservation

Residential outdoor programs address landscape and irrigation practices of homeowners. Outdoor use can account for up to 50% of total residential water use in the summers and average 20% of the water used annually. Education programs help ratepayers understand how following best practices can save water and money. Among the System’s most effective programs for outdoor water use reduction:

“Irrigation Check-Ups” provide the System’s ratepayers with a free analysis of their in-ground irrigation system. Trained conservation technicians visit homes to review each component of irrigation systems to determine maintenance needs to make suggestions for improving efficiency. Customers are invited to participate in the review process to get the maximum benefit from the site visit. A report that outlines any necessary maintenance repairs, suggestions for design improvements and how much water the system uses is mailed to customers. The report includes rebate incentive amounts available for making suggested design improvements.

“Seasonal Irrigation Program (SIP)” is a free information service provided to customers who want expert advice on how to water their lawns. The irrigation advice is based on evapotranspiration (“ET”) data calculated from a local weather station. Horticulture experts from the Texas Cooperative Extension use the ET data to make weekly irrigation recommendations for recommended grass varieties. Customers receive the advice through e-mail, recorded phone message, the local newspaper, a SIP hotline, or the System’s web site. Volunteers from the Bexar County Master Gardeners and Garden Volunteers of South Texas have been trained on lawn care and the SIP program. They help market the program through neighborhood workshops, local events, corporate brown bags and other speaking opportunities. Several thousand people are in the SIP database to receive the free SIP messages each week. More will be added as customers learn about the program from the trained volunteers.

Commercial and Industrial Programs

The System has been working closely with commercial customers to help them conserve water for several years. In 1998, the commercial and industrial programs were expanded to include the toilet retrofit rebates previously offered only to residential customers. Water audits and case-by-case rebates for large-scale retrofits are also available. Since 1996, car wash businesses that meet certain conservation criteria are certified and provided a sign to be posted on their place of business. Every year the System presents the WaterSaver Awards to recognize businesses, organizations, and/or individuals that voluntarily initiated water conservation practices. Among the System’s most effective programs for commercial and industrial water use reduction:

“Commercial Toilet Distribution Program” allows apartments and other businesses with older, high-flow toilets to replace them by receiving free toilets from the System. Upon completion of all retrofits, we provide a rebate of \$25 per toilet to program participants. This program also provides participants replacing more than 50 high-flow toilets a \$50.00 per retrofit incentive if all retrofits are completed within 30 calendar days from the date in which the toilets were provided to the customer. If the toilets are elongated, a \$25.00 rebate applies.

“Restaurant Certification Program” is the result of the System working with the San Antonio Restaurant Association. Participating restaurants receive replacement spray valves for their kitchen, have

older toilets replaced, and learn about other ways they can reduce their water bills. The program has been very popular with restaurants. To date, 1,200 restaurants have been certified, with the replacement of 2,200 high-flow pre-rinse spray valves and 687 high-flow toilets. Total water savings associated with this program equates to 577 acre-feet per year. A list of the Certified WaterSavers Restaurants is available on the System's website.

"Large-scale Retrofits Program" allows large-scale water users to apply on a case-by-case basis for a rebate for installation of water conserving equipment. The rebate may be for up to one-half of the cost of the retrofit, depending on the amount of water to be saved and other factors. The program requires a pre-audit, a pre-inspection, and ongoing verification of water savings.

"Cooling Tower Audits" help businesses manage their cooling towers as efficiently as possible. This program provides for free audits of all cooling towers within the System's service area. A cooling tower audit provides the customer with a detailed engineering report on their specific operation, as well as recommendations for achieving water and energy savings through increased cycles of concentration, capture of blowdown water for reuse in other applications, or installation of other water-conserving equipment.

Agricultural Conservation and Irrigation Efficiency

The System has been successful in developing partnership throughout the region as well as with federal agencies through cost-share programs. The System has partnered with the United States Department of Agriculture ("USDA") and farmers to acquire efficient irrigation systems in exchange for Edwards Aquifer water rights. The System is also currently working with the Army Corps of Engineers, the Natural Resource Conservation Service and other local sponsors on programs designed to enhance recharge of the Edwards Aquifer through impoundment structures and brush management.

Water Quality

The System's Resource Protection and Compliance Department is responsible for protecting the quality of the Edwards Aquifer and conducting technical evaluations of how to increase its yield. The Texas Commission on Environmental Quality has adopted rules relating to the activities of landowners in the recharge and drainage zones of the Edwards Aquifer. The City has adopted ordinances applicable within its city limits that limit or regulate activities, which could be harmful to water quality and has, through its Unified Development Code, regulated certain development within the City's extraterritorial jurisdiction (five miles from city limits).

Research on the Edwards Aquifer is conducted as part of the Edwards Aquifer Optimization program. This is a comprehensive program that identifies and evaluates technical options to increase available yield from the Edwards Aquifer and to attempt to use the aquifer's storage capacity more efficiently. In 2007, the System continued its investigative studies concerning the freshwater/saline-water interface of the Edwards Aquifer. The goal of these studies is to gain a better understanding of the hydrogeologic framework, chemical and hydraulic characteristics, and ground water flowpaths of the freshwater-saline water interface of the Edwards Aquifer. In the fall of 2007, the System also commenced an evaluation of the hydrogeology and water balance of San Marcos Springs, in support of the scientific efforts to be initiated for the Edwards Aquifer Recovery Implementation Program. The goal of this study is to define and characterize sources for recharge and local flowpaths to San Marcos Springs. In addition, the study will determine local influences and contributions to the San Marcos Springs from the Edwards Aquifer, and Trinity Aquifer, as well as from streams and rivers in the area.

In October 2000, the City Council created a permanent funding mechanism (The "Water Supply Fee") to be used for water supply development and water quality projection. The Water Supply Fee is assessed on all potable water service for water usage in every instance of service for each month or fraction thereof.

A listing of scheduled water supply fees for years 2001 through 2005 is provided in the following table:

Year	Approved Incremental Charge Per 100 Gallons	Total Approved Charge Per 100 Gallons	Actual Assessment
2001	\$0.0358	\$0.0358	\$0.0358
2002	0.0350	0.0708	0.0708
2003	0.0230	0.0938	0.0844
2004	0.0190	0.1128	0.1100
2005	0.0250	0.1378	0.1378

Source: SAWS, approved by City Council.

On November 17, 2005, the City Council approved the following Water Supply Fee effective January 1, 2006 to remain in effect until amended by City Council. The fee assessed per 100 gallons is \$0.1487.

Capital Improvement Plan

The following is a proposed five-year Capital Improvement Program for SAWS. It is the intention of SAWS to fund the program with tax-exempt commercial paper, impact fees, system revenues, and future bond issues. SAWS budgeted the following capital improvement projects during calendar year 2008:

- \$21.8 million for the wastewater treatment program to repair, replace, or upgrade treatment facilities;
- \$47.9 million for the wastewater collection program to fix deteriorated components of the collection system, and provide capacity for future growth;
- \$29.0 million to replace sewer and water mains;
- \$40.3 million for the governmental replacement and relocation program;
- \$5.3 million to construct new production facilities;
- \$10.3 million for the water distribution program to fix deteriorated components of the distribution system, and provide capacity for future growth; and
- \$56.1 million for water supply development, water treatment, and water transmission projects for new sources of water.

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

	Fiscal Year Ended December 31,					Total
	2008	2009	2010	2011	2012	
Water Supply	\$ 72,301,160	\$ 207,913,048	\$ 220,657,144	\$ 70,309,908	\$ 66,128,149	\$ 637,309,409
Water Delivery	60,305,837	77,598,862	76,752,283	76,030,736	73,054,536	363,742,254
Wastewater	98,282,473	87,400,000	90,022,000	92,722,660	95,504,340	463,931,473
Heating and Cooling	3,024,000	188,240	190,424	192,674	194,991	3,790,329
Total	\$ 233,913,470	\$ 373,100,150	\$ 387,621,851	\$ 239,255,978	\$ 234,882,016	\$1,468,773,465

Source: SAWS. Project Funding Approach

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

	Fiscal Year Ended December 31,					
	2008	2009	2010	2011	2012	Total
Revenues	\$ 46,830,862	\$ 35,670,454	\$ 27,414,762	\$ 30,866,341	\$ 41,132,923	\$ 181,915,342
Impact Fees	36,634,866	78,812,111	44,315,511	33,390,430	33,390,430	226,543,348
Debt Proceeds	150,447,742	258,617,585	315,891,578	174,999,207	160,358,663	1,060,314,775
Total	<u>\$233,913,470</u>	<u>\$373,100,150</u>	<u>\$387,621,851</u>	<u>\$239,255,978</u>	<u>\$234,882,016</u>	<u>\$1,468,773,465</u>

Source: SAWS.

San Antonio Water System Summary of Pledged Revenues for Debt Coverage ⁽¹⁾
(\$000)

Year	Gross Revenues ^(c)	Operating Expenses ^(d)	Net Revenue Available	Revenue Bond Debt Service ^(b)				Maximum Annual Debt Service Requirements			
				Principal	Interest	Total	Coverage ^(e)	Total Debt	Coverage	Senior Lien Debt	Coverage
2007	\$347,391	\$188,180	\$159,211	\$24,880	\$67,785	\$92,665	1.72	\$102,880	1.55	\$86,138	1.85
2006	374,831	179,903	194,928	22,415	62,947	85,362	2.28	91,175	2.14	78,373	2.49
2005	332,669	173,490	159,179	16,505	54,987	71,492	2.23	94,992	1.68	78,373	2.03
2004	264,782	153,860	110,922	7,735	52,205	59,940	1.85	84,941	1.31	67,203	1.65
2003	242,488	152,743	89,745	5,515	44,614	50,129	1.79	76,075	1.18	61,511	1.46
2002	240,375	134,977	105,398	25,045	39,589	64,634	1.63	66,268	1.59	61,511	1.71
2001 ^(a)	136,235	78,448	57,787	0	20,345	20,345	n/a	n/a	n/a	n/a	n/a
2001	207,225	121,351	85,874	23,760	36,661	60,421	1.42	66,994	1.28	56,293	1.53
2000	197,446	115,016	82,430	18,990	35,231	54,221	1.52	62,099	1.33	53,566	1.54
1999	181,801	100,430	81,371	17,960	31,456	49,416	1.65	49,385	1.65	49,385	1.65

⁽¹⁾ Unaudited.

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

(b) Details regarding outstanding debt can be found in the notes to the financial statements. All bonded debt is secured by revenue and is included in these totals.

(c) Gross Revenues are defined as operating revenues plus nonoperating revenues less revenues from the City Public Service contract and interest on Project Funds.

(d) Operating Expenses reflect operating expenses before depreciation as shown on the Statement of Revenues, Expenses and Changes in Equity.

(e) SAWS bond ordinance requires the maintenance of a debt coverage ratio of at least 1.25x the annual debt service on outstanding senior lien debt.

n/a Not applicable due to short period.

Source: SAWS.

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The Airport System

General

The City's airport system consists of the San Antonio International Airport (the "International Airport" or the "Airport") and Stinson Municipal Airport ("Stinson") (the International Airport and Stinson, collectively, the "Airport System"), both of which are owned by the City and operated by its Department of Aviation (the "Department").

The International Airport, located on a 2,600-acre site that is adjacent to Loop 410 freeway and U.S. Highway 281, is eight miles north of the City's downtown business district. The International Airport consists of three runways with the main runway measuring 8,502 feet and able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 24 second-level gates. Presently, the following domestic air carriers provide service to San Antonio: American, American Connection (Trans States), Continental, Delta, ASA, Air Tran, Comair, Skywest (Delta and United Connection), Frontier, Northwest, Pinnacle (Northwest Connect), Shuttle America (Delta and United Connection), Southwest, Spirit, United, Go Jet (United Express), Mesa (United Express), and US Airways. Aeromexico, Mexicana, and Aeromar are Mexican airlines that provide passenger service to Mexico.

An Airport Master Plan for the International Airport was completed in 1998 for the purpose of facilitating Airport expansion in anticipation of meeting projected demand. The Airport Master Plan design allows for an increase from 24 to 55 gates. It is estimated that current gate facilities are being used at 100% of capacity (see "THE AIRPORT SYSTEM – Capital Improvement Plan" below).

The International Airport is considered a medium hub facility by the FAA. For the calendar year ended December 31, 2007, the International Airport enplaned approximately 4,030,571 passengers. Airport management has determined that of the Airport's passenger traffic, approximately 88% 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 are available to the traveling public from approximately 245 commercial businesses including eight rental car companies which lease facilities at the International Airport and Stinson (as described in more detail below).

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 International Airport. An Airport Master Plan for Stinson was initiated in March 2001 to facilitate the development of Stinson and to expand its role as a general aviation reliever to the International Airport. The Texas Department of Transportation ("TxDOT") accepted the Master Plan in 2002 and has recommended \$16.0 million in grant funding for capital improvements over the next ten to fifteen years. The expansion of Stinson's facilities is also needed to take advantage of new, complementary business opportunities evolving with the synergy between Brooks City-Base, Port of San Antonio, and Stinson. A Targeted Industries Study was completed in 2003 as part of the master planning process. The study helped facilitate development of Stinson properties through the identification of industries and businesses considered to be compatible for locating at Stinson.

Capital Improvement Plan

In order to meet future airport capacity requirements, the Airport Master Plan for the International Airport was completed in 1998. This plan made recommendations to expand terminal and airfield capacity in an orderly manner to coincide with projected growth in passenger volume and aircraft operations. In fiscal year 2002, the City commenced implementation of a ten-year "Capital Improvement Plan" (the "CIP"). As part of the overall CIP, the fiscal year 2007 through fiscal year 2012 Capital Plan, including the Air Transportation Program, commenced in 2006. Included in the program are projects planned or currently under construction at the Airport and Stinson. The six-year program totals \$609 million. The projects are consistent with the Airport Master Plan and are necessary to accommodate the expected continued growth in the aircraft and passenger activity at the Airport and to replace or rehabilitate certain facilities and equipment at the Airport and Stinson. The CIP is scheduled to conclude in fiscal year 2012. The CIP addresses both terminal and airfield improvements, including the removal of the existing Terminal 2, parts of which are over 50 years old, and the addition of two concourses with corresponding terminal

space, public parking facilities, roadway improvements, and extension and improvement to a runway along with supporting taxiways and aircraft apron. Over the next five years, the CIP addresses primarily terminal-related improvements, parking, roadway improvements, and airfield improvements. The anticipated sources of funding for the Airport's CIP per the City's Adopted Capital Budget for fiscal years 2007 through 2012 are as follows:

<u>Funding Sources</u>	<u>Anticipated Funding</u>
Federal Grants	
Entitlements/ General Discretionary	\$114,190,064
Noise Discretionary	31,487,531
TxDOT Grant	10,086,667
Transportation Security Administration Grant	7,137,040
Passenger Facility Charges ("PFC")	
Pay-As-You-Go	43,743,514
PFC Secured Bonds	191,352,137
Other Funding	
Airport Funds	46,577,067
Airport Revenue Bonds	<u>164,472,700</u>
Total	<u>\$609,047,260</u>

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

<u>Improvement</u>	<u>Amount</u>
International Airport	
Terminal/Gate Expansion	\$236,105,644
Airfield Improvements	75,695,625
Parking	62,677,317
Acoustical Treatment	39,359,414
Roadway / Utilities Improvements	38,979,745
Apron	27,345,000
Land Acquisition	21,766,667
Program Management	18,900,000
Cargo Facilities	11,320,000
Central Utilities	11,361,655
Other Projects (i.e. Building and Drainage Improvements)	54,264,022
Stinson Airport	<u>11,272,171</u>
Total	<u>\$609,047,260</u>

Proposed PFC Projects. Public agencies wishing to impose passenger facility charges are required to apply to the FAA for such authority and must meet certain requirements specified in the PFC Act (defined herein) and the implementing regulations issued by the FAA.

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

On October 1, 2007, the City began collecting a \$4.50 PFC (less an \$0.11 air carrier collection charge) per paying passenger enplaned. A total of approximately \$188.8 million in PFC revenues will be required to provide funding for the projects included in the Airport's CIP. The City has received PFC "impose and use" authority,

meaning that it may impose the PFC and use the resultant PFC revenues for all projects, contemplated to be completed using bond proceeds. The estimated PFC collection expiration date is April 1, 2016.

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

- Replace Remain Overnight Apron
- Implement Terminal Modifications
- Reconstruct Perimeter Road
- Construct New Concourse B
- Acoustical Treatment Program
- Construct Elevated Terminal Roadway
- Upgrade Central Utility Plant
- Construct Apron – Terminal Expansion
- Install Utilities – Terminal Expansion
- Replace Two Airport Fire & Rescue Vehicles
- Conduct Environmental Impact Statement
- Reconstruct Terminal Area Roadway
- Install Noise Monitoring Equipment
- Install Terminal and Airfield Security Improvements
- Install Airfield Electrical Improvements
- PFC Development and Administration Costs

Terminal Renovations. A comprehensive terminal renovation project was completed in 2003 to improve the quality of services provided to passengers at the International Airport. The project, which cost approximately \$29 million, included a completely new appearance to the building interiors and provided state-of-art terminal amenities. Included in the terminal renovations was complete redevelopment of the concessions area to provide high-quality retail and food establishments offering a mix of regional and national brands at street prices. Concession space was expanded from 30,000 square feet to over 40,000 square feet. Through the expansion and reconfiguration of concession space, 85% of retail shops and food outlets are now at airside locations. In total, 44 retail, food, and passenger service contracts were awarded. The new concessions program increased revenues to the Airport from \$3.1 million in fiscal year 2002 to \$5.6 million in fiscal year 2007. This represented an 80% gain in five years. On a per-boarding passenger basis, concession revenue went from \$0.86 in fiscal year 2002 to \$1.40 for the fiscal year 2007. Following the Airport’s implementation of its new concessions program, it was recognized by the *Airport Revenue News* (“ARN”) “Best Concessions Poll.” The Airport’s concession program was voted for by a panel of judges in the airport category with less than 4 million enplanements. San Antonio won four first place awards over the last four years. The Airport was honored for having the terminal with the “Most Unique Services” and the Best Overall Concessions Program in 2004 and Best Overall Concessions Program in 2005. The publication noted the Airport’s high-tech business services, such as high-speed fax and internet, wireless capabilities and conference rooms. The Airport Council International-North America also recognized the International Airport first in the “Best Food and Beverage Program” and second in the “Best Specialty Retail Program” for small airports. In 2006, for the third straight year, the International Airport was recognized by the ARN for the 2006 Best Customer Service Airport-Wide, Most Unique Services, and Best Concession Management Team. In addition, the International Airport concessionaires won in all thirteen of ARN’s 2006 Best Concessions Poll categories. In 2007, the airport concessions program once again received a first place award from the ARN annual concessions contest. Several awards were received by Airport tenants, including “Best Overall Concessions Program”. The Best Overall Concessions Program award is given to airports with a convenient customer-friendly layout, good visibility, attractive storefronts, and interesting themes.

Terminal Improvements. The terminal expansion project will include a seven-gate Terminal B (expandable up to eight gates) and a five-gate Terminal C (expandable up to eleven gates). Terminal B will replace Terminal 2, which is obsolete and will be demolished to make way for Terminal C, as well as further terminal development. Terminal C will be constructed in phases, as passenger growth and demand for gate facilities occur. Site work for the new Terminal B occurred on June 17, 2008. The present Terminal 1 will be redesignated as Terminal A. Terminal C plans are in the development stages.

Airfield Improvements. Implementation of the Master Plan Airfield Recommendations required an Environmental Impact Statement (“EIS”) to assess the environmental impacts associated with the capacity enhancing runway/taxiway projects. Public involvement throughout the process is essential to the successful completion of these projects. Airport Master Plan projects included as part of the EIS include extension of Runway 3/21 and Taxiways N and Q; reconstruction and upgrade of Runway 12L/30R and associated taxiways from general aviation to air carrier dimensions of approximately 8,500 feet by 150 feet; as well as the installation of an instrument landing system. With a determination from the FAA that the Runway 12L/30R project was not yet critical to airfield capacity and that the required length of extension for Runway 3/21 was 1,000 feet rather than 1,500 feet proposed by the Master Plan, the EIS was reclassified as an environmental assessment (“EA”) for the remaining work. The final public meeting for the EA was held on August 28, 2007 and a finding of no significant impact was received.

Parking Improvements. The International Airport operates and maintains approximately 8,683 parking spaces and 1,263 employee parking spaces for a total of 9,946 parking spaces. This includes an additional 2,800 spaces added with the opening of the new parking garage on July 22, 2008. A parking study was developed in 2001 for the International Airport by AGA Consulting, Inc. The study indicated that projected peak period demand for airport parking exceeded the available supply at the end of 2006

Cargo Improvements. The International Airport has two designated cargo areas: The West Cargo Area, which was constructed in 1974 and refurbished in 1990, and the East Cargo Area, which was completed in 1992 and expanded in 2003. The East Cargo Area is specifically designed for use by all-cargo, overnight-express carriers. Custom-built cargo facilities in the East Cargo Area are leased to Airborne Express and Federal Express, while Eagle Global Logistics constructed a processing facility in the year 2000. In 2005, UPS expanded its facilities by relocating from the West Cargo area to the East Cargo Area. Additional land has been allocated to accommodate future growth and an expansion of facilities is currently planned. Foreign trade zones exist at both cargo areas. Enplaned and deplaned cargo for 2007 totaled 105,372 tons.

Airport Operations

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

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

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

The passage of the Aviation and Transportation Security Act (“ATSA”) in November of 2001, created the Transportation Security Administration (“TSA”). The Department has worked closely with the TSA to forge a new higher level of security for the traveling public. TSA employs about 351 individuals at the International Airport to meet the new federal security requirements.

The International Airport’s explosive detection screening equipment is currently located in the ticket lobby areas of the two terminals; however, the Department is working with the TSA to relocate all baggage screening equipment behind the terminals in new baggage handling systems planned as part of the upcoming Terminal Expansion Project. The City entered into an agreement with the TSA for reimbursements up to \$351,077 for the costs associated with the use of Airport Police Officers at the Airport security screening checkpoints in each terminal. The Department also utilizes five Explosive Detection Canine teams. The Police Officers, assigned with their dogs, provide additional coverage for detection of explosive materials at the Airport in the baggage pickup areas, concourses, parking, cargo, and aircraft. This program is supported by the TSA with reimbursement to the Airport System at \$250,000.

The Department has continued to work to improve its security measures. The FAA approved a grant application (80% Airport Improvement Program funding) in 2004 to conduct a security assessment of the International Airport's security program. This project includes an inventory of the existing security measures and an evaluation based on current and anticipated provisions of the ATSA. Recommendations for security enhancements and upgrades could include items such as perimeter fencing, air operations area access points, cargo/belly freight facilities, terminals, fueling areas, concession deliveries, and air traffic control tower.

Stinson continues to experience strong growth in the number of based aircraft and volume of aircraft operations at the airport. Stinson is at 100% occupancy rate and has a tenant waiting list for the facilities. Because of its growth, the TxDOT Aviation Division has approved grant funds for various projects at Stinson. To accommodate the demand for services at Stinson, a \$4.8 million terminal expansion project will add approximately 24,000 square feet of additional concession, administrative, education, and corporate aviation space to the existing 7,000 square-foot terminal building. With Airport System funds, the Stinson Terminal Building renovation project will be completed in November 2008. The terminal expansion project adds administrative offices, classrooms, concession, retail space and conference rooms to accommodate and attract new business. In November 2007, the Environmental Assessment for the runway extension and related airfield projects were approved when the TxDOT Aviation Division issued a "Finding of No Significant Impact". The runway project will start construction in late 2008 and will provide usable runway length of at least 5,000 feet. The additional runway length will allow Stinson to serve additional corporate aircraft under all conditions. The expansion, along with a runway extension and other infrastructure improvements, will allow for the growth of existing tenants as well as create opportunities for new business to locate at Stinson. Palo Alto Community College is anticipated to move its Aviation Program to Stinson in the expanded terminal space in the spring 2009.

Recent Financial Transactions

On November 28, 2007, the City issued \$82,400,000 "City of San Antonio, Texas Airport System Revenue Improvement Bonds, Series 2007" and \$74,860,000 "City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2007," which were delivered on December 19, 2007.

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:

	<u>Fiscal Year Ended September 30</u>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Gross Revenues ¹ :	\$43,930,687	\$44,729,253	\$47,081,109	\$52,785,593	\$56,682,447
Airline Rental Credit	<u>2,612,609</u>	<u>3,486,271</u>	<u>5,323,738</u>	<u>7,988,304</u>	<u>8,804,756</u>
Adjusted Gross Revenues	\$46,543,296	\$48,215,524	\$52,404,847	\$60,773,897	\$65,487,203
Expenses	<u>(25,363,607)</u>	<u>(25,127,534)</u>	<u>(26,411,106)</u>	<u>(29,471,313)</u>	<u>(32,583,696)</u>
Net Income	<u>\$21,179,689</u>	<u>\$23,087,990</u>	<u>\$25,993,741</u>	<u>\$31,302,584</u>	<u>\$32,903,507</u>

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

Total Domestic and International Enplaned Passengers - San Antonio International Airport

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

<u>Calendar Year</u>	<u>Total</u>	<u>Increase/ (Decrease)</u>	<u>Percent (%) Change</u>
1998	3,505,372	----	----
1999	3,538,070	32,698	0.93
2000	3,647,094	109,024	3.08
2001	3,444,875	(202,219)	(5.54)
2002	3,349,283	(95,592)	(2.78)
2003	3,250,911	(98,372)	(2.94)
2004	3,498,972	248,061	7.63
2005	3,713,792	214,820	6.14
2006	4,002,903	289,111	7.79
2007	4,030,571	27,668	0.69

Source: City of San Antonio, Department of Aviation.

Total Enplaned and Deplaned International Passengers - San Antonio International Airport

The total enplaned and deplaned for international passengers on a calendar year basis, along with year-to-year percentage change are shown below:

<u>Calendar Year</u>	<u>Total</u>	<u>Increase/ (Decrease)</u>	<u>Percent (%) Change</u>
1998	246,902	----	----
1999	229,397	(17,505)	(7.09)
2000	243,525	14,128	6.16
2001	219,352	(24,173)	(9.93)
2002	201,274	(18,078)	(8.24)
2003	159,576	(41,698)	(20.72)
2004	191,254	31,678	19.85
2005	185,992	(5,262)	(2.76)
2006	199,138	13,146	7.07
2007	202,911	3,773	1.89

Source: City of San Antonio, Department of Aviation.

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Air Carrier Landed Weight - San Antonio International Airport

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

<u>Calendar Year</u>	<u>Total</u>	<u>Increase/ (Decrease)</u>	<u>Percent (%) Change</u>
1998	5,601,616	---	---
1999	5,778,407	176,791	3.16
2000	5,838,185	59,778	1.03
2001	5,546,561	(291,624)	(5.00)
2002	5,559,018	12,457	0.22
2003	5,391,301	(167,714)	(3.02)
2004	5,416,555	25,574	0.47
2005	5,642,188	225,633	4.17
2006	5,946,232	304,044	5.39
2007	6,098,276	152,044	2.56

Source: City of San Antonio, Department of Aviation.

* * *

APPENDIX B

EXCERPTS OF THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

The information contained in Appendix B consists of selected portions of the City's Comprehensive Annual Financial Report for the fiscal year ended September 30, 2007 selected by the City of San Antonio for inclusion herein, and is not intended to be a complete statement of the City's financial condition. Reference is made to the Comprehensive Annual Financial Report for further information.

APPENDIX C

Form of Opinion of Bond Counsel



CITY OF SAN ANTONIO
Request for Council Action

Agenda Item # 18
Council Meeting Date: 10/2/2008
RFCA Tracking No: R-3949

DEPARTMENT: Finance

DEPARTMENT HEAD: Ben Gorzell

COUNCIL DISTRICT(S) IMPACTED:
City Wide

SUBJECT:
Taxable General Improvement Refunding Bonds, Series 2008

SUMMARY:

This ordinance authorizes and approves distribution of a Preliminary Official Statement pertaining to the issuance of approximately \$17,000,000.00 "City of San Antonio, Texas Taxable General Improvement Refunding Bonds, Series 2008"; authorizes the City's staff, co-financial advisors, and co-bond counsel to take all actions deemed necessary in connection with the sale of such obligations; and provides for an effective date.

BACKGROUND INFORMATION:

The Taxable General Improvement Refunding Bonds, Series 2008 ("2008 Taxable Bonds") are being issued to provide funds to: (1) discharge and refund certain outstanding parking system revenue debt of the City and (2) to pay the costs of issuance. Proceeds of the Taxable 2008 Bonds will be used to refinance the City's outstanding parking system revenue indebtedness in which proceeds were used to finance or refinance certain parking facilities owned and operated by the City. Refunding such obligations with the 2008 Taxable Bonds, is being undertaken to provide greater flexibility to the City to manage its parking facilities.

In connection with the issuance and sale of the 2008 Taxable, conference calls are scheduled for the Rating Agencies the week of October 6th.

It is anticipated that 2008 Taxable Bonds will be sold the week of October 21st.

ISSUE:

The aforementioned transaction is consistent with the Parking System Budget and Debt Plan.

ALTERNATIVES:

An alternative to this transaction would be to keep the debt structured as tax-exempt parking system revenue bond debt. This structure, however would leave the City with less flexibility and not allow the parking system to achieve a desirable cashflow.

FISCAL IMPACT:

Any costs pertaining to the proposed transactions will be paid for from the proceeds derived from the issuance and sale of such obligations. Therefore, there is no impact on the City's Operating Budget.

RECOMMENDATION:

Staff recommends approval of this ordinance to approve the Distribution of a Preliminary Official Statement and all Actions Related to the Sale of Taxable General Improvement Refunding Bonds, Series 2008.

ATTACHMENT(S):

File Description	File Name
2008 Taxable Preliminary Officeal Statement	2008 Taxable POS FINAL 9 26 08.pdf
Voting Results	
Ordinance/Supplemental Documents	200810020884.pdf

DEPARTMENT HEAD AUTHORIZATIONS:

Ben Gorzell Director Finance

APPROVED FOR COUNCIL CONSIDERATION:

Pat DiGiovanni Deputy City Manager