OFFICIAL STATEMENT DATED JULY 12, 2011

NEW ISSUES – BOOK ENTRY ONLY **RATINGS: SEE "RATINGS" HEREIN**

In the opinion of Bond Counsel to the Corporation (each as defined below), interest on the Bonds (defined below) will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative maximum tax on corporations.

$27,925,000
CITY OF SAN ANTONIO, TEXAS
MUNICIPAL FACILITIES CORPORATION
LEASE REVENUE BONDS, SERIES 2011
(PUBLIC SAFETY ANSWERING POINT PROJECT)

Dated: July 1, 2011 (Interest accrues from delivery date) **Due: August 15, as shown herein**

The $27,925,000 "City of San Antonio, Texas Municipal Facilities Corporation Lease Revenue Bonds, Series 2011 (Public Safety Answering Point Project)" (the "Bonds") are being issued by the City of San Antonio, Texas Municipal Facilities Corporation (the "Corporation") pursuant to the laws of the State of Texas, including particularly Subchapter D of Chapter 431, Texas Transportation Code, as amended, and Chapter 1201, Texas Government Code, as amended, a resolution adopted by the Board of Directors (the "Board") of the Corporation on June 23, 2011, and a Trust Agreement, dated as of July 1, 2011 (the "Trust Agreement"), between the Corporation and U.S. Bank National Association, Dallas, Texas, as trustee thereunder (the "Trustee"). See "THE BONDS – Authority for Issuance" herein. Proceeds of the Bonds will be used to (i) finance the cost of constructing and equipping a consolidated 911 Emergency Services and Response Center and related parking (as further described herein, the "Project") for the use and benefit of the City of San Antonio, Texas (the "City"), (ii) to fund 12 months of capitalized interest, and (iii) to pay the costs of issuing the Bonds. See "PLAN OF FINANCE – Purpose" herein.

Interest on the Bonds accrues from their date of initial issuance to the initial purchasers thereof named below (the "Underwriters"), is payable on February 15 and August 15 of each year, commencing February 15, 2012, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued as fully registered obligations in book-entry-only form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of $5,000 or any integral multiple thereof. Purchasers of the Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds. So long as the Securities Depository is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by the Trustee, as paying agent for the Bonds, 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 BONDS – Book-Entry-Only System" herein.

The principal of, premium, if any, and interest on the Bonds are payable from lease payment (the "Lease Payments") to be made by the City to the Corporation pursuant to a Lease Agreement, dated as of July 1, 2011 (the "Lease"), between the City and the Corporation. Pursuant to the Lease, the Lease Payments are due at such times and in such amounts as will be required to permit the Corporation's timely payment of the principal of, premium, if any, and interest on the Bonds. As additional security for the Bonds, the Corporation will grant and/or assign to the Trustee for the benefit of the registered owners of the Bonds (i) a first lien mortgage on and pledge of the real property of the Project and the Corporation's interest in the leases, rents, and certain other benefits from the Project pursuant to the Mortgage (defined herein) and (ii) a first priority purchase money security interest in the personal property portion of the Project pursuant to the Security Agreement (defined herein). See "THE BONDS – Security for the Bonds" and "SELECTED PROVISIONS OF THE FINANCING DOCUMENTS" attached hereto as Appendix B.

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS IS A CURRENT EXPENSE THEREOF PAYABLE SOLELY FROM FUNDS ANNUALLY APPROPRIATED BY THE CITY FOR SUCH USE. REMEDIES AVAILABLE TO THE HOLDERS OF BONDS UPON A FAILURE OF THE CITY TO APPROPRIATE OR PAY LEASE PAYMENTS ARE LIMITED TO TERMINATION OF THE CITY'S LEASEHOLD INTEREST IN THE PROJECT, THE RIGHT TO TAKE POSSESSION AND CONTROL OF THE PROJECT, AND THE RIGHT TO SELL OR LEASE THE PROJECT UPON FORECLOSURE UNDER THE MORTGAGE AND THE SECURITY AGREEMENT. THE LEASE AND THE OBLIGATIONS OF THE CITY THEREUNDER DO NOT CONSTITUTE A PLEDGE, A LIABILITY, OR A CHARGE UPON THE FUNDS OF THE CITY AND DO NOT CONSTITUTE A DEBT OR GENERAL OBLIGATION OF THE STATE OF TEXAS, THE CITY, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF TEXAS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS, THE CITY, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF TEXAS HAS BEEN PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. THE CORPORATION HAS NO AUTHORITY TO LEVY TAXES. IN ADDITION TO THE REMAINDER OF THIS OFFICIAL STATEMENT, PURCHASERS OF THE BONDS SHOULD CAREFULLY REVIEW THE INFORMATION UNDER "INVESTOR CONSIDERATIONS".

Concurrently with the sale of the Bonds, the City sold its $9,445,000 "City of San Antonio, Texas Tax Notes, Series 2011", its $59,485,000 "City of San Antonio, Texas General Improvement Bonds, Series 2011", and its $79,780,000 "City of San Antonio, Texas Combination Tax and Revenue Certificates of Obligation, Series 2011", each of which are payable from an annual levy of the City's limited ad valorem tax collections. This Official Statement describes only the Bonds and not these other obligations. See "INTRODUCTION – General" herein.

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

The Bonds are offered for delivery, when, as, and if issued and received by the Underwriters and are subject to the approving opinion of the Attorney General of the State of Texas and the legal opinion of McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, as Bond Counsel. See "LEGAL MATTERS" herein. Certain legal matters will be passed upon for the Corporation and the City by the City Attorney, and for the Underwriters by their counsel, Fulbright & Jaworski L.L.P., San Antonio, Texas. The Bonds are expected to be available for delivery through the services of DTC on or about August 10, 2011.

SAMCO CAPITAL MARKETS, INC.

FIRSTSOUTHWEST **RAMIREZ & CO., INC.**

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

$27,925,000 CITY OF SAN ANTONIO, TEXAS MUNICIPAL FACILITIES CORPORATION LEASE REVENUE BONDS, SERIES 2011 (PUBLIC SAFETY ANSWERING POINT PROJECT)

(CUSIP No. Prefix[1]: 796312)

$12,190,000 SERIAL BONDS

Maturity (8/15)	Principal Amount ($)	Interest Rate (%)	Offering Yield (%)	CUSIP No. Suffix[1]
2013	565,000	2.000	1.100	BF2
2014	575,000	2.000	1.430	BG0
2015	590,000	2.000	1.830	BH8
2016	600,000	2.000	2.160	BJ4
2017	615,000	2.500	2.580	BK1
2018	630,000	3.000	2.980	BL9
2019	645,000	3.125	3.290	BM7
2020	665,000	3.500	3.540	BN5
2021	690,000	3.500	3.720	BP0
2022	715,000	4.000	3.960[2]	BQ8
2023	745,000	4.000	4.120	BR6
2024	775,000	4.000	4.300	BS4
2025	805,000	4.250	4.410	BT2
2026	840,000	4.250	4.520	BU9
2027	875,000	4.250	4.610	BV7
2028	910,000	4.500	4.700	BW5
2029	950,000	4.500	4.790	BX3

$15,735,000 TERM BONDS

$3,125,000 Term Bonds maturing August 15, 2032; priced at 4.750% to yield 4.860%; CUSIP No. Suffix[1]: CA2
$4,930,000 Term Bonds maturing August 15, 2036; priced at 5.000% to yield 5.090%; CUSIP No. Suffix[1]: CE4
$7,680,000 Term Bonds maturing August 15, 2041; priced at 5.000% to yield 5.150%; CUSIP No. Suffix[1]: CK0

Redemption

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

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

(2) Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on August 15, 2021, the first optional call date for such Bonds, at a redemption price of par plus accrued interest to such date of redemption.

CITY OF SAN ANTONIO, TEXAS
ADMINISTRATION

CITY COUNCIL[(1)]:

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

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

CITY OFFICIALS:

Name	Position	Years with City of San Antonio	Years in Current Position
Sheryl L. Sculley	City Manager	5 Years, 8 months	5 Years, 8 months
Pat DiGiovanni	Deputy City Manager	5 Years, 4 Months	5 Years, 4 Months
A.J. Rodriguez	Deputy City Manager	3 Years	3 Years
Erik J. Walsh	Assistant City Manager	17 Years, 1 Month	5 Years, 5 Months
T.C. Broadnax	Assistant City Manager	4 Years, 8 Months	4 Years, 8 Months
Sharon De La Garza	Assistant City Manager	7 Years, 3 Months	3 Years, 3 Months
Peter Zanoni	Assistant City Manager	14 Years, 3 Months	1 Year, 9 Months
Michael D. Bernard	City Attorney	5 Years, 9 Months	5 Years, 9 Months
Leticia M. Vacek	City Clerk	7 Years, 1 Month	7 Years, 1 Month
Ben Gorzell, Jr.*	Chief Financial Officer	20 Years, 8 Months	11 Months
Maria Villagomez	Director of Management & Budget	13 Years, 9 Months	1 Year, 9 Months

* Promoted to member of the City's Executive Leadership Team effective August 2, 2010. Prior to his promotion on October 19, 2009 to Chief Financial Officer, Mr. Gorzell served as the City's Director of Finance, also its senior financial position, to which he was appointed on June 12, 2006.

CONSULTANTS AND ADVISORS:

Bond Counsel	McCall, Parkhurst & Horton L.L.P., San Antonio, Texas
Certified Public Accountant*	Grant Thornton LLP, San Antonio, Texas
Co-Financial Advisors	Coastal Securities, Inc., San Antonio, Texas and Estrada Hinojosa & Company, Inc., San Antonio, Texas

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

USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

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

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

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANYTIME.

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

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

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

None of the City, the Corporation, the Co-Financial Advisors, nor the Underwriters makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only System.

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OFFICIAL STATEMENT

RELATING TO THE

$27,925,000
CITY OF SAN ANTONIO, TEXAS
MUNICIPAL FACILITIES CORPORATION
LEASE REVENUE BONDS, SERIES 2011
(PUBLIC SAFETY ANSWERING POINT PROJECT)

INTRODUCTION

General

This Official Statement, including the cover page and Appendices hereto, of the City of San Antonio, Texas Municipal Facilities Corporation (the "Corporation") provides certain information in connection with the sale of the $27,925,000 "City of San Antonio, Texas Municipal Facilities Corporation Lease Revenue Bonds, Series 2011 (Public Safety Answering Point Project)" (the "Bonds"). This Official Statement describes the Bonds, the Trust Agreement (defined herein), the Lease (defined herein), the Mortgage (defined herein), and the Security Agreement (defined herein) and certain other information about the Corporation, the Project (defined herein), and the City of San Antonio, Texas (the "City"), as the lessee of the Project. The Trust Agreement, the Lease, the Mortgage, and the Security Agreement are collectively referred to herein as the "Financing Documents". Defined terms used herein without definition shall have the respective meanings ascribed thereto in the Trust Agreement. See "SELECTED PROVISIONS OF THE FINANCING DOCUMENTS" attached hereto as Appendix B.

All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained, upon request, from the City Finance Department, 111 Soledad, 5th Floor, San Antonio, Texas 78205 and, during the offering period, from the City's Co-Financial Advisors, Coastal Securities, Inc., 600 Navarro, Suite 350, San Antonio, Texas, 78205, or Estrada Hinojosa & Company, Inc., 1400 Frost Bank Tower, 100 West Houston Street, San Antonio, Texas 78205, by electronic mail or by physical delivery upon payment of reasonable copying, mailing, and handling charges.

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

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

Concurrently with the sale of the Bonds, the City sold its $9,445,000 "City of San Antonio, Texas Tax Notes, Series 2011" (the "2011 Tax Notes"), its $59,485,000 "City of San Antonio, Texas General Improvement Bonds, Series 2011", and its $79,780,000 "City of San Antonio, Texas Combination Tax and Revenue Certificates of Obligation, Series 2011" (such general improvement bonds and certificates of obligation, together, the "2011 Obligations"), each of which are payable from an annual levy of the City's limited ad valorem tax collections. These obligations are sold as part of a separate plan of finance and are, therefore, separate transactions for State law and federal securities law purposes. This Official Statement describes only the Bonds, which are not secured by and payable from a direct lien on and pledge of the City's limited ad valorem tax collections. Investors interested in purchasing these other City obligations should review the offering documents related thereto.

The Corporation

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

Pursuant to its articles of incorporation and the bylaws of the Corporation, the Corporation is governed by an 11-member Board of Directors, composed entirely by those persons who are members of the City Council of the City (the "City Council") and whose terms of office are fixed and run coterminously with their respective terms of office as members of the City Council; provided, however, that any director may be removed from office at any time, for cause or at will, by the City Council. The directors serve without compensation except for the reimbursement of expenses.

The Corporation has previously issued, and there currently remains outstanding, debt obligations that are secured by and payable from separate sources of security that are unrelated to the security for the Bonds described herein. Those other security sources are not available for payment of the Bonds (nor is the security for the Bonds available as a source of repayment for this other debt of the Corporation). A default with respect to one such series of debt of the Corporation will not directly result in a default of the other. See "DEBT SERVICE REQUIREMENTS" herein.

PLAN OF FINANCE

The Project

Proceeds of the Bonds will fund the construction of a new Fire and Police Emergency Dispatch Center, also known as the Public Safety Answering Point ("PSAP") facility to be located at Brooks City-Base, adjacent to the Emergency Operations Center. See "CITY OF SAN ANTONIO, TEXAS – GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION" attached hereto as Appendix A for a description of Brooks City-Base. Proceeds of the Bonds also will be used to construct a parking lot for joint use by the new PSAP facility and the City's Emergency Operations Center. The total project cost for the PSAP facility is $28,061,520. Of this amount, $25,930,290 will be funded with proceeds of the Bonds and $2,131,230 will be funded with grant proceeds. The new PSAP facility will provide space to replace and enlarge the existing PSAP facility presently located in the City's Police Headquarters facility located at 214 West Nueva, San Antonio, Texas 78207, which is scheduled for demolition in the Fall of 2012 to make way for a new federal courthouse facility.

Use of Bond Proceeds

Proceeds derived from the issuance and sale of the Bonds will be used to (i) pay the costs of the Project, (ii) fund 12 months of capitalized interest on the Bonds, and (iii) pay the costs of issuing the Bonds.

Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Funds	
Principal Amount of the Bonds	$27,925,000.00
Net Original Issue Discount	(444,181.55)
Total Sources of Funds	$27,480,818.45
Uses of Funds	
Deposit to Project Fund	$25,930,290.21
Deposit to Bond Fund (Capitalized Interest)	1,224,365.89
Costs of Issuance (including Underwriters' Discount and Contingency)	326,162.35
Total Uses of Funds	$27,480,818.45

THE BONDS

General Bond Description

The Bonds are dated as of July 1, 2011 (the "Dated Date"). Interest on the Bonds accrues from their date of initial delivery to the Underwriters (anticipated to occur on or about August 10, 2011) and is payable on February 15 and August 15 in each year, commencing February 15, 2012, until stated maturity or prior redemption thereof. The Bonds will mature on the dates, in the principal amounts, and will bear interest at the rates set forth in the applicable schedule appearing on the inside cover page of this Official Statement.

The Bonds will be issued only as fully registered bonds in denominations of $5,000 principal or any integral multiple thereof within a maturity. Principal of and interest on the Bonds are payable in the manner described herein under "THE BONDS - Book-Entry-Only System". In the event the Book-Entry-Only System is discontinued, the interest on the Bonds will be payable to the registered owner as shown on the security register (the "Register") maintained by U.S. Bank National Association, Dallas, Texas, who, as trustee under the Trust Agreement, also serves as the paying agent and registrar for the Bonds (the "Paying Agent/Registrar"), as of the Record Date (defined herein), by check, mailed first-class, postage prepaid, to the address of such person on the Register or by such other method acceptable to the Paying Agent/Registrar for the Bonds requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Bonds will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the designated corporate trust or commercial banking office of the Paying Agent/Registrar.

If the date for any payment due on any Bond is a Saturday, Sunday, legal holiday, or day on which banking institutions in the city in which the designated corporate trust office of the paying agent and 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 day. The payment on such date shall have the same force and effect as if made on the original date payment was due.

Authority for Issuance

The Bonds are being issued by the Corporation pursuant to the laws of the State of Texas, including particularly the Act and Chapter 1201, Texas Government Code, as amended, a resolution adopted by the Board of Directors (the "Board") of the Corporation on June 23, 2011, and a Trust Agreement, dated as of July 1, 2011 (the "Trust Agreement"), between the Corporation and U.S. Bank National Association, Dallas, Texas, as trustee thereunder (the "Trustee").

Redemption

Optional Redemption. On or after August 15, 2021, the Bonds maturing on and after August 15, 2022 may be redeemed prior to their scheduled maturities, at the option of the Corporation, in whole or in part, at a price of par, plus accrued interest thereon to the date fixed for redemption.

Mandatory Redemption in Whole Upon City's Exercise of Purchase Option. The Bonds are subject to redemption prior to their stated maturity on August 15, 2021, or any date thereafter, upon the exercise by the City of its option to purchase the Project pursuant to the Lease after receipt by the Trustee of the Purchase Option Price and payment of the Trustee's reasonable fees and expenses, such redemption to be in whole, but not in part, on the next earliest Purchase Option Date for which notice can be given in accordance with the Trust Agreement. Bonds redeemed in accordance with this paragraph will be redeemed at a redemption price equal to the Outstanding principal amount thereof, plus accrued interest to the redemption date.

Mandatory Redemption. The Bonds maturing on August 15, 2032, August 15, 2036, and August 15, 2041 (the "Term Bonds") are subject to mandatory sinking fund redemption in part by lot, on August 15 in the following years and in the following amounts, at a price equal to the principal amount thereof and accrued and unpaid interest to the date of redemption, without premium:

Term Bond Maturing August 15, 2032

Redemption Date	Redemption Amount ($)
August 15, 2030	995,000
August 15, 2031	1,040,000
August 15, 2032 (maturity)	1,090,000
Total	**3,125,000**

Term Bond Maturing August 15, 2036

Redemption Date	Redemption Amount ($)
August 15, 2033	1,145,000
August 15, 2034	1,200,000
August 15, 2035	1,260,000
August 15, 2036 (maturity)	1,325,000
Total	**4,930,000**

Term Bond Maturing August 15, 2041

Redemption Date	Redemption Amount ($)
August 15, 2037	1,390,000
August 15, 2038	1,460,000
August 15, 2039	1,530,000
August 15, 2040	1,610,000
August 15, 2041 (maturity)	1,690,000
Total	**7,680,000**

The Trustee shall credit against the outstanding principal amount of the Term Bonds the principal amount of any such Term Bonds redeemed from any source other than the sinking fund payments. To the extent that such Term Bonds have been previously redeemed in part from any source other than sinking fund payments, the remaining sinking fund payments for such Term Bonds shall be reduced on a proportionate basis (rounding each to the nearest $5,000 increment) by the amount of such Term Bonds so called for redemption; provided, that during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, the particular Term Bonds to be called for mandatory redemption shall be selected in accordance with the arrangements between the Issuer and the securities depository.

Mandatory Partial Redemption from Excess Bond Proceeds. The Bonds are subject to mandatory partial redemption, prior to their respective maturities and in inverse order of maturity at a redemption price of 100% of the par amount of Bonds being redeemed plus accrued interest to the date of redemption, in the event money in the

Project Account exceeds $100,000 on the earliest of (i) the next Bond Payment Date for which notice of redemption can be given in accordance with the Trust Agreement following July 1, 2014 or (ii) receipt by the Trustee of a Final Acceptance Certificate and receipt of the certificate of the Architect as required by the Lease upon completion of the Project.

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

Mandatory Partial Redemption from Excess Bond Proceeds. The Bonds are subject to mandatory partial redemption, prior to their respective maturities and in inverse order of maturity at a redemption price of 100% of the par amount of Bonds being redeemed plus accrued interest to the date of redemption, in the event money in the Project Account exceeds $100,000 on the earliest of (i) the next Bond Payment Date for which notice of redemption can be given in accordance with the Trust Agreement following July 1, 2014 or (ii) receipt by the Trustee of a Final Acceptance Certificate and receipt of the certificate of the Architect as required by the Lease upon completion of the Project.

Selection of Bonds for Redemption. If fewer than all of the Bonds are called for redemption, the maturities to be redeemed will be selected by the Corporation, and such Bonds to be redeemed within any one maturity will be selected by the Paying Agent/Registrar by lot (or in such manner as the Paying Agent/Registrar may determine) in integral multiples of $5,000; provided, however, that during any period in which ownership of the Bonds is determined only by a book-entry at a securities depository for such Bonds, if fewer than all of such Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate will be selected in accordance with the arrangements between the Corporation and the securities depository.

Notice of Redemption. At least 30 days prior to the date fixed for any redemption of any Bonds or portions thereof prior to stated maturity, the Corporation must cause written notice of such redemption to be sent by United States mail, first-class postage prepaid, to the registered owner of each Bond or a portion thereof to be redeemed at its address as it appeared on the registration books of the Paying Agent/Registrar on the day such notice of redemption is mailed. The notice may state: (1) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar no later than the redemption date, or (2) that the Corporation retains the right to rescind such notice at any time prior to the scheduled redemption date if the Corporation delivers a certificate of an authorized representative to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and optional redemption will be of no effect if such moneys are not so deposited or if the notice is so rescinded. A copy of such notice of redemption also will be filed with the MSRB through its EMMA system. 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. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN (AND NOT RESCINDED), THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

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

Trustee as Paying Agent/Registrar

Under the Trust Agreement, the Trustee serves as the Paying Agent/Registrar, who serves in such capacity and performs such duties as described in the Trust Agreement.

Record Date for Interest Payment

The record date for determining the person to whom the semiannual interest on the Bonds is payable on any interest payment date (the "Record Date") is the last business day of the month next preceding such interest payment date. 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 Corporation. 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 U.S. mail, first-class postage prepaid, to the address of each registered owner of a 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.

Transfer, Exchange, and Registration

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

Neither the Corporation nor the Paying Agent/Registrar will be required to transfer or exchange any Bonds during the period commencing at the close of business on the Record Date and ending at the opening of business on the next interest payment date.

Book-Entry-Only System

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

The Corporation cannot and does not give any assurance that: (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the SEC, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

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

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

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

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

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

Redemption proceeds, principal, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Corporation or the Paying Agent/Registrar, on the payment 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 Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC; and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Corporation or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered. The Corporation may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC, but the Corporation takes no responsibility for the accuracy thereof.

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

Payment Record

Neither the Corporation nor the City has ever defaulted in payments on its bonded indebtedness.

SECURITY FOR THE BONDS AND REMEDIES IN THE EVENT OF DEFAULT

General

The principal of, premium, if any, and interest on the Bonds are payable primarily from Lease Payments (defined herein) to be made by the City to the Corporation pursuant to a Lease Agreement, dated as of July 1, 2011, between the City and the Corporation (the "Lease"). The Bonds are further secured by (i) a first mortgage lien on the real property portion of the Project and assignment of rents, revenues and income from the Project by the Corporation, granted in favor of the Trustee for the benefit of the registered owners of the Bonds pursuant to a Leasehold Deed of Trust and Assignment of Rents and Leases, dated as of July 1, 2011 (the "Mortgage"), and (ii) a first priority purchase money security interest in the personal property of the Project pursuant to a Security Agreement between the Corporation and the Trustee, dated as of July 1, 2011 (the "Security Agreement").

Trust Estate

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

Lease Payments

The City is required to pay to the Trustee, for deposit into the Payment Account of the Corporation, the Lease Payments from Appropriated Funds (hereinafter defined) on February 15, 2012, and each August 15 and February 15 thereafter for so long as the Lease is in effect. The amount of each Lease Payment required under the Lease is equal to: (i) an amount of money which, when added to the amount then on deposit in the Payment Account, will equal the amount of principal to become due on the Bonds, either pursuant to a redemption or upon maturity of the Bonds, and interest to become due on the Bonds on the next Bond Payment Date.

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

Mortgage and Security Agreement

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

Remedies

Remedies available upon a failure of the City to appropriate or pay Lease payments are limited to termination of the City's leasehold interest, the right to take possession and control of the Project, and the right to sell or lease the Project upon foreclosure under the Mortgage and the Security Agreement. See "INVESTOR CONSIDERATIONS" herein and "SELECTED PROVISIONS OF THE FINANCING DOCUMENTS" attached hereto as Appendix B.

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

Limited Nature of Obligations of the Corporation

The Corporation currently has no assets other than (i) its interest in the Project and its rights under the Lease, which will be assigned to the Trustee for the benefit of the registered owners of the Bonds upon the initial delivery of the Bonds and (ii) its interests in a municipal office facility (originally financed by the Corporation for the benefit of the City with lease revenue bonds issued in 2001 by the Corporation, a portion of which were refunded in 2010 with a subsequent issue of lease revenue refunding bonds) and its rights under the lease agreement between the City and the Corporation entered into in connection with such financing (the "Development and Business Services Center Project"). The Corporation's rights, interests and obligations in connection with the Development and Business Services Center Project are separate from its rights, interests and obligations in the Project and the Bonds.

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

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

For additional information regarding the risk associated with ownership of the Bonds, see "INVESTOR CONSIDERATIONS" below.

No Additional Obligations

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

INVESTOR CONSIDERATIONS

General

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

Nonappropriation

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

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

Damage or Destruction Risk

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

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

City's Power of Eminent Domain

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

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

Remedies

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

Inability to Liquidate, or Delay in Liquidating, the Project

An Event of Default gives the Trustee the right to manage, lease or sell the Project. The Project was designed and constructed for a single-purpose use (i.e., a 911 emergency services and response center and related parking); therefore, a potential purchaser of the Bonds should not anticipate that sale or lease of the Project could be accomplished rapidly, or at all. Any delays in the ability of the Trustee to obtain possession of the Project will result in a delay in payment of the Bonds.

There is no assurance that the Trustee will be able to sell or lease the Project after a termination of the Lease for an amount equal to the aggregate principal amount of the Bonds then outstanding plus accrued interest thereon. If the Project is sold or leased by the Trustee for an amount less than the aggregate principal amount of and accrued interest on the Bonds, such partial payment would be the only remedy of the registered owners of the Bonds; upon such a partial payment, no registered owner will have any further claim for payment upon the Corporation, the Trustee, or the City.

Constitutionality of the Lease Obligation

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

Other Obligations of the City

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

Securities Law and Federal Tax Law Implications of a Termination Event

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

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

Noncompliance with Arbitrage Provisions; Occurrence of Taxability

THE LEASE AND THE TRUST AGREEMENT OBLIGATE THE CITY AND THE CORPORATION TO COMPLY WITH REQUIREMENTS OF FEDERAL LAW REGARDING REBATE OF CERTAIN INVESTMENT PROCEEDS TO THE FEDERAL GOVERNMENT. IF THE CITY OR THE CORPORATION FAILS TO COMPLY WITH THOSE REQUIREMENTS, THE BONDS WOULD BECOME "ARBITRAGE

BONDS," AND THE INTEREST PORTION OF THE BOND PAYMENTS COULD BECOME INCLUDABLE IN GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES RETROACTIVE TO THE DATE OF ISSUANCE OF THE BONDS.

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DEBT SERVICE REQUIREMENTS

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

Debt Service Requirements **TABLE 1**

Fiscal Year Ended 09/30	Existing Debt Service[1]	The Bonds			Total Debt Service Requirement
		Principal	Interest	Annual Debt Service	
2011	$ 990,231	$ 0	$ 0	$ 0	$ 990,231
2012	1,121,438	0	1,224,366	1,224,366	2,345,804
2013	1,122,863	565,000	1,207,594	1,772,594	2,895,457
2014	1,119,063	575,000	1,196,294	1,771,294	2,890,357
2015	1,120,463	590,000	1,184,794	1,774,794	2,895,257
2016	1,121,463	600,000	1,172,994	1,772,994	2,894,457
2017	1,117,213	615,000	1,160,994	1,775,994	2,893,207
2018	1,122,513	630,000	1,145,619	1,775,619	2,898,132
2019	1,116,763	645,000	1,126,719	1,771,719	2,888,482
2020	1,120,263	665,000	1,106,563	1,771,563	2,891,826
2021	-	690,000	1,083,288	1,773,288	1,773,288
2022	-	715,000	1,059,138	1,774,138	1,774,138
2023	-	745,000	1,030,538	1,775,538	1,775,538
2024	-	775,000	1,000,738	1,775,738	1,775,738
2025	-	805,000	969,738	1,774,738	1,774,738
2026	-	840,000	935,525	1,775,525	1,775,525
2027	-	875,000	899,825	1,774,825	1,774,825
2028	-	910,000	862,638	1,772,638	1,772,638
2029	-	950,000	821,688	1,771,688	1,771,688
2030	-	995,000	778,938	1,773,938	1,773,938
2031	-	1,040,000	731,675	1,771,675	1,771,675
2032	-	1,090,000	682,275	1,772,275	1,772,275
2033	-	1,145,000	630,500	1,775,500	1,775,500
2034	-	1,200,000	573,250	1,773,250	1,773,250
2035	-	1,260,000	513,250	1,773,250	1,773,250
2036	-	1,325,000	450,250	1,775,250	1,775,250
2037	-	1,390,000	384,000	1,774,000	1,774,000
2038	-	1,460,000	314,500	1,774,500	1,774,500
2039	-	1,530,000	241,500	1,771,500	1,771,500
2040	-	1,610,000	165,000	1,775,000	1,775,000
2041	-	1,690,000	84,500	1,774,500	1,774,500
Total	$11,072,273	$27,925,000	$24,738,691	$52,663,691	$63,735,964

[1] As of June 1, 2011. Represents outstanding debt of the Corporation issued pursuant to a trust agreement separate and independent from the Trust Agreement securing the Bonds. Though also ultimately subject to annual appropriation by the City, this existing Corporation debt is payable from and secured by separate and distinct sources (which includes a lien on and pledge of other real property), which sources are unrelated to those that secure the repayment of the Bonds.

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THE CITY

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

The City's geographic area covers approximately 467 square miles (both full purpose and limited purpose annexations) and is located in South Central Texas, 282 miles south of Dallas, 199 miles west of Houston, and 152 miles north of the United States ("U.S.")/Mexico border. It serves as the county seat for Bexar County, which has a population of 1,714,773 according to the Census 2010. The Census 2010 cites the City's population to be 1,327,407. According to the United States Census Bureau, this ranks San Antonio as the seventh largest city in the United States and the second largest in the State of Texas. The City is located in south central Texas approximately 75 miles south of the state capital in Austin, 140 miles northwest from the Gulf of Mexico, and approximately 150 miles from the U.S./Mexico border cities of Del Rio, Eagle Pass, and Laredo.

Additional information with respect to the City, including financial information, is provided below and in APPENDIX A attached hereto. Selected portions of the City's Annual Financial Report for the fiscal year ended September 30, 2010, which has been selected by the City for inclusion herein, is attached as APPENDIX C hereto.

THE BUDGET PROCESS

Fiscal Year 2012 Budget

The FY 2012 Budget Process represents a comprehensive effort that involves input from residents, the Mayor and City Council, outside governmental agencies and private organizations, all City departments and offices, and City employees. There are several major components to the process and each phase of the FY 2012 Budget Process is explained below.

Five-Year Financial Forecast. The Budget Process is guided with the development and presentation of the Five-Year Financial Forecast (the "Forecast"). The Forecast is a financial and budgetary planning tool that provides a current and long-range assessment of financial conditions and costs for City service delivery plans including the identification of service delivery policy issues that will be encountered in the next five years and that will have a fiscal impact upon the City's program of services. The Forecast also examines the local and national economic conditions that have an impact on the City's economy and ultimately, its budget. The Forecast is intended to provide the City Council and the community with an early financial outlook for the City, and to identify significant issues that need to be addressed in the budget development process. Future revenues and expenditures are taken into account in an effort to determine what type of surplus or deficit the City will face during the next five years. On May 4, 2011, the Forecast was presented to the City Council.

Public and Employee Input. The Budget Input Box provides the community and employees the opportunity to offer their suggestions on how the City may increase efficiencies, generate revenues, and make effective changes to service delivery. City staff maintains Budget Input Boxes in public libraries, the City's office lobbies, Chamber of Commerce, and other venues. Information and access for this budget initiative is provided to the community and City employees in both English and Spanish. Budget Input Box resources are also available on the City's internet website. In addition, the FY 2012 Budget Process will continue with the City's Frontline Focus Initiative. This initiative was designed to engage employees from specific City departments to identify process improvements to be considered during the development of the FY 2012 Proposed Budget.

City Council Goal Setting Work Session. The Goal Setting Work Session for the annual budget is a formal mechanism for City Council as a body to provide City staff with budget policy direction. This year's work session was held on June 22, 2011, and used a professional facilitator to guide City Council in their goals and priorities for the FY 2012 Budget Development Process.

Proposed Budget Preparation. Prior to the Proposed Budget Presentation, each department's base budget is reviewed by the Office of Management and Budget, along with the City department's respective Executive

Leadership Team member. Costs such as fuel, electricity, and other similar maintenance and operational expenses are adjusted to meet current market demands. Concurrent to these reviews, the Executive Leadership Team and Budget Staff review preliminary fund schedules in order to determine the financial position for each City department and fund. Other items discussed in these meetings included performance measures, capital and grant programs, policy issues, revenue changes, and potential reductions. As part of the Budget Development Process, City departments are asked to look for efficiency and operational proposals that would address priority-rated City Council policy goals.

FY 2012 Proposed Budget. After obtaining the priorities of the City Council, as well as conducting reviews of each City department, the City Manager will present the FY 2012 Proposed Operating and Capital Budget to City Council on August 11, 2011. The FY 2012 Proposed Budget represents City staff's professional recommendation reflecting City Council's priorities.

The FY 2012 Proposed Budget will focus on the City's core services and address City Council budget priorities and community needs while maintaining financial strength despite the challenges presented by the current national and local economic environment. The FY 2012 Proposed Budget will also include recommendations to address the FY 2013 Budget Plan.

Public Input on Budget Priorities. After the FY 2012 Budget is proposed on August 11, 2011, the City will host District Community Budget Hearings in all ten City Districts between August 15 and September 2, 2011. In each community hearing, an explanatory video regarding the FY 2012 Proposed Budget will be shown and the community will be given the opportunity to direct questions to their City Council Representative and City Officials. Over 800 individuals attended the District Community Budget Hearings, and over 250 speakers provided comments on the FY 2011 Proposed Budget. The City will also hold Budget Public Hearings on August 31, 2011 in which community groups are given a further opportunity to provide input.

Fiscal Year 2012 Adopted Budget. After receipt of the FY 2012 Proposed Budget, the City Council will hold ten work sessions to review the proposed service program details, and discuss potential City Council budget amendments. The budget work sessions provide a forum for discourse on significant policy issues as well as an opportunity to review departmental service plans highlighting proposed program enhancements, reductions, efficiencies, redirections, and revenue adjustments. After considering all the recommendations and receiving input from citizens, the budget will be adopted on September 15, 2011 to include amendments added by the City Council.

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Budget Update

On May 4, 2011, the Five-Year Financial Forecast (FY 2012- FY 2016) was presented to City Council. The table below summarizes the financial forecast for the City's General Fund.

General Fund Five-Year Financial Forecast Summary

($ In Millions)	FY 2012 Projection	FY 2013 Projection	FY 2014 Projection	FY 2015 Projection	FY 2016 Projection
Available Balance	$54.6	$0.0	$0.0	$0.0	$0.0
Current Revenues	887.1	900.1	914.5	929.6	948.0
Total Available Resources	941.7	900.1	914.5	929.6	948.0
Total Expenditures	950.2	977.6	1,005.6	1,012.7	1,019.7
Ending Balance	($8.5)	($77.5)	($91.1)	($83.1)	($71.7)
Additional Expenditures	11.4	11.4	11.4	11.4	11.4
Adjusted Ending Balance	($19.9)	($88.9)	($102.5)	($94.5)	($83.1)

The table above provides a high level summary showing the City's forecasted available resources, current revenues, and total expenditures. The Ending Balance reflects the projected financial position assuming that current service levels are maintained and no new spending is added.

The Adjusted Ending Balance reflects the projected financial position of the General Fund if it is adjusted for additional expenditures not included in the current service budget. The Additional Expenditures provide budget scenarios for employee compensation and other service enhancements such as increases for economic development incentives, a summer youth employment program, and additional spay/neuter funds. These items identified as additional expenditures are not mandated but rather are policy issues or other items that have been identified as areas to be further analyzed during the FY 2012 Budget Process for possible funding. These items are presented in the table above to show the potential impact to the General Fund.

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The following table below reflects the projections included in the forecast for the City's three major General Fund resources: Property Tax Revenues, Sales Tax Revenues, and Transfers from CPS Energy. These projections continue to be developed on a conservative basis. Additionally, throughout the forecast period, the City's General Fund reserves are maintained at 9% of General Fund appropriations.

($ In Millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Property Tax	$237.1	$236.9	$240.0	$243.5	$249.4
Sales Tax	$197.3	$201.2	$206.2	$212.4	$219.9
CPS Payments	$289.6	$292.5	$295.4	$298.4	$301.4

On June 22, 2011, a goal setting work session was held with the City Council in order to obtain City Council priorities to be utilized in the development of the FY 2012 Budget. The purpose of the session was to obtain guidance from City Council on budget and City service priorities and financial policies that guide the development of the budget. A proposed budget will be presented to the City Council on August 11, 2011.

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REVENUES OF THE CITY

General Fund

The following statements set forth in condensed form reflect the historical operations of the City. The City has prepared such summary for inclusion herein based upon information obtained from the City's Comprehensive Annual Financial Report ("CAFR") and financial records. Reference is made to such statements for further and complete information.

General Fund Comparative Statement of Revenues and Expenditures and Analysis of Changes in Fund Balances **TABLE 2**

	Fiscal Year Ended September 30				
	2010	2009	2008[2]	2007	2006
Fund Balance - Beginning of Year	$ 206,505,933	$ 205,547,529	$ 160,297,414	$ 161,476,026	$ 118,413,742
Revenues					
Taxes	$ 479,774,856	$ 477,114,895	$ 468,494,837	$ 430,451,032	$ 399,359,902
Licenses and Permits	7,769,156	7,089,526	7,756,357	6,926,703	19,764,737
Intergovernmental	7,767,630	6,029,919	6,467,906	4,035,641	3,445,582
Revenues from Utilities	292,726,075	275,605,421	304,157,929	257,687,224	256,367,822
Charges for Services	45,850,142	42,799,773	43,010,464	25,220,809	35,276,831
Fines and Forfeits	11,506,403	13,110,500	12,248,623	15,114,609	10,947,472
Miscellaneous	12,099,140	13,657,600	15,921,433	14,306,653	13,830,931
Total Revenues	$ 857,493,402	$ 835,407,634	$ 858,057,549	$ 753,742,671	$ 738,993,277
Expenditures [1]					
General Government	$ 82,942,315	$ 80,141,831	$ 84,269,944	$ 79,705,071	$ 71,139,682
Public Safety	505,044,615	488,427,529	456,687,403	437,206,950	429,051,592
Streets and Roadways	44,237,331	12,088,398	11,476,555	10,759,958	10,769,261
Health Services	73,897,959	66,405,446	65,892,132	13,109,799	12,412,664
Sanitation	3,212,390	3,300,913	3,446,274	3,007,740	2,864,299
Welfare	41,141,560	43,938,387	46,712,271	42,124,122	23,504,261
Culture and Recreation	76,982,520	75,995,242	74,574,211	69,728,940	71,938,565
Economic Dev. and Opportunity	2,906,867	3,113,889	3,142,690	3,505,293	4,067,281
Total Expenditures	$ 830,365,557	$ 773,411,635	$ 746,201,480	$ 659,147,873	$ 625,747,605
Excess of Revenues Over Expenditures	$ 27,127,845	$ 61,995,999	$ 111,856,069	$ 94,594,798	$ 113,245,672
Other Financing Sources (Uses)					
Operating Transfers In	$ 36,580,928	$ 13,749,869	$ 18,719,550	$ 15,972,026	$ 11,466,466
Operating Transfers Out	(66,495,011)	(86,411,669)	(95,755,000)	(126,065,404)	(90,280,712)
Total Other Financing Sources (Uses)	$ (29,914,083)	$ (72,661,800)	$ (77,035,450)	$(110,093,378)	$ (78,814,246)
Add Encumbrances [1]	25,916,475	11,624,205	10,429,496	13,713,122	8,630,858
Fund Balance - End of Year	$ 229,636,170	$ 206,505,933	$ 205,547,529	$ 159,690,568	$ 161,476,026

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

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

Municipal Sales Taxes

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

Municipal Sales Taxes **TABLE 3**

Fiscal Year Ended 9/30	Sales Tax Collected [1]	Ad Valorem Tax Levy [1, 2]	Percent of Ad Valorem Tax Levy	Net Taxable Assessed Valuation [3]	Equivalent Tax Rate
2001	$136,810,787	$208,917,594	65.49%	$36,033,321,329	$0.3797
2002	157,593,310	229,030,010	68.81	39,587,584,280	0.3981
2003	156,322,600	240,299,754	65.05	41,535,547,008	0.3764
2004	162,383,500	257,931,292	62.96	44,583,138,927	0.3642
2005	167,331,757	268,916,816	62.22	46,481,974,620	0.3600
2006	210,141,500	288,511,855	72.84	49,868,955,425	0.4214
2007	224,479,807	326,326,395	68.79	56,767,701,702	0.3954
2008	232,348,127	372,822,531	62.32	65,954,866,793	0.3523
2009	221,745,867	405,009,920	54.75	72,541,141,480	0.3057
2010	223,475,321	405,896,458	55.06	72,743,219,689	0.3072

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

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

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

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Capital Leases

Debt Obligations – Capital Leases Payable **TABLE 4**

The City has entered into various lease purchase agreements for the acquisition of various fire trucks, golf cars, printers and related components, an inventory theft detection system, self-contained breathing apparatus, hybrid vehicles, a mainframe computer, electrocardiograms, refuse collection containers, refuse collection trucks (diesel and compressed natural gas), brush grappler trucks, brush tractor/trailer combinations, and personal protective equipment. Shown below is the gross value of the assets at September 30, 2010. 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, 2010.

Description	Lease Termination Date	Minimum Lease Payment	Amount Representing Interest	Total Minimum Lease Payments
One Pumper Truck, Four Aerial Trucks, and One Partial Aerial Truck	2/1/2011	$ 498,996	$ 7,381	$ 506,377
Five Aerial Trucks	2/1/2011	471,621	6,976	478,597
13 Electrocardiograms	5/1/2011	25,648	510	26,158
154,587 Refuse Containers	8/1/2011	2,641,401	49,711	2,691,112
19 Pumper Trucks	11/1/2011	1,904,504	51,282	1,955,786
Library Theft Detection System Phase I	8/1/2012	421,552	17,289	438,841
Library Theft Detection System Phase II	2/1/2013	440,035	22,882	462,917
Automated Refuse Collection Containers	2/1/2013	5,308,074	216,936	5,525,010
Hybrid Vehicles	5/1/2013	358,929	17,734	376,663
Automated Sideload and Manual Rearload Refuse Collection Trucks	11/1/2013	585,703	38,301	624,004
Library Theft Detection System Phase III	2/1/2014	516,235	38,341	554,576
770 Set of Personal Protective Equipment	2/1/2014	756,373	56,177	812,550
3 Printers & Related Components	5/1/2014	401,833	23,450	425,283
17 Refuse Collection Trucks, 5 Brush Grappler Trucks, and 10 Brush Tractor/Trailers	11/1/2015	4,215,795	459,356	4,675,151
15 Automated Refuse Collection Trucks (CNG)	2/1/2016	3,065,850	389,400	3,455,250
42 Automated Refuse Collection Trucks	5/1/2016	8,702,047	879,141	9,581,188
8 Automated Refuse Collection Trucks & 1 Brush Collection Tractor	2/1/2017	1,096,092	133,379	1,229,471
Total		$31,410,688	$2,408,246	$33,818,934

The adopted budget for fiscal year 2011 includes appropriations for lease purchase arrangements to acquire in–car police video equipment and various emergency medical services equipment, which occurred on May 24, 2011 pursuant to a five–year lease agreement in an aggregate amount of $5,935,348.41 and a per annum interest rate of 2.24%. The funding for lease purchase arrangements to fund energy/water savings conservation improvements at the Convention Center and at the San Antonio International Airport occurred in fiscal year 2011, with the first payment due in fiscal year 2012 after a construction timeframe of approximately twelve (12) months.

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Tax Rate Distribution **TABLE 5**

Tax Rate	2011	2010 [1]	2009 [1]	2008	2007
	Fiscal Year Ended September 30				
General Fund	$0.35419	$0.35419	$0.35564	$0.36080	$0.36704
Interest and Sinking Fund	0.21150	0.21150	0.21150	0.21150	0.21150
Total Tax Rate	$0.56569	$0.56569	$0.56714	$0.57230	$0.57854

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

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

Assessed Valuation(1) **TABLE 6A**

Tax Year 2010 Actual Market Value of Taxable Property		$ 83,199,409,224
Less:		
Residence Homestead Exemptions - Optional 65 or Older	$4,441,944,059	
Residence Homestead Exemptions - Disabled	115,130,588	
Disabled Veterans' Exemptions	175,551,933	
Disabled Veterans' 100% Exemptions	382,831,328	
Historical Property Exemptions	56,464,024	
Freeport Goods Exemptions	462,630,216	
Tax Abatement/Phase-In Exemptions	807,920,198	
Residence Homestead Appraised Value 10% Limitations	127,934,835	
Agricultural Productivity Loss	512,747,915	
Pollution Control Exemptions	65,649,478	
Low Income Housing Exemptions	24,252,902	
Energy Exemptions	6,055,667	
Absolute Value Exemptions	4,362,796,698	
Pro-Rated Exemptions	26,344,122	
Total Exemptions	$ 11,568,253,963	
Tax Year 2010 Net Taxable Assessed Valuation (100% of Actual Market) (2)		$71,631,155,261

(1) Based on Tax Year 2010 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 20, 2010. Bexar Appraisal District informed the City on June 13, 2011, that the Preliminary Tax Year 2011 Net Taxable Assessed Value will be $70,581,618,187.

(2) The City anticipates that the taxable assessed value of real property subject to the 65 years of age and older and disabled homeowners tax freeze totals approximately $898,013,400, resulting in a fiscal year 2011 loss in ad valorem tax revenue of approximately $5,079,972.

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Debt Payable from Ad Valorem Taxes **TABLE 6B**

The Outstanding Ad Valorem Tax Debt (at 6/1/11)	
General Obligation Bonds	$ 906,660,000
Combination Tax and Revenue Certificates of Obligation	288,785,000
Tax Notes	28,860,000
Total Gross Outstanding Ad Valorem Tax Debt (at 6/1/11)	$ 1,224,305,000
The 2011 Obligations	$ 139,265,000
The 2011 Tax Notes	$ 9,445,000
Total Gross Outstanding Ad Valorem Tax Debt	$ 1,373,015,000
Less: Self-Supporting Debt [1]	66,047,500
Total Net Debt Payable from Ad Valorem Taxes	$ 1,306,967,500
Interest and Sinking Fund Balance at 9/30/10	$ 80,258,216
Ratio of Gross Debt to Actual Market Value [2]	1.65%
Ratio of Gross Debt to Net Taxable Assessed Value [2]	1.92%
Ratio of Net Debt to Actual Market Value [2]	1.57%
Ratio of Net Debt to Net Taxable Assessed Value [2]	1.82%
Tax Year 2010 Actual Market Value of Taxable Property [2]	$83,199,409,224
Tax Year 2010 Net Taxable Assessed Valuation (100% of Actual Market) [2]	$71,631,155,261
Per Capita 2010 Net Taxable Assessed Valuation [2, 3]	$ 53,963
Per Capita Gross Debt [3]	$ 1,034
Per Capita Net Debt [3]	$ 985

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

[2] Based on Tax Year 2010 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 20, 2010. Bexar Appraisal District informed the City on June 13, 2011, that the Preliminary Tax Year 2011 Net Taxable Assessed Value will be $70,581,618,187.

[3] Based on the 2010 Census, prepared by the United States Census Bureau, population of 1,327,407 as of December 31, 2010.

CERTAIN SIGNIFICANT ISSUES AFFECTING THE CITY

Water Supply

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

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

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

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

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

In 2007, the Texas Legislature passed Senate Bill 3 ("SB 3") establishing a cap on annual pumping from the Edwards Aquifer of 572,000 acre-feet and placing restrictions into State statute regarding supply availability during drought periods, thus making these restrictions State law. SAWS currently has access to approximately 46% of the 572,000 acre-feet available. In addition, to support ongoing efforts to identify and evaluate methods to protect threatened and endangered species, the Texas Legislature prescribed in detail an Edwards Aquifer Recovery Implementation Program ("EARIP") for the Edwards Aquifer region. The EARIP is being undertaken in coordination with U.S. Fish and Wildlife Service, and is intended to help the region meet the needs of endangered species, while respecting and protecting the legal rights of water users. The program consists of a facilitated, consensus-based process involving a broad cross-section of regional stakeholders. It will result in recommendations to the Edwards Aquifer Authority for future management of the Edwards Aquifer during periods of critical drought. Initial work of the EARIP is to be completed by the end of 2012.

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

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

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

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

Stage Two – Stage Two restrictions begin when the Edwards Aquifer level drops to 650 feet mean sea level at the monitored well. During Stage Two restrictions, SAWS pumping allocation from the Edwards Aquifer is reduced by 30%. SAWS customers are limited to one-day-per week landscape watering with an irrigation system or sprinkler based on the last number of the customer's street address and are only allowed to water from 3 a.m. to 8 a.m. and from 8 p.m. to 10 p.m. on their assigned day.

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

Stage Four – Stage Four restrictions begin when the Edwards Aquifer level drops to 630 feet mean sea level at the monitored well; after a 30-day monitoring period once Stage Three is declared; and the total supply of water from the Edwards Aquifer and other available water sources to SAWS is insufficient to meet customer demand while complying with applicable regulations governing water supply withdrawals. During Stage Four restrictions, SAWS pumping allocation from the Edwards Aquifer is reduced by 40%. SAWS customers are limited to landscape watering with an irrigation system or sprinkler once every other week based on the last number of the customer's street address and are only allowed to water from 3 a.m. to 8 a.m. and from 8 p.m. to 10 p.m. on their assigned day. Also during Stage Four, a drought surcharge is assessed on all accounts for water used or assumed to be used for landscape irrigation. The surcharge is the highest volumetric rate assessed by SAWS and is assessed on any residential and irrigation account with monthly water usage exceeding 12,717 and 5,236 gallons, respectively. The surcharge rate is assessed in addition to the regular water and wastewater rates.

From October 2010 to June 2011, the City experienced significantly lower than normal rainfall, receiving 6.7 inches of rain (or less than 26% of the normal total for the same period of 25.3 inches). During this time, the Edwards Aquifer level has steadily dropped. On April 12, 2011, the Edwards Aquifer dropped below 660 feet at the monitoring well, and Stage One restrictions were declared. The Edwards Aquifer continued to drop and on May 31, 2011, Stage Two restrictions were declared. Stage Two restrictions remain in effect until the Edwards Aquifer levels rise above 650 feet for more for 30 days and it is determined conditions warrant termination of Stage Two. Conditions will determine if all restrictions are terminated or if a previous less restrictive stage will apply.

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

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

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

Electric and Gas Supply

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

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 Board of San Antonio, Texas ("CPS Board") and the City Council, any decision to opt-in to competition would be based upon the adoption of resolutions of both the CPS Board and the City Council. If the City and CPS choose to opt-in, other retail electric energy suppliers would be authorized to offer retail electric energy in the CPS service area and CPS would be authorized to offer retail electric energy in any other areas open to retail competition in the Electric Reliability Council of Texas ("ERCOT"). ERCOT is the independent entity that monitors and administers the flow of electricity within the interconnected grid that operates wholly within Texas.

See "CITY OF SAN ANTONIO, TEXAS – GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION" attached hereto as Appendix A for additional information concerning CPS Energy and its combined utility system.

Air Quality

On March 12, 2008, the United States Environmental Protection Agency (the "EPA") revised its national ambient air quality standards ("NAAQS") for ground-level ozone (the primary component for smog), which had last been revised in 1997. This revision was the result of a required review process mandated by the Clean Air Act, as amended in 1990. Prior to the revision, an area met the 1997 ground-level ozone standards if the three-year average of the annual fourth-highest daily maximum eight-hour average at every ozone monitor (the "eight-hour ozone standard") was less than or equal to 0.08 parts per million (ppm). Because ozone is measured out to three decimal places, the 1997 ozone standard effectively became 0.084 as a result of rounding. For years 2005-2007, San Antonio maintained average ozone readings of 0.082 ppm and was, therefore, compliant with the then-current 1997 EPA ground-level ozone standards.

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

The Clean Air Act requires the EPA to designate areas as "attainment" (meeting the standards), "nonattainment" (not meeting the standards), or "unclassifiable" (insufficient data to classify). As a result of the revisions to the NAAQS in 2008, states were required to make recommendations to the EPA no later than March 12, 2009 for areas to be classified attainment, nonattainment, or unclassifiable. In a letter dated March 10, 2009, Texas

Governor Rick Perry submitted a list of 27 counties in Texas, including Bexar, that the Governor recommended for designation as nonattainment under this requirement.

However, on September 16, 2009, the EPA announced that it was reconsidering the 2008 revised NAAQS and on January 6, 2010, the EPA proposed further revisions to the NAAQS. Specifically, the EPA is proposing to (i) strengthen the primary eight-hour ozone standard (for the stated purpose of protecting public health) to a level within the range of 0.060 and 0.070 ppm, and (ii) establish a distinct, seasonal secondary standard (for the stated purpose of protecting public welfare) at levels less stringent than the primary standard described above (together, the "proposed 2010 NAAQS revisions"). In early December 2010, the EPA announced its intention to set a final standard by the end of July, 2011. Whenever a primary standard is revised, the revision process resets the three-year maximum time limit for designations under the newly revised standard, as required in the Clean Air Act.

Under the Clean Air Act, the EPA has two years from the time it revises the NAAQS to complete the designation process; provided, however, that such period may be extended for one year in the event there is insufficient information to make a designation. Under this timeline following the revisions to the NAAQS in 2008, final designations for all areas were to be issued no later than March 12, 2010. On January 19, 2010, the EPA extended the deadline for final designations by one year, until March 12, 2011. However, March 12, 2011 has passed with no formal or official notification by EPA regarding either promulgations under the 2008 ozone standard or revisions to the 2008 ozone standard. If the 2008 NAAQS are revised, the implementation requirements for the 2008 ozone NAAQS, including designations proposed by the State, will no longer apply. Instead, the EPA will begin a new process to designate areas for the revised ozone NAAQS on a to-be-determined schedule, which should be consistent with the timeline requirements for designations given in the Clean Air Act. Following the issuance of final designations, states will be required to submit State Implementation Plans ("SIPs") outlining how they will reduce pollution to meet the new standards. These SIPs will be due to the EPA by a date that it will establish under separate rule.

The EPA proposed in July 2009 to modify the ozone air quality monitoring network design requirements in order to better support alternative ozone standards, including the 2008 revised NAAQS and the proposed 2010 NAAQS revisions would require a greater number of EPA-approved monitors in both urban and non-urban areas and longer ozone monitoring seasons in many states. For Texas specifically, the proposal calls for year-round monitoring throughout the State.

A designation of nonattainment for ozone may have a negative effect on new industrial, commercial, and residential development in the San Antonio Area. Examples of past efforts by the EPA and the Texas Commission on Environmental Quality ("TCEQ") to provide for annual reductions in ozone concentrations in areas of nonattainment under the former NAAQS include imposition of stringent limitations on emissions of volatile organic compounds and nitrogen oxides from existing stationary sources of air emissions, as well as specifying that any new source of significant air emissions, such as a new industrial plant, must provide for a net reduction of air emissions by arranging for other industries to reduce their emissions by 1.3 times the amount of pollutants proposed to be emitted by the new source. Note, however, that strategies implemented in a new nonattainment area are tailored to local conditions such as the severity of the local ozone violations. Reduction requirements can be often be met through the implementation of a wide variety of strategies.

Failure by an area to comply with the EPA's rules and regulations regarding ground level ozone by the requisite time could result in the EPA imposing a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects. From time to time, various plaintiff environmental organizations have filed lawsuits against TCEQ and EPA seeking to compel the early adoption of additional emission reduction measures.

It remains to be seen exactly what steps will ultimately be required to meet federal air quality standards, how the EPA may respond to developments as they occur, and what impact such steps and any EPA action may have upon the economy and the business and residential communities in the San Antonio Area. External factors such as litigation, positions of governmental administrations and others that are at this time unknown, will likely affect the outcome of this issue in ways that are not currently discernible.

INVESTMENTS

Available investable funds of the City are invested as authorized and required by the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "Act") and in accordance with an Investment Policy approved by the City Council of the City. The Act requires that the City establish an investment policy to ensure that City funds are invested only in accordance with State law. The City has established a written investment policy in accordance with the Act. The City's investments are managed by its Chief Financial Officer, who, in accordance with the Investment Policy, reports investment activity to the City Council. Both State law and the City's Investment Policy are subject to change.

Legal Investments

Under Texas law, the City is authorized to invest in: (1) obligations, including letters of credit of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas 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 of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas 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) bonds issued, assumed, or guaranteed by the State of Israel; (7) certificates of deposit that are guaranteed or insured by the Federal Deposit Insurance Corporation or are secured as to principal by obligations described in the preceding clauses or in any other manner and amount provided by law for City deposits; (8) certificates of deposit and share certificates issued by a state or federal credit union domiciled 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 are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits; (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (10) Securities Lending Program where the value of the securities loaned under the program must be not less than 100 percent collateralized, including accrued income, a loan under the program must allow for termination at any time, a loan made under the program must be secured by: (a) pledged securities described in section (9) (b) pledged irrevocable letter of credit issued by a bank or (c) cash, the terms of a loan made under the program must require that the securities being held as collateral be: (a) pledged to the investing entity, (b) held in the investing entity's name; and (c) deposited at the time the investment is made with the entity or with a third party selected by or approved by the investing entity; loan made under the program must be placed through a primary government securities dealer or a financial institution doing business in the State of Texas, and an agreement to lend securities that is executed must have a term of one year or less; (11) bankers' acceptances with a stated maturity of 270 days or fewer from the date of issuance, or 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; (12) commercial paper that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. bank or state; (13) no-load money market mutual funds regulated by the United States Securities and Exchange Commission (the "SEC") 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; (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, invest exclusively in obligations described in the preceding clauses, and 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 (15) guaranteed investment contracts secured by obligations of the United States of America or its agencies and instrumentalities, other than the prohibited obligations described in the next succeeding paragraph. The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA", "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 under written investment policies that primarily emphasize safety of principal and liquidity; addresses investment diversification, yield, maturity, and the quality and capability of investment management; and includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted “investment strategy statement” that specifically addresses each 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.

Under Texas law, 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 will submit 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 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.

Additional Provisions

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) 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; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City’s investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) 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; (7) restrict its investment in mutual funds in the aggregate to no more than 15% of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

Current Investments

At March 31, 2011, investable City funds in the approximate amount of $1,355,222,097 were 94.55% invested in obligations of the United States, or its agencies and instrumentalities, 5.34% invested in a money market mutual fund, and 0.11% 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 100.03% of their book value. No funds of the City are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

Securities Lending

On April 1, 2010, the City entered into a securities lending agreement with Frost National Bank in compliance with State statutes and the City's Investment Policy. The securities lending agreement requires collateral in the form of cash and/or U.S. government securities equal to 102% of the loaned security's market value plus accrued interest for domestic government or agency securities loaned.

LITIGATION

General Litigation and Claims

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and promotional practices; various claims from contractors for additional amounts under construction contracts; and property tax assessments and various other liability claims. The amount of damages in most of the pending lawsuits is capped under the Texas Tort Claims Act. Therefore, as of fiscal year ended September 30, 2010, the amount of $23.135 million is included as a component of the Reserve for claims liability. The estimated liability, including an estimate of incurred but not reported claims, is recorded in the Insurance Reserve Fund. The status of such litigation ranges from early discovery stage to various levels of appeal of judgments both for and against the City. The City intends to defend vigorously against the lawsuits; including the pursuit of all appeals; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the outcome of such lawsuits.

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

Information regarding various lawsuits against the City is included at Note 11, entitled "Commitments and Contingencies", of the City's CAFR for the fiscal year ended September 30, 2010, attached hereto as Appendix C. The City provides the following updated information related to the lawsuits:

Kopplow Development, Inc. v. City of San Antonio. Plaintiff contends that the construction of a regional stormwater detention facility was an inverse condemnation of its property by increasing the flood plain elevation on its property. The City also filed a statutory condemnation to acquire an easement involving Plaintiff's property to construct and maintain part of the facility. This matter was tried in July 2008, but the City's motion for new trial was granted. After a retrial, the jury awarded approximately $600,000 to Plaintiff for the inverse condemnation and statutory condemnation. The City and Plaintiff have appealed. The Fourth Court of Appeals recently issued its opinion affirming the Trial Court's ruling awarding Plaintiff $4,600 as compensation for the land taken, but reversed the other portion of the judgment for the remainder of the damages. Plaintiff's motion for rehearing was denied on December 29, 2010. Plaintiff filed a Petition for Review to the Texas Supreme Court. The City's response was filed with the Court on June 30, 2011.

Shawn Rosenbaum, et al. v. City of San Antonio, et al. Plaintiffs' decedent, Diane Rosenbaum, was operating her motorized wheelchair, crossing a parking area where she allegedly was struck by a City vehicle. Ms. Rosenbaum later died, allegedly as a result of this incident. This case is recently filed and discovery is ongoing. Damages in this matter are capped by the Texas Tort Claims Act at $250,000. Mediation is scheduled for July 22, 2011.

Chacon, et al. v. City of San Antonio, et al. Plaintiffs are land owners who own property in an area that had been part of a limited purpose annexation by the City. The area was de-annexed in March 2008 and City South Management Authority ("CSMA") took over responsibility for planning and zoning pursuant to State statute. Plaintiffs filed suit in Federal Court challenging both the City and CSMA's authority to enact and enforce zoning and planning regulations, alleging that these restrictions have devalued their property by limiting their ability to develop it. Under the City's Indemnification Ordinance, the City has provided a defense for CSMA. On cross-motions for Summary Judgment, the Court dismissed most of Plaintiff's claims, but retained their claim of violations of the Texas Government Code, Chapter 2007. Plaintiffs seek damages in excess of $4 million.

Daniel Thomas, et al. v. City of San Antonio, et al. Plaintiffs' decedent was involved in two vehicle accidents in a short period of time and fled the scene of the second one on foot. After decedent refused commands to stop and drop his weapon, and in fear for their safety, the SAPD officers shot and killed the decedent. Plaintiffs filed suit against the City and the SAPD officers in their individual capacities. If liability is determined, damages could be in excess of $250,000.

Galvan, et al. v. City of San Antonio, et al. Plaintiffs filed suit for wrongful death under State and federal laws related to the death of Sergio Galvan. During the course of an arrest, decedent became violent and, in response, the defendant officers used taser guns to subdue him. Decedent became unresponsive and was later pronounced dead. The trial court granted summary judgment in favor of all defendants in November 2008. Plaintiffs have appealed the judgment with respect to the defendant officers to the Fifth Circuit Court of Appeals. The Fifth Circuit affirmed the judgment in favor of the Defendants in June 2010. During the pendency of that suit, a second lawsuit was filed by different family members of the decedent, in State district court. That matter was removed to Federal Court. The Court requested briefing on why the second suit should not be dismissed in light of the Fifth Circuit opinion in the first case. The Court's decision is pending. If the matter is not dismissed and plaintiffs are successful, damages could be in excess of $250,000.

Smith, et al. v. Ybarra, et al. Plaintiffs' decedent was killed in a motor vehicle accident. Plaintiffs filed suit against the driver of the vehicle involved, as well as the City. As to the City, Plaintiffs contend that paramedics did not render medical aid to decedent based on their mistaken belief that she was already deceased. Damages are capped at $250,000.

KGME, Incorporated v. City of San Antonio. Plaintiff entered into a contract with the City to provide construction services. The parties determined that work on portions of the contract had become impracticable and further work would cease. Plaintiff sued for breach of contract and violations of the Prompt Payment Act. Damages could exceed $250,000. The City filed a plea to the jurisdiction, which was denied by the Court. The Fourth Court of Appeals issued its opinion on February 16, 2011, affirming the trial court's denial of the city's Plea to the Jurisdiction.

Valemas, Inc. v City of San Antonio. The City contracted with Plaintiff for construction work associated with the Brackenridge Park Rehabilitation Project. The City refused to pay the Plaintiff the balance of the contract due to delays in completion. Plaintiff contends that the delays were due to actions of the City and filed suit to recover the balance of the contract. Damages could be in excess of $250,000. This matter will be set for mediation some time prior to the trial date in October 2011.

L. Payne Constructors v City of San Antonio. The City contracted with Plaintiff for construction work associated with the Clark Avenue/Fair Avenue project. Plaintiff filed suit for breach of contract alleging the City caused delays and increased costs through change orders. Plaintiffs have sued for damages in excess of $500,000. This matter has been recently filed and discovery is just beginning.

Headwaters Coalition, et. al. v. City of San Antonio. The Headwaters Coalition, owners of the property alleged to contain the headwaters of the San Antonio River, and a local homeowners association filed suit to prevent the use of 2007 bond funds for constructing a drainage system to run down Hildebrand Avenue from Broadway to the San Antonio River, intending to alleviate floodwaters on Broadway. Plaintiffs contend that the wording of the 2007 bond election documents strictly limits the construction of the drainage system to Broadway and that no work may be done off of that street. The City contends that the intent of the 2007 bond election documents was to alleviate the flooding on Broadway and that placement of the drainage system on Hildebrand is the most efficient and cost-effective means of achieving that goal. Alternatively, the City contends that the Hildebrand drainage system plan substantially complies with the 2007 bond documents. Judge David Berchelmann, a State District Court Judge, entered a temporary injunction preventing the City not only from using the 2007 bond proceeds on the Hildebrand system, but prohibiting any further construction work or the expenditures of any other City funds on the Hildebrand drainage system project until a scheduled hearing in November, 2011. The City has filed an interlocutory appeal to the Fourth Court of Appeals.

Collective Bargaining Negotiations

The City is required to collectively bargain the compensation and other conditions of employment with its fire fighters and police officers. The City engages in such negotiations with the association selected by the majority of fire fighters and police officers, respectively, as their exclusive bargaining agent. The International Association of Fire Fighters, Local 624 ("Local 624") is the recognized bargaining agent for the fire fighters. The San Antonio Police Officers Association ("SAPOA") is the recognized bargaining agent for the police officers. Following is a status of the collective bargaining negotiations with each association:

Collective Bargaining Agreement between the City of San Antonio and the International Association of Fire Fighters, Local 624: The City Council approved a collective bargaining agreement (the "CBA") with Local 624 on May 30, 2007. The City and the Association have been negotiating the terms of a new CBA since 2009 and reached a tentative agreement in April 2011, with both parties approving the Agreement by appropriate action taken in May 2011. The Agreement, among other things, provides for a term through September 30, 2014, with an automatic renewal through September 30, 2024.

Collective Bargaining Agreement between the City of San Antonio and the San Antonio Police Officers' Association: The SAPOA and the City Council approved a CBA which provides for a term through September 30, 2014, with an automatic renewal through September 30, 2024.

CITY PENSION AND OTHER POSTEMPLOYMENT RETIREMENT BENEFIT LIABILITIES

City Pension Benefit Plans

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

As a part of its valuation of the City Pension Benefits Plans, the actuary calculates and reports 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, 2010 was $231.1 million with an amortization period for the UAAL of 9.1 years and a funded ratio of 90.7%. The TMRS' UAAL as of December 31, 2009 was $188.0 million with a funded ratio of 73.3%. See the following for additional information on these two plans.

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

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

The Board reaffirmed 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 amendments. The actuarial cost of benefits enhancements recommended by the Board will not exceed 50% 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 Board or any future Board.

On October 1, 2009, legislation became effective that modified the description for the pension plan. The major changes enacted during the 2009 legislative session are: (i) the implementation of a procedure to allow members who have served probationary time prior to becoming a member to purchase service credit for that time; (ii) an increase in the cost of living adjustment payments to members that retired between 1997 and 1999; (iii) expansion of the BackDROP payment from 4 years to 5 years; (iv) establishment of a 55 year old minimum age for marriage after retirement spouses to begin receiving annuity payments for those that qualify for such annuity payments; (v) an increase in the lump sum death benefit payment to spouses who do not qualify for annuity payments, and who married the deceased member post-retirement, from $2,500 to $15,000; (vi) the elimination of minimum years of marriage requirement for eligibility for such lump sum payments; (vii) changing the allocation of death benefits between a surviving spouse and the dependent children of a member from 50% - spouse and 50% - children to 75% - spouse and 25% - children; and (viii) the establishment of a procedure to allow the fire chief and police chief to opt out of membership in the Fund.

The Fund's annual required contribution for FY 2010 is determined by Pension Law. The Fund's October 1, 2009 actuarial valuation used the entry-age normal cost method. Significant assumptions included: (a) 7.8% investment rate of return and (b) projected annual salary increase of 4.3%. The unfunded actuarial liability is amortized as a level percentage of projected payroll on an open basis.

The actuarial valuation also utilizes a technique that smoothes the effects of short-term volatility in the market value of investments over a five-year period. As is the case with most public pension plans, the Fund incurred investment losses in prior years. Under this approach, the Fund's investment returns have been smoothed which results in the deferral of $328.6 million in investment losses as of October 1, 2010. These investment losses will be recognized in future year's actuarial valuations to the extent they are not offset by recognition of investment gains above the Fund's assumed investment return of 7.8% or other actuarial gains.

Texas Municipal Retirement System. The TMRS is a nontraditional, joint contributory, hybrid defined benefit plan. TMRS is a statewide agent multiple-employer public employee retirement system created by law to provide retirement and disability benefits to City employees. The City provides benefits for all of its eligible non-uniformed employees (excluding police officers and fire fighters) through TMRS.

Since its inception, TMRS had used the traditional Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date but does not project the potential future liability of provisions adopted by a participating government. Two-thirds of the governments participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. These provisions are considered to be "committed" benefits (or likely to be guaranteed); as such, beginning with the December 31, 2007 actuarial valuation, the TMRS Board adopted the Projected Unit Credit 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 TMRS Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period may be increased up to 30 years, unless a participating government requests that the period remain at 25 years. For governments with repeating features, these changes will likely result initially in higher required contributions and lower funded ratios. To assist in this transition to higher rates, the TMRS Board also approved an eight-year phase-in period, which will allow governments the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate).

With the change in actuarial methodology, the UAAL in the December 31, 2007 actuarial valuation increased from $178.5 million in the prior valuation to $317.7 million. Concurrently, the funded ratio decreased from 72.2% to 60.1%. 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 was 13% as compared to the prior year rate of 12.5%.

During FY 2008, the City created an internal work team and plan to review and address the changes made by TMRS and was successful in obtaining a voting seat on the TMRS Board. The City also contracted with a legal firm to provide legal advice and assistance on TMRS and other pension related issues. The legal firm engaged an actuarial firm to evaluate the assumptions and results of TMRS' report, to provide a historical performance analysis of the funds within TMRS, and will assist in exploring viable pension alternatives. A task force of current employees and retirees was formed to provide input regarding the alternatives and options.

With the adoption of the fiscal year 2010 budget, the City eliminated the automatic, annually–repeating cost of living adjustment. Additionally, no cost of living adjustments were provided for retirees or civilian and uniformed employees in fiscal year 2010. These changes resulted in a reduction in the contribution rate to 12.3% of covered payroll.

The December 31, 2009 actuarial valuation resulted in a UAAL of $188 million with a funded ratio of 73.3% and the contribution rate for 2011 is 12.6% of covered payroll.

Senate Bill 350 ("SB 350"), effective June 17, 2011, authorizes the TMRS to restructure three of its internal accounts that hold employee and city contributions and pay retirement accounts, which will allow TMRS to provide more efficient funding, reduce year-to-year volatility in city contribution rates, and result in lower city contribution rates and improved funding for cities participating in TMRS, all of which will be accomplished without reducing member or retiree benefits. TMRS' consulting actuary has estimated that the reduction in the City's contribution rate for retirement benefits will most likely be in the range 1.6% to 2.4% representing a reduction in the City's contribution of approximately $4.2 million to $6.2 million and increasing the funded ratio.

Other City Postemployment Retirement Benefit

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

The first of the three programs is a health insurance plan which provides benefits for nonuniformed City retirees and for pre-October 1, 1989 uniformed (fire and police) retirees who are not eligible for Medicare. The program is comprised of four self-funded PPO health plans currently administered by United Healthcare. These plans may be amended at any time with approval from the City Council. This program is funded on a pay-as-you-go basis with an aggregate sharing of premium costs based on the following targets: 67.0% by the City and 33.0% by the retiree for those retirees hired prior to October 2007, 50.0% for retirees hired on or after October 2007 with 10+ years of service to the City and 100.0% for retirees hired on or after October 2007 with five to nine years of City service. Currently, there are 5,744 active civilian employees who may become eligible in the future. Employees may become eligible to participate in this program based on eligibility for participation in the TMRS Pension Plan and their number of years of service to the City. Under the TMRS Pension Plan, employees may retire at age 60 and above with five or more years of service or with 20 years of service regardless of age. Retiree medical benefits continue for the life of the retiree and their surviving eligible dependents that were covered at the time of the employee's retirement. Nonuniformed City employees who qualify for a disability pension under TMRS rules are also eligible to receive the retiree medical benefit under this plan. As of September 30, 2010, there were 551 retirees participating in this program.

The second program, with 837 participating retirees, is available to eligible retirees who have Medicare coverage. All retirees and dependents are required to apply for and maintain Medicare Part A and B coverage once they reach age 65 or otherwise become eligible for Medicare. Of the current 837 participating Medicare retirees, 280 participate in a fully insured Medicare Advantage HMO and the remaining 557 participate in a fully insured Medicare Supplement. This program may be amended at any time by the City Council.

An additional 90 retirees participate in CitiMed, which is a self-funded health plan also administered by United Healthcare.

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 City intends to conduct actuarial studies of this plan bi-annually with annual reviews of assumptions and changes in benefits to compute Other Postemployment Benefits ("OPEB") liability. Most recently, an actuarial valuation of the plan was performed as of January 1, 2009 with the UAAL reported at $342 million. The plan continues to be funded on a pay-as-you-go basis and no prefunding has occurred to date.

The third 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 were 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, it was determined that the program did not have a short-term financing problem. As of September 30, 2007, the plan had net assets available for postemployment health benefits of $198 million while benefits payments for FY 2007 were $15 million.

During the 2007 State legislative session, the City, 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, 2010 indicates that the UAAL, calculated in compliance with GASB regulations, was $387.5 million with a funded ratio of 36.2%. The study further indicates that after the 10-year period as defined in the governing legislation, a projected increase of 0.93% in the total contribution requirement would provide for the amortization of the Fund's UAAL over 30 years.

In effect, in FY 2018, the City's contribution rate would increase from 9.4% to 10.02% of covered payroll and from 4.7% to 5.01% of covered payroll for active fire and police employees in order to achieve a 30-year amortization of the UAAL.

Additionally, the actuarial valuation includes a 5-year smoothing of market value with an 80%/120% corridor. As such, investment losses are being smoothed which results in the deferred recognition of $36.6 million in investment losses. These losses will be recognized in future actuarial valuations to the extent they are not offset by investment gains above the assumed investment return of 8%.

Use of Assumptions and Estimates

As set forth herein, as well as in Notes 8 and 9, respectively, of the City's CAFR for its fiscal year ended September 30, 2010, selected provisions of which are attached hereto as Appendix C, the disclosure relating to the City Pension and Retiree Health Benefits Plans are based upon certain actuarial assumptions and estimates, reasonably made based upon information available at such time, that are subject to variance. To the extent these assumptions and estimates do not materialize or are inaccurate, the financial information disclosed herein and in Notes 8 and 9, respectively, of the CAFR, including the estimated-as-compared-to-actual values of the assets and liabilities for each of the City Pension and Retiree Health Benefits Plans, could change substantially and in a materially adverse manner.

CAFR Discussion

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

TAX MATTERS

Opinion

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

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the Corporation and the City, including information and representations contained in the Corporation's federal tax certificate, and (b) covenants of the Corporation and the City contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed therewith. Although it is expected that the Bonds will qualify as tax-exempt obligations for federal income tax purposes as of the date of issuance, the tax-exempt status of the Bonds could be affected by future events. However, future events beyond the control of the Corporation and City, as well as the failure to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the Corporation or the City with respect to the Bonds or the Project financed with the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Corporation or the City as the taxpayer and the holders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds (the "Original Issue Discount Bonds") may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year. In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under existing law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

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

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

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

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

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

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

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

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

State, Local and Foreign Taxes

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

LEGAL MATTERS

General

On the Closing Date, the Corporation and the City will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinions of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding special obligations of the City, and based upon examination of such transcript of proceedings, the legal opinion of Bond Counsel to the effect that the Bonds are valid and legally binding special obligations of the City and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security or in any manner questioning the validity of the Bonds will also be furnished. In its capacity as Bond Counsel, McCall, Parkhurst & Horton L.L.P. of San Antonio, Texas, has reviewed the information appearing in this Official Statement under the captions "PLAN OF FINANCE", "THE BONDS" (other than under the subsection "Book-Entry-Only System", and "Payment Record", as to which no view will be expressed), "SECURITY FOR THE BONDS AND REMEDIES IN THE EVENT OF DEFAULT", "TAX MATTERS", "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE", "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", "LEGAL MATTERS", AND "SELECTED PROVISIONS OF THE FINANCING DOCUMENTS" attached hereto as Appendix B to determine whether such information fairly summarizes the material and documents referred to therein and is correct as to matters of law. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the Corporation or 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 Bonds are contingent on the issuance and delivery of the Bonds. The form of legal opinion of Bond Counsel expected to be delivered on the date of issuance of the Bonds is attached hereto as Appendix D. Certain legal matters will be passed upon for the Corporation and the City by the City Attorney. Certain legal matters will be passed upon for the Underwriters by their counsel, Fulbright & Jaworski L.L.P. of San Antonio, Texas.

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

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

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

RATINGS

The Bonds have been rated "Aa1", "AA+", and "AA+", respectively, by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Standard and Poor's Financial Services LLC business ("S&P"), and Fitch Ratings ("Fitch"). An explanation of the significance of such ratings may be obtained from Moody's, S&P, and Fitch. The rating of the Bonds by Moody's, S&P, and Fitch reflects only the views of said companies at the time the ratings are given, and the Corporation makes no representations as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by Moody's, S&P, and Fitch if, in the judgment of said companies, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Lease, the Corporation and City have made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The Corporation and the City are required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the Corporation and the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the MSRB through its EMMA system, where it is available free of charge at www.emma.msrb.org.

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 file annually with the MSRB certain updated financial information and operating data. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement indicated as Tables 2-6, and in the CAFR, substantially in the manner set forth in Appendix C to this Official Statement. The City will update and provide this information within six months after the end of its fiscal year.

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

The City's fiscal year ends September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file notice of such change with the MSRB.

Material Event Notices

Notice of Occurrence of Certain Events, Whether or Not Material. The Corporation will notify the MSRB through EMMA (in an electronic format as prescribed by the MSRB) within ten business days following the occurrence of any of the following events with respect to the Bonds, without regard to whether such event is material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of an obligated person. (Neither the Bonds nor the related documents make any provision for credit enhancement, liquidity enhancement, or a debt service reserve with respect to the Bonds.)

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

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

Availability of Information

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

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

Limitations and Amendments

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

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

Compliance with Prior Undertakings

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

Due to an administrative oversight, the City neglected to file its annual financial disclosure information (Comprehensive Annual Financial Report and other requisite financial statements) for its outstanding obligations having a base CUSIP number of 796236. This information was timely filed with respect to all other City obligations (where it was available to the general public from the MSRB through EMMA) and, on March 28, 2011, was filed with respect to the outstanding obligations having this base CUSIP number, as well. The City is now current with respect to all continuing disclosure obligations required to be made by the City in accordance with the Rule.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, including, but not limited to the information under the headings “SECURITY FOR THE BONDS AND CERTAIN ORDINANCE PROVISIONS” and “CERTAIN INVESTMENT CONSIDERATIONS AND RISK FACTORS”, and in any other information provided by the Corporation or the City that are not purely historical are forward-looking statements, including statements regarding the Corporation’s and the City’s expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Corporation and the City on the date hereof, and the Corporation and the City assume no obligation to update any such forward-looking statements. The Corporation’s and the City’s actual results could differ materially from those discussed in such forward-looking statements.

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

CO-FINANCIAL ADVISORS

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

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the Corporation at a purchase price of $27,300,727.30, which represents the par amount of the Bonds, less a net original issue discount of $444,181.55, less an Underwriters' discount of $180,091.15, and no accrued interest.

The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of a series of Bonds if any of such series of Bonds is purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed from time to time by the Underwriters.

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

AUTHORIZATION OF THE OFFICIAL STATEMENT

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

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

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

/s/ Julián Castro
Mayor, City of San Antonio

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APPENDIX A

CITY OF SAN ANTONIO, TEXAS
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

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APPENDIX A

CITY OF SAN ANTONIO, TEXAS
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

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

Population and Location

The 2010 Census, prepared by the United States Census Bureau ("U.S. Census Bureau"), found a City population of 1,327,407. 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 1,714,773 according to the 2010 Census. The City is located in south central Texas approximately 80 miles south of the State capital in Austin, 165 miles northwest of the Gulf of Mexico, and approximately 150 miles from the United States ("U.S.") / Mexico border cities of Del Rio, Eagle Pass, and Laredo.

The following table provides the population of the City, Bexar County, and the San Antonio 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]
2010	1,327,407	1,714,773	2,100,000 [2]

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

[2] Provided by the American Community Survey.

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

Area and Topography

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

Three-Year Annexation Plan Process

Through both full and limited purpose annexations, the City has grown from its original size of 36 square miles to its current area, encompassing 467 square miles, and having a tax year 2010 net taxable assessed value of $71.6 billion.

By City Charter, City Council has the power to annex territory by passage of an ordinance. As of January 1999, State law mandates that municipalities planning to annex 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 currently engaged in a sector plan process to help define how the City may grow. This process will help identify areas adjacent to the current City limits and within its extra-territorial jurisdiction ("ETJ"), generally five miles outside the boundary, that are appropriate for annexation. At the present time, the City does not plan an annexation in fiscal year ("FY") 2011.

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 members, with ten members elected from single-member districts, and the Mayor elected at-large. Each member of the City Council serves two-year terms, and each member is limited to a maximum of four full terms. The office of Mayor is considered a separate office. The terms of all members of the City Council currently sitting in office expire on May 31, 2013. The City Council appoints a City Manager who executes the laws and administers the government of the City, and serves as the City's chief administrative officer. The City Manager serves at the pleasure of City Council.

City Charter

The City may only hold an election to amend its City Charter every two years. Since its adoption, the City Charter has been amended on seven separate occasions: November 1974, January 1977, May 1991, May 1997, November 2001, May 2004, and November 2008.

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.

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

Services

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

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

Electric and gas services to the San Antonio area are provided by CPS Energy ("CPS"), an electric and gas utility owned by the City that maintains and operates certain utilities infrastructure. This infrastructure includes a 16 generating unit electric system and the gas system that serves the San Antonio area. CPS also owns a 40% interest in the South Texas Project's ("STP") two existing nuclear generating units. These nuclear units supplied 32.3% of the electric system native load for the fiscal year ending January 31, 2011. 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, 2010 were $283,502,088. (See "San Antonio Electric and Gas Systems" herein.)

Water services to most of the City are provided by the San Antonio Water System ("SAWS"), San Antonio's municipally-owned water supply, water delivery, and wastewater treatment utility. SAWS is in its 19th 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, 2010 were $9,223,627. (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 convention and tourism, healthcare and bioscience, government employment, automotive manufacturing, information security, financial services, the oil and gas industry, and international trade. Support for these economic activities is demonstrated by the City's commitment to its ongoing infrastructure improvements and development, and its dedicated work force. With continuously resilient employment growth, San Antonio fares well when compared to the State and nation. The San Antonio-New Braunfels MSA unemployment rate increased to 7.3% in May 2011, up from 7.0% reported in April 2011. The Texas unadjusted (actual) unemployment rate increases to 7.9% in May 2011, up from 7.7% reported in April 2011. The nation's unadjusted (actual) unemployment rate remained constant at 8.7% in May 2011, when compared to April 2011. Total employment in the San Antonio-New Braunfels MSA for May 2011 was 855,800. Education and health services, trade, transportation and utilities, and professional and business services represent the largest employment "super" sectors in the San Antonio-New Braunfels MSA. Healthcare, retail trade, leisure and hospitality, and education represent the largest industries in San Antonio. Despite national economic challenges, San Antonio continues to be one of the top leisure/convention cities in the country and benefits from visitors within driving distance from Dallas, Houston, and other Texas cities.

Finance Industry

The Finance Industry is San Antonio's largest economic generator with an annual economic impact of over $20.5 billion, with employment over 50,000 people to whom it pays an average annual wage of approximately $52,000. As a percent of total employment, the Finance Industry in San Antonio is the largest of any major metropolitan area in Texas.

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

After competing with Little Rock, Tulsa, and Raleigh, Nationwide announced in October 2009 that San Antonio would be home to a new regional corporate headquarters location. Ranked 124th on the 2009 Fortune 500 List, Nationwide, headquartered in Columbus, Ohio, is a national insurance provider with 34,000 employees, $23 billion in annual revenues and profits of approximately $2 billion in 2008. With its announcement to expand in San Antonio, Nationwide committed to retaining 932 current employees and creating an additional 838 new jobs. Phase

I of the project involved a consolidation of existing operations into an existing facility, and $3 million in new personal property improvements. Nationwide has broken ground on Phase II of its investment in San Antonio with an $89 million corporate campus.

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

On February 9, 2010, Allstate announced its decision to locate a customer operations center, invest $12 million, and create 600 new full-time jobs in San Antonio. The core function of this operations center will support direct sales calls and selling additional insurance products to existing clients. Allstate is the nation's largest publicly held personal lines insurer. Allstate employs an estimated 70,000 agents and support staff nationwide. The company was founded in 1931 as part of Sears Roebuck and Co. In 2009, the company ranked 81 on the list of Fortune 500 companies, with annual revenues exceeding $29 billion. Allstate's main lines of insurance include automobiles, property, life, and retirement and investment products. Allstate has two other sales support centers located in Northbrook, Illinois (its headquarters) and Charlotte, North Carolina. As of December 2010, Allstate reported that it had hired 414 employees and eventually expects the center will employ 600 employees, who will sell Allstate products and provide service to the company's customers.

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

Healthcare and Bioscience Industry

The healthcare and bioscience industry remains one of the largest industries in the San Antonio economy. The industry is composed of related industries such as research, pharmaceuticals, and medical device manufacturing contributing approximately the same economic impact as health services. According to the *San Antonio's Health Care and Bioscience Industry: Economic Impact Study* commissioned by the Greater San Antonio Chamber of Commerce, the total economic impact from this industry sector totaled approximately $24.5 billion in 2009. The industry provided 141,251 jobs, or approximately 17.2% of the City's total employment. The healthcare and bioscience industry's annual payroll in 2009 approached $6.5 billion. The 2009 average annual wage of San Antonio workers was $39,575, compared to $45,793 for healthcare and bioscience employees. The Health Care and Bioscience industry has added nearly 33,000 net new jobs over the past decade.

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

Central to the Medical Center is the University of Texas Health Science Center at San Antonio (the "UT Health Science Center"), located on more than 100 acres in the heart of the Medical Center. Approximately 2,700 students are enrolled in the Health Science Center's five schools – the School of Allied Health Sciences, the Dental School, the Graduate School of Biomedical Sciences, the Medical School, and the School of Nursing. The UT Health Science Center has nearly 2 million square feet of education, research, treatment and administrative facilities. The University employs some 4,300 persons with a total annual budget of approximately $300 million. The UT Health Science Center oversees the federally funded Regional Academic Health Center in the Rio Grande Valley with facilities in Harlingen, McAllen, Brownsville, and Edinburg. Another UT Health Science Center South Texas campus is located in Laredo.

The UT Health Science Center is one of the country's leading health sciences universities, and ranks in the top 2 percent of all U.S. institutions receiving federal funding. Research and other sponsored program activity totaled a record $228 million in FY 2010. The university's schools of medicine, nursing, dentistry, health professions, and graduate biomedical sciences produced 1,211 graduates in 2010 and has produced 25,856 graduates since inception. The $744 million operating budget supports six campuses in San Antonio, Laredo, Harlingen, and Edinburg.

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

There are numerous other medical facilities outside the boundaries of the Medical Center, including 25 short-term general hospitals, two children's psychiatric hospitals, and two state hospitals. The U.S. Department of Defense ("DoD") has operated two major regional hospitals in San Antonio for several years at Wilford Hall Medical Center ("Wilford Hall") and Brooke Army Medical Center ("BAMC"). As a result of the 2005 Base Realignment and Closure actions, DoD is investing over $1.3 billion to expand BAMC into one of two national DoD Regional Medical Centers, and a new outpatient clinic to replace Wilford Hall. BAMC also participates with UT Health Science Center and University Hospital in operating two Level I trauma centers in the community.

Biomedical Research and Development. Research and development are important areas that strengthen San Antonio's position as an innovator in the biomedical field. In 2009, San Antonio's major biomedical research institutions were awarded more than $393 million in external research grants.

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

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

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

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

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

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

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

On November 17, 2009, Medtronic, Inc. opened its Diabetes Therapy Management and Education Center in San Antonio. Medtronic, located at the Overlook at the Rim, is investing $23 million and will hire approximately 1,300 employees within its first five years. The new operation is expected to generate more than $750 million in economic benefit for San Antonio and Texas over its first five years.

Texas House Speaker Joe Straus and the South Texas Regional Center of Innovation and Commercialization ("STRCIC") announced on May 13, 2010, an investment of $3 million in Palmaz Scientific, Inc. through the Texas Emerging Technology Fund. The investment is for the commercialization of Palmaz Scientific's patented nanotechnology processes for the introduction of innovative vascular stents and other implantable medical devices including the SESAME stent, Micro-Neuro stent, Micro-Grooved Coronary stent and a Micro-Mesh Covered Carotid stent to improve effectiveness and safety of today's vascular stents. Speaker Straus was joined by Jim Poage, President and CEO of STRCIC and StartTech (formerly the San Antonio Technology Accelerator Initiative), Brian Herman, Ph.D., Vice President for Research at the UT Health Science Center, and Steven Solomon, CEO of Palmaz Scientific in the press conference and ceremonial disbursement at the UT Health Science Center at San Antonio, where Dr. Julio Palmaz was a longtime radiology faculty member and conducted research.

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

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

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

Military Health Care. San Antonio currently has two major military hospitals, each of which has positively impacted the City for decades. BAMC conducts treatment and research in a 1.5 million square foot facility at Fort Sam Houston Army Base, providing health care to nearly 640,000 military personnel and their families annually. BAMC is a Level I trauma center (the only one in the Army medical care system) and contains the world-renowned Center for Battlefield Health and Trauma. BAMC also conducts bone marrow transplants in addition to more than 600 ongoing research studies.

Wilford Hall is one of the largest medical facilities of the U.S. Air Force providing health care to military personnel and their families in San Antonio and throughout the region. In addition, Wilford Hall provides medical education for the majority of its physician and dental specialists and other health professionals, and conducts clinical investigations.

The San Antonio Military Medical Center ("SAMMC") has been established as a result of the 2005 Base Realignment and Closure ("BRAC 2005") and combines the Level 1 Trauma elements of Wilford Hall and BAMC. Wilford Hall has been renamed SAMMC-South and BAMC has been renamed SAMMC-North. SAMMC-North is doubling its Level I trauma facility by incorporating the Level I trauma missions from SAMMC-South. SAMMC-South is an outpatient only facility and has received outpatient missions from SAMMC-North. Wilford Hall Medical Center (SAMMC-South) will be replaced with the Lackland Ambulatory Care Center. Scheduled for completion in 2013, this $486 million Care Center will provide world-class medical care for the community.

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

In addition, San Antonio will receive new medical research missions. BRAC 2005 will transform the United States Army Institute of Surgical Research ("USAISR") into a tri-service Joint Center of Excellence for Battlefield Health and Trauma Research. This new research facility will be adjacent to SAMMC-North. 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 Tejeda Veterans Administration Outpatient Clinic (which serves veterans located throughout South Texas). The two military medical care facilities and the Veterans Hospital collaborate in a variety of ways, including clinical research and the provision of medical care to military veterans. This partnership is unique and represents a valuable resource to San Antonio and the nation.

Hospitality Industry

The City's diversified economy includes a significant sector relating to the hospitality industry. A study prepared by Richard V. Butler, Ph.D. and Mary E. Stefl, Ph.D., both professors at Trinity University, found that in 2008 the hospitality industry had an economic impact of nearly $11.0 billion. The estimated annual payroll for the industry in 2008 was $1.99 billion, and the industry employed an estimated 106,311 people.

In 2010, the City's overall level of hotel occupancy increased by 4.3%. However, this is considering room supply increased by 3.9%. Total room nights sold in the destination increased by 8.4%. The average daily room rate decreased 1.9%, revenue per available room increased 2.3%, and overall revenue increased 6.3%.

Tourism. The list of attractions in the San Antonio area includes, among many others, the Alamo (and other sites of historic significance), the River Walk, and two major theme parks (SeaWorld San Antonio and Six Flags Fiesta Texas). D.K. Shifflet & Associates, Ltd. reported San Antonio attracted 25 million visitors in 2009. Of these, 11 million were overnight leisure visitors, placing San Antonio as one of the top U.S. destinations in Texas. Recent initiatives contributing to this success are the City's new brand image, the JW Marriot San Antonio Hill Country Resort and Spa (opened in January 2010), the River Walk Expansion Project (Museum Reach expansion completed in May 2009; Mission Reach to be completed in 2013), and new events like the Rock 'n' Roll Marathon.

Conventions. San Antonio is one of the top convention cities in the country, and the opening of the 1,003-room Grand Hyatt Hotel along with the 1,002-room JW Marriot allows the City to host more and larger conventions and meetings in the years to come. The City continues to be proactive in attracting convention business through its management practices and marketing efforts.

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The following table shows both overall City performance as well as convention activity booked by the San Antonio Convention and Visitors Bureau for the calendar years indicated:

Calendar Year	Hotel Occupancy [1]	Revenue per Available Room (RevPAR) [1]	Room Nights Sold [1]	Convention Attendance [2]	Convention Room Nights [2]	Convention Delegate Expenditures (Millions) [2, 3]
2001	62.7%	$54.10	6,486,944	419,970	712,189	$378.3
2002	64.0	56.26	6,741,011	483,452	693,921	435.5
2003	63.8	53.98	6,903,131	429,539	613,747	387.0
2004	64.4	55.80	7,022,152	491,287	621,640	510.5
2005	68.9	63.02	7,569,655	503,601	699,932	523.3
2006	69.1	69.14	7,699,411	467,426	736,659	485.8
2007	66.3	69.67	7,635,949	455,256	647,386	473.1
2008	64.7	70.69	7,740,859	563,164	691,525	607.5
2009	56.9	55.74	7,200,347	399,408	660,736	474.5
2010	59.4	57.02	7,805,606	535,400	736,325	636.1

[1] Data obtained from Smith Travel Research based on hotels in the San Antonio selected zip code reports dated March 2007 and January 2011.

[2] Reflects only those conventions hosted by the San Antonio Convention and Visitors Bureau.

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

Source: San Antonio Convention and Visitors Bureau.

Military Industry

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

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

The BRAC 2005 will establish an internationally renowned teaching and research hospital by creating the largest school for training medical technicians in the world. Each year, San Antonio will graduate over 152,000 students across all three bases. BRAC 2005 will also bring management and command centers for the Fifth Army, Sixth Army, Military Property Management, and Military Health Care. As a result, it will provide jobs in six targeted industries: health care, health care education, communications, technology, intelligence, and security. BRAC 2005 will strengthen San Antonio's role as a leading military research, training, and education center. It has established a Joint Base San Antonio, which has consolidated installation management at the three military bases in San Antonio, thereby creating the largest installation in the DoD, while supporting 78,000 personnel and $10.3 billion in property.

Port San Antonio. On July 13, 2001, Kelly Air Force Base ("Kelly AFB") officially closed and its land and facilities began to be transferred to the Greater Kelly Development Authority ("GKDA"), a City-created Local Redevelopment Authority responsible for overseeing the redevelopment of the base.

The 1,900-acre property is today known as Port San Antonio. It is comprised of an airport (Kelly Field), railport and an emerging mixed-use Town Center contained within a foreign-trade zone (FTZ #80-10). The organization accommodates numerous customers in a variety of commercial spaces and serves as a growing logistics platform.

With a tenant base of over 70 organizations, including a dozen Air Force agencies that began consolidating in Building 171 in 2010, the Port has 14,000 workers and generates $4.2 billion in annual economic activity for the region.

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

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

Recent milestones include the Boeing Company's ("Boeing") new work on the 787 Dreamliner and 747-8 aircraft projects at the Port, where the aircraft will undergo some of the final stages of their manufacturing process. This new effort will support an additional 800 jobs at Boeing's Port facility through 2013 in addition to workers assigned to military aircraft maintenance, repair and overhaul work that Boeing has been performing at the site since 1998.

Furthermore, in 2010 longtime Port customer ACS, A Xerox Company, moved into a new LEED-certified facility developed by the Port. ACS, which provides business support services that include managing the State Disbursement Unit for Texas child support payments, has grown significantly at the Port over the past decade. The company's new facility will help it add 300 jobs between 2010-11, bringing its total workforce to about 800 employees, many of whom are recruited from nearby communities.

In 2010, the City of San Antonio broke ground on a project to extend 36th Street from the Port's northwest entrance for 1.7 miles into the heart of the property. Current phases of this project will be completed in 2012 and will open 150 acres at the Port that are contiguous to the Kelly Field runway, thereby allowing for the construction of new air-served facilities. Once the 150-acre site is fully developed, it will support an estimated 8,000 additional aerospace and air logistics jobs.

Other major employers at the Port include Lockheed Martin, General Dynamics, Standard Aero, Pratt & Whitney, Chromalloy, Gore Design Completions, and EG&G.

With over 12.9 million square feet of space, the Port is the largest commercial property-leasing and management firm in San Antonio. In 2010, the Port received an ISO 9001:2008 certification for quality management. That same year it was named Based Redevelopment Community of the Year by the Association of Defense Communities, the national organization that supports areas of the country impacted by base closures.

Brooks City-Base. Brooks City-Base continues to transition the campus for private business investment. As a result of the 2005 BRAC recommendations, Air Force missions will be relocating to other installations. Of the 21 missions currently located at Brooks City-Base, four will locate to Fort Sam Houston, seven to Lackland AFB, two to Randolph AFB, and the remaining will locate to Wright Patterson AFB in Dayton, Ohio. All missions are currently on schedule to relocate by September 15, 2011.

Brooks City-Base is establishing its presence as a premier center for research and technology through its business attraction and retention efforts. Recognized as one of the most innovative economic development projects in the United States, Brooks City-Base is a 1,300 acre mixed-use campus with approximately 350 acres available for immediate development.

Brooks City-Base was approved as a Tax Incremental Reinvestment Zone ("TIRZ"), which will provide the Brooks Development Authority ("BDA") the necessary capital (up to $55 million) to complete the South New Braunfels Avenue Road Extension Project. The completion of this new thoroughfare will connect Brooks City-Base with the major roadways surrounding the technology and business center.

Infrastructure investments totaling $60 million have been made to position the master-planned community for redevelopment. The South New Braunfels extension is the catalyst for future growth and is the gateway for an open campus environment.

The BDA has contracted with Transwestern, a national real estate brokerage firm, to market commercial real estate opportunities at Brooks City-Base. Transwestern provides leasing services of existing buildings as the Air Force vacates, as well as seeking developers and tenants for ground leases, land sales, and build-to-suit opportunities. The firm has negotiated leases representing 57,983 square feet of space with Bridge PTS, Jacobs Engineering, Community Bible Church, San Antonio Metropolitan Health District and Grubb Engineering.

In December of 2010, the City of San Antonio and BDA broke ground on construction of the City's new Fire and Police Emergency Dispatch Center at Brooks City-Base. This state-of-the-art communications facility will replace the existing 9-1-1 center located at police headquarters in downtown San Antonio. The $28 million, 40,000 square feet emergency dispatch center will house approximately 120 employees and is scheduled to be operational by December 2011.

The Fire and Police Emergency Dispatch Center joins the Emergency Operations Center, a $24.5 million City/County emergency operations center that operates 24/7 and acts as the communications center for 60 agencies.

Baptist Health System began construction of the Mission Trail Baptist Hospital at Brooks City-Base. The facility will replace Southeast Baptist Hospital, and the hospital's long-awaited construction has been viewed as a crucial building block in the conversion of Brooks City-Base to a mixed-use business community. The hospital was completed in June 2011, and has three stories and 81 beds, with the opportunity to expand to up to six floors and 300 beds.

VMC, a technology consulting and outsourcing firm located its Customer Care and Technical Support Center at Brooks City-Base. The 35,000 square feet state-of-the-art facility is expected to create 500 jobs.

Marquee tenant, DPT Laboratories has found Brooks City-Base an ideal location for its operations. The $15 million capital investment project was completed in May 2010 and includes nearly 45,000 square feet to accommodate its research and development warehouse and production facility.

The Brooks Academy of Science and Engineering continues to enjoy the Brooks City-Base community. The school, which focuses on science and engineering, expanded its curriculum this year to include K thru 12. Nearly 800 students attend the academy.

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

In September 2003, the Army relocated Army South Headquarters from Puerto Rico to Fort Sam Houston, bringing approximately 500 new jobs to San Antonio with an annual economic impact of approximately $200 million. The Army negotiated a lease with the FSHRP to locate U.S. Army South and the Southwest Region

Installation Management Agency in the newly renovated historic facilities in the summer of 2004. The continued success of this unique public-private partnership at Fort Sam Houston is critical to assisting the Army in reducing infrastructure support costs, preserving historical assets, promoting economic development opportunities, and generating net cash flow for both the Army and FSHRP.

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

Lackland AFB is home to the 37th Training Group and is situated on 9,700 acres, all within the city limits of San Antonio. According to the 2008 Lackland AFB "Facts and Stats" report, over 54,000 military, civilian, student, contractors and military dependents work, receive training or utilize Lackland AFB's services. On an annual basis, Lackland AFB will graduate 86,000 trainees per year. Construction is moving ahead on two new Airman Training Complexes as part of a $900 million East campus project. Each Training Complex will house up to 1,200 trainees and includes dining halls and classroom facilities. A third Training Complex is scheduled for start of construction in summer 2011.

In addition, the Air Force still maintains a significant presence at the Port, which is adjacent and contiguous with Lackland AFB. The Air Force and the Port jointly utilize the Kelly Field runway for military and commercial airfield operations. The Air Force continues to lease over 54 facilities, which consists of 800,000 square feet of space and over 270 acres. The largest Air Force leaseback is at Building 171, a facility previously closed from the 1995 Base Realignment and Closure of Kelly AFB. Over 6,200 Air Force and other DoD employees will work at this and other facilities on the Port once BRAC 2005 is complete.

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

The BRAC 2005 growth supports the City's economic development strategy to promote development in targeted areas of the City, to leverage military installation economic assets to create jobs, and to assist our military installations in reducing base support operating costs. In addition, the Army intends to extend the public-private partnership initiative to include other properties at Fort Sam Houston currently available for redevelopment.

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

Congressional legislation for FY 2011 is still awaiting passage, but the military appropriations bills provides $116 million for the final phase of BRAC construction at Fort Sam Houston.

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

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

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

The City has gathered resources and funding to provide significant improvements around Fort Sam Houston. The Walters Street project, at a total of $8.9 million, is in the process of reconstructing and widening Walters Street, which is a primary entrance to the installation. This project will also improve sidewalks, add a multi-use path, and bike routes. Additionally, drainage work and two new bridges are funded at $12.2 million, along with $10.4 million for other transportation projects, which improves roads and intersections around Fort Sam Houston. A new water line and other street and area enhancements are funded at $2.84 million to improve side streets and promote revitalization of commercial development along this primary entrance to the installation.

Even though the BRAC program in San Antonio concludes this year, the construction momentum will continue. Multiple projects are planned from fiscal year 2012 through 2015. The value of the proposed projects during this time period is anticipated to be about $200 million to $300 million per year, with almost $1 billion in post-BRAC projects lined up.

Other Major Industries

Aerospace. According to the Economic Impact Study commissioned by the Greater San Antonio Chamber of Commerce in 2007, the aerospace industry's annual economic impact to the City was about $3.8 billion. This industry provides approximately 9,438 jobs, with employees earning total annual wages of over $479 million. The aerospace industry continues to expand as the City leverages its key aerospace assets, which include San Antonio International Airport, Stinson Municipal Airport, the Port, Randolph AFB, Lackland AFB, and training institutions. Many of the major aerospace industry participants such as Boeing, Lockheed Martin, General Electric, Pratt & Whitney, Raytheon, Cessna, San Antonio Aerospace – a division of Singapore Technologies, Southwest Airlines, American Airlines, Delta Airlines, Continental Airlines, FedEx, UPS, and others, have significant operations in San Antonio. The industry in San Antonio is diversified with continued growth in air passenger service, air cargo, maintenance, repair, overhaul, and general aviation.

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

Boeing is also investing an additional $14 million in 2011 in its San Antonio operations to accommodate this workload. The first 787 arrived in March 2011 for refurbishment and the 747-8 arrived in May 2011.

Applied Research and Development. The Southwest Research Institute ("SwRI") is one of the original and largest independent, nonprofit, applied engineering and physical sciences research and development organizations in the U.S., serving industries and governments around the world in the engineering and physical sciences field. SwRI has contracts with the FAA, General Electric, Pratt & Whitney, and other organizations to conduct research on many aspects of aviation, including testing synthetic jet fuel, developing software to assist with jet engine design, and testing turbine safety and materials stability. SwRI occupies 1,200 acres and provides nearly two million square feet of laboratories, test facilities, workshops, and offices for more than 3,200 scientists, engineers, and support personnel. SwRI's total revenue for FY 2009 was $564 million.

Information Technology. A study conducted in 2008 indicates that the Information Technology ("IT") industry in San Antonio registered an overall economic impact of approximately $8 billion and employs about 15,648 people with a total annual payroll of approximately $882 million. Further, these numbers only include the impact of IT-specific companies. There are also a substantial number of people employed in IT jobs in non-IT companies. For example, the study also found that there are approximately 4,800 IT workers employed in the 20 largest non-IT companies in San Antonio. The IT industry is particularly strong in the areas of information security and government contracting. The "Center for Infrastructure Assurance and Security" at UTSA is one of the leading research and education institutions in the area of information security in the country. In 2005, the U.S. National Security Agency ("NSA") re-designated 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 Force Information, Surveillance and Reconnaissance Agency, which is the premier IT agency for the U.S. Air Force and the DoD. Lackland AFB was selected as the best location for the 24th Air Force-Cyber Command for its work as a center of information technology, information assurance and information security. San Antonio is rapidly increasing its sector of more than 80 IT/cyber-related businesses. Recently, the NSA constructed a data center, investing $50 million, creating 30 new jobs along with 1,500 construction jobs.

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

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

Back Office Operations. On April 20, 2010, Kohl's Corporation ("Kohl's") announced that it had selected San Antonio as the site for its new operations center, creating 1,065 new jobs over the next three years. Kohl's operates 1,068 retail discount department stores in 49 states with more than a quarter of its stores located in the Midwest. Kohl's ranked 155 on the list of Fortune 500 companies, with $16.4 billion in revenue in 2009. Kohl's opened its operations center in San Antonio on September 29, 2010. At this center, Kohl's handles credit card operations, e-commerce servicing functions, customer services, collections, underwriting, and administrative support in technology, finance, training, and human resources. The company has invested approximately $4.5 million in tenant improvements to an existing two-story, 102,000 square foot shell building located at 10000 Rogers Run in Westover Hills. Kohl's has renovated the facility to meet LEED certified/green energy component standards with solar panels installed on the roof and to purchase at least 10% "green" power from CPS. No later than January 1, 2014, Kohl's will invest approximately another $10 million to expand the existing facility and add a second building to accommodate the projected jobs. Kohl's also intends to invest $3.5 million in personal property improvements (furnishings and equipment).

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

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

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

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

In June 2010, CPS and UTSA announced a 10-year, $50 million agreement to position San Antonio as a national leader in green technology research. The agreement will establish the Texas Sustainable Energy Research Institute at UTSA. Dr. Les Shephard, UTSA's USAA Robert F. McDermott Distinguished Chair in Engineering, will head the institute formerly known as the Institute for Conventional, Alternative and Renewable Energy. This research institute will work with other academic and research entities with robust green programs including the Southwest Research Institute as well as the Mission Verde Center, a city partnership that includes the Alamo Colleges and the Texas A&M University Texas Engineering Experiment Station. It also has an active military establishment looking to address specific energy needs. CPS will invest $50 million over ten years in the UTSA Institute. In 2011, CPS invested $1 million that will be followed by $2.5 million in 2012. The annual investment expects to increase thereafter and these investments are being supported by the City's International and Economic Development Department's efforts to strike agreements with solar panel array investments coming to San Antonio seeking tax abatements.

The City continues to maximize the municipally-owned CPS utility to develop investment and employment in San Antonio. Through a combination of Power Purchase Agreements ("PPA") and local economic development incentives, the City and CPS are steadily securing jobs, investment, and enhancing university research and development in the area of renewable energy.

In September 2010, CPS signed a 25-year PPA with the Maryland based SunEdison, a global leader in delivering solar electricity. With the Sun Edison agreement, CPS brought 44 megawatts (MW) of solar generation under contract, solidifying its position as the leader in renewable energy resources among municipally-owned utilities in the nation. The contract moves CPS closer to its vision of providing customers with 1,500 MW of renewable energy (wind and solar) by 2020.

By fall of 2012, SunEdison is expected to complete installation of 120,000 single-axis tracking photovoltaic (PV) panels that will follow the sun throughout the day, generating a total of 30 MW at three locations in Southern Bexar County. The International and Economic Development Department partnered with Sun Edison to provide local incentives in exchange for an additional investment of $300,000 in Research and Development and location of a regional headquarters into downtown San Antonio.

On January 18, 2011, CPS launched its latest effort to secure a solar manufacturer or assembler to San Antonio by releasing a request for proposals ("RFP") for a solar farm to provide up to 50 MW of power. The utility launched a global campaign to advertise the RFP, placing ads that beckon for a "two-step partner" in an assortment of national and international publications as well as newspapers and the company's website. Per the RFP, the partnering company needs to locate a facility in San Antonio to make or assemble the components. The long-term commitment is designed to bring clean energy and industry investment into San Antonio. The contract also calls for elements to support research and development, as well as education that will also be enhanced through partnership with the International and Economic Development Department once a respondent has been selected.

In March 2011, CPS released a RFP for another PPA that demonstrates the organizational alignment between CPS and City's desire to grow and support green jobs in San Antonio. The latest RFP requires a manufacturing presence and local research and development partnerships as a component of the overall project. These requirements and will serve as the catalyst for the initial renewable energy manufacturing investments in San Antonio. More of this type of renewable energy manufacturing operations and other investments are expected to continue locating and growing in San Antonio as it continues to partner with CPS to merge renewable energy portfolio goals with economic development goals.

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

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Growth Indices

San Antonio Electric and Gas Customers

For the Month of December	Electric Customers	Gas Customers
2001	589,426	305,702
2002	594,945	306,503
2003	602,185	306,591
2004	617,261	308,681
2005	638,344	310,699
2006	662,029	314,409
2007	681,312	319,122
2008	693,815	320,407
2009	706,235	321,984
2010	717,109	324,634

Source: CPS.

San Antonio Water System Average Customers per Fiscal Year

Fiscal Year Ended May 31 [1, 2]	Water Customers [3]
2001	293,299
2002	298,215
2003	303,917
2004	311,556
2005	320,661
2006	331,476
2007	341,220
2008	346,865
2009	350,859
2010	355,058

[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	Residential Single Family		Residential Multi-Family [1]		Other [2]	
Year	Permits	Valuation	Permits	Valuation	Permits	Valuation
2001	6,132	$426,766,091	449	$142,506,920	12,732	$1,217,217,803
2002	6,347	435,090,131	246	101,680,895	14,326	833,144,271
2003	6,771	521,090,684	141	2,738,551	13,813	1,041,363,980
2004	7,434	825,787,434	206	7,044,283	14,695	1,389,950,935
2005	8,207	943,804,795	347	5,221,672	20,126	1,772,959,286
2006	7,301	890,864,655	560	13,028,440	19,447	1,985,686,296
2007	4,053	617,592,057	29	4,715,380	13,268	2,343,382,743
2008	2,588	396,825,916	13	2,033,067	9,637	2,634,745,310
2009	2,084	311,309,870	50	5,692,447	6,933	1,684,823,866
2010	1,976	307,406,128	10	1,612,057	5,702	1,320,800,279

[1] Includes two-family duplex projects.
[2] Includes commercial building permits, commercial additions, improvements, extensions, and certain residential improvements.
Source: City of San Antonio, Department of Development Services.

Total Municipal Sales Tax Collections – Ten Largest Texas Cities

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

	2011 [1]	2010	2009	2008	2007
Amarillo	$ 30,794,298	$ 56,863,740	$ 56,514,269	N/A	N/A
Arlington	41,915,097	83,143,848	80,170,009	$ 81,851,457	$ 80,701,278
Austin	71,967,100	137,309,212	131,403,989	147,051,782	147,310,525
Corpus Christi	N/A	N/A	57,311,248	62,076,566	58,502,801
Dallas	106,356,162	204,732,898	205,447,327	227,067,964	223,708,825
El Paso	36,605,992	68,348,227	64,480,623	67,821,673	64,508,591
Fort Worth	50,114,438	100,569,555	97,877,323	106,259,648	98,863,541
Houston	249,300,733	473,149,941	489,009,133	504,416,610	471,684,021
Plano	33,357,105	58,888,948	N/A	64,180,104	63,267,699
Round Rock	32,855,032	61,644,122	58,694,318	67,029,667	69,435,651
SAN ANTONIO	110,467,848	208,322,621	202,966,327	215,808,945	209,599,573

[1] Includes actual collections through June 2011.
Source: State of Texas, Comptroller's Office.

Education

There are 15 independent school districts within Bexar County with a combined enrollment of 314,938 encompassing 55 high schools, 73 middle/junior high schools, 260 early education/elementary schools, 10 magnet schools, and 32 alternative schools as of October 2010. There are an additional 27 charter school districts with 71 open enrollment charter schools at all grade levels. In addition, Bexar County has 93 accredited private and parochial schools at all education levels. Generally, students attend school in the districts in which they reside. There is currently no busing between school districts in effect. The seven largest accredited and degree-granting universities, which include a medical school, a dental school, a law school, and five public community colleges, had combined enrollments of 117,623 for Fall 2010.

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 May 2011, as compared to the prior periods of April 2011, and May 2010.

Employment by Industry

San Antonio MSA[1]	May 2011	April 2011	May 2010
Mining and Logging	3,700	3,700	3,400
Construction	43,600	43,100	44,300
Manufacturing	44,900	44,700	43,900
Trade, Transportation, and Utilities	142,700	142,900	141,900
Information	17,600	17,500	18,900
Financial Activities	65,400	64,800	65,900
Professional and Business Services	99,500	101,100	100,700
Education and Health Services	135,800	133,400	128,400
Leisure and Hospitality	106,600	105,200	105,400
Other Services	32,100	31,900	31,700
Government	163,900	164,300	166,300
Total Nonfarm	855,800	852,600	850,800

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

The following table shows civilian labor force estimates, the number of persons employed, the number of persons unemployed, and the unemployment rate in the San Antonio MSA, Texas, and the United States for the period of May 2011, as compared to the prior periods of April 2011, and May 2010.

Unemployment Information *(all estimates in thousands)*

San Antonio MSA[1]	May 2011	April 2011	May 2010
Civilian Labor Force	998.1	995.5	990.2
Number of Employed	925.4	925.5	922.1
Number of Unemployed	72.7	70.0	68.1
Unemployment Rate %	7.3	7.0	6.9
Texas (Actual)[1]	**May 2011**	**April 2011**	**May 2010**
Civilian Labor Force	12,241.9	12,248.2	12,107.3
Number of Employed	11,269.6	11,306.2	11,155.4
Number of Unemployed	972.3	942.0	951.9
Unemployment Rate %	7.9	7.7	7.9
United States (Actual)[1]	**May 2011**	**April 2011**	**May 2010**
Civilian Labor Force	153,449.0	152,898.0	153,866.0
Number of Employed	140,028.0	139,661.0	139,497.0
Number of Unemployed	13,421.0	13,237.0	14,369.0
Unemployment Rate %	8.7	8.7	9.3

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

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San Antonio Electric and Gas Systems

History and Management

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

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

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

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

Citizens Advisory Committee

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

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

Service Area

The CPS electric system serves a territory consisting of substantially all of Bexar County and small portions of the adjacent counties of Comal, Guadalupe, Atascosa, Medina, Bandera, Wilson, and Kendall. Certification of this service area has been approved by the Public Utility Commission of Texas (the "PUCT"). CPS is currently the exclusive provider of retail electric service within this service area, including the provision of electric service to some Federal military installations located within the service area that own their 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 services in its service area.

In addition to the area served at retail rates, CPS sells wholesale electricity to the Floresville Electric Light & Power System, the City of Hondo, and the City of Castroville and beginning in 2016 will sell wholesale electricity to the City of Boerne, the City of Seguin and to Central Texas Electric Cooperative. From time to time, CPS also enters into partial supply arrangements with various municipally-owned utilities and cooperatives. CPS continues to seek additional opportunities to enter into wholesale electric power agreements. The requirements under the existing wholesale agreements are firm energy obligations of CPS.

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

CPS also has Franchise Agreements with 30 incorporated communities in the 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. In 2008, CPS and the City of Castroville, a current wholesale power customer, reached an agreement whereby CPS would operate and maintain the Castroville gas system. A similar multi-year agreement was reached with the City of Lytle, effective January 1, 2010, to operate and maintain the Lytle natural gas system.

Retail Service Rates

Under the Texas Public Utility Regulatory Act ("PURA"), significant original jurisdiction over the rates, services, and operations of "electric utilities" is vested in the PUCT. In this context, "electric utility" means an electric investor-owned utility ("IOU"). Since the deregulation aspects of Senate Bill ("SB 7") became effective on January 1, 2002, the PUCT's jurisdiction over IOU companies primarily encompasses only the transmission and distribution functions. PURA generally excludes municipally-owned utilities ("Municipal Utilities"), such as CPS, from PUCT jurisdiction, although the PUCT has jurisdiction over electric wholesale transmission rates. Under the PURA, a Municipal Utility has exclusive jurisdiction to set rates applicable to all services provided with the exception of electric wholesale transmission activities and rates. Unless and until the City Council and CPS Board choose to opt-in to electric retail competition, CPS retail service electric rates are subject to appellate, but not original rate regulatory jurisdiction by the PUCT in areas that CPS serves outside the City limits. To date, no such appeal to the PUCT of CPS retail electric rates has ever been filed. CPS is not subject to the annual PUCT gross receipts fee payable by electric utilities. (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 Texas. Municipal Utilities such as CPS are generally excluded from regulation by the TRC, except in matters related to natural gas safety. CPS retail gas services outside the City are subject to appellate, but not original rate regulatory jurisdiction, by the TRC. To date, no such appeal to the TRC of CPS retail gas rates has ever been filed.

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

On March 1, 2010, a 7.5% electric base rate increase and an 8.5% gas base rate increase became effective. The electric increase was required primarily due to increases in debt service resulting from a new coal generation plant, J.K. Spruce 2 ("JKS 2"), LM6000 Gas Combustion Turbine Peakers, and anticipated environmental upgrades to CPS' coal plants. The expected 4.2% bill impact includes a reduction in fuel costs resulting from the JKS 2 plant. CPS expects to continue to periodically seek electric and gas base rate increases that are intended to maintain debt coverage, debt to equity, and liquidity ratios.

CPS offers a monthly contract for renewable energy service under Rider E15. 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 up to four years for new or added load of at least ten megawatts ("MW").

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

Transmission Access and Rate Regulation

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

The 1999 Texas Legislature amended the PURA95 to authorize rate authority over Municipal Utilities for wholesale transmission and to require that the postage stamp method be used for wholesale transmission pricing. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method, which sets the price for transmission at the system average for 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.

Additional Impacts of Senate Bill 7. 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 CPS Board to participate in a fully competitive market, particularly since CPS is among the lowest cost electric energy producers in Texas. On April 26, 2001, the City Council passed a resolution stating that the City did not intend to opt-in to the deregulated electric market beginning January 1, 2002. However, CPS believes that it is taking all steps necessary to prepare for possible competition, should the City Council and the CPS Board make a decision to opt-in, or future legislation forces Municipal Utilities into retail competition.

Post SB 7 Wholesale Market Design Developments. Pursuant to PUCT rules, ERCOT transitioned from a zonal to a nodal wholesale market, effective December 1, 2010. Implementation of the nodal market included: direct assignment of 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.

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

The Legislature increased the State's renewable energy goal in 2005 with the enactment of SB 20. As amended by SB 20, PURA directs that the cumulative installed renewable capacity in the State must total 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.

Response to Competition

CPS has a goal of 1,500 MW of renewable energy capacity by 2020, which it plans to acquire through a variety of sources, including long term contracts. CPS has a 20-year contract for 160.5 MW of wind-generated electricity from the Desert Sky Wind Project; a 20-year contract for 100.5 MW from the Cottonwood Creek Wind Farm; a 20-year contract for 240.8 MW from an expansion to the Cottonwood Creek Wind Farm; a 15-year contract for 76.8 MW from the Penascal Wind Farm and a 15 year contract for 130.4 MW from the Papalote Creek Wind Farm. CPS also has a landfill gas-generated energy project totaling 9.6 MW, which came on-line in December 2005. To date, the CPS renewable energy capacity totals more than 718.6 MW in service with another 191.4 MW under contract.

CPS has also contracted for two new solar energy projects. The Blue Wing Solar facility, which is located just southeast of the City, began commercial operation on November 4, 2010 and is designed to provide 14.4 MW of renewable energy. On October 7, 2010, CPS announced a solar partnership with SunEdison that will install 30 MW solar energy in the CPS service area. CPS has also requested proposals for an additional 50 MW of solar energy in the service area; responses to the request were due May 2011. Finally, CPS plans to generate approximately ten MW of renewable energy through its new Solartricity producer program.

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.

Vision 2020 outlines CPS' long-term view of and focuses on the following key business drivers for the coming decade: customer relationships, employee relationships, external relationships, carbon constraints and the environment, technology and innovation, operational excellence, and financial integrity. Major initiatives and key action plans necessary to accomplish the objectives and meet or exceed the targets are also included in each plan. CPS periodically updates Vision 2020 to ensure it properly reflects CPS' perspective and direction.

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

Electric System

Generating System. CPS operates 16 electric generating units, four of which are coal-fired and 12 of which are gas-fired. This excludes three gas units in "mothball" status that could be brought back into operation if needed. Some of the gas-fired generating units may also burn fuel oil, which provides greater fuel flexibility and reliability. CPS also owns a 40% interest in STP's two nuclear generating Units 1 and 2. The nuclear units supplied 32.3% of the electric system's native load for the fiscal year ending January 31, 2011.

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.

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

In July 2010, CPS completed an updated assessment of generation resource options. This assessment included updated fuel prices, updated wholesale electric market forecasts and updated electric peak demand forecast which incorporated the most recent economic, demographic and historical demand data for the CPS service territory. Additionally this assessment included updated demand reductions due to the STEP energy efficiency and conservation program. Based on the updated demand forecast and the current CPS generation resource portfolio, it is expected that a new generation resource will be needed by the summer of 2024 to meet the needs of the CPS service territory and maintain a 12.5% reserve margin.

Before a commitment would be made to construct the next generation facility, CPS management will pursue additional public input; expanded community education; continued option analyses and evaluations, including CPS' own formalized cost estimates; and expanded presentations to the City Council.

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

Ownership
Effective July 31, 2010

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

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

STP Units 1 and 2 each have a 40-year NRC license that expires in 2027 and 2028, respectively. In October 2010, STPNOC filed an application with the NRC to extend the operating licenses of STP Units 1 and 2 to 2047 and 2048, respectively.

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

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

Additional Nuclear Generation Opportunities. In 2006 and 2007, CPS management undertook an examination of its future generation options. One of those options, the one that was ultimately pursued, was participation with NRG and its affiliate Nuclear Innovation North America ("NINA") in the development of two new generating units, STP Units 3 & 4, at the South Texas Nuclear Project. After agreeing in September 2007 to participate in preliminary development of the project, with a possible ownership of up to 50% of the two new units, CPS undertook a lengthy process of cost analysis and project development, which concluded in late 2009 and early 2010 with a dispute and a litigated settlement between CPS, NRG and NINA. As a result of the settlement, CPS relinquished all but 7.625% interest in the project and its percentage ownership interest in common facilities at STP Units 1 and 2 that would also be used by STP Units 3 and 4 once operational (which interest in common facilities is now owned by NINA) and, in exchange, was shielded from any further costs of development through and up to the time the units were ready for commercial operation. In addition, CPS would also receive two $40 million installment payments conditioned upon award of a loan guarantee award to NRG and the NRG Toshiba Corporation partnership, NINA. NINA also agreed to make a contribution of $10 million over a four year period to Residential Energy Assistance Partnership, Inc., a 501(c)(3) non-profit corporation that provides emergency bill payment assistance to low income customers. Following that settlement, NINA has pursued development of the project and has sought a federal loan guarantee to finance the project, with support from CPS as required (but without any additional investment in funds by CPS). If STP Units 3 and 4 become operational, CPS anticipates that its 7.625% ownership interest therein will entitle it to annually receive approximately 200 MW of power (or approximately 40% of CPS' projected additional base load generation requirements in 2024, being the anticipated year in which additional base load generation will be required), at which time CPS would also be responsible for its pro rata share of operating and maintaining these new units.

The March 2011 tsunami in Japan that damaged the Fukushima nuclear plant owned by Tokyo Electric Power Company had an immediate and significant effect on the status of and prospects for future nuclear development in the United States. NRG has now announced that it will not make any further investment in the STP Units 3 and 4 and, though it will continue to own a legal interest, will write off the entire value of its investment in this project. In light of the unclear path forward due to the reduction in scope of the STP Units 3 and 4 project and uncertainty regarding timelines and long-term milestone commitments, CPS' management is currently in the process of evaluating whether a full or partial write-down of its STP Units 3 and 4 asset may be appropriate. CPS is expected to make a write-down decision by the end of the second quarter of its FY 2012, which ends July 31, 2011. Due to the unusual and infrequent nature of the circumstances that have to be considered, management currently believes that, if applicable, the impact of writing down the value of this asset would be treated as an extraordinary item on its Statements of Revenues, Expenses and Changes in Fund Net Assets.

Qualified Scheduling Entity. CPS operates as an ERCOT Level 4 QSE representing all of CPS' assets and load. The communication with ERCOT and the CPS power plants is monitored and dispatched 24 hours per day, 365 days a year. 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. CPS is currently designing new processes and systems to continue to operate as a QSE in the new market.

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

Distribution System. The 13.2kV and 34.5kV distribution system is supplied by 77 substations strategically located on the high voltage 138kV transmission system. The central business district of the City is served by nine underground networks, each consisting of four 13.8 feeders. Approximately 7,612 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 4,140 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground residential distribution systems.

Gas System

Transmission System. The gas transmission system consists of a network of approximately 86 miles of steel mains that range in size from 4 to 30 inches. The entire system is coated and catholically protected to mitigate corrosion. The gas transmission system operates at pressures between 135 psig and 1,118 psig, and supplies gas to the gas distribution system. A Supervisory Control and Data Acquisition ("SCADA") computer system monitors the gas pressure and flow rates at many strategic locations within the transmission. Additionally, most of the critical pressure regulating stations and isolation valves are remotely controlled by SCADA.

Distribution System. The gas distribution system consists of 293 pressure regulating stations and approximately 5,091 miles of mains. The system consists of 2 to 30-inch steel mains and 1-1/4 to 8-inch high-density polyethylene (plastic) mains. The distribution system operates at pressures between 9 psig and 274 psig. All steel mains are coated and catholically protected to mitigate corrosion. Critical areas of the distribution system are also remotely monitored by SCADA and designated critical pressure regulating stations and isolation valves are also remotely controlled by SCADA.

Implementation of New Accounting Policies

For the fiscal year ended January 31, 2011, CPS implemented:

- GASB Statement No. 59, Financial Instruments Omnibus. This statement provides updated guidance regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. CPS does not currently own any of the applicable financial instruments; therefore, there was no impact to the Company's financial statements as a result of this implementation.

Other than the aforementioned changes, there were no additional significant accounting principles or reporting changes implemented in the fiscal year ending January 31, 2011. Other accounting and reporting changes that occurred during the prior reporting year continued into the fiscal year ending January 31, 2011.

Recent Financial Transactions

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

On May 11, 2010, CPS issued $28.5 million of Taxable Notes from its Flexible Rate Revolving Note Private Placement Program. The funds were used to remediate $23.1 million of outstanding tax-exempt bonds associated with the common facilities that will also be used by STP Units 3 and 4.

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

CPS Historical Net Revenues and Coverage

	Fiscal Years Ended January 31, (Dollars in Thousands)				
	2007	2008	2009	2010	2011
Gross Revenues [1]	$1,822,230	$1,943,313	$2,191,323	$1,981,103	$2,099,240
Maintenance & Operating Expenses	1,104,037 [2]	1,177,337	1,408,353 [2]	1,205,189	1,233,286
Available For Debt Service	$ 718,193	$ 765,976	$ 782,970	$ 775,914	$ 865,954
Actual Principal and Interest Requirements:					
Senior Lien Obligations [3]	$ 271,931	$ 290,954	$ 309,855	$ 32,540 [4]	$ 357,054 [4]
Junior Lien Obligations	$ 15,006	$ 15,179	$ 11,190	$ 6,987	$ 10,774
Actual Coverage-Senior Lien	2.64x	2.63x	2.53x	2.33x	2.43x
Actual-Senior and Junior Lien	2.50x	2.50x	2.44x	2.29x	2.35x
Pro Forma MADS Coverage					
Senior Lien [5]	1.98x	2.11x	2.15x	2.13x	2.38x
Senior and Junior Lien [6]	1.82x	1.94x	1.98x	1.97x	2.19x

[1] Calculated in accordance with the Bond Ordinances.
[2] Certain amounts in prior years have been reclassified to conform to the current year presentation.
[3] Net of accrued interest where applicable.
[4] Includes a reduction of $5 million and $17 million for the years ending January 31, 2010 and January 31, 2011, respectively, related to the direct subsidy for the Build America Bonds.
[5] Maximum annual debt service on Senior Lien Obligations and the Bonds.
[6] Maximum annual debt service on Senior Lien Obligations, the Bonds, and the Junior Lien Obligations.

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San Antonio Water System

History and Management

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

Final City Council approval for the consolidation was given on April 30, 1992 with the approval of Ordinance No. 75686 (the "System Ordinance"), which created the City's water system ("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 1.7 million residents. SAWS employs approximately 1,600 personnel and maintains approximately 10,000 miles of water and sewer mains. The tables that follow show historical water consumption and water consumption by class for the fiscal years indicated.

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Historical Water Consumption (Million Gallons) [1]

						Total Direct Rate			
						Water		Sewer	
Fiscal Year	Gallons of Water Production [c]	Gallons of Water Usage	Gallons of Water Unbilled	Average Percent Unbilled	Gallons of Wastewater Treated	Base Rate [d]	Usage Rate [e]	Base Rate [f]	Usage Rate [g]
2010[a]	60,428	52,578	7,850	12.99%	48,503	$7.10	$18.10	$8.73	$10.78
2009	60,646	55,391	5,255	8.67%	51,987	6.77	20.04	7.76	9.63
2008	67,523	58,828	8,695	12.88%	50,347	6.56	19.92	7.37	9.14
2007	55,043	49,511	5,532	10.05%	49,218	6.56	19.59	7.37	9.14
2006	63,388	57,724	5,664	8.94%	53,268	6.56	19.69	7.37	9.14
2005	58,990	55,005	3,985	6.76%	49,287	6.11	18.42	7.33	9.10
2004	51,231	49,366	1,865	3.64%	49,593	5.61	15.47	6.60	8.19
2003	55,039	50,576	4,463	8.11%	49,669	5.61	13.20	5.70	7.14
2002	52,691	51,850	841	1.60%	52,180	5.61	11.97	5.70	7.14
2001[b]	36,883	34,716	2,167	5.88%	29,561	5.61	9.19	5.70	7.14
2001	57,243	53,047	4,196	7.33%	52,344	5.61	9.19	5.70	7.14

(1) Unaudited.
(a) Reflects rate increase and rate restructuring for water usage beginning in November 2010. Prior to November, Water Base Rate (including TCEQ fees) was $6.96, Water Usage Rate was $20.52, Sewer Base Rate (including TCEQ fees) was $7.81 and Sewer Usage Rate was $9.63.
(b) 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.
(c) Pumpage is total potable water production less Aquifer Storage and Recovery recharge.
(d) Rate shown is for 5/8" meters.
(e) Represents standard (non-seasonal) usage charge for monthly residential water usage of 7,788 gallons per month. Includes water supply and EAA fees.
(f) Minimum service availability charge (includes charge for first 1,496 gallons).
(g) Represents usage charge for a residential customer based on winter average water consumption of 6,178 gallons per month.
Source: SAWS.

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

	Fiscal Year Ended December 31									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001[a]
Water Sales [b]:										
Residential Class	28,932	30,667	33,026	26,651	33,162	30,917	27,054	27,624	28,227	19,398
General Class	19,465	20,309	20,296	19,166	20,232	19,769	18,851	19,464	20,155	13,444
Wholesale Class	101	119	108	90	114	121	98	137	173	347
Irrigation Class	4,080	4,200	5,398	3,604	4,216	4,198	3,364	3,350	3,295	1,527
Total Water	52,578	55,295	58,828	49,511	57,724	55,005	49,367	50,575	51,850	34,716
Wastewater Sales:										
Residential Class	26,746	29,825	28,148	27,384	28,857	25,293	25,421	24,860	25,564	13,594
General Class	19,003	19,714	19,609	18,670	21,152	21,414	20,952	21,418	22,319	13,209
Wholesale Class	2,402	2,448	2,590	3,164	3,259	2,580	3,220	3,391	4,297	2,758
Total Wastewater	48,151	51,987	50,347	49,218	53,268	49,287	49,593	49,669	52,180	29,561
Conservation - Residential Class [c]	2,935	3,469	3,948	2,432	4,276	3,613	2,634	2,636	2,742	2,757
Recycled Water Sales	14,968	16,321	16,559	14,148	14,835	14,048	13,626	13,642	13,761	4,654

(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.

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

Waterworks System. The City originally acquired its waterworks system in 1925 through the acquisition of the San Antonio Water Supply Company, a privately owned company. Since such time and until the creation of SAWS in 1992, management and operation of the waterworks system was under the control of the City Water Board. The SAWS' waterworks system currently extends over approximately 636 square miles, making it the largest water purveyor in Bexar County. SAWS serves more than 80% of the water utility customers in Bexar County. As of December 31, 2010, SAWS provided potable water service to approximately 356,600 customer connections, which includes residential, commercial, multifamily, industrial, and wholesale accounts. To service its customers, the waterworks system utilizes 30 elevated storage tanks and 30 ground storage reservoirs, of which 7 act as both, with combined storage capacities of 168 million gallons. As of December 31, 2010, the waterworks system had in place 4,936 miles of distribution mains, ranging in size from four to 60 inches in diameter (the majority being between six and 12 inches), and 27,115 fire hydrants distributed evenly throughout the SAWS service area.

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

SAWS serves a substantial portion of the residents of the City, 12 governmental entities, and other customers outside the corporate limits of the City. As Regional Agent, SAWS has certain prescribed boundaries that currently cover an area of approximately 424 square miles. SAWS also coordinates with the City for wastewater planning for the City's total planning area, ETJ, of approximately 1,107 square miles. The population for this planning area is approximately 1.7 million people. As of December 31, 2010, SAWS provided wastewater services to approximately 410,000 customers.

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

The wastewater system is composed of approximately 5,118 miles of mains and three major treatment plants, Dos Rios, Leon Creek, and Medio Creek. All three plants are conventional activated sludge facilities. SAWS holds Texas Pollutant Discharge Elimination System wastewater discharge permits, issued by the TCEQ for 187 million gallons per day ("MGD") in treatment capacity and 46 MGD in reserve permit capacity. The permitted flows from the wastewater system's three regional treatment plants represent approximately 98% of the municipal discharge within the City's ETJ.

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

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

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

Stormwater System. In September 1997, the City created its Municipal Drainage Utility and established its Municipal Drainage Utility Fund to capture revenues and expenditures for services related to the management of the municipal drainage activity in response to Environmental Protection Agency-mandated stormwater runoff and treatment requirements under the 40 CFR 122.26. The City, along with SAWS, has the responsibility, pursuant to the Permit from the TCEQ, for water-quality monitoring and maintenance. The City and SAWS have entered into an interlocal agreement to set forth the specific responsibilities of each regarding the implementation of the requirements under the Permit. The approved annual budget for the SAWS share of program responsibilities for FY 2011 is $4,959,832, for which SAWS is reimbursed $4,158,241 from the stormwater utility fee imposed by the City.

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

Much of the Edwards Aquifer region consists of agricultural land, but it also includes areas of population ranging from communities with only a few hundred residents to the City, which serves as a home for well over one million residents. In 2010, the Edwards Aquifer supplied approximately 94% of the potable water for municipal, domestic, industrial, and commercial needs for the SAWS service area. Naturally occurring artesian springs, such as the Comal Springs and the San Marcos Springs, are fed by Edwards Aquifer water and are utilized for commercial, municipal, agricultural, and recreational purposes, while at the same time supporting ecological systems containing rare and unique aquatic life.

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

San Antonio Water System Summary of Pledged Revenues for Debt Coverage (1)
($000)

				Revenue Bond Debt Service(b)				Maximum Annual Debt Service Requirements			
Year	Gross Revenues(c)	Operating Expenses(d)	Net Revenue Available	Principal	Interest	Total	Coverage	Total Debt(c)	Coverage	Senior Lien Debt(e)	Coverage(f)
2010	$367,847	$226,489	$141,358	$38,590	$83,076	$121,666	1.16	$127,264	1.11	$108,947	1.30
2009	366,753	215,812	150,941	34,900	75,398	110,298	1.37	123,182	1.23	103,205	1.46
2008	384,228	205,486	178,742	27,360	69,860	97,220	1.84	98,840	1.81	86,140	2.08
2007	344,772	185,561	159,211	24,880	67,785	92,665	1.72	102,880	1.55	86,138	1.85
2006	372,193	177,265	194,928	22,415	62,947	85,362	2.28	91,175	2.14	78,373	2.49
2005	331,032	171,853	159,179	16,505	54,987	71,492	2.23	94,992	1.68	78,373	2.03
2004	263,367	152,445	110,922	7,735	52,205	59,940	1.85	84,941	1.31	67,203	1.65
2003	241,228	151,483	89,745	5,515	44,614	50,129	1.79	76,075	1.18	61,511	1.46
2002	239,382	133,984	105,398	25,045	39,589	64,634	1.63	66,268	1.59	61,511	1.71
2001(a)	135,858	78,071	57,787	0	20,345	20,345	n/a		n/a		n/a
2001	207,225	121,351	85,874	23,760	36,661	60,421	1.42	66,994	1.28	56,293	1.53

(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) Represents current year debt service payments. Details regarding outstanding debt can be found in the notes to the financial statements. All bonded debt is secured by revenue and is included in these totals.
(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) Maximum annual debt service requirements consist of principal and interest payments prior to the U.S. federal interest subsidy on the Series 2009A revenue bonds.
(f) 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 San Antonio International Airport (the "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 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 scheduled service to San Antonio: AirTran, American, Continental, Delta, Frontier, Midwest, Southwest, United, and US Airways, as well as associated affiliates of certain of the aforementioned air carriers. Aeromar and Aerolitoral are Mexican airlines that provide passenger service to Mexico. Mexicana filed for bankruptcy protection and ceased service to the Airport in August 2010; however, Mexicana is considering restarting service by the end of 2011.

The Airport is classified as a medium hub facility by the FAA. A "medium hub facility" is defined as a facility that enplanes between 0.25% and 0.50% of all passengers enplaned on certificated route air carriers in all services in the 50 states, the District of Columbia, and other designated territorial possessions of the United States. According to Airports Council International – North America ("ACI-NA"), an airport industry group, the Airport ranked 46th based on total U.S. passenger traffic for calendar year 2009. For the calendar year ended December 31, 2009, the Airport enplaned approximately 3.9 million passengers. Airport management has determined that of the Airport's passenger traffic, approximately 94% 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 nine rental car companies which lease facilities at the Airport and Stinson Municipal Airport ("Stinson").

Stinson, located on 300 acres approximately 5.2 miles southeast of the City's downtown business district, was established in 1915, and is one of the country's first municipally-owned airports. It is the second oldest continuously operating airport in the U.S. and is the FAA's designated general aviation reliever airport to the Airport. 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 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 15 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, the Port, 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. In December 2010, the City issued a request for proposals seeking interested respondents to update the Master Plan for Stinson. The Contract was awarded on February 17, 2011 and a Notice to Proceed was issued on March 30, 2011. The Master Plan for Stinson has an expected completion date of March 2012.

Capital Improvement Plan

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

The City's 1998 Airport Master Plan recommended a series of terminal and airfield improvements. In FY 2002, the City commenced implementation of a ten-year Capital Improvement Plan (the "FY 2002 - FY 2012 CIP"). The FY 2002 - FY 2012 CIP included: construction of replacement Terminal B and new Terminal C, other terminal projects, consolidated aviation facility, airfield improvement, parking expansion, parking revenue control system, land acquisition, residential acoustical treatment, road improvements, aircraft apron expansion, program management, cargo improvements, central utility plant, and a major expansion and renovation of the Stinson Terminal.

Over the years, the City has deferred Terminal C construction, construction of the consolidated aviation facility, certain land acquisitions, and cargo improvements. In addition, a portion of the airfield improvements has been deferred. The City has deferred these improvements beyond FY 2016 for a series of reasons, among them lack of demand, timing, and lack of availability of federal grant funding. With the completion of Terminal B in November 2010, the FY 2002 - FY 2012 CIP has been substantially completed.

The seven-year (FY 2010 – FY 2016) capital program (the "Capital Program") totals approximately $239 million, which is comprised of certain projects in process (and included in the FY 2002 - FY 2012 CIP described above) as well as those included in and a part of the hereinafter-defined FY 2011 Adopted Budget (together with the FY 2002 - FY 2012 CIP, the "CIP").

The Capital Program

The Capital Program consists of the following:

Terminal Facilities

- Terminal Construction. Provides for the completion of replacement Terminal B.
- Terminal Renovation and Renewal. This project is to renovate and renew Terminal A through the redevelopment of building infrastructure, interior updates, and landside improvements.
- Passenger Load Bridges. Includes the purchase and installation of passenger loading bridges, preconditioned air, and 400Hz electrical power and potable water for the aircraft gate in Terminal A.
- Supporting projects. Landscaping and roadway signage improvements and other way-finding.
- Central Plant. Modification to the central plant.
- Central Utility Plant. Decommissioning and demolition of the former central utility plant.

Airfield Improvements

- Runway 21 and Taxiway "N". This project extends Runway 21 and Taxiway "N" a distance of 1,000 feet in support of increased air traffic and to enhance the Airport's capacity.

Acoustical Treatment Program

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

Aircraft Apron

- Apron Improvements. A project that includes aircraft parking apron to support Concourse B, and the demolition and relocation of utilities located underneath the existing Terminal 2 apron.

Other Projects

- Support Service Building. Provides for the construction of an administrative office facility to house the Airport System staff.
- Other Capital Projects. Miscellaneous projects at the Airport and at Stinson.

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The anticipated sources of funding for the Capital Program are as follows:

Funding Sources	Projected Funding ($)
Federal Grants	
Entitlements/General Discretionary	11,935,790
Discretionary	45,513,250
General Discretionary	
Noise Discretionary	57,000,000
TxDOT Grant	3,525,000
Passenger Facility Charges ("PFCs")	
Pay-As-You-Go	18,071,415
PFC-Secured Bonds	10,113,574
Other Funding	
Airport Funds	27,920,027
Airport Revenue Bonds	30,671,116
Tax Notes (Refunded Notes)	34,409,005
Total	**239,159,177**

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

Improvement	Amount ($)
Airport	
Terminal Facilities	69,624,878
Airfield Improvements	50,653,390
Acoustical Treatment Program	71,250,000
Aircraft Apron	27,253,909
Other Projects	15,915,000
Stinson	4,462,000
Total	**239,159,177**

Proposed PFC Projects. Public agencies wishing to impose PFCs are required to apply to the FAA for such authority and must meet certain requirements specified in the PFC Act (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 11 new projects. On June 26, 2007, the FAA approved two amendments to approved applications increasing the PFC funding by a net amount of $121,611,491 for two projects and $67,621,461 for four projects. Additionally, the FAA approved the increased collection rate from $3.00 to $4.50, effective October 1, 2007. In May 2010, the FAA approved amendments to the City's PFC collection authorization to increase the scope of the PFC funding for certain PFC projects and permitted the addition of several elements. The May 28, 2010 FAA approvals increased the PFC funding amount from $380,958,549 to $574,569,629.

On October 1, 2007, the City began collecting a $4.50 PFC (less an $0.11 air carrier collection charge) per qualifying passenger enplaned. The City has received PFC "impose and use" authority, meaning that it may impose the PFC and use the resultant PFC Revenues for all projects, contemplated to be completed using proceeds of the Parity PFC Bonds. As of June 30, 2010, the City has collected $102,762,354 (unaudited) in PFC Revenues since authority to impose and collect the PFC was received. The estimated PFC collection expiration date is June 1, 2028.

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

- Replace Remain Overnight (“RON”) Apron
- Implement Terminal Modifications
- Reconstruct Perimeter Road
- Construct New Concourse B
- Acoustical Treatment Program
- Construct Elevated Terminal Roadway
- Upgrade Central Utility Plant
- Construct Apron – Terminal Expansion
- Install Utilities – Terminal Expansion
- Replace Two Aircraft Rescue and Fire Fighting (“ARFF”) 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 Improvements. The Terminal B expansion project provided for the construction of an eight-gate Concourse B. Concourse B replaced Terminal 2, which is obsolete and will be demolished to make way for Concourse C. Concourse C will be constructed based upon demonstrated need that is projected to be beyond the forecast period. Concourse B opened on November 9, 2010; Terminal 1 has since been redesignated as Concourse A. With the completion of Concourse B, the City will initiate a program to renovate and renew Concourse A. The project consists of the renewal and replacement of key building infrastructure, replacement IT backbone, escalators, automatic doors, lighting, restroom renovation, and upgrading the décor of the terminal.

Airfield Improvements. The City has initiated a multi-phase Runway 3/21 extension project. The project is being funded primarily by incremental Airport Improvement Program (“AIP”) grants. Runway safety is being enhanced by a project to improve lighting and signage to reduce runway incursions. The City has improved Taxiways R and C and has reconstructed some overnight aircraft parking areas.

Parking Improvements. With the completion of the most recent parking improvement project in FY 2008, approximately 2,128 parking spaces were added to the Airport. The Airport now has approximately 5,566 long-term spaces, 1,510 hourly spaces, and 1,263 employee parking spaces for a total of 8,339 automobile parking spaces. The parking facilities are expected to meet forecasted automobile parking demand through the Report’s forecast period and beyond. In addition, a 79 space cell phone parking lot has been created for meeters and greeters to keep them from orbiting the terminal curbside. Effective October 1, 2010, the economy parking lot was closed and the land put to other uses.

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 of Aviation (the “Department”). The Department is responsible for: (i) managing, operating, and developing the Airport System and any other airfields that 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 Department is an enterprise fund of the City. The operations and improvements at the Airport and Stinson are paid for by airport user charges, bond funds, and funds received from the FAA. No general tax fund revenues are used to operate or maintain the Airport System. The City Council appoints a 19-member Airport Advisory Commission (the “Commission”). The Commission’s primary purpose is to advise the Department regarding policies, including any noise-related issues affecting the Airport System and air transportation initiatives.

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

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

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

The passage of the Aviation and Transportation Security Act ("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 300 individuals at the Airport System to meet the federal security requirements.

With the completion of the FY 2002 – FY 2012 CIP in November 2010, the Airport has a fully automated baggage screening and handling system that will service both Terminal A (formerly Terminal 1) and the new Terminal B. This system includes baggage handling equipment, explosive detection screening equipment, and baggage makeup systems. The City entered into an agreement with the TSA for reimbursements up to $386,000 for FY 2010 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 Airport 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 $300,000 for FY 2010. These reimbursements are expected to continue through FY 2013 and thereafter be renegotiated with the TSA.

At Stinson, a $4.8 million terminal expansion project was completed in FY 2009. It added approximately 24,000 square feet of additional concession, administrative, education, and corporate aviation space to the existing 7,000 square foot terminal building. The expansion created additional administrative offices, classrooms, retail space, and conference rooms to accommodate and attract new business. The City also completed the extension of Runway 9-27 at Stinson. The useable runway length is now 5,000 feet. The additional runway length will allow Stinson to serve additional corporate aircraft under all conditions. The terminal expansion, along with a runway extension and other infrastructure improvements, will allow for the growth of existing tenants as well as create opportunities for new businesses to locate at Stinson.

As of October 1, 2010, the Airport System employed approximately 492 employees as follows:

Administration	84	Parking/GT	61
Police/Security	107	Airport Operations	48
Fire Rescue	33	Stinson Airport	9
Facilities Maintenance	150		

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Comparative Statement of Gross Revenues and Expenses - San Antonio Airport System

The historical financial performance of the Airport System is shown below for the last five fiscal years:

	Fiscal Year Ended September 30				
	2006	2007	2008	2009	2010
Gross Revenues[1]:	$52,785,593	$56,682,447	$65,187,888	$62,180,333	$64,045,889
Airline Rental Credit	7,988,304	8,831,771	5,040,274	4,165,260	4,178,122
Adjusted Gross Revenues	$60,773,897	$65,514,218	$70,228,162	$66,345,593	$68,224,011
Expenses	(29,471,313)	(32,583,693)	(41,585,794)	(39,743,093)	(39,873,764)
Net Income	$31,302,584	$32,930,525	$28,642,368	$26,602,500	$28,350,247

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

Total Domestic and International Enplaned Passengers - San Antonio Airport

The total domestic and international enplaned passengers on a calendar year basis, along with year-to-year percentage change are shown below:

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
2001	3,444,875	---	---
2002	3,349,283	(95,592)	(2.77)
2003	3,250,741	(98,542)	(2.94)
2004	3,498,972	248,231	7.64
2005	3,713,792	214,820	6.14
2006	4,002,903	289,111	7.78
2007	4,030,571	27,668	0.69
2008	4,167,440	136,869	3.40
2009	3,905,439	(262,001)	(6.29)
2010	4,022,070	116,631	2.99

Source: City of San Antonio, Department of Aviation.

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Total Enplaned and Deplaned International Passengers - San Antonio Airport

The total enplaned and deplaned for international passengers on a calendar year basis, along with year-to-year percentage change are shown below:

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
2001	219,352	---	---
2002	201,274	(18,078)	(8.24)
2003	159,576	(41,698)	(20.72)
2004	191,254	31,678	19.85
2005	185,992	(5,262)	(2.75)
2006	199,138	13,146	7.07
2007	197,585	(1,553)	(0.78)
2008	177,219	(20,366)	(10.31)
2009	139,286	(37,933)	(21.40)
2010	136,970	(2,316)	(1.66)

Source: City of San Antonio, Department of Aviation.

Air Carrier Landed Weight - San Antonio Airport

The historical aircraft landed weight in 1,000-pound units on a calendar year basis is shown below. Landed weight is utilized in the computation of the Airport's landed fee.

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
2001	5,548,023	---	---
2002	5,560,082	12,059	0.22
2003	5,391,301	(168,781)	(3.04)
2004	5,416,555	25,254	0.47
2005	5,650,228	233,673	4.31
2006	5,946,232	296,004	5.24
2007	6,098,276	152,044	2.56
2008	6,209,192	110,916	1.82
2009	5,487,537	(721,655)	(11.62)
2010	5,632,203	144,666	2.64

Source: City of San Antonio, Department of Aviation.

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APPENDIX B

SELECTED PROVISIONS OF THE FINANCING DOCUMENTS

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APPENDIX B

SELECTED PROVISIONS OF THE FINANCING DOCUMENTS

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

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

SELECTED DEFINITIONS

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

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

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

Bond or ***Bonds*** - Any bond issued pursuant to the Trust Agreement, the form of which is attached thereto as *Exhibit A* for the definitive bonds and *Exhibit B* for the Initial Bond therein defined.

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

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

Bond Payment Date - February 15 and August 15 of each year, commencing February 15, 2012, and continuing for so long as any Bonds are Outstanding.

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

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

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

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

City Change Order - A change order with respect to the Plans and Specifications or the Construction Manager at Risk Agreement described in Section 4.01(b) of the Lease.

City Council - The City Council of the Lessee.

City Representative - The Mayor, the City Manager, any Deputy City Manager, any Assistant City Manager, the Chief Financial Officer, any Assistant Director of Finance, the Director of the Capital Improvements Management Services Department of the City, and any other officer or employee of the City who is designated in writing by resolution or ordinance of the City Council or by a certificate of the City Manager as a City Representative for the purposes of the Trust Agreement.

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

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

Completion Date - The date upon which the Project is complete, as evidenced by the Lessee's execution and delivery to the Lessor and the Trustee of a Final Acceptance Certificate.

Construction Manager at Risk Agreement - The Construction Manager at Risk Agreement, dated as of October 7, 2010, as amended, between Lessor and the Construction Manager at Risk for the acquisition, construction, equipping and installation of the Project in accordance with the Plans and Specifications and for the Guaranteed Maximum Price of the Project.

Construction Manager at Risk - Guido/Sundt, a Joint Venture, which is composed of Guido & Companies, Inc. and Sundt Construction, Inc. as the joint venturers, or its successors and permitted assigns.

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

Designated Office when used with respect to the Trustee - The office designated by the Trustee from time to time at which it will be conducting its corporate trust business in connection with the Bonds, which initially is located at 14241 Dallas Parkway, Suite 490, Dallas, Texas 75254.

Event of Default -

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

(ii) As used in the Lease:

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

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

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

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

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

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

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

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

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

Final Acceptance Certificate - A certificate, in the form attached as *Exhibit C*, executed by the Lessee.

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

Ground Lease - The Ground Lease between the City and the Corporation pursuant to which the City has leased the PSAP Land to the Corporation through not earlier than August 15, 2041.

Guaranteed Maximum Price of the Project - The amount designated as the "Guaranteed Maximum Price" in the Construction Manager at Risk Agreement.

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

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

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

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

Lease - This *Lease Agreement Relating to the City of San Antonio, Texas Public Safety Answering Point Project*, dated as of July 1, 2011, by and between the Corporation and the City and any duly authorized and executed amendment thereto.

Lease Payment - (a) on August 15, 2013, and on each August 15 thereafter, while any Bonds are Outstanding under the Trust Agreement (i) an amount of money equal to the full amount of the principal installment coming due on the Bonds on such date, either pursuant to a mandatory sinking fund redemption or upon maturity of the Bonds; and (b) on February 15, 2012, and on each Lease Payment Date thereafter, while any Bonds are Outstanding under the Trust Agreement, (i) an amount of money which, when added to the amount then on deposit in the Payment Account, will equal the amount of interest to become due on the Bonds on such Lease Payment Date, and (ii) the amount of any interest on overdue principal and interest required to be paid pursuant to Section 3.11(a) of the Trust Agreement. Attached as *Exhibit E-1* to the Lease is an initial schedule of Lease Payments.

Lease Payment Date - February 15, 2012, and each February 15 and August 15 thereafter for so long as the Lease is in effect.

Lessee or ***City*** - The *City of San Antonio, Texas* and its successors and permitted assigns.

Lessee Representative - The Mayor, the City Manager, any Deputy City Manager, any Assistant City Manager, the Chief Financial Officer, any Assistant Director of Finance, the Director of the Capital Improvements Management Services Department of the Lessee, and any other officer or employee of the Lessee who is designated in writing by resolution or ordinance of the City Council or by a certificate of the City Manager as a Lessee Representative for the purposes of the Lease.

Lessor or ***Corporation*** - The **CITY OF SAN ANTONIO, TEXAS MUNICIPAL FACILITIES CORPORATION**, and its successors and permitted assigns.

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

Mortgage - The *Leasehold Deed of Trust and Assignment of Rents and Leases*, dated as of July 1, 2011, from the Corporation to U.S. Bank National Association, as mortgage trustee for the use and benefit of the Trustee.

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

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

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

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

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

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

Parking Lot Land - The real property in the City described in *Exhibit B* of the Lease constituting the "Parking Lot Land" upon which the Improvements constituting a portion of the Parking Lot are situated or are to be constructed or installed.

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

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

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

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

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

(iii) certificates of deposit issued by a nationally or state chartered bank (which may include the Trustee), provided either that (A) such bank is currently rated not lower than "AA" by the Rating Agency, and the principal amount of any such certificate of deposit in excess of the amount insured by the FDIC or by the FDIC as manager for the Savings Association Insurance Fund, shall be fully secured in accordance with Section 2256.010, Texas Government Code, and collateralized by the pledge and deposit of securities described in (i) and (ii) of this definition in an amount and with maturities that meet all applicable standards established by the

Rating Agency for funds held for payment of securities rated "AAA" by it, that the Trustee has a perfected first priority security interest in the collateral, that the Trustee or any agent has possession of the collateral, and that such obligations are free and clear of claims by third parties, or (B) the principal amount of and interest to be earned on any such certificate of deposit does not exceed the amount insured by the FDIC or by the FDIC as manager for the Savings Association Insurance Fund;

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

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

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

Project - The Improvements existing or to be constructed on the Land, as more fully described in the Construction Manager at Risk Agreement as the "Work," including any and all items of personal property situated respectively thereon by the Corporation whether now owned or hereafter acquired with proceeds of the Bonds for and on behalf and use of the Lessee, including but not limited to any and all furniture, fixtures, machinery and equipment and any and all other items of personal property as described in the Security Agreement and all items included within the definition of "Collateral" therein (but excluding any items of personal property that the Lessee reasonably determines, through a Lessee Representative, are no longer needed for, or to be located at, the Project).

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

Project Costs - All costs or payment of design, acquisition, construction, installation, and financing of the Project, including but not limited to acquisition of a site therefor; architectural, engineering, installation, and management costs; project coordination and supervisory costs; administrative costs; capital expenditures relating to design, construction, and installation; financing payments; sales tax, if any, on the Project; costs of feasibility, environmental, appraisal, and other reports; inspection costs; permit fees; filing and recording costs; title insurance premiums; survey costs; Issuance Costs; fees and expenses of legal counsel to the Lessor and Lessee; and all other costs related to the Project or the financing thereof, authorized by the Act; provided; however, that the term Project Costs does not include any costs to operate and maintain the Project beginning one year after construction of the Project is completed.

PSAP Land - The real property in the City described in *Exhibit B* of the Lease constituting the "PSAP Land" upon which the Improvements constituting the PSAP Center and a portion of the Parking Lot are situated or are to be constructed or installed.

Purchase Option Date - (i) August 15, 20__, and on any date thereafter, and (ii) in the event of damage, destruction, or condemnation of the Project, a date established pursuant to Section 4.13 of the Lease.

Purchase Option Price - (a) If Lessee delivers to the Trustee and the Lessor, not less than 120 days prior to the Purchase Option Date on which the Lessee intends to exercise its option to purchase the Project, an opinion of Bond Counsel that State law permits the Lessee to acquire real property pursuant to a lease-purchase transaction, the Purchase Option Price shall, for each Purchase Option Date prior to August 15, 2041, be an amount which will be sufficient to pay the principal of all Bonds then Outstanding, the redemption premium, if any, and accrued interest thereon to the date fixed for redemption in accordance with Section 6.01(a) of the Trust Agreement, together with any other amounts then due or past due hereunder, including the fees and expenses of the Trustee, less the funds held by the Trustee in any account of the Trust Fund (other than the Rebate Account) as of the redemption date of the Bonds. A schedule showing the Purchase Option Price, based on the original principal amount of the Bonds, is attached to the Lease as *Exhibit E-2*.

(b) If Lessee does not deliver an opinion described in clause (a) of this definition, the Purchase Option Price shall, for each Purchase Option Date prior to August 15, 2041, be an amount equal to the average of the fair market value of the Project determined by three independent appraisers not more than 120 days prior to the Purchase Option Date on which the Lessee intends to exercise its option to purchase the Project.

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

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

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

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

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

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

Security Agreement - The *Security Agreement Relating to the City of San Antonio, Texas Public Safety Answering Point Project*, dated as of July 1, 2011, by and between the Corporation and the Trustee.

State - The State of Texas.

Sublease - The Sublease Agreement between the City and the Corporation pursuant to which the City has subleased the Parking Lot Land to the Corporation through not earlier than August 15, 2041.

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

Trust Agreement - The *Trust Agreement Relating to the City of San Antonio, Texas Public Safety Answering Point Project*, dated as of July 1, 2011, between the Corporation and the Trustee, and any duly authorized and executed amendment thereto.

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

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

Trustee - U.S. Bank National Association, its successors and permitted assigns.

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

Underwriter - Collectively, SAMCO Capital Markets, Inc., First Southwest Company, and Ramirez & Co., Inc.

* * *

SELECTED PROVISIONS OF THE TRUST AGREEMENT

SECTION 4.01. TRUST FUND. There is hereby established with the Trustee a special trust fund to be designated the *City of San Antonio, Texas Municipal Facilities Corporation PSAP Project Trust Fund*, referred to herein as the "***Trust Fund***." The Trustee shall keep the Trust Fund separate and apart from all other funds held by it. Within the Trust Fund, there are hereby established, for the benefit of the Bondholders, the separate and distinct accounts more particularly described in this Article (excluding the Rebate Account). On the Closing Date, the Trustee agrees to accept and deposit or disburse the proceeds from the sale of the Bonds, plus accrued interest, if any, and less any Underwriter's discount on the Bonds, which amount shall thereafter be subject to and be administered pursuant to the terms of this Article, plus the City's contribution pursuant to Sections 4.02, 4.03 and 4.05 below.

SECTION 4.02. ESTABLISHMENT AND APPLICATION OF PROJECT ACCOUNT. (a) Within the Trust Fund, there is hereby established a special account to be designated as *City of San Antonio, Texas Municipal Facilities Corporation PSAP Project Account*, referred to herein as the "***Project Account***," and within the Project Account there is hereby established a subaccount to be designated as the *City of San Antonio, Texas Municipal Facilities Corporation PSAP Project City Contribution Subaccount*, herein referred to as the "***City Contribution Subaccount***." The Trustee shall administer the Project Account and the City Contribution Subaccount as provided in this Article. On the Closing Date, the Trustee shall (i) deposit to the Project Account ***$25,933,242.53*** from the proceeds from the sale of the Bonds, and (ii) deposit to the City Contribution Subaccount ***$-0-*** of funds contributed by the City.

(b) Disbursements to pay or reimburse the payment of the Issuance Costs shall be made by the Trustee from the Project Account only upon receipt of a Requisition Requesting Disbursement of Issuance Costs, substantially in the form attached hereto as *Exhibit C*, approved and executed by a City Representative and a Corporation Representative. The total amount to be paid from the Project Account for Issuance Costs pursuant to this paragraph (b) shall not exceed ***$146,071.20***.

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

(i) Upon the Trustee's receipt of a properly completed and executed Requisition Requesting Disbursement of Project Costs, substantially in the form attached hereto as *Exhibit D*, together with all riders and attachments (provided that for the payment of nonconstruction Project Costs on or after the Closing Date said form shall be revised to omit Rider 1), the Trustee shall, within three Business Days of such receipt, disburse money from the Project Account in an amount sufficient to pay the Project Costs which are the subject of such requisition.

(ii) No amount shall be disbursed from the Project Account which is shown on such requisition to be attributable to a City Change Order which will cause the cost of completing the Project to exceed the Guaranteed Maximum Price of the Project unless the City has previously filed with the Trustee a "Change Order Notice" (in substantially the form set forth in *Exhibit I* to the Lease) and deposited with the Trustee an amount of funds sufficient to pay such increased amount of Project Costs, all as required by Section 4.01(b) of the Lease. Upon the Trustee's receipt of (i) a Change Order Notice, and (ii) any amount required to be deposited to the Project Account (which amount shall be deposited by the Trustee in the City Contribution Subaccount) in connection therewith, the Trustee shall promptly notify the Construction Manager at Risk of its acknowledgment of receipt of such notice by signing the "Acknowledgment of Receipt" on such Change Order Notice and delivering a copy of such Change Order Notice to the Construction Manager at Risk. In any event, within seven Business Days of the Trustee's receipt of a properly completed and executed Requisition Requesting Disbursement of Project Costs (where such Project Costs are attributable to a City Change Order), the Trustee shall either disburse money from the Project Account sufficient to pay the Project Costs due or provide written notice to the Construction Manager at Risk and the City that the Trustee has not received from the City an amount sufficient to pay the increased amount of Project Costs attributable to a City Change Order.

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

(iv) The final disbursement from the Project Account for Project Costs shall additionally require the certification of the Lessee described in subsection 6.01(e) of the Lease.

(d) Upon receipt of a fully executed and approved Requisition Requesting Disbursement of Project Costs or of a Requisition Requesting Disbursement of Issuance Costs and the required attachments, the Trustee may rely conclusively upon such requisitions. The Trustee shall have no liability on account of any disbursement from the Project Account in accordance with such requisitions provided that it has complied with the procedure required in paragraphs (b) and (c) above with respect to such requisitions.

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

(g) Upon the earlier of July 1, 2014, or receipt by the Trustee of the Final Acceptance Certificate and receipt of the certificate of the Lessee as described in Section 6.01(e) of the Lease, (i) to the extent the amount remaining in the Project Account is at least $100,000, the Trustee shall transfer the amount remaining in the Project Account (excluding the City Contribution Subaccount, which funds, if any, shall be returned to the City) to the Redemption Account, in integral multiples of $5,000; and (ii) to the extent the amount remaining in the Project Account is less than $100,000 (excluding the City Contribution Subaccount, which funds, if any, shall be returned to the City) after making the foregoing transfer, if any, the Trustee shall transfer the amount remaining in the Project Account to the Payment Account, and the Project Account shall be closed.

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

SECTION 4.03. ESTABLISHMENT AND APPLICATION OF PAYMENT ACCOUNT.

(a) Within the Trust Fund, there is hereby established a special account to be designated the *City of San Antonio, Texas Municipal Facilities Corporation PSAP Project Payment Account* (the "***Payment Account***"). The Payment Account shall be maintained by the Trustee until either the Lease Payments and all other amounts payable under the Lease are paid in full, or the Purchase Option Price and all other amounts payable under the Lease are paid in full, pursuant to the terms of the Lease. On the Closing Date, the Trustee shall deposit to the Payment Account proceeds of the Bonds representing capitalized interest in an amount equal to ***$1,224, 365.89***. Lease Payments, and, subject to Section 5.12, all other funds derived from the lease, sale, sublease, or other disposition of the Project, payment of the Purchase Option Price, and such other amounts as may be paid to the Trustee as assignee of the Corporation pursuant to the Financing Documents (except money paid by the City pursuant to the Lease for deposit to the Rebate Account or the City Contribution Subaccount) and such amounts as are transferred by the Trustee upon closing of the Project Account shall be immediately deposited, as soon as practicable, by the Trustee in the Payment Account.

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

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

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

SECTION 4.04. ESTABLISHMENT AND APPLICATION OF INSURANCE AND CONDEMNATION ACCOUNT. (a) Within the Trust Fund, there is hereby established an account designated as the *City of San Antonio, Texas Municipal Facilities Corporation PSAP Project - Insurance and Condemnation Account* (the "***Insurance and Condemnation Account***"). Money received by the Trustee as the result of the damage and/or destruction of the Project (from Net Proceeds or otherwise) or as the result of a condemnation award shall be deposited into the Insurance and Condemnation Account.

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

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

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

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

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

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

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

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

(c) Interest or income received by the Trustee on the investment of money held in the Payment Account shall be retained in that account for the purpose of making Bond Payments. On or about January 1, 2012 and on or about each January 1 and July 1 thereafter, the Trustee shall give written notice to the City, of the amount of the Lease Payment next due and the amount of such investment earnings on deposit in the Payment Account which may be applied as a credit to its next Lease Payment.

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

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

* * *

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

* * *

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SECTION 5.10. TERMINATION OF PROCEEDINGS. In the event the Trustee shall have proceeded to enforce any right under the Financing Documents and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then the Bondholders, the Corporation, and the Trustee shall be restored to their former positions and rights under the Financing Documents, and all rights, remedies, and powers of the Trustee shall continue as if no such proceedings had been taken.

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

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

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

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

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

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

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

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

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

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

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

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

* * *

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

* * *

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

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

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

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

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

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

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

(b) Exclusive of the aforementioned types of amendment and subject to the terms and provisions contained in this Section, and not otherwise, the Corporation and the Trustee, with the consent of the Bondholders owning not less than a majority in aggregate principal amount of the Bonds then Outstanding, shall have the right, from time to time, anything contained in this Trust Agreement to the contrary notwithstanding, to amend the terms or provisions contained in this Trust Agreement; provided, however, that nothing in this Section shall permit or be construed as permitting: (i) without the consent of each Bondholder so affected, an extension of maturity of the principal of or the interest on any Bond, a reduction in the principal amount of any Bond, or a reduction in the rate of interest thereon; (ii) without the consent of all of the Bondholders, a privilege or priority of any Bond over any other Bond or a reduction in the aggregate principal amount of the Bonds required for consent to such amendment; or (iii) without the consent of all of the Bondholders, creation of any prior or parity liens on the Trust Estate.

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

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

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

(f) The Trustee shall not be required to enter into or consent to any such amendments that affect the Trustee's own rights, duties or immunities under this Trust Agreement or otherwise.

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

* * *

SELECTED PROVISIONS OF THE LEASE AGREEMENT

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

* * *

SECTION 4.05. LESSEE'S NEGLIGENCE; LIABILITY INSURANCE. (a) LESSEE'S NEGLIGENCE. TO THE EXTENT PERMITTED BY THE LAWS OF THE STATE, THE LESSEE ASSUMES ALL RISKS AND LIABILITIES, WHETHER OR NOT COVERED BY INSURANCE, FOR LOSS OR DAMAGES TO THE PROJECT AND FOR INJURY TO OR DEATH OF ANY PERSON OR DAMAGES TO ANY PROPERTY, WHETHER SUCH INJURY OR DEATH BE WITH RESPECT TO AGENTS OR EMPLOYEES OF THE LESSEE OR OF THIRD PARTIES AND WHETHER SUCH PROPERTY DAMAGE BE TO THE LESSEE'S PROPERTY OR THE PROPERTY OF OTHERS, IF SUCH INJURY, DEATH, LOSS, OR DAMAGE BE PROXIMATELY CAUSED BY THE NEGLIGENT CONDUCT OF THE LESSEE, ITS OFFICERS, EMPLOYEES, AGENTS, GUESTS, AND INVITEES. TO THE EXTENT PERMITTED BY THE LAWS OF THE STATE, THE LESSEE HEREBY ASSUMES RESPONSIBILITY FOR AND AGREES TO REIMBURSE THE LESSOR, FOR ALL LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, CLAIMS, ACTIONS, COSTS, AND EXPENSES OF WHATSOEVER KIND AND NATURE, IMPOSED ON, INCURRED BY, OR ASSERTED AGAINST THE LESSOR (EXCEPT THOSE DIRECTLY RESULTING FROM THE LESSOR'S OWN NEGLIGENCE OR WILLFUL MISCONDUCT) THAT IN ANY WAY RELATE TO OR ARISE OUT OF A CLAIM, SUIT, OR PROCEEDING BASED IN WHOLE OR IN PART UPON THE CONDUCT OF THE LESSEE, ITS OFFICERS, EMPLOYEES, AGENTS, GUESTS, AND INVITEES.

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

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

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

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

SECTION 4.07. WORKER'S COMPENSATION INSURANCE. (a) Worker's Compensation Insurance. During the Term of this Lease, to the extent required by State law, Lessee shall, from Appropriated Funds, carry Worker's Compensation Insurance covering all employees on, in, near, or about the Project and, upon request, shall furnish to the Lessor and the Trustee certificates evidencing such coverage throughout the Term of this Lease. Until the Completion Date and to the extent lawfully permitted, the Construction Manager at Risk Agreement shall require the Construction Manager at Risk to maintain or cause to be maintained Worker's Compensation Insurance covering all employees working on, near, or about the Project and to furnish certificates to the Trustee evidencing such coverage.

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

SECTION 4.08. REQUIREMENTS FOR INSURANCE POLICIES. (a) General Requirements. All policies of insurance or coverage required to be obtained pursuant to Sections 4.05, 4.06, and 4.07 may be carried under a separate policy or a rider or endorsement; shall be written by an insurance company approved by a Lessor

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

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

* * *

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

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

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

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

* * *

ARTICLE V
TERM OF LEASE

SECTION 5.01. TERM OF LEASE. This Lease shall be and remain in effect with respect to the Project for a Lease term (the "***Term***") commencing on the date hereof and continuing until not earlier than August 15, 2041 or until earlier terminated upon the occurrence of the first of the following events:

(a) upon the exercise by the Lessee of its option to purchase pursuant to Article VII of this Lease, and the payment of all amounts due and owing thereunder;

(b) at the end of the Fiscal Year in which an Event of Nonappropriation occurs;

(c) upon the occurrence of an Event of Default and the Lessor elects to terminate this Lease pursuant to Section 10.03; or

(d) the payment by Lessee of all Lease Payments and all other amounts required to be paid by Lessee hereunder.

* * *

SECTION 6.02. LEASE PAYMENTS. During the term of this Lease, the Lessee shall pay to the Trustee for the account of the Lessor the Lease Payments from Appropriated Funds on the Lease Payment Dates. The Lessee further agrees to pay from Appropriated Funds other amounts related to the operation and maintenance of the Project, including without limitation, utility charges, ad valorem taxes (which shall be paid prior to their delinquency, except as provided in section 4.10 hereof) which are imposed on the Project, if any, the operating and maintenance costs of the Project, and the premiums of insurance policies relating to the Project, each in the amounts and at the times as provided herein or in the Trust Agreement. The Lessee agrees to pay, from Appropriated Funds, the fees for ordinary services and expenses of the Trustee based upon the Trustee's Fee Schedule attached as *Exhibit E* to the Trust Agreement. The Lessee shall be entitled to a credit against such Lease Payments, at the times and in the amounts set forth in, and determined in accordance with, the Trust Agreement, if any. The Lease Payments shall be payable in immediately available funds to the Trustee at its address specified in the Trust Agreement, or to such other person or entity and at such other address as the Trustee may designate by written notice to the Lessee, in lawful money of the United States of America no later than 10:00 a.m. Eastern Standard Time on the date Lease Payments are due. All Lease Payments received by Trustee shall be applied in the manner required by the Trust Agreement.

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

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

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

* * *

ARTICLE VII
OPTION TO PURCHASE

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

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

SECTION 7.03. RELEASE OF LESSOR'S INTEREST. Upon Lessor's and Trustee's receipt of Lessee's notice of intention to exercise its option to purchase, the Lessor and the Trustee shall, concurrently therewith or as soon as practicable thereafter, take all reasonable actions at the request and expense of Lessee, necessary to authorize, execute, and deliver to the Lessee any and all documents necessary to vest in the Lessee all of the Lessor's right, title, and interest in and to the Project, free and clear of all liens, leasehold interests, and encumbrances not created by the Lessee, including, if necessary, a release of any and all items or interests created under the provisions of this Lease, the Trust Agreement, the Mortgage and the Security Agreement. Upon deposit by Lessee in full of all amounts required by Section 7.02 hereinabove and upon satisfaction of all requirements under Section 8.02 of the Trust Agreement, the Lessee shall have no further obligations under this Lease, and the Lessor and Trustee shall concurrently therewith or as soon as practicable thereafter deliver to the Lessee any and all documents necessary to vest in the Lessee all of the Lessor's right, title, and interest in and to the Project, free and clear of all liens, leasehold interests, and encumbrances not created by the Lessee, including, if necessary, a release of any and all liens or interests created under the provisions of this Lease, the Trust Agreement, the Security Agreement and the Mortgage.

* * *

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

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

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

* * *

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

* * *

ARTICLE XI
TITLE

During the Term of this Lease, legal title to the Project and any and all repairs, replacements, substitutions, and modifications to the Project shall be in the Lessor. The Lessee shall not permit any lien or encumbrance of any kind to exist against the title to the Project, other than the Permitted Encumbrances. Upon termination of this Lease under Sections 5.01(a) hereof, full and unencumbered, with the exception of the Permitted Encumbrances, legal title to the Project shall immediately be conveyed by Lessor to the Lessee, and the Lessor and the Trustee shall execute and deliver to the Lessee such documents as the Lessee may request to evidence the conveyance of such title to the Lessee and the termination of the Lessor's and the Trustee's interest in the Project.

* * *

SELECTED PROVISIONS OF THE MORTGAGE

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

GRANTING CLAUSE FIRST

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

GRANTING CLAUSE SECOND

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

IN EACH CASE, whether now owned or hereafter acquired by the Issuer and howsoever its interest therein may arise or appear (whether by ownership, lien, security interest, claim, or otherwise) and whether due or to become due and whether or not earned by performance;

*   *   *

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

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

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

(c) Subject to compliance to the extent applicable with Texas Property Code §51.002(d) providing that the debtor be given at least 20 days to cure a default before the entire debt is due and notice of sale is given, the Indenture Trustee may, at its option, declare all of the Indebtedness at once due and payable without demand, notice, or notice of intent to accelerate, all of which are hereby expressly waived by the Issuer, and request the Mortgage Trustee to sell the Mortgage Trust Estate. The Mortgage Trustee of this Mortgage shall then sell, or offer for sale, the Mortgage Trust Estate at public auction to the highest bidder for cash between the hours of 10:00 a.m. and 4:00 p.m. on the first Tuesday of any month, at the courthouse of any county in the State of Texas in which any part of the Mortgage Trust Estate is situated, after having given and posted notice of the earliest time at which the sale will occur, the place and the terms of said sale in accordance with the laws of the State of Texas then in force and governing sales of real property under powers conferred by deeds of trust. The sale shall take place at the area of the county courthouse designated by the county commissioners for such sales, or, if no area has been designated by the county commissioners, in the area designated in the notice of sale. The Mortgage Trust Estate shall be sold by filing notice of the Mortgage Trustee's sale in accordance with the laws of the State of Texas and by posting, or causing to be posted, at least 21 consecutive days prior to the date of said sale, written or printed notice thereof at the courthouse door in each of the counties in which the Mortgage Trust Estate will be sold. A copy of the notice of such sale shall also be filed in the office of the County Clerk for the county in which the Project is situated at least 21 days preceding the date of said sale. A copy of the notice of such sale shall also be given by certified mail at least 21 days before the date of the sale to each debtor who, according to the Beneficiary's records, is obligated to pay any part of the debt secured by this Mortgage. The sale must begin at the time stated in the notice of sale as the earliest time at which the sale will occur or not later than three hours after that time. In no event shall the Mortgage Trustee be required to exhibit, present, or display at any foreclosure sale of the Mortgage Trust Estate any of the Mortgage Trust Estate that may be sold at such sale. The Beneficiary shall have the right to become the purchaser at any such sale held by any Mortgage Trustee or substitute or successor Mortgage Trustee, or by any receiver or public officer. Any Beneficiary purchasing at any such sale shall have the right to credit the secured Indebtedness owing to such Beneficiary upon the amount of its bid entered at such sale to the extent necessary to satisfy such bid, except as otherwise provided herein; or if such Beneficiary holds less than all of such Indebtedness, to prorate part thereof owing to such the Beneficiary, accounting in cash to all other Beneficiaries not joining in such bid for the portion of such bid or bids apportionable to such non-bidding the Beneficiary or Beneficiaries. The Issuer authorizes and empowers the Mortgage Trustee to sell the Mortgage Trust Estate, in lots or parcels or as a whole, and to execute and deliver to the purchaser or purchasers thereof good and sufficient deeds of conveyance thereto of the estate of title then existing on the Mortgage Trust Estate with covenant of general warranty of the Issuer. The Issuer agrees to accept proceeds of said sale, if any, which are payable to the Issuer as provided herein. Proceeds of sale of the Mortgage Trust Estate shall be applied in the following order:

(A) to the payment of all necessary costs and expenses incident to the execution of said trust, including reasonable fees and expenses to the Mortgage Trustee and Indenture Trustee;

(B) to the payment of the principal, costs, and interest legally due and secured hereby, in such order and priority as set forth in Section 5.12 of the Trust Agreement;

(C) to the payment of any other indebtedness hereby secured; and

(D) the remainder, if any, to be paid to the Issuer or such other persons or entities entitled thereto by law.

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

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

(d) If an Event of Default occurs, the Beneficiary at its option may proceed with foreclosure in satisfaction of only that portion or installment of Indebtedness secured hereby as to which a default has occurred, either through the courts or by directing the Mortgage Trustee to proceed as if under a full foreclosure, conducting sale as hereinbefore provided, but without declaring the entire Indebtedness due, and provided that if said sale is made because of such default, such sale may be made subject to the unmatured part of such Indebtedness; such sale, if made, shall not in any manner affect the unmatured part of the Indebtedness secured by this Mortgage, but as to such unmatured part, this Mortgage shall remain in full force as though no sale had been made. Several sales may be made without exhausting the right of sale with respect to any unmatured part of said Indebtedness. The Beneficiary shall also have the right to sell the Mortgage Trust Estate for any other part of said Indebtedness, whether matured at the time or subsequently maturing, it being the purpose and intent hereof to provide for a foreclosure and the sale of the Mortgage Trust Estate for any matured portion of said Indebtedness without exhausting the power of foreclosure.

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

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

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

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

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

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

* * *

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

* * *

SELECTED PROVISIONS OF THE SECURITY AGREEMENT

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

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

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

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

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

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

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

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APPENDIX C

SELECTED PORTIONS OF THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

The information contained in Appendix C consists of selected portions of the City's Comprehensive Annual Financial Report for the fiscal year ended September 30, 2010 selected by the City of San Antonio for inclusion herein, and is not intended to be a complete statement of the City's financial condition. Reference is made to the Comprehensive Annual Financial Report for further information.

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CITY OF SAN ANTONIO

P. O. BOX 839966
SAN ANTONIO, TEXAS 78283-3966

March 11, 2011

To the Honorable Mayor and City Council:

It is my pleasure to present the City of San Antonio's (City) Comprehensive Annual Financial Report (CAFR) for the fiscal year-ended September 30, 2010. These financial statements were prepared by the City's Finance Department and audited by the public accounting firm of Grant Thornton, LLP. As reflected in the Independent Auditors' Report, the City's financial statements are presented fairly in all material respects in accordance with U.S. generally accepted accounting principles. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the City.

The Management Discussion and Analysis, (MD&A) beginning on page 1, provides a narrative introduction, overview, and analysis of the basic financial statements. This transmittal letter complements the MD&A and should be read in conjunction with it.

The audit of the aforementioned independent auditors was also designed to meet the requirements of the Single Audit Act Amendments of 1996, Office of Management and Budget (OMB) Circular A-133 *Audit of State and Local Government and Nonprofit Organizations*, and the *State of Texas Single Audit Circular*. The Independent Auditors' Report on the basic financial statements, MD&A (required supplementary information), and required disclosures and schedules are included in the Financial Section of this CAFR. Required reports and schedules mandated by the Single Audit Act Amendments of 1996, OMB Circular A-133, and the *State of Texas Single Audit Circular* are in a separate document. This report can be viewed on the City's Finance Department webpage.

CITY SERVICES

The City is a home rule city that was incorporated in 1837 and chartered in 1951. The City Charter provides for a Council-Manager form of government, subject only to the limitations imposed by the Texas Constitution and the City Charter, all powers of the City are vested in an elective Council (the "City Council") which enacts legislation, adopts budgets and determines policy. The City Council is comprised of 11 members, with ten members elected from single-member districts, and the Mayor elected at-large. An amendment to the City Charter was passed at the November 4, 2008 election, which revised the terms of the office of the Mayor or a member of the City Council to four full two-year terms of office, from the existing two full two-year terms, but prohibits Mayors and City Council who served prior to the amendment from being elected to more than two full two-year terms. The City Council also appoints a City Manager who executes the laws and administers the government of the City, and serves as the City's Chief Administrative Officer. The City Manager serves at the pleasure of the City Council.

The City is located in South Central Texas, approximately 75 miles south of the state capital of Austin and serves as the county seat for Bexar County. San Antonians enjoy first-rate medical services, a convenient and efficient airport, an excellent highway system, mild weather, and superb recreation choices, including: championship golf courses, theme parks, historical attractions, museums, professional sporting attractions and a lively performing arts environment. As of September 30, 2010, the City's geographic area was approximately 467 square miles. The United States Census Bureau cites the City as the second most populated city in the State of Texas with 1,383,072 citizens and is ranked as the seventh most populated city in the country.

CITY SERVICES (Continued)

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

The City continues to support recreational improvements that enhance citizens' quality of life and recreation and fitness opportunities. Over 10 miles of linear greenway walking and biking trails were completed in fiscal year 2010. A total of 22 miles of trails have been constructed through two voter-approved sales tax initiatives, with an additional 14 miles in development.

The City has twenty-six entities that are legally separate, but are considered part of the City's operations and therefore are included in its annual financial statements. Fifteen of these entities are blended component units of the City, while the other eleven entities are discretely presented. For additional details on each of these entities and the basis for their respective presentation in our financial report, please refer to the Financial Section, entitled, Summary of Significant Accounting Policies, Reporting Entity.

ECONOMIC CONDITIONS AND OUTLOOK

As a community, San Antonio has positioned itself for long-term growth and prosperity by successfully following a strategy to diversify its economy and improve quality of life for all citizens. The City's economic strategy focuses on further development of major industries, including domestic and international trade, convention and tourism, medical and health care, government employment, manufacturing, information security, financial services, aerospace, finance and insurance, oil and gas refining, and the military. The City is undertaking ongoing infrastructure improvements, neighborhood revitalization and workforce development initiatives, as well as providing assistance to businesses of all sizes. In February 2010, the City passed the Inner City Reinvestment and Infill Policy to further support balanced and sustainable development throughout San Antonio's inner-city and southern sectors which include Port San Antonio and Brooks City-Base. Both government and citizens are actively committed to increasing the caliber of educational and economic opportunities, expanding arts and leisure choices, revitalizing older neighborhoods, and planning for overall growth in the City. The City's cultural and geographic proximity to Mexico provides favorable conditions for international business relations. Also enhancing San Antonio's business appeal is the high quality of life the City offers and a cost-of-living that is below the national average. In addition to the favorable economic climate, excellent weather conditions year round help encourage and enhance the operation of many of San Antonio's most important industries.

Economic indicators tell the story of a resilient 2010 for San Antonio, one exemplifying the comparative stability of the local economy as it out performed comparable cities impacted by the national recession. According to research performed by the Brookings Institution, San Antonio is one of the 20 strongest performing metropolitan areas (metros) out of the 100 largest metros with at least 500,000 residents. The Brookings Metropolitan Policy Program issues the quarterly series, *MetroMonitor*, which provides an understanding of how the current economic recession has 'affected America's metropolitan economies'.

The Brookings *MetroMonitor* measures overall metropolitan performance as an aggregate of four measures: percent employment change, percent unemployment rate change, percent Gross Metropolitan Product (GMP) change and percent change in Housing Price Index (HPI). The September 2010 report, which examined data throughout the 2nd quarter of calendar year 2010, showed San Antonio and Austin were the only two metros that were classified in the top twenty (strongest performers) on all four indicators of overall performance. All other metros classified as one of the twenty strongest metros in the United States all demonstrated one or more categories that were "second strongest" or "middle."

As of the 2nd quarter of 2010, the 100 largest metros in the United States continue to struggle to regain pre-recession employment levels. San Antonio was among the top cities that suffered a less-severe decline in overall employment. From San Antonio's pre-recession peak employment quarter to the 2nd quarter of 2010, San Antonio ranked 6th among the top 100 metros with a change of -2.2%.

San Antonio was among several metros that experienced relatively low unemployment rates in comparison to the respective state and the national average. In September 2010, San Antonio's seasonally adjusted unemployment rate was 7.1%, compared to the State's rate of 8.1% and the national rate of 9.6%. All metros experienced a rise in unemployment rates through the on-set of the recession in 2007 but among the 100 metros, San Antonio ranked 13th in the nation, demonstrating one of the smallest increases in unemployment from June 2007 to June 2010 at 3.1%.

In addition to employment and unemployment data, Gross Metropolitan Product (GMP) is a valuable measure of the total value of goods and services produced within a metro area. When measuring the percentage change in GMP from San Antonio's pre-recession peak quarter to the 2nd quarter of 2010, San Antonio ranked 6th with an increase of 4.9%.

San Antonio's housing market registered a relatively small negative impact as a result of the national housing bubble. According to the September 2010 Multiple Listing Service report by the San Antonio Board of REALTORS®, the average price for a single-family residential home year-to-date rose to $184,276, a 1.0% increase when compared to a year ago. The number of sales was up by 3.0% year-to-date, though the median price of a home dipped slightly to $149,100, a 1.0% decrease when compared to a year ago. Additionally, lender-owned properties accounted for only 12.0% of the sold single-family residential properties. This low number, especially when compared to other parts of the country, further emphasizes the stability of the San Antonio market.

San Antonio's resilient economy was fueled by several targeted industry projects in fiscal year 2010. The City utilized a combination of tax abatements, grant and loan agreements, impact fee waivers, and nominations for State project designations that assisted in enticing the following businesses to move to or remain in San Antonio:

Toyota

On August 27, 2009, Toyota officially announced it would relocate production of the Tacoma pickup from its plant in Fremont, California to the state-of-the-art manufacturing facility in San Antonio by the summer of 2010. On January 21, 2010, City Council approved two resolutions nominating Toyota Motor Manufacturing Texas, Inc. (TMMTX) for two State Enterprise Zone project designations to support the expansion of $20.0 million in machinery and equipment from the former manufacturing plant in Fremont, California and to expand the truck manufacturing capability in parts stamping and plastics operations. Both of these designations were approved by the State on September 22, 2010. On October 29, 2010, the City provided TMMTX with a 100.0% abatement of ad valorem taxes over 10 years on approximately $100.0 million in personal property improvements, inventory and supplies related to the addition of Tacoma truck production and 1,000 new jobs at the TMMTX manufacturing site in San Antonio. Production of the Toyota Tacoma began at the site in July 2010, bringing the total of Toyota jobs up to over 2,800.

InCube

City Council approved an Economic Development Program Grant Agreement on June 17, 2010 with the newly established San Antonio Economic Development Corporation (SAEDC) in support of InCube Labs to establish a life-science business incubator in San Antonio. City Council also authorized SAEDC to enter into an Economic Development Agreement with InCube for the purpose of supporting this project. City and community partners are committing funding in the amount of $10.0 million for InCube over 5 years. InCube was founded in 1995 by Mir Imran, a prolific healthcare entrepreneur, inventor and builder of life-science companies. The mission of InCube Labs, currently based in San Jose, CA, is to create therapeutic innovations that radically improve patient outcomes. InCube began operations in their new laboratory facility in District 8 in November 2010. On September 28, 2010, the Governor announced that three InCube companies (Corhythm, Neurolink and Fe3) will receive a total of $9.2 million from the State's Emerging Technology Fund. Based on this funding, InCube relocated these three early stage companies to San Antonio prior to January 31, 2011.

Additional entities that the City was able to retain or entice to move to San Antonio include:

- Washington Mutual/JP Morgan Chase (WAMU) – Retaining 2,500 former WAMU jobs after Chase acquired WAMU;
- SA Aerospace – Retaining 570 employees and adding 100 new jobs;
- Site B Data Services, Inc. – Investing $3.7 million and creating 20 jobs over the next 5 years paying $25,000- $85,000 annually plus benefits;
- Corporate Office Properties Trust (COPT) – Capital investment of $50.0 million to the National Security Agency - Texas (NSAT) site and creating 30 jobs; COPT also owns 100 acres adjacent to NSAT and has plans to develop up to three business parks;
- Nationwide Insurance – Retaining 932 existing jobs and creating 838 new jobs by the end of 2013; Investing $75.0 million for Phase II construction of a corporate campus over the next 2 years;
- TX Solar I, LLC – Creating 100 green jobs during the construction and operation phases of the solar generation facility; capital investment of approximately $41.0 million in real and personal property;
- Allstate Insurance Company – Adding 598 full-time jobs in San Antonio;
- Kelly Aviation Center, L.P. – Investing $20.0 million and retaining 476 aerospace jobs;
- Kohl's – Creating 1,065 new jobs within the first 3 years, with average salaries of $30,000 after training;
- Holt CAT – Investing between $8.6 and $10.0 million and will result in the retention of 500 full-time jobs on the Eastside;
- Vanguard Health Systems – Investing approximately $85.0 million to construct a new, state of the art medical facility; retain 500 jobs from existing Baptist Health Care facilities with average annual wages of $48,290; and
- Glazer's Wholesale Drug Company – Capital investment of a $26.0 million new Leadership in Energy and Environmental Design (LEED) certified warehouse, distribution and sales/marketing facility; retaining 125 existing jobs and creating 100 new jobs.

In addition to the targeted industry projects, the following are further details regarding factors affecting the business climate and local economy for the City of San Antonio:

Base-Realignment and Closure (BRAC) and Fort Sam Houston

One of the most significant events in San Antonio's recent economic history is the 2005 Base Realignment and Closure (BRAC). BRAC will have a major positive impact on military medicine in San Antonio resulting in $3.1 billion in construction and the addition of 12,500 jobs in San Antonio by 2011. This is up from the $1.6 billion in construction and 11,500 personnel projected in 2007. Currently, all U.S. Army combat medic training is conducted at Fort Sam Houston. 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. The San Antonio Military Medical Center (SAMMC) has been established as a result of the 2005 BRAC and combines the Level 1 Trauma elements of Wilford Hall and BAMC. Wilford Hall has been renamed SAMMC-South and BAMC has been renamed SAMMC-North. SAMMC-North is doubling its Level 1 trauma missions from SAMMC-South. SAMMC-South is an outpatient only facility that has received outpatient missions from SAMMC-North and will be replaced by the Lackland Ambulatory Care Center. The Care Center is scheduled for completion in 2013. This $486.0 million care Center will provide world-class medical care for the community.

Base-Realignment and Closure (BRAC) and Fort Sam Houston (Continued)

In addition, San Antonio will receive new medical research missions. The U.S. Army Institute for Surgical Research located next to BAMC will double in size as a result of new BRAC missions and will be renamed the Joint Center of Excellence for Battlefield Health and Trauma. The new mission will continue its cutting edge research in the areas of robotics, prosthetics and regenerative medicine. As a result of BRAC, San Antonio will become a leader in military medical training, education and research.

Port San Antonio

Port San Antonio (the Port) is a multimodal logistics platform and aerospace complex occupying the 1,900 acre site of the former Kelly Air Force Base, which closed in 2001 by BRAC. Thanks to a decade of redevelopment efforts to put the property to new best uses, today the Port is home to 76 tenants, including aerospace, logistics and military organizations. The Port is the single largest commercial property management and leasing firm in the region.

In 2010, the employers at the Port and construction activity at the site had a $4.2 billion regional economic impact reflecting 14,000 direct and 11,000 indirect jobs. This represents significant increases since 2007, when the employment base at the Port was 8,500 direct and 8,600 indirect jobs with an annual economic impact of $3.3 billion.

Fourteen of Port San Antonio's customers are aerospace companies, including industry leaders Boeing, Lockheed Martin, StandardAero, Chromalloy, Gore Design Completions and Pratt & Whitney. Of the 14,000 direct workers at the Port, 4,300 are employed in the aerospace sector.

Port San Antonio reached important milestones in fiscal year 2010, positioning it and its customers for further growth as an important economic engine for the region.

Efforts to upgrade a 450,000 square foot facility, known as Building 171, continued in 2010 to accommodate a dozen Air Force agency headquarters and 3,000 personnel relocating to Port San Antonio in 2011—a project of over $100.0 million led by the Port. The arrival of the agencies is creating new opportunities for the region as contractors and vendors require space to be close to their military customers. Accordingly, the Port also began marketing a 45-acre site near Building 171, known as Lindbergh Park, to developers interested in creating up to 1 million square feet of force-protected office space.

In 2010, Port San Antonio also completed a $10.0 million upgrade to a former World War II era warehouse, which now comprises 85,000 square feet of modern office space. The building allowed ACS, A Xerox Company and a Port customer since 2000, to relocate from a 45,000 square-foot space it previously occupied into its new facility as it adds 400 workers in 2010-2011.

Other Port milestones included beginning work on the extension of 36th Street—a $40.0 million project made possible through $15.0 million in federal stimulus funds provided by the Metropolitan Planning Organization and whose partners also include the City, CPS Energy, SAWS and the Texas Department of Transportation. The City-led project will extend 36th Street into the Port for 1.7 miles as a four-lane divided thoroughfare. Upon completion in 2012, the project will improve access to the Port and open 150 acres adjacent to Kelly Field to the development of new air-served facilities to accommodate the region's growth of aerospace and logistics industries.

As part of Port San Antonio's vision to transform the property to new uses, upgrades and new buildings are being developed to the highest environmental standards. In 2010 Port San Antonio's own headquarters offices at 907 Billy Mitchell became the first LEED certified building on the property and the first LEED-Gold certified commercial interior in San Antonio.

Port San Antonio (Continued)

In 2010 the Port was recognized nationally for its innovative redevelopment strategies when it received the Redevelopment Community of the Year Award—the top honor provided by the Association of Defense Communities. In October, the Port earned ISO 9001:2008 certification from the International Organization for Standardization. The certification reflects the set of practices implemented by the Port to ensure effective processes within the organization that are independently verified and consistently monitored and improved upon as it serves a growing number of customers.

Brooks City-Base

Brooks City-Base (BC-B) continues to foster the development of its business and technology center on the south side of San Antonio through its aggressive business attraction and retention efforts. Recognized as one of the most innovative economic development projects in the United States, BC-B is a 1,246 acre campus with approximately 350 acres available for immediate development.

BC-B was recognized by *Expansion Solutions Magazine* as one of the "Nation's Top Five Emerging Biotech Centers" in 2009. The Brooks Development Authority (BDA) initiated its national sales effort by hosting the first Site Selectors Event in Chicago to promote BC-B as a prime site for business location and expansion to top-level site selection companies. Later in the year, the BDA participated in a major site selection event in Fort Myers, Florida. In addition, the BDA Board of Directors approved a national print and online advertising campaign that launched in 2009. The campaign incorporates testimonial advertisements promoting the business climate and commercial real estate assets at BC-B.

The International Economic Development Council (IEDC) recognized the BDA as an Accredited Economic Development Organization, one of twenty-four "best practices" economic development organizations in the United States.

BC-B completed Phase I of the three-part expansion roadway that will eventually stretch South New Braunfels Avenue from Southeast Military Drive to Interstate Loop 410. The $8.9 million Phase I extended the avenue from Southeast Military Drive to Sidney Brooks. It included the design of street, drainage, detention ponds, traffic signals, water, recycled water, irrigation, and sanitary sewers. Integral parts of the project were landscape, irrigation, and design for the new gateway entry, which will serve as a signature piece to the BC-B campus. Significant modifications to the Southeast Military intersection were made to accommodate new traffic signals and turn lanes. The BC-B also began Phase II of the South New Braunfels Avenue extension by completing its civil engineering design and selecting its contractor. The $11.0 million project, which is expected to be completed in 2011, will also include the design of two traffic-signal intersections, underground dry utility conduit, street, drainage, detention, water and recycled water. By finishing the civil engineering design and selecting a contractor, the BDA began the first of three phases that will extend Inner Circle Road from Research Plaza to South New Braunfels Avenue. Phase I will extend a three-lane collector street and provide all infrastructures for future development of the Mission Trails Baptist Hospital project. This initial phase will begin at Research Plaza and extend in a northwest arch to Building 538's parking area at BC-B. The Bexar County 381 Grant will reimburse the BDA for the three-phased $3.3 million Inner Circle Road project.

The BDA entered into an agreement with Transwestern, a national real estate brokerage firm, to market commercial real estate opportunities at BC-B. The company was awarded a contract to provide leasing services of existing buildings as the Air Force vacates and to seek developers and tenants for ground leases, land sales, and build-to-suit opportunities. The BDA also contracted with The NRP Group, LLC, a national real estate property manager and builder, to market and lease the 160 single family homes on the BC-B campus, which until recently were available only to residents affiliated with Brooks Air Force Base and the BDA.

Aerospace Industry Development

San Antonio International Airport (SAT) has 21 airlines (10 mainline and 11 regional) providing non-stop flights to a total of 32 destinations, which do not include seasonal charter flights to Mexico available during the spring and summer. During fiscal year 2010, SAT experienced an increase in enplaned passengers despite weak economic conditions. At final count, 3,990,447 people were enplaned in fiscal year 2010, an increase of 55,963 (or 1.4%) over fiscal year 2009.

On March 30, 2010, SAT completed and opened the new two-tiered roadway system intended to service existing and future terminals.

On November 9, 2010, the first flights departed from Terminal B. This milestone marks the completion of the major Airport Expansion Program that was initiated as part of the 1998 Master Plan. Also completed in time for the Terminal B Opening, were the Central Utility Plant and Phase 1 of the Consolidated Baggage Handling System. As of November 9, 2010, Terminal 1 was renamed Terminal A. Terminal 2 will be demolished in 2011.

ST Aerospace San Antonio (ST), currently leases over two million square feet of ground space/hanger space at SAT and specializes in commercial maintenance, repair and overhaul (MRO) work on large aircraft, including Delta Air Lines and United Parcel Service. In 2010, ST expanded its MRO operations by investing $16.5 million in the construction of a new 100,000 square foot maintenance hangar that includes warehouse and office space. ST currently employs 1,100 workers. With the new hangar's construction being completed in December 2010, ST is in the process of hiring an additional 150 employees.

Stinson Municipal Airport (Stinson) is at an occupancy rate of 100.0% and has a tenant waiting list for airport facilities. New tenant hangars have been constructed in 2010 to accommodate the growing demand for private aircraft storage facilities. A runway extension project was initiated in 2009, along with other infrastructure improvements. The added runway length will aid in attracting larger private and corporate aircraft to Stinson Airport, as well as allow for the growth of existing tenants and new business developments.

International Trade and Outlook

As part of International and Economic Development Department's ongoing efforts to focus on core functions, the City's "international" functions fit into two distinctive services: "International Relations" which encompasses Protocol and Sister City development including the Casas San Antonio Program, and "International Business Development" which focuses on attracting foreign direct investment and assisting local companies to expand into foreign markets. This redesign is a natural evolution focused on providing a greater impact in job creation and investment, driven by focused performance measures.

The International Relations Office (IRO) develops and maintains foreign relations for the City of San Antonio fostering partnerships that increase global visibility, cultural understanding and economic growth.

In fiscal year 2010 IRO provided support to the City Council's China Initiative by organizing and staffing a 70 plus member delegation of local leaders to celebrate San Antonio Days at the USA Pavilion and to attend the Shanghai World Expo as the first U.S. city delegation. While there, Mayor Castro signed Friendship City Agreements with the Cities of Suzhou and Wuxi to develop research, business, education, medical and technical exchanges. In addition to organizing travel abroad, the IRO hosted visits from four Chinese cities as a direct result of San Antonio's overtures to them before and during the Shanghai World Expo.

In fiscal 2010, International Business Development led the 10th Annual San Antonio Export Leaders Program in partnership with the UTSA International Trade Center, US Foreign Commercial Service, Hispanic Chamber of Commerce and other business development stakeholders. The annual program helped empower 10 San Antonio companies sell their products and services to foreign markets, including two trade missions to Mexico and Spain. The International Business Development also conducted the first "Expand your Business to San Antonio" seminar to promote foreign direct investment to San Antonio. The seminar resulted in over 180 attendees that translated to 30 new clients for the speakers within a month.

International Trade and Outlook (Continued)

As of August 31, 2010, the North American Development Bank (NADB) is participating in the development and financing of 148 environmental infrastructure projects, with approximately $1.2 billion in loans and grants. These projects are estimated to cost a total of $3.2 billion to build and will benefit an estimated 12.7 million border residents throughout the 10 states that comprise the U.S. – Mexico border region.

San Antonio continues to develop itself as an Inland Port for imports and exports with Mexico, Latin America, India, Germany, China, Japan, Spain, and other regions of the world. This is accomplished through transportation, manufacturing and logistics facilities; professional services and value-added services involved in processing, marketing and moving freight within the South Texas Region. Over the past 16 years, the City led the nation by establishing three commercial trade offices in Mexico's principal cities and in Tokyo, Japan; which has generated over $263.0 million in bilateral trade.

For 26 years, the IRO's trade representative in Japan has attracted multi-million dollar operations to San Antonio including Toyota and its 24 suppliers, Takata Seat Belt, Sony Corporation, MyCom International, Hyatt Hill Country Resort (a major Japanese investment joint venture), Colin Medical Equipment, and Higuchi. The trade representative continues to promote Japanese investment in San Antonio by conducting trade missions to cities throughout Japan.

Community Development

Community development projects continue to play an important role in San Antonio's economic success. Targeted redevelopment, neighborhood revitalization and smart growth strategies are shaping the way San Antonio is growing and its citizens are living. The City initiated efforts to redevelop portions of the community and influence development of new areas with the adoption of the ICRIP. It promotes growth and development in the heart of the City, specifically in areas that are currently served by public infrastructure and transit, but underserved by residential and commercial real estate markets. It is the intent of this policy to coordinate public initiatives within targeted areas in order to stimulate private investment in walkable urban communities that are the building blocks of a sustainable region.

In 2009, San Antonio continued its progress to becoming the first major Texas city to possess both a University of Texas and a Texas A&M University degree granting campus when Texas A&M University-San Antonio was designated a stand-alone university. In May 2010, ground was broken to construct the first building on the almost 700-acre site campus which is scheduled to open the fall of 2011 with an estimated 3,500 students. Leveraging the economic momentum surrounding the Toyota manufacturing plant and Texas A&M University-San Antonio campus, and adopting the Heritage South Sector Plan, City South Management Authority (CSMA) continues to foster economic growth and sustainable development in the far South Side.

Hospitality Industry

The City's diversified economy includes a significant sector relating to the hospitality industry. A study prepared by Richard V. Butler, Ph.D. and Mary E. Stefl, Ph.D., both professors at Trinity University, found that in 2008 the hospitality industry had an economic impact of nearly $11.0 billion. The estimated annual payroll for the industry in 2008 was $1.99 billion, and the industry employed more than 106,311 workers.

San Antonio's hospitality industry attracted 25.0 million visitors in 2008, and 11.1 million were overnight leisure visitors, placing San Antonio as one of the top leisure destinations in Texas. This industry contributed more than $153.4 million in taxes and fees to the City, and more than $286.4 million to all local governments combined. San Antonio continues to rank high as a top leisure and convention/group meeting destination. Recent initiatives contributing to this success are the City's new brand image, the JW Marriott San Antonio Hill Country Resort and Spa, the River Walk Expansion Project (Museum Reach Expansion completed in May 2009; Mission Reach to be completed in 2013), and events like the Rock 'n' Roll Marathon held in November 2010. San Antonio, perched at the southern edge of the Texas Hill Country, also puts the fun of exploring the countryside

Hospitality Industry (Continued)

and its small towns just a short drive away. The Texas Hill Country is a burgeoning region of championship golf resorts, culinary treats and vineyards. The list of attractions in the San Antonio area includes, among many others, the Alamo (and other sites of historic significance), River Walk and two major theme parks (SeaWorld San Antonio and Six Flags Fiesta Texas).

San Antonio is also one of the top convention cities in the country, and the opening of the 1,003-room Grand Hyatt Hotel along with the 1,002-room JW Marriot will allow the City to host more and larger conventions and meetings in the years to come. The City continues to be proactive in attracting convention business through its management practices and marketing efforts.

According to Smith Travel, in 2009, the City's overall performance (City Level) for hotel occupancy decreased by 11.5%, hotel room supply increased by 6.0%. Average daily rate (ADR) decreased by 10.6%; revenue per available room (REVPAR) decreased 20.9%; and total room nights sold in the destination decreased by 6.2%. However in 2010, from January through October 2010, hotel occupancy increased by 4.3% while room supply increased by 4.1%. Room nights sold increased by 8.6%, ADR decreased by 2.1% and REVPAR increased by 2.0%. Overall, for San Antonio, the first ten months of 2010, hotel revenue increased by 6.3% over the same period last year.

Convention, Sports and Entertainment Facilities

The City's vibrant hospitality industry is significantly dependant on having high-quality facilities to host conventions, meetings, and major sporting events. The Convention, Sports, and Entertainment Facilities Department (CSEF) encompasses the Henry B. Gonzalez Convention Center (including the Lila Cockrell Theatre), the Alamodome, and the Municipal Auditorium. In the past year, more than 622,000 visitors attended 304 events held at the Henry B. Gonzalez Convention Center and Municipal Auditorium. In July 2010, the Convention Center and Alamodome hosted the largest convention in San Antonio history - the 75th annual Alcoholics Anonymous Convention with more than 55,000 attendees from around the world. Other significant conventions include the National League of Cities, Dish Network, GameStop, American Telemedicine Association, and the National Cattlemen's Beef Association. The City also hosted the 2010 NCAA Women's Final Four Basketball Championship tournament with more than 14,000 out-of-town visitors. Ancillary events of the tournament included the NCAA Tourney Town and the Women's Basketball Coaches Association convention. The total economic impact of the Women's Final Four and related activities was approximately $20.0 million.

The Alamodome experienced one of its most successful years since 2002, hosting more than 1,151,000 visitors over 148 event days. Events with significant economic impact to the City included the 2010 Valero Alamo Bowl featured Michigan State vs. Texas Tech. More than 64,000 fans attended, generating a direct economic impact of $27.5 million for the City. The Dallas Cowboys Training Camp returned to the Alamodome for the fifth time since 2002. Attendance exceeded 200,000 fans, including a Cowboys camp single-practice record 19,437 on opening day and had an estimated economic impact of $10.0 million. In May 2010, the George Strait Concert set an all-time concert attendance record at the Alamodome with 55,266 fans. New events held at the Alamodome included the Valero MS150 Bike Ride, Notre Dame vs. Washington St. Football Game, Tour of Texas Power League Volleyball Qualifier, Univision La Mafia Concert, Top Rank Boxing, and the Fall Home & Garden Show.

The CSEF Department completed Phase I of an exterior upgrade to the convention center façade, creating a new formal entry and pedestrian plaza at a cost of $3.8 million. The all-new Lonesome Dove Room was completed at a cost of $2.0 million, and the Lila Cockrell Theatre renovation remained on schedule for completion in December 2010 at a cost of more than $26.0 million. More than $1.8 million in capital improvements were made to the Alamodome, including the renovation of the Plaza level restrooms, replacement of Plaza and Club level concession stand equipment, and renovations to the Sports Club. These upgrades will assist the City in enticing future, high profile clients, and improve fan's experiences with state-of-the-art technology. The City was also able to recover over $11.0 million in capital improvement-related rebates via the State's Sporting Event Trust Legislation for the year.

Convention, Sports and Entertainment Facilities (Continued)

A convention facilities development study was conducted by the Populous Group which included a short-term facility and capital equipment improvement plan, and a long-term convention center complex development strategy recommendation. The study also includes recommendations for customer service enhancements and revenue enhancement opportunities throughout the convention center.

The Henry B. Gonzalez Convention Center was awarded the Association Meetings INNER CIRCLE AWARD for 2009, being recognized as one of the top 15 convention centers in the nation for exemplary levels of unsurpassed quality service in the meetings and hospitality industry.

Downtown Development Projects

City Council approved several economic development grants for center city projects that total $6.8 million for the Steel House Lofts, 1221 Broadway, and Can Plan Apartments. These projects represent a total investment of $84.4 million and will add 549 housing units to the center city.

In August 2009, City Council created the HemisFair Park Area Redevelopment Corporation to assist with planning and redeveloping HemisFair Park and its surrounding area. On May 6, 2010, the HemisFair Park Area Redevelopment Corporation (HPARC) issued a request for qualifications for the HemisFair Area Master Plan. HPARC received 21 proposals, and after a through review and interview process, Johnson Fain Inc. out of Los Angeles was the recommended firm. The firm was awarded a contract in September 2010 and has begun the research and public input process. The master plan will be complete in Fall 2011. Additionally, Council executed a capital funding agreement in the amount of $3.3 million with HPARC for the use of 2007 General Obligation Park and Recreation Improvement Bond funds and 2008 Certificates of Obligation.

On January 21, 2010, City Council passed a resolution of support for the creation of the Centro Partnership and authorized staff to proceed with the incorporation of the Centro Partnership and its next steps. The Centro Partnership is a public private partnership that oversees and facilitates development and revitalization in the center city. Since January 2010, public and private sector leaders worked together to establish and implement the purpose of the Centro Partnership. In July 2010, the Certificate of Formation that creates the 501(c)6 was filed. Mayor Julian Castro, Judge Nelson Wolff, Don Frost of Frost Bank, and Jack Spector of Hixon Properties, served as incorporators of the Centro Partnership. In August 2010, the City entered into a Memorandum of Understanding with the Centro Partnership that defines the initial responsibilities of Centro, commits initial funding of $20,000 for administrative services for Centro, and determines the size and composition of the permanent board. The full board is expected to include 30 individuals and will spend the majority of fiscal year 2011 finalizing its governance structure and leadership, creating a mission, and initiating a vision process for downtown.

American Recovery and Reinvestment Act

President Obama signed the American Recovery and Reinvestment Act (ARRA) into law on February 17, 2009. The American Recovery and Reinvestment Act of 2009 will provide a nationwide total of $787.0 billion in spending and tax cuts. The funding is temporary, intended to preserve and create jobs, and make investments in infrastructure, energy and science, unemployment assistance, and State and local stabilization.

In order to take full advantage of the funding opportunities and additional services that may be provided to the City of San Antonio as a result of the American Recovery and Reinvestment Act, City staff has worked closely with City Council to strategize and align specific City Council ranked projects to individual Federal and State agency funded programs. The strategies developed address formula and grants funding opportunities available to the City and serve as the guiding plan for submission of applications and acceptance upon award of stimulus funds by the City.

City Council adopted the *Funding Strategy for City Council Prioritized Federal Economic Stimulus Projects* on March 5, 2009 and amended on April 9, 2009 to reflect additional energy efficiency-related stimulus dollars. This Funding Strategy Plan serves as the guide in the City's submittal of "applications" and acceptance upon award of stimulus funds.

American Recovery and Reinvestment Act (Continued)

As of February 2011, the City has been awarded over $134.0 million in ARRA grants. These grants will fund public safety, street projects, various child care programs, energy efficiency programs, and homeless assistance.

In fiscal year 2010, enhancements to City services for the San Antonio Police Department included the addition of 50 new police officers funded in large part from the Community Oriented Policing Services (COPS) grant award under ARRA. A reserve of over $1.2 million was set aside to partially prefund the costs of the new officers in fiscal year 2013 when the stimulus funds are exhausted.

Green Operations

The City launched multiple programs through ARRA funding received from the US Department of Energy. A $12.4 million Weatherization Assistance Program called "Casa Verde SA" began in the 2nd quarter of fiscal year 2010 and is on track to complete weatherization services to approximately 2,400 low income residential units by September 2011. The program's field operations are managed by CPS Energy. Other programs and projects funded under a $12.9 million Energy Efficiency and Conservation Block Grant include a 245kW solar installation at the International Airport; outfitting Airport police cruisers with auxiliary power units that reduce fuel use; lighting retrofits of downtown parking garages and water retrofits to over 40 municipal facilities; initiation of a bicycle media safety campaign, bike master plan update, bike signage and parking, and a bike share station to be operational in March 2011. In fiscal year 2011, two ARRA grants from the State Energy Conservation Office and a $10.0 million award from the US Department of Energy are in the obligation process. New solar installations, conversion of plug-in vehicles, and innovative financing and services for building retrofits are in progress.

Auditing over 100 City facilities for energy upgrades has been completed and retrofit work using ARRA funds and State Energy Office loan funds are being conducted. Over $600,000 of annual energy savings will be realized through the upgrade.

Several Green ordinances passed by City Council took effect in 2010 with at least one that will take effect during fiscal year 2011. Safe passing and Bicycle Lights Safety Ordinances took effect immediately. Both are geared toward bicycle safety. A Green Fleet Acquisition Policy approval resulted in adding over 80 hybrid light sedans to the City's fleet during FY 2010 and will guide upcoming acquisitions. A Green Events Ordinance taking effect in January 2011 will reduce environmental impacts from large public events.

The SAFD was awarded $7.3 million from FEMA for the construction of two Fire Stations, under ARRA. These Fire Stations (No. 50 and 51) will meet certain design and construction standards to be certified by the U.S. Green Building Council's LEED program.

The new Animal Care Services offices have also been presented to the U.S. Green Building Council for LEED certification, which is expected in fiscal year 2011.

The Parks and Recreation Department initiated a pilot recycling program at one highly visited large urban park. Based on the pilot's success, the program will be expanded into additional parks and linear greenway trailheads in 2011. It will result in recycling being offered at approximately 30.0% of park acres available to the public.

The City has embarked on an ambitious tree planting initiative that will see 9,000 trees planted in City parks by May 2011. The campaign will extend to the community with volunteer tree plantings, tree giveaways and a tree rebate program in conjunction with CPS Energy. The campaign features the planting of trees in more than 80 City parks. Some parks will receive as many as 300 or more new trees. The initiative is one component to the City's long term goal of increasing the tree canopy from 38.0% to 40.0%.

The City installed 118 solar-powered parking pay stations for both on-street use and surface parking lots. The pay stations improve customer service by communicating in multiple languages, accepting credit/debit cards and providing a receipt for every transaction.

Green Operations (Continued)

The City also completed a lighting retrofit at three parking garages for more efficient electrical usage, including Central Library Garage, St. Mary's Garage and Marina Garage.

The City partnered with San Antonio Water System (SAWS) to complete a water conservation project for HemisFair Park's trademark fountains. Prior to the conservation project, river gravel water from the area was diverted from the basement of the adjacent Convention Center and then discharged into the storm drain. Construction of a wet well and pipeline allows the collection and transport of the water, which is used as make-up water for the HemisFair fountains. The project conserves almost 37 million gallons of water each year, which is enough to serve about 400 families. In addition, the City saves almost $220,000 in utility and treatment costs per year.

SA 2020

SA 2020 is a four-to-six month community-wide visioning process that asks the question 'What do we want San Antonio to look like in the year 2020?' The process launched on September 25, 2010 with four to six community forums to obtain public input. The aim of SA 2020 is to develop a long-range plan that includes specific, achievable goals to make San Antonio one of America's great cities by 2020. The meetings covered educational attainment, transportation, economic development, revitalizing the urban core, sustainability, and teen pregnancy among other items.

FINANCIAL INFORMATION

Accounting System and Budgetary Control

The management of the City is responsible for establishing a system of internal controls that are designed to provide reasonable assurance that assets are protected from loss, theft, or misuse. The City's accounting system supports the internal controls and procedures, which provide reliable financial records for preparing financial statements in conformity with U.S. generally accepted accounting principles. The internal control structure provides reasonable assurance that the City's assets are safeguarded as well as the reliability of financial records for preparing financial statements. The concept of reasonable assurance first recognizes that the cost of a control should not exceed the benefits likely to be derived. Secondarily, the evaluation of costs and benefits require estimates and judgments by management.

Budgetary compliance is a significant tool for managing and controlling governmental activities, as well as ensuring conformance with the City's budgetary limits and specifications. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Levels of budgetary control, that is the levels at which expenditures cannot legally exceed appropriated amounts, are established by department within individual funds. The City utilizes an encumbrance system of accounting as one mechanism to accomplish effective budgetary control. Encumbered amounts lapse at year-end and are generally appropriated as part of the following year's budget. Another budgetary control is the monthly revenue and expenditure reports detailing budget and actual balances with variances that are generated and reviewed by the Office of Management and Budget, Finance and the City Manager's Office prior to submission to City Council. As part of the annual review and close-out process, City Council will approve desired budget adjustments and carryforwards for the next fiscal year. The City further implemented availability budget controls within its system of record for capital projects and grants. The system warns when cumulative expenditures are within 75.0% of total budget. The system will not allow the processing of non-payroll transactions over budget.

Each year the City prepares a five-year financial forecast (Forecast) prior to the adoption of the annual operating budget. The Forecast is a financial and budgetary planning tool that provides a current and long-range assessment of financial conditions and costs for City services. The Forecast includes the identification of service delivery policy issues that will be encountered in the next five years and that will have a fiscal impact upon the City's program of services. The Forecast also examines the local and national economic conditions that have an impact on the City's economy and ultimately, its budget.

Accounting System and Budgetary Control (Continued)

The Forecast serves as a foundation for development of the proposed budget by projecting revenues and anticipated expenditures under a defined set of assumptions. The Forecast enables the City Council and staff to identify financial issues in sufficient time to develop a proactive strategy in order to address emerging strategic issues.

After obtaining the priorities of City Council, as well as conducting reviews of each City department, the proposed City budget is presented to City Council. The proposed budget represents the City staff's professional recommendation on how to utilize revenues and expenditures in order to achieve a balanced budget, while optimizing City service deliveries. After obtaining public input on the proposed budget, a balanced plan is adopted. The City's budget incorporates a strategy to maintain the financial reserves at 9.0%. The establishment and maintenance of appropriate reserves within the General Fund is critical to prudent financial management and provides budgetary flexibility for unexpected events, financial emergencies, and the unusual fluctuation in revenue-expenditure patterns.

As part of the City's sound financial planning, the City Council adopted a leaner 2010 budget through scrutinizing of positions, programs, and departmental costs. The City also established an enhanced process for reviewing and justifying the need to fill vacant positions, and continued its delayed hiring of staff for those justified vacant positions. These proactive actions assisted the City in retaining surplus fund balance to take into the fiscal year 2011 budget.

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

In fiscal year 2009, the City of San Antonio received the highest possible bond rating from Standard & Poor's Rating Services. This rating was based on the City's "maintenance of strong financial reserves and continued diversification of the local economy." Over the long term, the improved rating will save San Antonio and its residents millions as a result of lower interest rates on the bonds the City sells. In fiscal year 2010, San Antonio achieved a triple-triple, with three national credit-rating agencies awarding the City 'AAA' status, the highest bond rating a city can receive. San Antonio is one of only two cities with a population of more than a million to receive a 'AAA' rating, and the only city to receive the optimum mark from all three major agencies: Fitch, Moody's, and Standard & Poor's.

As demonstrated by the statements and schedules in the Financial Section of this report, the City continues to meet its responsibility for sound financial management.

Fiscal Management

Debt Administration

The City utilizes a comprehensive debt management financial planning program, which is updated annually and is a major component of the City's financial planning. The model projects financing needs, measuring and assessing the cost and timing of each debt issuance. It involves comprehensive financial analysis, which utilizes computer modeling, and incorporates variables such as interest rate sensitivity, assessed value changes, annexations, and current ad valorem tax collection rates. Use of this financial management tool has assisted the City in meeting its financing needs by facilitating timely and thorough planning, which has allowed the City to capitalize on market opportunities.

Fiscal Management (Continued)

Transparency

The City actively pursues transparency of its operations. The status of voter approved $550.0 million bond projects is available for public view on the City's website. The City additionally created a website for public view of its strategy, funding and Council actions associated with the Federal Economic Stimulus (ARRA). At the end of fiscal year 2010, the City streamlined its website for user friendly access to the City's budget documents, quarter and annual reports, and check register. The City continues to assess ways to provide the public with a more transparent government.

OTHER INFORMATION

Independent Audit

State statutes require that an annual audit by an independent certified public accountant be conducted. The City selected the accounting firm Grant Thornton, LLP. In addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996, OMB Circular A-133, *Audit of State and Local Government and Nonprofit Organizations* and *State of Texas Single Audit Circular*. The Independent Auditors' Report on the basic financial statements, Managements Discussion and Analysis (MD&A) (required supplementary information), required disclosures, and schedules are included in the Financial Section of this CAFR. The Independent Auditors' Report, along with other required reports and schedules mandated by the Single Audit Act Amendments of 1996, and OMB Circular A-133, and the *State of Texas Single Audit Circular* are in a separate document.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year-ended September 30, 2009. This was the 34th consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report satisfies both U.S. generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Office of Management and Budget received the Annual Distinguished Budget Award from the Government Finance Officers Association, recognizing outstanding achievement in preparation of the 2010 Operating and Capital Budget.

Development Services was accredited by International Accreditation Service (IAS). IAS is a nonprofit, public benefit corporation and a subsidiary of the International Code Council. The IAS accreditation program provides a trusted, independent assessment and verification that a building inspection department is operating at the highest legal, ethical and technical standard. San Antonio is the largest City to receive this distinguished award with only twelve other building departments in the United States and Canada having this accreditation. Receiving this award highlights the City's commitment to make San Antonio a great City for business expansion or relocation.

The Comptroller of Public Accounts has awarded the City with a "Gold" Circle Award for the City's transparency efforts in the Texas Comptroller Leadership Circle program. The Gold level highlights those entities that set the bar with their transparency.

OTHER INFORMATION (Continued)

Acknowledgements

The preparation of the City of San Antonio, Texas Comprehensive Annual Financial Report for the fiscal year ended September 30, 2010, was made possible by the dedication and hard work of the Finance Department, particularly the staff of the Accounting Division, Financial Reporting Section. Each member of the department has my sincere appreciation for their contributions to the preparation of this document. In closing, please accept my sincere gratitude to the Mayor and City Council, City Manager, Deputy City Managers, Assistant City Managers, and their staff, for their continued support.

Respectfully submitted,

Ben Gorzell Jr., CPA
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Antonio Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2009

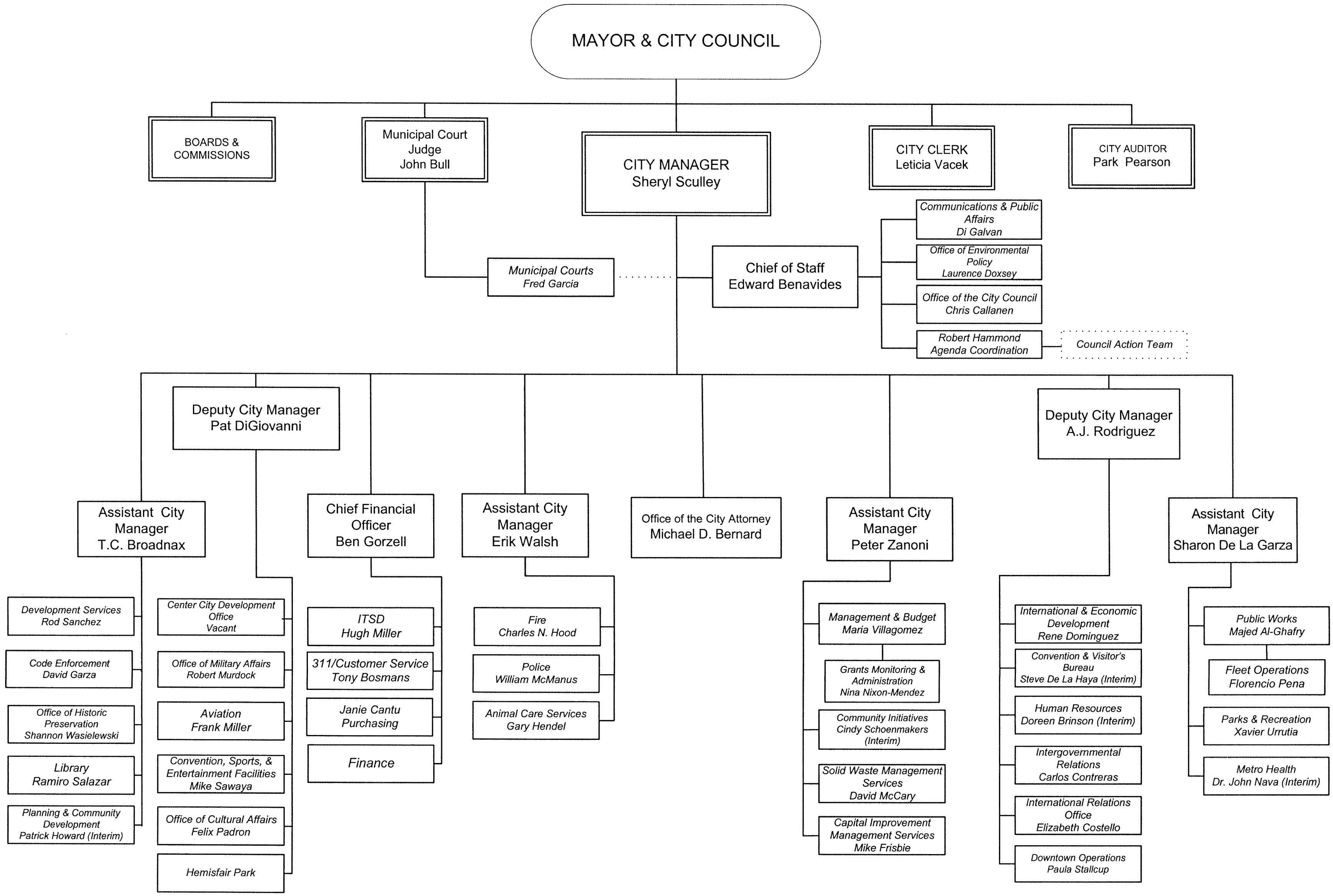
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

CITIZENS OF SAN ANTONIO



Incorporated December 14, 1837
Charter Adopted October 2, 1951
Council - Manager Form of Government

CITY COUNCIL

Julián Castro
Mayor

Mary Alice P. Cisneros
District 1

Ivy R. Taylor
District 2

Jennifer V. Ramos
District 3

Philip A. Cortez
District 4

David Medina, Jr.
District 5

Ray Lopez
District 6

Justin Rodriguez
District 7

W. Reed Williams
District 8

Elisa Chan
District 9

John G. Clamp
District 10

EXECUTIVE LEADERSHIP TEAM

Sheryl L. Sculley
City Manager

Pat DiGiovanni
Deputy City Manager

A.J. Rodriguez
Deputy City Manager

Sharon De La Garza
Assistant City Manager

Erik J. Walsh
Assistant City Manager

T.C. Broadnax
Assistant City Manager

Peter Zanoni
Assistant City Manager

Ben Gorzell Jr.
Chief Financial Officer

Michael Bernard
City Attorney

Member of The Government Finance Officers
Association of the United States and Canada

Comprehensive Annual Financial Report

Year-Ended September 30, 2010

City of San Antonio, Texas

Financial Section

City of San Antonio, Texas

Independent Auditors' Report

Grant Thornton

Independent Auditor's Report

Audit • Tax • Advisory

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The Honorable Mayor and Members of the City Council
City of San Antonio, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas (the City), as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of San Antonio Fire and Police Pension Fund, San Antonio Fire and Police Retiree Health Care Fund, and San Antonio Housing Trust Finance Corporation, blended component units, which represent 71%, 80% and 29%, respectively, of the assets, net assets and revenues/additions, of the aggregate remaining fund information. We also did not audit the San Antonio Water System, City Public Service of San Antonio, and the other non major discretely presented component units which represent 100% of the assets, net assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of SA Energy Acquisition Public Facilities Corporation, San Antonio Housing Trust Finance Corporation, and City Public Service of San Antonio audited by other auditors were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

Grant Thornton

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of September 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 13 and the Budgetary Comparison Schedule – General Fund on page 159, and Schedules of Funding Progress on pages 160- 163 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining financial statements and schedules and capital assets used in the operation of governmental funds have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Grant Thornton LLP

Dallas, Texas
March 11, 2011

City of San Antonio, Texas

Management's Discussion and Analysis (Required Supplementary Information) (Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of San Antonio (City) presents the following discussion and analysis of the City's financial performance during the fiscal year-ended September 30, 2010. This discussion and analysis is intended to assist readers in focusing on significant financial issues and changes in the City's financial position, and identifying any significant variances from the adopted budget. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the financial statements provided in this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the City exceeded its liabilities by $2,878,843 (net assets). Of this amount, $163,807 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $958,721, an increase of $12,386 compared to the fiscal year 2009 restated fund balance. The total unreserved fund balance of $506,575 is available for spending at the government's discretion. Of this amount, $106,747 is designated and $399,828 is undesignated fund balance.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $199,110 or 24.4% of the total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as the introduction to the City of San Antonio's basic financial statements, which have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business financial presentation.

The *statement of net assets* is a presentation of the City's assets and liabilities, including capital and infrastructure assets, and long-term liabilities. This statement reports the difference between assets and liabilities as net assets. Over time, increases or decreases in net assets may help determine or help indicate whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the fiscal year. Changes in net assets are recorded when the underlying event giving rise to the change occurs regardless of the timing of the cash flows. Therefore, revenues and expenses reported in this statement for some items will not result in cash flows until future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). Governmental activities include general government, public safety, public works, sanitation, health services, culture and recreation, convention and tourism, urban redevelopment and housing, welfare, and economic development and opportunity. The business-type activities of the City include the airport system, parking system, and solid waste management.

In addition, the basic financial statements provide information regarding the City's legally separate discretely presented component units. Component unit financial information is reported separately from the primary government in the government-wide financial statements.

Fund Financial Statements

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements are used to present financial information detailing resources that have been identified for specific activities. The focus of the fund financial statements is on the City's major funds, although nonmajor funds are also presented in aggregate and further detailed in the supplementary statements. The City uses fund accounting to ensure and demonstrate compliance with requirements placed on resources. Funds are divided into three categories: governmental, proprietary, and fiduciary. Fund financial statements allow the City to present information regarding fiduciary funds, since they are not reported in the government-wide financial statements.

Governmental Funds - Governmental funds are used for essentially the same functions reported in the governmental activities in the government-wide financial statements. However, unlike the government-wide statement, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

As the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental fund and governmental activities.

The City maintains five individual governmental fund types for financial reporting purposes. The governmental fund types are General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds, and Permanent Funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Categorical Grant-In Aid, Debt Service Fund, and the 2007 General Obligation Bonds Fund all of which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation labeled "Nonmajor Governmental Funds." Individual fund data for each nonmajor governmental fund is provided in the form of combining statements elsewhere in this report.

Proprietary Funds - The City maintains two types of proprietary funds. *Enterprise funds* are used to report the functions presented in business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Airport System, Parking System, and Solid Waste Management Funds. *Internal Service Funds* are used to accumulate and allocate costs internally among the City's various functions, including, self-insurance programs, other internal services, and information technology services. The services provided by these funds predominantly support the governmental rather than the business-type functions. They have been included within the governmental activities in the government-wide financial statements and are reported alongside the enterprise funds in the fund financial statements.

Information is presented separately in the proprietary funds statement of net assets and in the proprietary funds statement of revenues, expenses, and changes in fund net assets for the Airport System Fund, which is considered to be a major fund. The Internal Service Funds are combined into a single aggregated presentation in the proprietary fund financial statements. Data from the other enterprise funds are combined into a single, aggregated presentation labeled "Nonmajor Enterprise Funds." Individual fund data for each nonmajor enterprise fund and each internal service fund are provided in the form of respective combining statements elsewhere in this report.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the primary government. Fiduciary funds are not reflected in the government-wide financial statements as the resources of those funds are not available to support the City's programs and operations. With the exception of agency funds, the accounting for fiduciary funds is much like that used for the proprietary funds.

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information - In addition to the basic financial statements and the accompanying notes, this report also presents the required supplementary information of (a) the City's General Fund budgetary comparison schedule that demonstrates compliance with its budget, and (b) schedules of funding progress related to pension and postemployment plans. The Debt Service Fund, various Special Revenue Funds and specific Permanent Fund budgets, which are legally adopted on an annual basis, are also included in the CAFR as supplementary schedules within the Combining Financial Statements and Schedules.

Government-Wide Financial Statement Analysis

The following tables, graphs and analysis discuss the financial position and changes to the financial position for the City as a whole as of and for the year-ended September 30, 2010.

Net Assets
Year-Ended September 30, 2010
(With Comparative Totals for September 30, 2009)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Current and Other Assets	$ 1,473,273	$ 1,247,871	$ 227,481	$ 245,770	$ 1,700,754	$ 1,493,641
Capital Assets	3,637,655	3,519,907	627,007	540,223	4,264,662	4,060,130
Total Assets	5,110,928	4,767,778	854,488	785,993	5,965,416	5,553,771
Current and Other Liabilities	400,852	390,096	52,789	51,399	453,641	441,495
Long-term Liabilities	2,183,125	1,880,285	449,807	404,840	2,632,932	2,285,125
Total Liabilities	2,583,977	2,270,381	502,596	456,239	3,086,573	2,726,620
Net Assets:						
Investments in Capital Assets,						
Net of Related Debt	2,241,952	2,200,616	270,226	260,679	2,512,178	2,461,295
Restricted	124,300	128,727	78,558	66,099	202,858	194,826
Unrestricted	160,699	168,054	3,108	2,976	163,807	171,030
Total Net Assets (as restated)	$ 2,526,951	$ 2,497,397	$ 351,892	$ 329,754	$ 2,878,843	$ 2,827,151

For the year-ended September 30, 2010, total assets exceeded liabilities by $2,878,843. The largest portion of the City's net assets, $2,512,178 (87.3%) represents its investment in capital assets less any related debt used to acquire those assets that are still outstanding, and includes assets such as land, infrastructure, improvements, buildings, machinery and equipment, and intangibles.

Capital assets are used to provide services to the citizens of San Antonio and are not available for further spending. Although the City's investment in capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate liabilities.

Of the total net assets, $202,858, 7.0%, represents resources that are subject to external restrictions on how they may be used. The remaining $163,807, 5.7%, represents unrestricted net assets, which can be used to meet the government's ongoing obligations to citizens and creditors.

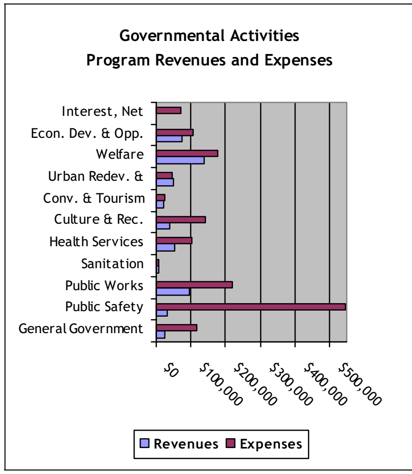
City of San Antonio, Texas
Changes in Net Assets
Year-Ended September 30, 2010
(With Comparative Totals for September 30, 2009)

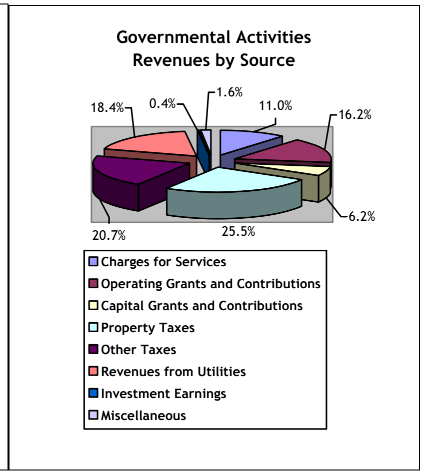
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for Services	$ 175,868	$ 176,136	$ 160,892	$ 152,170	$ 336,760	$ 328,306
Operating Grants and Contributions	258,714	206,356			258,714	206,356
Capital Grants and Contributions	98,362	81,114	40,156	31,115	138,518	112,229
General Revenues:						
Property Taxes	406,579	407,183			406,579	407,183
Other Taxes	328,928	323,467			328,928	323,467
Revenues from Utilities	293,114	275,993			293,114	275,993
Investment Earnings	6,959	17,500	823	4,769	7,782	22,269
Miscellaneous	25,181	24,017	480	464	25,661	24,481
Total Revenues	1,593,705	1,511,766	202,351	188,518	1,796,056	1,700,284
Expenses:						
Primary Government:						
Governmental Activities:						
General Government	117,505	92,415			117,505	92,415
Public Safety	545,228	497,274			545,228	497,274
Public Works	221,612	212,256			221,612	212,256
Sanitation	8,385	3,953			8,385	3,953
Health Services	104,667	92,351			104,667	92,351
Culture and Recreation	143,122	145,386			143,122	145,386
Convention and Tourism	26,437	42,512			26,437	42,512
Urban Redevelopment and Housing	44,447	45,533			44,447	45,533
Welfare	177,817	162,956			177,817	162,956
Economic Development and Opportunity	106,766	23,260			106,766	23,260
Interest on Long-Term Debt, Net	70,945	75,108			70,945	75,108
Business-Type Activities:						
Airport System			83,240	81,229	83,240	81,229
Parking System			9,135	8,984	9,135	8,984
Solid Waste Management			85,058	88,900	85,058	88,900
Total Expenses	1,566,931	1,393,004	177,433	179,113	1,744,364	1,572,117
Change in Net Assets						
Before Transfers and Special Items	26,774	118,762	24,918	9,405	51,692	128,167
Special Items				4,528		4,528
Transfers	2,780	498	(2,780)	(498)		
Net Change in Net Assets	29,554	119,260	22,138	13,435	51,692	132,695
Beginning, Net Assets (as restated)	2,497,397	2,378,137	329,754	316,319	2,827,151	2,694,456
Ending, Net Assets (as restated)	$ 2,526,951	$ 2,497,397	$ 351,892	$ 329,754	$ 2,878,843	$ 2,827,151

The City's total revenues were $1,796,056 for fiscal year-ended September 30, 2010. Revenues from governmental activities totaled $1,593,705 and revenues from business-type activities totaled $202,351. General revenues represented 59.1% of the City's total revenue, while program revenues provided 40.9% of revenue received in fiscal year 2010. Expenses for the City totaled $1,744,364. Governmental activity expenses totaled $1,566,931, or 89.8% of total expenses.

City of San Antonio, Texas - 3 - Amounts are expressed in thousands
City of San Antonio, Texas - 4 - Amounts are expressed in thousands

Governmental Activities





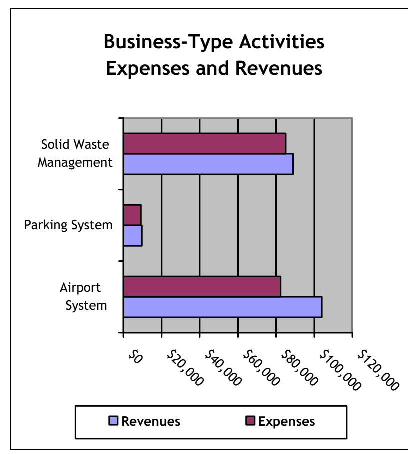
Governmental Activities increased the City's net assets by $29,554. The reason for the change is as follows:

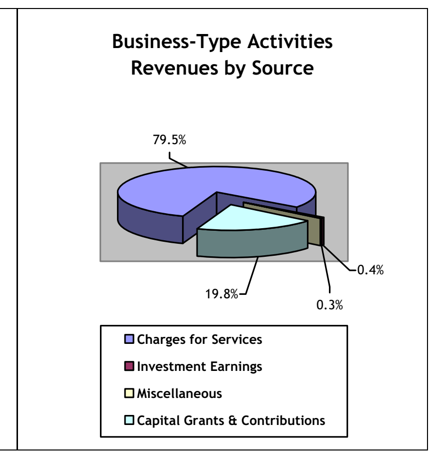
- Grants and Contributions revenues increased by $69,606 primarily due to 1) the increase in American Reinvestment and Recovery Act (ARRA) grant awards and spending mainly related to Department of Energy and Department of Health Services' grants; 2) $17,636 received from the State of Texas for the State's rebate program, which provides municipalities the opportunity to obtain reimbursement for eligible expenses related to hosting and attracting high-visibility, high-tax impact events to the state of Texas that could otherwise take place outside of the state; and 3) $2,500 contribution to the San Antonio Economic Development Corporation to start its operations.
- Although net taxable assessed values increased from $72,541 in fiscal year 2009 to $72,743 in fiscal year 2010, revenues from Property Taxes decreased by $604 due to 1) a 0.145% decrease in the City's direct rate; and 2) increased successful property tax appeals filed by constituents and local businesses. The direct rate was reduced as part of a package deal of United Health System's taking over a number of City clinics in 2008.
- Other Taxes increased by $5,461 due to a slight upturn in the economy and increase in overall tourism for the City. The improvement of the economy resulted in an increase in tourism, along with an increase in convention business and caused Hotel Occupancy Taxes and Sales and Use Taxes to increase by $934, and $1,729, respectively, from the prior year.
- CPS Energy revenues increased by $18,043 due to a 2% increase in electric sales and a 23% increase in natural gas prices from the prior year. Revenues from SAWS revenues decreased by $922 due to decreased sales resulting from a wetter than normal summer season, which decreased water usage.
- Investment Earnings decreased by $10,541 due to a significant decrease in yields within the market during the fiscal year and lower cash and investment holdings as a result of lower average investment balances.
- General Government expenses were higher by $25,090 from fiscal year 2009 primarily due to 1) $17,179 in assets that did not meet the threshold to be capitalized; and an increase of $2,756 for building maintenance costs.

- Public Safety expenses increased by $47,954 from the prior fiscal year due to 1) $23,002 of expenses associated with police and fire accrued leave, increased obligations for post-employment benefits and overtime; 2) $2,795 of new costs for 50 additional officers hired due to the COPS Hiring Grant received in 2010; and 3) $3,042 of increased insurance claim assessments charged to the departments based on the volume and severity of prior year incidents.
- Expenses for Health Services increases by $12,316 primarily due to 1) the City expending the Public Health Emergency Response Grant received in fiscal year 2010; and 2) purchasing $7,832 in assets that did not meet the threshold to be capitalized.
- Convention and Tourism's reduction of $16,075 was due to a change in function for reporting the Convention Center Hotel Finance Corporation's $17,578 in fiscal year 2009 expenses. The Convention Center completed its construction of the Grand Hyatt Hotel in fiscal year 2009. Expenses incurred in fiscal year 2010 related to the construction of the Hotel's condominiums which are more appropriately designated as economic development.
- Welfare increased $14,861 from fiscal year 2009 primarily due to 1) the various awards of grants associated with ARRA. As the awards increased, so too did the various expenses matched or covered by the General Fund.
- Economic Development and Opportunity expenses increased $83,506 from fiscal year 2009 primarily due to a change in function for reporting fiscal year 2010 expenses in the amount of $56,425 related to the Convention Center Hotel Finance Corporation, as noted above under Convention and Tourism. The City also recognized $16,260 and $6,655 of expenses in fiscal year 2010 which were related to the HUD 108 Loan Program and the City's Tax Increment Reinvestment Zones, respectively.

Business-Type Activities

Program revenues for the City's Business-Type Activities totaled $201,048, which is $17,763 higher than the previous fiscal year. The remaining revenues were a result of investment earnings and other miscellaneous items. Expenses for Business-Type Activities were $177,433 compared to prior year's expenses of $179,113.





Business-Type Activities increased the City's net assets by $22,138, primarily because of the following:

- Charges for Services increased by $8,722 primarily due to an increase in passenger travel through San Antonio International Airport, resulting in $1,953 more in Airport Systems revenues; Solid waste fees increasing by $6,625, mainly due to an increase in commodity prices paid by recycling centers for the City's recycling.
- A $9,041 increase in Capital Grants and Contributions was primarily attributed to a $7,060 increase in grant funded capital project expenses related to the Airport's ongoing expansion project, as well as an increase of $1,399 in passenger facility charge revenues due to increased passenger travel at San Antonio International Airport.
- Investment Earnings decreased by $3,946, due to a significant decrease in yields within the market during the fiscal year and lower cash and investment holdings as a result of lower average investment balances.
- Airport System expenses increased by $2,011 primarily due to increased contractual services and commodities at both San Antonio International and Stinson Airports.
- Solid Waste Management expenses decreased by $3,842, due to the implementation of the automated garbage collection services, which was completed in fiscal year 2010.

Financial Analysis of Governmental Funds

Activities of the Primary Government's General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Funds are considered general government functions. The General Fund is the City's general operating fund. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted as to expenditures. The Debt Service Fund is used to account for financial activity related to the City's general bonded indebtedness, as well as other long-term obligations. The Capital Projects Funds are used to account for financial activity related to the City indebtedness for Capital Projects, other agency contributions and the operating activities of those projects.

Revenues from taxes increased by $4,857, which is primarily attributable to: (1) a $604 decrease in property tax and related penalties and interest revenues in the General Fund, (2) a $1,326 increase in sales and use tax revenues in the General Fund, (3) a $375 decrease in property tax and related penalties and interest revenues in the Debt Service Fund, (4) a $934 increase in occupancy taxes and related penalties and interest revenues in the Nonmajor Governmental Funds, and (5) a $67 decrease in property tax revenue in the Tax Increment Reinvestment Zone Fund. The decreases in property taxes are a result of a slight decrease in property valuation; while the increase in sales and use taxes and occupancy taxes are results of an upswing in the economy and increased activity associated with tourism and convention business.

The total fund balance of the General Fund at year-end was $229,636, an increase of $23,129 from the total fund balance of $206,507 in fiscal year 2009. The total unreserved General Fund balance for fiscal year 2010 is $199,110, which represents $97,762 in designated and $101,348 in undesignated fund balances. The undesignated fund balance, which represents amounts available for additional appropriations in the General Fund at the end of the fiscal year, increased by $1,040 from the previous year's balance, while the City's financial reserves also increased $679 in fiscal year 2010. This reserve, which is recorded in the designated unreserved balance, will be utilized for unforeseen operational or capital requirements, extraordinary occurrences such as natural disasters or other similar events, to assist the City in managing fluctuations in available General Fund resources and to stabilize the budget.

The total fund balance of the Debt Service Fund at year-end was $109,083, a decrease of $3,841 from the total fund balance of $112,924 in fiscal year 2009. The entire fund balance is reserved for payment of debt service.

The Categorical Grant-In Aid Fund has a total deficit fund balance of $4,397 as a result of providing additional program services to the community beyond what monies were provided by grantor agencies. The uncollectible amounts were incorporated into the City's annual budget process to be funded over five years of which the City has two years remaining to fund.

The total fund balance of the 2007 General Obligation Bonds at year-end was $238,321, an increase of $141,207 from the total fund balance of $97,114 in fiscal year 2009. The voters approved a $550,000 bond for City improvements in fiscal year 2007. The City issued debt of $200,350 related to that bond during the current fiscal year.

General Fund Budgetary Highlights

Variances in Budget Appropriations
(Budgetary Basis)
General Fund

	Original Budget	Final Budget	Actual Results
General Government	$ 97,975	$ 86,977	$ 82,942
Public Safety	506,841	507,106	505,045
Public Works	41,933	45,341	44,237
Health Services	71,862	74,782	73,898
Sanitation	3,163	3,385	3,212
Culture and Recreation	75,447	77,655	76,983
Welfare	39,177	42,627	41,142
Economic Development and Opportunity	2,459	2,838	2,907
Transfers to Other Funds	48,199	66,495	66,495
Total	$ 887,056	$ 907,206	$ 896,861

Changes in original budget appropriations to the final amended budget appropriations resulted in a net $20,150 increase in appropriations. This increase can be summarized by the following:

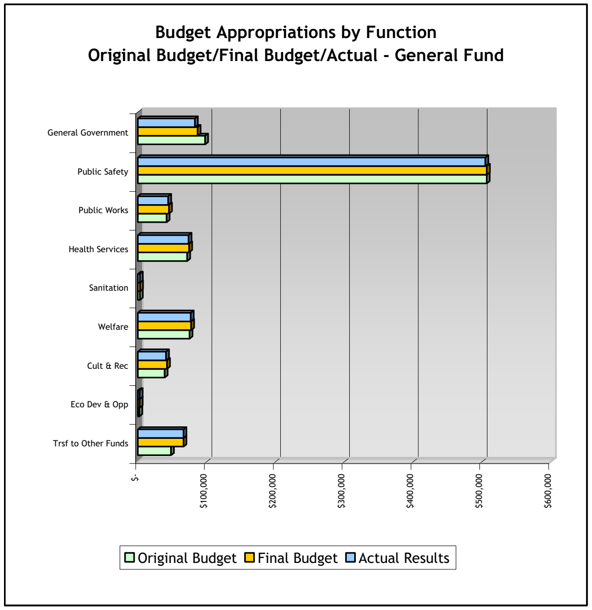
- General Government had a $10,998 decrease. Indirect cost reimbursements from other funds caused a $9,360 decrease. Budget carryforwards caused a $3,046 increase, while ordinance and analyst adjustments accounted for a decrease of $4,705.
- Of the $3,408 increase in Public Works, $3,273 consisted of budget carryforwards while the remaining $135 increase consisted of budget adjustments.
- Of the $3,450 increase in Welfare, $3,628 consisted of budget carryforwards while the remaining $178 decrease consisted of budget adjustments.
- The $18,296 increase in Transfers to Other Funds consisted of $3,218 of budget carryforwards, $8,172 in budget adjustments related to Public Works projects since the Streets and Drainage Fund had been incorporated into the General Fund in fiscal year 2010, and $6,794 of other budget adjustments.

Final budgeted appropriations for the General Fund were $907,206, while actual expenditures on a budgetary basis were $896,861 creating a positive variance of $10,345. Significant variances are as follows:

- General Government had a $4,035 positive variance. The City budgeted the retiree payouts in the General Government function while actual payouts are charged across all functions. Salary reserves represented $8,500 in fiscal year 2010. Public Safety typically receives 70% of these funds. Further savings were achieved across departments as a result of hiring being delayed during the fiscal year.
- Public Safety had a $2,061 positive variance due to savings in the implementation of the Computer Aided Dispatch program.
- Public Works had a $1,104 positive variance due to lower than expected spending on building improvement materials.

City of San Antonio, Texas - 7 - Amounts are expressed in thousands
City of San Antonio, Texas - 8 - Amounts are expressed in thousands

The following charts provide a comparison of the City's budget appropriations.



Financial Analysis of Proprietary Funds

Activities of the Primary Government's Airport System, Parking System, and Solid Waste Funds are considered proprietary funds. The Airport System handles operations at both the San Antonio International Airport and Stinson Municipal Airport. The Parking System handles operations of the City's parking garages and lots. Solid Waste Management handles trash collection operations, recycling, and the activities of the City's landfills. Financial analysis for the proprietary funds is on the same basis as the business-type activities. See further analysis on the funds' operations at pages 6 and 7.

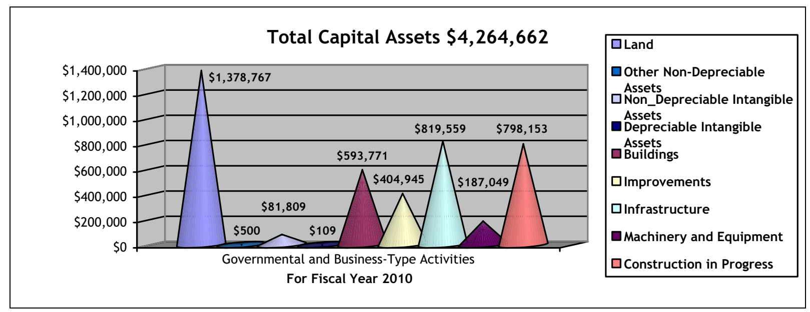
Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2010 amounts to $4,264,662 (net of accumulated depreciation). This investment in capital assets includes land, other non-depreciable assets, buildings, improvements, infrastructure, machinery and equipment, intangible assets and construction in progress. The net increase in the City's investment in capital assets for the current fiscal year was $204,532, which comprises an $117,748 increase in governmental activities and an $86,784 increase in business-type activities.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Land	$ 1,364,427	$ 1,430,280	$ 14,340	$ 14,341	$ 1,378,767	$ 1,444,621
Other Non-Depreciable Assets	500	500			500	500
Non-Depreciable Intangible Assets	81,809				81,809	
Depreciable Intangible Assets	109				109	
Buildings	454,437	457,223	139,334	139,042	593,771	596,265
Improvements	273,450	232,070	131,495	136,343	404,945	368,413
Infrastructure	819,559	852,026			819,559	852,026
Machinery and Equipment	163,595	159,451	23,454	23,299	187,049	182,750
Construction in Progress	479,769	388,357	318,384	227,198	798,153	615,555
Total	$ 3,637,655	$ 3,519,907	$ 627,007	$ 540,223	$ 4,264,662	$ 4,060,130

During fiscal year 2010, the City transferred $129,789 of construction in progress to depreciable asset classes for various completed projects of buildings, improvements, infrastructure, and machinery and equipment.

The following schedule provides a summary of the City's capital assets:

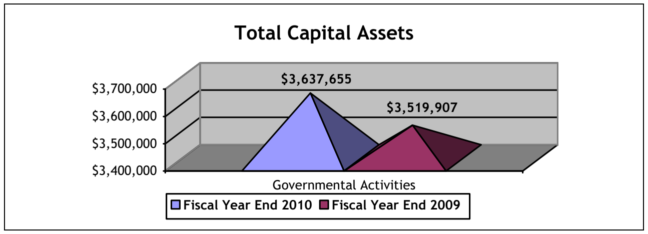


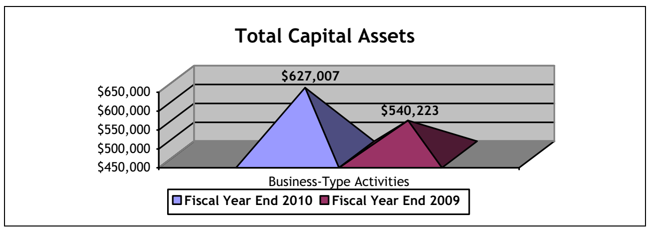
Change in Capital Assets
September 30, 2010

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	$ 5,566,633	$ 737,244	$ 6,303,877
Additions	270,213	107,715	377,928
Deletions	(29,864)	(6,592)	(36,456)
Accumulated Depreciation	(2,169,327)	(211,360)	(2,380,687)
Ending Balance	$ 3,637,655	$ 627,007	$ 4,264,662

City of San Antonio, Texas - 9 - Amounts are expressed in thousands
City of San Antonio, Texas - 10 - Amounts are expressed in thousands

The following charts provide a summary of the ending balances of capital assets for both the current and prior fiscal years:





Additional information on the City's capital assets can be found in Note 4, Capital Assets.

Debt Administration

Long-Term Debt

At the end of the current fiscal year, the City had a total of $2,236,689 in bonds, certificates, tax notes and commercial paper outstanding, an increase of 5.3% over last year. Additional information on the City's long-term debt, including descriptions of the new issues, can be found in Note 6, Long-Term Debt and Note 7, Commercial Paper Programs.

September 30, 2010 and 2009

	Governmental Activities	
	2010	**2009**
Bonds Payable:		
General Obligation Bonds	$ 912,900	$ 731,270
Tax-Exempt Certificates of Obligation	303,635	348,235
Taxable Certificates of Obligation	80	155
Tax Notes	28,860	48,095
Commercial Paper	14,370	25,805
Revenue Bonds	557,387	570,252
Capital Appreciation Bonds (CAB)	20,077	18,812
Total	$ 1,837,309	$ 1,742,624
	Business-Type Activities	
	2010	**2009**
Bonds Payable:		
General Obligation Bonds	$ 18,220	$ 18,480
Tax-Exempt Certificates of Obligation	2,135	2,715
Tax Notes	34,500	
Revenue Bonds	344,525	360,380
Total	$ 399,380	$ 381,575

Governmental Activities

In 2010, the City issued additional indebtedness for a total of $413,180. The $413,180 was composed of $356,060 in general obligation bonds, $38,375 in certificates of obligations, $9,655 in tax notes, and $9,090 in revenue bonds.

In March 2010, the City issued $156,255 in General Improvement Refunding Bonds, Series 2010, of which $545 funded Solid Waste Management projects. The general obligation bonds were issued to refund certain obligations of the City (Refunded Obligations).

In March 2010, the City issued $9,090 in Municipal Facilities Corporation Lease Revenue Refunding Bonds, Series 2010. The Bonds were issued to refund certain municipal facilities corporation bonds.

In July 2010, the City issued the following: $8,800 in General Improvement Bonds, Series 2010A, $191,550 in General Improvement Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds), and $38,375 in Combination Tax and Revenue Certificates of Obligation, Series 2010. The General Improvement Bonds, Series 2010A were issued to finance improvements to parks, recreation, and open space and athletics. The General Improvement Bonds, Taxable Series 2010B were issued to finance improvements to streets, bridges and sidewalks, drainage, and libraries. The Combination Tax and Revenue Certificates of Obligation, Series 2010 were issued to provide funds for making permanent public improvements and for other public purposes. The Tax Notes, Series 2010A were issued to provide funds for computer and information technology systems.

Business-Type Activities

In March 2010, the City issued $34,500 in Tax Notes, Series 2010. The Notes were issued to provide interim financing to fund capital improvements at the San Antonio International Airport.

In March 2010, $545 of the $156,255 General Improvement Refunding Bonds, Series 2010 was allocated to Solid Waste Management.

City of San Antonio, Texas - 11 - Amounts are expressed in thousands
City of San Antonio, Texas - 12 - Amounts are expressed in thousands

Standard & Poor's, Moody's, and Fitch's underlying rating for City obligations during fiscal year 2010 were as follows:

	Standard & Poor's	Moody's	Fitch
General Obligation/Certificates of Obligation/Tax Notes	AAA	Aaa	AAA
Hotel Occupancy Tax Bonds (Prior Lien)	A+	Aa2	AA-
Hotel Occupancy Tax Bonds (Subordinate Lien - Long Term)	A+	Aa3	A+
Hotel Occupancy Tax Bonds (Variable Rate - Short Term)	A+	Aa3	A+
Hotel Occupancy Tax Notes [1]	Private Placement - Not Rated		
Airport System	A+	A1	A+
Aiport PFC	A-	A2	A
Municipal Drainage Utility System Revenue Bonds	AA+	Aa2	AA
Sales Tax Revenue Commercial Paper Notes [2]	A-1+	P-1	F1+

[1] The Hotel Occupancy Tax Notes were no longer outstanding as of August 15, 2010.

[2] The ratings assigned to the Sales Tax Revenue Commercial Paper Notes are based upon the credit rating of the Letter of Credit provider and no application for an underlying rating on the Notes was submitted.

The Constitution of the State of Texas and the City Charter limit the amount of debt the City may incur. For more information related to these limits see Note 6, Long-Term Debt. The total gross assessed valuation for the fiscal year-ended 2010 was $84,481,611, which provides a debt ceiling of $8,448,161.

Currently Known Facts

On May 20, 2010, the City Council approved the City's collective bargaining agreement with the San Antonio Police Officer's Association (SAPOA), which is effective from October 1, 2009 to September 30, 2014. The projected fiscal impact of the four year agreement is $62,900.

The collective bargaining agreement with the International Association of Fire Fighters Local 624 (Local 624) expired September 30, 2009. The collective bargaining agreement contained an evergreen clause through September 30, 2019. Efforts to negotiate a new four-year agreement with the Local 624 began in January, 2010. To date, no agreement has been reached with the Local 624 and fire services to the public continue to be provided under the evergreen clause.

For more information on other currently known facts, please see Note 18, Subsequent Events.

Requests for Information

This financial report is designed to provide a general overview of the City's position for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, P.O. Box 839966, San Antonio, TX 78283-3966.

City of San Antonio, Texas - 13 - Amounts are expressed in thousands

City of San Antonio, Texas

Basic Financial Statements

Statement of Net Assets
As of September 30, 2010
(In Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Assets:				
Current Assets:				
Cash and Cash Equivalents	$ 30,368	$ 2,935	$ 33,303	$ 353,512
Securities Lending Collateral	51,065	5,766	56,831	31,815
Investments	336,365	33,670	370,035	241,316
Receivables, Net	105,564	9,803	115,367	276,004
Due from:				
Fiduciary Funds	509		509	
Other Governmental Agencies	16,421		16,421	9,458
Internal Balances	2,550	(2,550)		
Materials and Supplies, at Cost	6,396	623	7,019	157,105
Prepaid Expenses	1,281	17	1,298	98,663
Other Assets				1,360
Deposits	213		213	
Restricted Assets:				
Cash and Cash Equivalents	82,996	17,077	100,073	156,793
Securities Lending Collateral	74,717	15,902	90,619	
Investments	630,495	134,232	764,727	1,096,838
Receivables, Net	88,175	2,155	90,330	3,696
Prepaid Expenses	16		16	
Deposits	1		1	
Due from:				
Other Governmental Agencies	10,172	6	10,178	
Materials and Supplies, at Cost	17		17	
Total Current Assets	1,437,321	219,636	1,656,957	2,426,560
Noncurrent Assets:				
Capital Assets:				
Non Depreciable	1,926,505	332,724	2,259,229	2,734,472
Depreciable, Net	1,711,150	294,283	2,005,433	7,784,436
Assets Held for Resale				448
Receivables, Net				4,128
Prepaid Expenses				976,579
Net OPEB Asset				38,694
Other Noncurrent Assets				90,621
Unamortized Bond Issuance Costs	35,952	7,845	43,797	19,407
Total Noncurrent Assets	3,673,607	634,852	4,308,459	11,648,785
Total Assets	5,110,928	854,488	5,965,416	14,075,345
Liabilities:				
Current Liabilities:				
Accounts Payable and Other Current Liabilities	119,798	12,282	132,080	444,191
Unearned Revenue	8,987	456	9,443	2,992
Securities Lending Obligation	51,065	5,766	56,831	31,815
Accrued Interest	2	15	17	
Due to:				
Other Governmental Agencies	723		723	1,782
Restricted Liabilities:				
Accounts Payable and Other Current Liabilities	61,322	13,556	74,878	28,956
Unearned Revenue	64,549		64,549	
Securities Lending Obligation	74,717	15,902	90,619	
Accrued Interest	15,245	4,812	20,057	26,210
Arbitrage Liability Payable				
Due to:				
Other Governmental Agencies	4,444		4,444	
Total Current Liabilities	400,852	52,789	453,641	535,946
Noncurrent Liabilities:				
Due Within One Year	172,865	26,962	199,827	292,042
Due in More Than One Year	2,010,260	422,845	2,433,105	8,034,392
Total Noncurrent Liabilities	2,183,125	449,807	2,632,932	8,326,434
Total Liabilities	2,583,977	502,596	3,086,573	8,862,380
Net Assets:				
Invested in Capital Assets, Net of Related Debt	2,241,952	270,226	2,512,178	4,294,171
Restricted for:				
Debt Service	103,363	31,025	134,388	31,633
Capital Projects	3,987	47,533	51,520	336,954
Operating and Other Reserves				76,128
Perpetual Care:				
Expendable	12,148		12,148	2,972
Nonexpendable	4,802		4,802	
Unrestricted	160,699	3,108	163,807	471,107
Total Net Assets	$ 2,526,951	$ 351,892	$ 2,878,843	$ 5,212,965

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

Statement of Activities
For the Year-Ended September 30, 2010
(In Thousands)

CITY OF SAN ANTONIO, TEXAS

Statement of Activities
For the Year-Ended September 30, 2010
(In Thousands)

		PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
					PRIMARY GOVERNMENT			
FUNCTION/PROGRAM ACTIVITIES	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Primary Government:								
Governmental Activities:								
General Government	$ 117,505	$ 21,565	$ 1,052	$ 504	$ (94,384)	$ -	$ (94,384)	$ -
Public Safety	545,228	10,157	14,684	6,436	(513,951)		(513,951)	
Public Works	221,612	53,723	16,446	24,708	(126,735)		(126,735)	
Sanitation	8,385	397	6,837		(1,151)		(1,151)	
Health Services	104,667	31,595	21,471	1,069	(50,532)		(50,532)	
Culture and Recreation	143,122	33,791	4,307	506	(104,518)		(104,518)	
Convention and Tourism	26,437	1,262	20,782	16	(4,377)		(4,377)	
Urban Redevelopment and Housing	44,447	20,724	25,201	2,517	3,995		3,995	
Welfare	177,817	72	138,402	213	(39,130)		(39,130)	
Economic Development and Opportunity	106,766	2,582	9,532	62,393	(32,259)		(32,259)	
Amortization of Bond Related Costs	(7,346)				7,346		7,346	
Interest on Long-Term Debt	78,291				(78,291)		(78,291)	
Total Governmental Activities	1,566,931	175,868	258,714	98,362	(1,033,987)		(1,033,987)	
Business-Type Activities:								
Airport System	83,240	63,717		39,574		20,051	20,051	
Parking System	9,135	9,287				152	152	
Solid Waste Management	85,058	87,888		582		3,412	3,412	
Total Business-Type Activities	177,433	160,892		40,156		23,615	23,615	
Total Primary Government	$ 1,744,364	$ 336,760	$ 258,714	$ 138,518	(1,033,987)	23,615	(1,010,372)	
Discretely Presented Component Units:								
CPS Energy	$ 1,955,115	$ 1,930,875	$ -	$ 38,991				14,751
San Antonio Water System	387,576	369,053		66,771				48,248
Brooks Development Authority	13,552	17,119		3,334				6,901
City South Management Authority	170							(170)
Main Plaza Conservancy	649	30	580					(39)
Municipal Golf Association - San Antonio	8,022	7,853		386				217
Port Authority of San Antonio	44,106	41,409	2,914					217
SA Energy Acquisition Corporation	53,942	53,042						(900)
San Antonio Development Agency	453	57						(396)
San Antonio Housing Trust Foundation, Inc.	872	108	588					(176)
Total Component Units	$ 2,464,457	$ 2,419,546	$ 4,082	$ 109,482				68,653
General Revenues:								
Taxes:								
Property					406,579		406,579	
General Sales and Use					223,475		223,475	
Selective Sales and Use					5,921		5,921	
Gross Receipts Business					35,913		35,913	
Occupancy					59,734		59,734	
Penalties and Interest on Delinquent Taxes					3,885		3,885	
Revenues from Utilities					293,114		293,114	
Investment Earnings					6,959	823	7,782	88,670
Miscellaneous					25,181	480	25,661	81
Adjustment for STP Pension Cost								9,788
Transfers, net					2,780	(2,780)		
Total General Revenues, Special Items, and Transfers					1,063,541	(1,477)	1,062,064	98,539
Change in Net Assets					29,554	22,138	51,692	167,192
Net Assets - Beginning of Fiscal Year (as restated)					2,497,397	329,754	2,827,151	5,045,773
Net Assets - End of Fiscal Year					$ 2,526,951	$ 351,892	$ 2,878,843	$ 5,212,965

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

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

- 15 - Amounts are expressed in thousands

Balance Sheet
Governmental Funds
As of September 30, 2010
(In Thousands)

	MAJOR FUNDS					
	GENERAL	DEBT SERVICE	CATEGORICAL GRANT-IN AID	2007 GENERAL OBLIGATION BONDS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets:						
Cash and Cash Equivalents	$ 11,989	$ -	$ -	$ -	$ 8,593	$ 20,582
Securities Lending Collateral	21,717				12,286	34,003
Investments	138,496				83,197	221,693
Receivables, Net	94,984				8,437	103,421
Materials and Supplies, at Cost	4,610				470	5,080
Deposits					75	75
Prepaid Expenditures					110	110
Due from:						
Other Funds	43,436				761	44,197
Other Governmental Agencies, Net	3,494				12,853	16,347
Restricted Assets:						
Cash and Cash Equivalents		23,762	924	18,013	40,297	82,996
Securities Lending Collateral			1,873	31,410	41,434	74,717
Investments		85,734	12,592	211,120	321,049	630,495
Receivables, Net		7,391	25,545	21	55,218	88,175
Materials and Supplies, at Cost			17			17
Deposits					1	1
Prepaid Expenditures					16	16
Due from:						
Other Funds		481	3,252	9,200	11,041	23,974
Other Governmental Agencies, Net					10,172	10,172
Total Assets	$ 318,726	$ 117,368	$ 44,203	$ 269,764	$ 606,010	$ 1,356,071
Liabilities and Fund Balances:						
Liabilities:						
Vouchers Payable	$ 8,328	$ -	$ -	$ -	$ 4,775	$ 13,103
Accounts Payable - Other	6,292				7,464	13,756
Accrued Payroll	20,252				3,019	23,271
Accrued Leave Payable	11,477				935	12,412
Deferred Revenue	19,287					19,287
Securities Lending Obligation	21,717				12,286	34,003
Due To:						
Other Funds	1,737				11,663	13,400
Other Governmental Agencies					12	12
Restricted Liabilities:						
Vouchers Payable			6,236	3	29,865	36,104
Accounts Payable - Other		47	3,056		18,111	21,214
Accrued Payroll			1,070		505	1,575
Accrued Leave Payable					21	21
Deferred Revenue		6,737	4,129		60,420	71,286
Securities Lending Obligation			1,873	31,410	41,434	74,717
Amounts Held in Trust					2,429	2,429
Due to:						
Other Funds		1,501	30,661	30	24,124	56,316
Other Governmental Agencies			1,575		2,869	4,444
Total Liabilities	89,090	8,285	48,600	31,443	219,932	397,350
Fund Balances:						
Reserved:						
Reserved for Encumbrances	25,916				311,848	337,764
Reserved for Materials and Supplies	4,610		17		470	5,097
Reserved for Deposits					76	76
Reserved for Prepaid Expenditures					126	126
Reserved for Debt Service		109,083				109,083
Unreserved:						
Designated: General	97,762					97,762
Designated: Special Revenue					4,183	4,183
Designated: Permanent					4,802	4,802
Undesignated: General	101,348					101,348
Undesignated: Special Revenue			(4,414)		100,460	96,046
Undesignated: Capital Projects				238,321	(48,035)	190,286
Undesignated: Permanent					12,148	12,148
Total Fund Balances	229,636	109,083	(4,397)	238,321	386,078	958,721
Total Liabilities and Fund Balances	$ 318,726	$ 117,368	$ 44,203	$ 269,764	$ 606,010	$ 1,356,071

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

Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
As of September 30, 2010
(In Thousands)

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Fund Balances - Total Governmental Funds		$ 958,721
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental Capital Assets:		
Land	1,364,427	
Other Non-Depreciable Assets	500	
Construction In Progress	479,769	
Non-Depreciable Intangible Assets	81,809	
Depreciable Intangible Assets	120	
Buildings	733,926	
Improvements	373,383	
Infrastructure	2,382,971	
Machinery and Equipment	225,588	
Less: Accumulated Depreciation	(2,061,880)	
Total Governmental Capital Assets		3,580,613
Some of the City's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are not reported in the governmental funds as revenues, but as deferred revenues.		
Revenues previously recorded as deferred in the fund financial statements	25,234	
Unearned revenues previously recorded as income in the fund financial statements	(8,197)	
Net revenues recognized		17,037
Long-term receivables applicable in governmental activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		1,559
Internal Service Funds are used by management to charge the cost of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Statement of Net Assets.		108,773
Long-term liabilities are not due and payable in the current period, neither are associated unamortized assets available financial resources and, therefore, are not reported in the governmental funds.		
Governmental Bonds Payable	(1,822,939)	
Commercial Paper Payable	(14,370)	
Unamortized Discount/(Premium) on Bonds, Net	(64,026)	
Deferred Amount on Refunding	25,374	
Capital Lease Liability	(5,394)	
Notes Payable	(50,880)	
Unamortized Bond Issuance Costs	35,952	
Net OPEB Obligation	(52,986)	
Accrued Interest Payable	(15,245)	
Pollution Remediation Payable	(1,825)	
Compensated Absences	(173,413)	
		(2,139,752)
Net Assets of Governmental Activities		$ 2,526,951

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

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year-Ended September 30, 2010
(In Thousands)

	MAJOR FUNDS					
	GENERAL	DEBT SERVICE	CATEGORICAL GRANT-IN AID	2007 GENERAL OBLIGATION BONDS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:						
Taxes:						
Property	$ 246,864	$ 147,685	$ -	$ -	$ 10,217	$ 404,766
General Sales and Use	188,741				34,734	223,475
Selective Sales and Use	5,921					5,921
Gross Receipts Business	35,913					35,913
Occupancy					59,734	59,734
Penalties and Interest on Delinquent Taxes	2,336	1,393			156	3,885
Licenses and Permits	7,769					7,769
Intergovernmental	7,768		154,096		107,451	269,315
Revenues from Utilities	292,726					292,726
Charges for Services	45,850		192		98,251	144,293
Fines and Forfeits	11,506					11,506
Miscellaneous	10,267	384	2,583		21,159	34,393
Investment Earnings	1,832	843	8	552	3,148	6,383
Contributions			16,581		66,960	83,541
Total Revenues	857,493	150,305	173,460	552	401,810	1,583,620
Expenditures:						
Current:						
General Government	81,117	1,807	1,077	77	7,976	92,054
Public Safety	501,630		14,426		6,926	522,982
Public Works	42,518		17,524		54,285	114,327
Health Services	73,343		21,226		1,773	96,342
Sanitation	3,138		166		5,292	8,596
Welfare	38,453		117,911		20,597	176,961
Culture and Recreation	73,884		1,865		47,453	123,202
Convention and Tourism					21,240	21,240
Urban Redevelopment and Housing			1,375		40,311	41,686
Economic Development and Opportunity	2,607		195		103,843	106,645
Capital Projects					287,722	287,722
Debt Service:						
Principal Retirement		147,085			5,520	152,605
Interest		60,886			14,728	75,614
Issuance Costs		1,303		1,651	564	3,518
Total Expenditures	816,690	211,081	175,765	1,728	618,230	1,823,494
Excess (Deficiency) of Revenues Over (Under) Expenditures	40,803	(60,776)	(2,305)	(1,176)	(216,420)	(239,874)
Other Financing Sources (Uses):						
Issuance of Long-Term Debt		155,710		200,350	57,120	413,180
Payments to Refunded Bond Escrow Agent		(176,569)			(8,939)	(185,508)
Premium/(Discount) on Long-Term Debt		20,685		1,301	5,694	27,680
Transfers In	36,581	57,122	8,925		258,880	361,508
Transfers Out	(54,255)	(13)	(4,295)	(59,268)	(246,769)	(364,600)
Total Other Financing Sources (Uses)	(17,674)	56,935	4,630	142,383	65,986	252,260
Net Change in Fund Balances	23,129	(3,841)	2,325	141,207	(150,434)	12,386
Fund Balances, October 1 (as restated)	206,507	112,924	(6,722)	97,114	536,512	946,335
Fund Balances, September 30	$ 229,636	$ 109,083	$ (4,397)	238,321	$ 386,078	$ 958,721

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year-Ended September 30, 2010
(In Thousands)

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in Fund Balances - Total Governmental Funds		$ 12,386
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		
Expenditures for Capital Assets	253,936	
Pollution Remediation Capitalization	417	
Less: Current Year Depreciation	(117,779)	
Less: Current Year Deletions	(10,430)	126,144
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		6,236
The issuance of long-term debt (e.g. bonds, notes and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Bond, Note and Loan Amounts Issued	(413,180)	
(Premium)/Discount on Long-term Debt	(27,680)	
Bond Issuance Costs	3,518	
Payments to Escrow Agent	185,508	
Amortization of Bond Premiums/Discounts, Deferred Charges, and Cost of Issuance, Net	7,346	
Principal Payments	152,605	(91,883)
The following expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Interest Expense	(2,680)	
Compensated Absences	(1,192)	
Net OPEB Obligation	(16,438)	
Pollution Remediation	(504)	
Principal Amounts on Leases and Notes	4,792	
Arbitrage	182	(15,840)
Internal Service Funds are used by management to charge the cost of certain activities to individual funds. The net (expense) of the internal service funds is reported with governmental activities.		(7,489)
Change in Net Assets of Governmental Activities		$ 29,554

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

Statement of Net Assets
Proprietary Funds
As of September 30, 2010
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Assets:				
Current Assets:				
Unrestricted Assets:				
Cash and Cash Equivalents	$ 1,635	$ 1,300	$ 2,935	$ 9,786
Securities Lending Collateral	2,723	3,043	5,766	17,062
Investments	18,304	15,366	33,670	114,672
Receivables, Net:				
Accounts	997	348	1,345	561
Accrued Interest	2	2	4	10
Accrued Revenue	1,738	6,716	8,454	13
Due from:				
Other Funds	235	1,406	1,641	1,349
Other Governmental Agencies, Net				74
Materials and Supplies, at Cost	540	83	623	1,316
Prepaid Expenses	17		17	1,171
Deposits				138
Total Unrestricted Assets	26,191	28,264	54,455	146,152
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents	7,533	762	8,295	
Securities Lending Collateral		789	789	
Investments	21,350	6,209	27,559	
Receivables-Accrued Interest		1	1	
Due From Other Funds		28	28	
Construction Accounts:				
Cash and Cash Equivalents	4,151	52	4,203	
Securities Lending Collateral	7,795	90	7,885	
Investments	52,396	607	53,003	
Receivables-Accrued Interest	5		5	
Due From Other Funds	185		185	
Other Restricted Assets:				
Cash and Cash Equivalents	18		18	
Securities Lending Collateral	32		32	
Investments	215		215	
Due From Other Governmental Agencies, Net	6		6	
Improvement and Contingency Accounts:				
Cash and Cash Equivalents	3,622	939	4,561	
Securities Lending Collateral	6,315	881	7,196	
Investments	42,445	11,010	53,455	
Accrued Revenue	2,141		2,141	
Receivables-Accrued Interest	6	2	8	
Due From Other Funds	806		806	
Total Restricted Assets	149,021	21,370	170,391	
Total Current Assets	175,212	49,634	224,846	146,152
Noncurrent Assets:				
Capital Assets:				
Land	5,322	9,018	14,340	
Buildings	200,673	25,347	226,020	178
Improvements	225,666	10,457	236,123	244
Machinery and Equipment	14,603	28,897	43,500	164,067
Construction in Progress	317,647	737	318,384	
Total Capital Assets	763,911	74,456	838,367	164,489
Less: Accumulated Depreciation	190,700	20,660	211,360	107,447
Net Capital Assets	573,211	53,796	627,007	57,042
Unamortized Bond Issuance Costs	7,444	401	7,845	
Total Noncurrent Assets	580,655	54,197	634,852	57,042
Total Assets	$ 755,867	$ 103,831	$ 859,698	$ 203,194

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

Statement of Net Assets
Proprietary Funds
As of September 30, 2010
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Liabilities:				
Current Liabilities:				
Payable from Current Unrestricted Assets:				
Vouchers Payable	$ 660	$ 1,440	$ 2,100	$ 7,317
Accounts Payable-Other	5,423	2,307	7,730	3,532
Claims Payable				57,094
Accrued Payroll	1,126	1,326	2,452	1,725
Accrued Interest		15	15	2
Current Portion of Accrued Leave Payable	372	340	712	453
Due to Other Governmental Agencies				711
Securities Lending Obligation	2,723	3,043	5,766	17,062
Unearned Revenue	456		456	
Current Portion of Capital Lease Liability		7,688	7,688	103
Current Portion of Accrued Landfill Postclosure Costs		177	177	
Due to Other Funds	806	328	1,134	735
Total Payable from Current Unrestricted Assets	11,566	16,664	28,230	88,734
Payable from Restricted Assets:				
Vouchers Payable	13,526	6	13,532	
Accrued Interest	4,631	181	4,812	
Securities Lending Obligation	14,142	1,760	15,902	
Current Portion of Bonds, Certificates and Notes	17,210	935	18,145	
Due to Other Funds	77	9	86	
Current Portion of Unamortized Premium/(Discount)	916	50	966	
Current Portion of Deferred Amount on Refunding	(546)	(180)	(726)	
Other Payables	22	2	24	
Total Payable from Restricted Assets	49,978	2,763	52,741	
Total Current Liabilities	61,544	19,427	80,971	88,734
Noncurrent Liabilities:				
Bonds, Certificates and Notes	361,815	19,420	381,235	
Unamortized Premium/(Discount)	7,954	247	8,201	
Deferred Amount on Refunding	(1,065)	(1,732)	(2,797)	
Accrued Leave Payable	1,858	1,699	3,557	2,262
Capital Lease Liability		17,927	17,927	299
Net OPEB Obligation	5,370	6,772	12,142	7,116
Pollution Remediation Liability	700		700	
Accrued Landfill Postclosure Costs		1,880	1,880	
Total Noncurrent Liabilities	376,632	46,213	422,845	9,677
Total Liabilities	438,176	65,640	503,816	98,411
Net Assets:				
Invested In Capital Assets, Net of Related Debt	243,474	26,752	270,226	56,640
Restricted:				
Debt Service	24,241	6,784	31,025	
Capital Projects	35,595	11,938	47,533	
Unrestricted	14,381	(7,283)	7,098	48,143
Total Net Assets	$ 317,691	$ 38,191	$ 355,882	$ 104,783
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			(3,990)	
Net assets of business-type activities.			$ 351,892	

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year-Ended September 30, 2010
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:				
Charges for Services	$ 63,717	$ 96,819	$ 160,536	$ 227,656
Total Operating Revenues	63,717	96,819	160,536	227,656
Operating Expenses:				
Personal Services	28,706	34,547	63,253	39,650
Contractual Services	18,841	25,769	44,610	41,466
Commodities	1,690	9,463	11,153	2,373
Materials				20,198
Claims				107,958
Other	6,065	16,580	22,645	13,949
Depreciation	10,659	4,034	14,693	21,342
Total Operating Expenses	65,961	90,393	156,354	246,936
Operating Income (Loss)	(2,244)	6,426	4,182	(19,280)
Nonoperating Revenues (Expenses):				
Investment Earnings	699	124	823	552
Other Nonoperating Revenue	16,939	480	17,419	1,657
Gain (Loss) on Sale of Capital Assets	(458)	356	(102)	1,319
Interest and Debt Expense	(15,153)	(1,985)	(17,138)	(17)
Other Nonoperating Expense	(747)	(293)	(1,040)	(35)
Total Nonoperating Revenues (Expenses)	1,280	(1,318)	(38)	3,476
Change in Net Assets Before Contributions and Transfers	(964)	5,108	4,144	(15,804)
Capital Contributions	22,635	582	23,217	
Transfers In (Out):				
Transfers In		580	580	9,897
Transfers Out	(394)	(2,966)	(3,360)	(4,025)
Total Transfers In (Out)	(394)	(2,386)	(2,780)	5,872
Change In Net Assets	21,277	3,304	24,581	(9,932)
Net Assets - October 1	296,414	34,887		114,715
Net Assets - September 30	$ 317,691	$ 38,191		$ 104,783
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			(2,443)	
Change in Net Assets of Business-Type Activities.			$ 22,138	

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

Statement of Cash Flows
Proprietary Funds
Year-Ended September 30, 2010
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTALS	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:				
Cash Received from Customers	$ 64,386	$ 96,566	$ 160,952	$ 227,831
Cash Payments to Suppliers for Goods and Services	(23,132)	(52,171)	(75,303)	(177,160)
Cash Payments to Employees for Service	(27,094)	(32,328)	(59,422)	(37,405)
Cash Received from Other Nonoperating Revenues	16,939	480	17,419	1,657
Net Cash Provided by Operating Activities	31,099	12,547	43,646	14,923
Cash Flows from Noncapital Financing Activities:				
Transfers In from Other Funds		580	580	9,897
Transfers Out to Other Funds	(394)	(2,966)	(3,360)	(4,025)
Due to Other Funds	(1,961)	(3,575)	(5,536)	587
Due from Other Funds	2,381	9,697	12,078	184
Net Cash Provided by Non-Capital Financing Activities	26	3,736	3,762	6,643
Cash Flows from Capital and Related Financing Activities:				
Contributed Capital	22,635	582	23,217	
Acquisitions and Construction of Capital Assets	(98,691)	(1,736)	(100,427)	(15,860)
Proceeds from Issuance of Long-Term Debt	34,500	545	35,045	
Proceeds from Issuance of Notes and Leases		6,324	6,324	
Principal Payments or Refundings on Long-Term Debt	(15,855)	(1,385)	(17,240)	
Interest and Fees Paid on Long-Term Debt	(15,420)	(1,128)	(16,548)	
Interest Paid on Notes and Leases		(904)	(904)	(15)
Principal Payments on Notes and Leases		(6,544)	(6,544)	(224)
Proceeds from Sale of Assets	12	7	19	4,233
Net Cash (Used for) Capital and Related Financing Activities	(72,819)	(4,239)	(77,058)	(11,866)
Cash Flows from Investing Activities:				
Purchases of Investment Securities	(182,503)	(41,483)	(223,986)	(139,459)
Maturity of Investment Securities	221,939	30,651	252,590	131,045
Purchases of Investments for Securities Lending	(16,865)	(4,803)	(21,668)	(17,062)
Proceeds from Cash Collected for Securities Lending Cash Collateral	16,865	4,803	21,668	17,062
Investments Earnings	693	119	812	510
Net Cash Provided by (Used for) Investing Activities	40,129	(10,713)	29,416	(7,904)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,565)	1,331	(234)	1,796
Cash and Cash Equivalents, October 1	18,524	1,722	20,246	7,990
Cash and Cash Equivalents, September 30	$ 16,959	$ 3,053	$ 20,012	$ 9,786

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

Statement of Cash Flows
Proprietary Funds
Year-Ended September 30, 2010
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	NONMAJOR ENTERPRISE FUNDS	TOTALS	INTERNAL SERVICE FUNDS
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating Income (Loss)	$ (2,244)	$ 6,426	$ 4,182	$ (19,280)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation	10,659	4,034	14,693	21,342
Other Nonoperating Revenues	16,939	480	17,419	1,657
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	1,959	(211)	1,748	213
(Increase) in Accrued Revenues	(795)	(92)	(887)	(3)
(Increase) Decrease in Due from Other Governmental Agencies	38		38	(35)
(Increase) Decrease in Materials and Supplies	12	15	27	(91)
(Increase) Decrease in Prepaid Expenses	5		5	(148)
Decrease in Deposits		50	50	
Increase (Decrease) in Vouchers Payable	3,231	(5)	3,226	2,496
Increase in Claims Payable				6,052
Increase (Decrease) in Accounts Payable - Other	216	(73)	143	478
Increase in Accrued Payroll	108	212	320	108
(Decrease) in Accrued Leave Payable	(8)	(113)	(121)	(89)
(Decrease) in Landfill Postclosure Liability		(296)	(296)	
Increase in Net OPEB Obligation	1,512	2,120	3,632	2,223
(Decrease) in Unearned Revenue	(533)		(533)	
Net Cash Provided by Operating Activities	$ 31,099	$ 12,547	$ 43,646	$ 14,923
Noncash Investing, Capital and Financing Activities				
Acquisitions and Construction of Capital Assets from Debt Proceeds	$ -	$ 1,171	$ 1,171	$ -

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

Statement of Fiduciary Net Assets/Balance Sheet
Fiduciary Funds
As of September 30, 2010
(In Thousands)

	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUND - SAN ANTONIO LITERACY PROGRAM	AGENCY FUNDS
Assets:			
Current Assets:			
Cash and Cash Equivalents	$ 75,203	$ 2	$ 1,507
Security Lending Collateral	118,325	3	1,398
Investments:			
Common Stock	828,540		
U.S. Government Securities	88,870	22	8,790
Corporate Bonds	434,308		
Hedge Funds	265,923		
Real Estate	163,929		
Alternative	245,622		
Receivables:			
Accounts	7,762		270
Accrued Interest	5,800		
Accrued Revenue	3,500		
Total Current Assets	2,237,782	27	11,965
Capital Assets:			
Machinery and Equipment	132		
Buildings	767		
Total Capital Assets	899		
Less: Accumulated Depreciation	428		
Net Capital Assets	471		
Total Assets	$ 2,238,253	$ 27	$ 11,965
Liabilities:			
Vouchers Payable	$ 2,883	$ -	$ 45
Accounts Payable - Other	9,112		10,013
Claims Payable	2,961		
Accrued Payroll	161		
Due to Other Funds			509
Securities Lending Obligation	118,325	3	1,398
Total Liabilities	133,442	3	$ 11,965
Net Assets:			
Held in Trust for Pension Benefits and Other Purposes	$ 2,104,811	$ 24	

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

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year-Ended September 30, 2010
(In Thousands)

	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUND - SAN ANTONIO LITERACY PROGRAM
Additions:		
Contributions:		
Employer	$ 86,763	$ -
Employee	43,436	
Total Contributions	130,199	
Investment Earnings:		
Net Increase in Fair Value of Investments	138,692	
Real Estate Income, Net	1,364	
Interest and Dividends	33,518	
Securities Lending	2,105	
Other Income	436	
Total Investment Earnings	176,115	
Less Investment Expenses:		
Investment Management Fees and Custodian Fees	(9,955)	
Securities Lending Expenses:		
Borrower Rebates	(28)	
Lending Fees	(125)	
Net Investment Earnings	166,007	
Total Additions	296,206	
Deductions:		
Benefits	127,693	
Refunds of Contributions	871	
Administrative Expense	3,753	
Total Deductions	132,317	
Change in Net Assets	163,889	
Net Assets - October 1	1,940,922	24
Net Assets - September 30	$ 2,104,811	$ 24

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

Statement of Net Assets
Discretely Presented Component Units
As of September 30, 2010
(In Thousands)

	CPS ENERGY	SAN ANTONIO WATER SYSTEM	NONMAJOR COMPONENT UNITS	TOTAL
Assets:				
Current Assets:				
Unrestricted Assets:				
Cash and Cash Equivalents	$ 298,818	$ 32,138	$ 22,556	$ 353,512
Cash Collateral from Securities Lending	31,815			31,815
Investments	102,996	137,879	441	241,316
Receivables, Net:				
Notes			7,518	7,518
Accounts	202,060	41,580	6,157	249,797
Accrued Interest	17,660	997	32	18,689
Materials and Supplies, at Cost	151,014	5,932	159	157,105
Due from Other Governmental Agencies			9,458	9,458
Prepaid Expenses	61,796	2,499	34,368	98,663
Other Assets			1,360	1,360
Total Unrestricted Assets	866,159	221,025	82,049	1,169,233
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents	3,210		19,448	22,658
Investments		37,010	7,445	44,455
Receivables - Accrued Interest			96	96
Capital Projects Accounts:				
Cash and Cash Equivalents	13,913	96,331		110,244
Investments	73,707	183,083		256,790
Receivables - Accrued Interest	29			29
Ordinance Accounts:				
Investments	331,608			331,608
Receivables - Accrued Interest	1,604			1,604
Other Restricted Accounts:				
Cash and Cash Equivalents	21,979	3	1,909	23,891
Investments	373,777	90,208		463,985
Receivables - Accrued Interest	1,967			1,967
Total Restricted Assets	821,794	406,635	28,898	1,257,327
Total Current Assets	1,687,953	627,660	110,947	2,426,560
Noncurrent Assets:				
Capital Assets:				
Land	107,150	78,814	40,010	225,974
Infrastructure			56,993	56,993
Buildings			241,151	241,151
Utility Plant in Service	8,697,358	3,503,761		12,201,119
Machinery and Equipment		146,858	8,307	155,165
Construction in Progress	1,893,686	427,971	29,749	2,351,406
Other Intangible Assets		157,092		157,092
Nuclear Fuel	643,545			643,545
Total Capital Assets	11,341,739	4,314,496	376,210	16,032,445
Less: Accumulated Depreciation	4,277,546	1,140,232	95,759	5,513,537
Assets Held for Resale			448	448
Net Capital Assets	7,064,193	3,174,264	280,899	10,519,356
Other Noncurrent Assets:				
Receivables			4,128	4,128
Prepaid Expenses	417,234		559,345	976,579
Net OPEB Asset	38,694			38,694
Other Noncurrent Assets	54,303		36,318	90,621
Unamortized Bond Issuance Costs		19,407		19,407
Total Noncurrent Assets	7,574,424	3,193,671	880,690	11,648,785
Total Assets	$ 9,262,377	$ 3,821,331	$ 991,637	$ 14,075,345

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

CITY OF SAN ANTONIO, TEXAS

Statement of Net Assets
Discretely Presented Component Units
As of September 30, 2010
(In Thousands)

	CPS ENERGY	SAN ANTONIO WATER SYSTEM	NONMAJOR COMPONENT UNITS	TOTAL
Liabilities:				
Current Liabilities:				
Payable from Current Unrestricted Assets:				
Accounts Payable and Other Current Liabilities	$ 401,945	$ 32,634	$ 9,612	$ 444,191
Securities Lending Obligation	31,815			31,815
Unearned Revenue			2,992	2,992
Due to Other Governmental Agencies			1,782	1,782
Current Portion of Long-term Lease/Notes Payable			3,358	3,358
Current Portion of Deferred Lease/Leaseback	22,561			22,561
Current Portion of Other Payables	27,950	4,785	8,207	40,942
Total Payable from Current Unrestricted Assets	484,271	37,419	25,951	547,641
Payable from Restricted Assets:				
Accrued Bond and Certificate Interest		9,499	16,711	26,210
Current Portion of Bonds and Certificates	162,235	38,590	21,756	222,581
Current Portion of Commercial Paper		2,600		2,600
Other Payables		28,956		28,956
Total Payable from Restricted Assets	162,235	79,645	38,467	280,347
Total Current Liabilities	646,506	117,064	64,418	827,988
Noncurrent Liabilities:				
Bonds and Certificates (Net of Current Portion)	3,981,260	1,721,110	633,889	6,336,259
Commercial Paper (Net of Current Portion)	350,000	171,050		521,050
Unamortized Premium/(Discount) on Bonds and Certificates	137,332	6,873	34,366	178,571
Deferred Amount on Refunding	(61,308)	(22,884)		(84,192)
Long-Term Lease/Notes Payable (Net of Current Portion)			41,761	41,761
Deferred Lease/Leaseback (Net of Current Portion)	475,651			475,651
Net OPEB Obligation (Net of Current Portion)		47,093		47,093
Other Payables (Net of Current Portion)	513,786	2,417	1,996	518,199
Total Noncurrent Liabilities	5,396,721	1,925,659	712,012	8,034,392
Total Liabilities	6,043,227	2,042,723	776,430	8,862,380
Net Assets:				
Invested in Capital Assets, Net of Related Debt	2,585,351	1,521,466	187,354	4,294,171
Restricted for:				
Debt Service	3,210	27,511	912	31,633
Capital Projects	335,202		1,752	336,954
Operating and Other Reserves		76,128		76,128
Perpetual Care:				
Expendable			2,972	2,972
Unrestricted	295,387	153,503	22,217	471,107
Total Net Assets	$ 3,219,150	$ 1,778,608	$ 215,207	$ 5,212,965

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

- 25 - *Amounts are expressed in thousands*

Statement of Activities
Discretely Presented Component Units
Year-Ended September 30, 2010
(In Thousands)

CITY OF SAN ANTONIO, TEXAS
Statement of Activities
Discretely Presented Component Units
Year-Ended September 30, 2010
(In Thousands)

		PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	CPS ENERGY	SAN ANTONIO WATER SYSTEM	NONMAJOR COMPONENT UNITS	TOTALS
CPS Energy	$ 1,955,115	$ 1,930,875	$ -	$ 38,991	$ 14,751	$ -	$ -	$ 14,751
San Antonio Water System	387,576	369,053		66,771		48,248		48,248
Nonmajor Component Units	121,766	119,618	4,082	3,720			5,654	5,654
Total	$ 2,464,457	$ 2,419,546	$ 4,082	$ 109,482	14,751	48,248	5,654	68,653
General Revenues:								
Investment Earnings					83,060	4,511	1,099	88,670
Miscellaneous							81	81
Adjustment for STP Pension Cost					9,788			9,788
Total General Revenues and Special Items					92,848	4,511	1,180	98,539
Change in Net Assets					107,599	52,759	6,834	167,192
Net Assets - Beginning of Fiscal Year (as restated)					3,111,551	1,725,849	208,373	5,045,773
Net Assets - End of Fiscal Year					$ 3,219,150	$ 1,778,608	$ 215,207	$ 5,212,965

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

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

Comprehensive Annual Financial Report
Table of Notes to Financial Statements
Year-Ended September 30, 2010

Note 1 Summary of Significant Accounting Policies

The financial statements of the City of San Antonio (the City) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted body for establishing governmental accounting and financial reporting standards. The following is a summary of significant accounting policies of the City.

Reporting Entity

In the evaluation of how to define the City for financial reporting purposes, management considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14*. The underlying concept of the financial reporting entity is that elected officials are "accountable" to their constituents for their actions. One of the objectives of this concept is to provide users of governmental financial statements with a basis for assessing the accountability of those elected officials.

The financial reporting entity consists of: (a) the primary government (in these financial statements the primary government is the City), (b) component units, which are legally separate organizations for which the City is financially accountable or the services rendered by the component unit are provided entirely or almost entirely to the City (blended), and (c) component units, the nature and significance of their relationship with the City is such that exclusion from the reporting entity's financial statements would be misleading or incomplete (discretely presented).

Using the criteria of GASB Statements No. 14 and No. 39 outlined below, potential component units were evaluated for inclusion in or exclusion from the reporting entity, whether the organizations were financially accountable or not, and were further evaluated for financial statement presentation. Based on their individual relationships with the City, some component unit financial statements were blended as though they are part of the City and others were discretely presented.

The following criteria (as set forth in GASB Statements No. 14 and No. 39) were used in the evaluation of potential component units of the City:

1) Legally separate
2) Financial accountability
   a) Appointment of a voting majority
   b) Imposition of will
   c) Financial benefit to or burden on the City
   d) Fiscal dependency
3) The relationship with the City is such that exclusion would cause these financial statements to be misleading or incomplete
4) Service rendered by the potential component unit is provided entirely or almost entirely to the City
5) The City or its component units, are entitled to, or have the ability to access the majority of the resources received or held by the separate organization

The criteria outlined above were excerpted from GASB Statements No. 14 and No. 39. For a more detailed explanation of the criteria established by the Statements, the reader is referred to the *Codification of Governmental Accounting and Financial Reporting Standards*, as of June 30, 2009, published by GASB, Section-2600. GASB Statement No. 39 further clarifies that a "not for profit" may not be financially accountable to the City, but may be considered a component unit based on the nature and significance of its relationship with the City. Predicated upon the application of the criteria outlined above, the following is a brief overview of component units included in the reporting entity.

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units

The relationships among the following component units and the City meet the criteria, as set forth in GASB Statements No. 14 and No. 39, for inclusion in the reporting entity and are such that the financial statements are blended with those of the City.

As set forth in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, the City excludes fiduciary funds and component units that are fiduciary in nature from the government-wide financial statements. The City's component units that are fiduciary in nature are the San Antonio Fire and Police Pension Fund and the San Antonio Fire and Police Retiree Health Care Fund. These component units are presented in the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. Following is a brief description of the City's blended component units:

Convention Center Hotel Finance Corporation 111 Soledad St., 5th Floor San Antonio, TX 78205 Contact: Ben Gorzell Jr. Telephone No. (210) 207-4478	The Convention Center Hotel Finance Corporation (CCHFC) was established in fiscal year 2005 in accordance with state laws for the purposes of, and to act on behalf of the City in local economic development to stimulate business and commercial activity in the City. The CCHFC is governed by a board of directors, which is comprised of the City Council of San Antonio.
Empowerment Zone Development Corporation P.O. Box 839966 San Antonio, Texas 78283-3966 Contact: Pat DiGiovanni Telephone No. (210) 207-6912	The Empowerment Zone Development Corporation (EZDC) was established in fiscal year 2004 in accordance with state laws for the purposes of, and to act on behalf of the City in local economic development to stimulate business and commercial activity in the City. The EZDC is governed by a board of directors, which is comprised of the City Council of San Antonio.
San Antonio Fire and Police Pension Fund 311 Roosevelt San Antonio, Texas 78210-2700 Contact: Warren Schott Telephone No. (210) 534-3262	The San Antonio Fire and Police Pension Fund (Pension Fund) is a single employer defined benefit plan established in accordance with state law. The Pension Fund is administered by a nine-member board of trustees, including two members of the City Council of San Antonio, and the Mayor or his appointee. The City and Pension Fund participants are obligated to make all contributions to the Pension Fund in accordance with rates established by state laws. Benefit levels are also set by state laws. Services rendered by the Pension Fund are exclusively for the benefit of eligible firefighters and police officers, upon retirement.
San Antonio Fire and Police Retiree Health Care Fund 300 Convent Street, Suite 2500 San Antonio, Texas 78205-3716 Contact: James Bounds Telephone No. (210) 220-1385	The City of San Antonio Firefighters' and Police Officers' Retiree Prefunded Group Health Plan was created in October 1989, in accordance with the provisions of the City's contracts with the local fire and police unions, respectively, to provide postemployment health care benefits to uniformed employees who retired on or after October 1, 1989. Pursuant to the passage of Senate Bill 1568 in 1997, a separate and distinct statutory trust, the Fire and Police Retiree Health Care Fund (Health Fund), was created to provide these postemployment health care benefits for eligible uniformed employees of the City. The Health Fund is administered by a nine-member board of trustees, including two members of the City Council of San Antonio and the Mayor or his appointee, and is funded primarily by contributions from the City and contributions made by active employees and retirees on behalf of their dependents. Contribution rates and benefits are established pursuant to legislation enacted by the State with the Health Care Fund Board's ability to modify benefits within certain parameters.

- 28 - *Amounts are expressed in thousands*
- 29 - *Amounts are expressed in thousands*

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

San Antonio Health Facilities Development Corporation
P.O. Box 839966
San Antonio, Texas 78283-3966
Contact: Rene Dominguez
Telephone No. (210) 207-3900

The City of San Antonio Health Facilities Development Corporation (HFDC) was established by Ordinance No. 55400, dated June 3, 1982, in accordance with state laws for the purposes of, and to act on behalf of the City as, a health facilities development corporation under the Texas Health Facilities Development Act of 1981. The HFDC is authorized to issue tax-exempt health facility revenue bonds, for which the City is not obligated in any manner, to finance health related projects in support of the promotion, expansion, and improvement of health facilities. The City Council of San Antonio comprises the board of directors that govern HFDC.

San Antonio Housing Trust Finance Corporation
P.O. Box 15915
San Antonio, Texas 78212
Contact: John Kenny
Telephone No. (210) 735-2772

The San Antonio Housing Trust Finance Corporation (SAHTFC) was established in fiscal year 1997 under the Texas Housing Finance Corporations Act (the Act), in accordance with state laws for the purposes of, and to act on behalf of the City in, carrying out the purposes of the Act, including the issuance of single family and multi-family revenue bonds. SAHTFC is managed by a five-member board of directors, which is appointed by the City Council of San Antonio.

San Antonio Industrial Development Authority
P.O. Box 839966
San Antonio, Texas 78283-3966
Contact: Rene Dominguez
Telephone No. (210) 207-3900

The City of San Antonio Industrial Development Authority (IDA) was established by Resolution No. 79-48-100 dated October 11, 1979, in accordance with state laws for the purposes of benefiting and accomplishing public purposes of, and to act on behalf of the City as, an industrial development corporation under the Development Corporation Act of 1979. The IDA is authorized to issue tax-exempt industrial revenue bonds, for which the City is not obligated in any manner, to finance qualified projects, which may further the promotion and development of commercial, industrial, and manufacturing enterprises to advance and encourage employment and public welfare. The IDA is governed by a board of directors, which is comprised of the City Council of San Antonio.

San Antonio Public Library Foundation
625 Shook
San Antonio, Texas 78212
Contact: Kaye Lenox
Telephone No. (210) 225-4728

The San Antonio Public Library Foundation was created in 1983 to emphasize the important role the private sector has in helping to enhance Library resources and services. The Library Foundation works to raise funds from several sources, including individuals, corporations and charitable foundations for the sole benefit of the Library and to raise awareness of reading. The City's library board of trustees' Chairman and two additional members of the library's board of trustees are members of the 100+ member Foundation Board. The Foundation is a self-governing agency, as such the City has no control over the board of trustees or how the funds are expended. Additionally, as a self-governing agency, the City has no access to the Foundation's funds. The purpose of the Foundation is exclusively to support the San Antonio Public Library System and to increase the awareness and use of the Library through financial support and programmatic efforts.

San Antonio Texas Municipal Facilities Corporation
111 Soledad St., 5th Floor
San Antonio, TX 78205
Contact: Ben Gorzell Jr.
Telephone No. (210) 207-4478

The San Antonio Texas Municipal Facilities Corporation (TMFC) was established in fiscal year 2001 in accordance with state laws for the purposes of, and to act on behalf of the City in, acquiring, constructing, equipping, financing, operating, and maintaining land and other municipal facilities for the City. The TMFC is governed by a board of directors, which is comprised of the City Council of San Antonio.

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

Starbright Industrial Development Corporation
111 Soledad St., 5th Floor
San Antonio, TX 78205
Contact: Ben Gorzell Jr.
Telephone No. (210) 207-4478

The Starbright Industrial Development Corporation (SIDC) was established in fiscal year 2003 in accordance with state laws for the purposes of, and to act on behalf of the City in, the promotion and development of commercial, industrial, and manufacturing enterprises, to advance and encourage employment and public welfare, including but not limited to the acquisition of land. The SIDC is governed by a board of directors, which is comprised of the City Council of San Antonio.

HemisFair Park Area Redevelopment Corporation
Office of the City Manager
100 Military Plaza
San Antonio, Texas 78205
Contact: Lori Houston
Telephone No. (210) 207-2129

The HemisFair Park Area Redevelopment Corporation (HPARC) was established in fiscal year 2009 in accordance with state laws for the purposes of, and to act on behalf of the City in, assisting with acquiring property, planning, developing, constructing, managing and financing projects within HemisFair Park and its surrounding area in order to promote economic development, employment, and to stimulate business, housing, tourism, and commercial activity within the City. The HPARC is governed by eleven members approved by City Council. As HPARC had no activity through September 30, an audit is not deemed necessary in fiscal year 2010.

San Antonio Education Facilities Corporation
P.O. Box 839966
San Antonio, Texas 78283-3966
Contact: Rene Dominguez
Telephone No. (210) 207-3900

City of San Antonio Higher Education Authority (SAHEA) was established in 1984, in accordance with state laws for the purpose of aiding nonprofit institutions of higher education in providing educational, housing, and other related facilities in accordance with, and subject to the provisions of Section 53.35 (b) Texas Education Code, all to be done on behalf of the City and its duly constituted authority and instrumentality. In 2001, the SAHEA changed its name to San Antonio Education Facilities Corporation (SAEFC). The Code authorizes SAEFC to issue revenue bonds for these purposes on behalf of the City. These bonds are not obligations of the City. SAEFC is governed by an eleven-member board of directors appointed by the City Council of San Antonio for two-year terms. Board members are subject to removal by the City Council for cause, or at will, and the City reserves the right to terminate and dissolve SAEFC at any time.

Westside Development Corporation
2300 W. Commerce, Ste 207
San Antonio, Texas 78207-3839
Contact: Ramon Flores
Telephone No. (210) 207-8204

Westside Development Corporation (WDC) was established in fiscal year 2006 in accordance with state laws for the purposes of promoting economic development and redevelopment opportunities in the west side of San Antonio. WDC seeks to generate new capital investment, create more, higher paying jobs, and reduce the poverty level in the area. In addition, WDC functions as a land development corporation that has the power to buy, sell, and accept land as a nonprofit without the restrictions placed upon a municipality. WDC is governed by a board of directors nominated by a City Council committee and appointed by the City Council of San Antonio. Representatives of key stakeholders and Westside advocates are the policy-setting oversight authority for WDC, comprised of 17 members.

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Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

San Antonio Economic Development Corporation
P.O. Box 839966
San Antonio, Texas 78283-3966
Contact: Rene Dominguez
Telephone No. (210) 207-3900

The San Antonio Economic Development Corporation (SAEDC) was established in fiscal year 2010 as a nonprofit corporation to promote, assist, and enhance economic development activities for the City. SAEDC was organized for the purposes of undertaking any statute-authorized projects to benefit and accomplish the public purpose of promoting economic development in the City. The affairs of SAEDC are managed by a Board of Directors appointed by the City Council of San Antonio. City Council may remove a director at any time without cause. SAEDC's budget is not effective until adopted by City Council.

San Antonio Housing Trust Public Facility Corporation
P.O. Box 15915
San Antonio, Texas 78212
Contact: John Kenny
Telephone No. (210) 735-2772

San Antonio Housing Trust Public Facility Corporation (SAHTPFC) was established in fiscal year 2010 as a nonprofit corporation, organized for the purpose of assisting the City in financing, refinancing, or providing public facilities. SAHTPFC was created to provide a tool to develop affordable housing. SAHTPFC enables housing resources to be better coordinated and directed to accomplish the City's revitalization goals, and gives the City another tool to establish housing in downtown and other areas targeted for development. SAHTPFC's Board of Directors is appointed by the City Council of San Antonio, and consists of five City Council members.

The blended component unit with a different fiscal year-end from the City is the San Antonio Public Library Foundation with a fiscal year-end of December 31st. It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to Pension Fund and Health Fund would be misleading. Therefore, relevant disclosures have been included in the City's financial statements.

The City noted that HFDC, IDA, SAHEA and WDC did not complete audits of their fiscal year 2010 activities in time for the City to include in its financial statements. It is management's belief that the exclusion of these component units' statements does not materially misrepresent the City's financial statements. The City restated beginning fund balance/net assets for these component units as included in Note 17, Prior Period Restatement.

Discretely Presented Component Units

The relationship among the following component units and the City is such that they meet the criteria, as set forth in GASB Statements No. 14 and No. 39, for inclusion in the reporting entity as discretely presented component units.

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

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

Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

City South Management Authority
P.O. Box 839966
San Antonio, Texas 78283
Contact: Jesus Garza
Telephone No. (210) 207-7950

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

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

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

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

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

Municipal Golf Association – San Antonio
2315 Avenue B
San Antonio, Texas 78215
Contact: James E. Roschek
Telephone No. (210) 298-5999

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

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Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

Port Authority of San Antonio dba Port San Antonio
907 Billy Mitchell Blvd
San Antonio, Texas 78226
Contact: Dan Ferris
Telephone No. (210) 362-7821

Greater Kelly Development Corporation (GKDC) was established in 1996 as a local development authority on an interim basis under the Development Corporation Act of 1979 for the development and redevelopment of Kelly Air Force Base (Kelly). In November 1999, the City established the Greater Kelly Development Authority (GKDA) as the successor-in-interest to the GKDC pursuant to the newly enacted Senate Bill 655. In accordance with the Act, the GKDA has the powers previously enjoyed by the GKDC, while at the same time clarifying such powers and preserving the property tax-exempt status of prior commercial tenants at Kelly. In 2006, GKDA changed its name to Port Authority of San Antonio dba Port San Antonio (the Port). The Port is a special district and political subdivision of the State of Texas and was established for the purpose of monitoring the proposed closing of Kelly; conducting comprehensive studies of all issues related to the closure, conversion, redevelopment, and future use of Kelly; reviewing all options relative to the most appropriate uses of Kelly and the surrounding area; formulating and adopting a comprehensive plan for the conversion and redevelopment of Kelly and submitting such plan to the appropriate agency or agencies of the federal government; and implementing such plan as it relates to Kelly and the surrounding area. The Port is governed by an eleven-member board of directors, appointed by the City Council of San Antonio. The City Council also has the ability to remove appointed members of the organization's governing board at will. The Port is authorized to issue bonds to finance any project as permitted by state laws. These bonds are not obligations of the City.

Urban Renewal Agency of the City of San Antonio dba San Antonio Development Agency
Center City Development-City of San Antonio
1400 S. Flores
San Antonio, Texas 78204
Contact: Adil A. Elgaili
Telephone No. (210) 207-7527

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

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

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

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Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

San Antonio Housing Trust Foundation, Inc.
P.O. Box 15915
San Antonio, Texas 78212
Contact: John Kenny
Telephone No. (210) 735-2772

San Antonio Housing Trust Foundation, Inc. (SAHTF) is a nonprofit entity incorporated in 1990 under the laws of the State of Texas. SAHTF was organized for the purposes of supporting charitable, educational, and scientific undertakings, and specifically for providing housing for low- and middle-income families, promoting public health, safety, convenience, and welfare, revitalizing neighborhoods and the downtown area through appropriate housing activities, and to provide administrative and other support for the operations of the City of San Antonio Housing Trust Fund, a Permanent Fund of the City. SAHTF is governed by an eleven-member board of directors appointed by the City Council of San Antonio. SAHTF administers the San Antonio Housing Trust Finance Corporation. The City has the ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations of the SAHTF as it authorizes a contract for the administration and management of the operations on an annual basis.

San Antonio Water System
P.O. Box 2449
San Antonio, Texas 78298-2449
Contact: Doug Evanson
Telephone No. (210) 233-3803

On May 19, 1992, the consolidation of water systems, agencies and activities into one institution through a refunding of the then outstanding water and sewer bonds of the former City Water Board, Alamo Water Conservation and Re-Use District, and the City's Sewer and Stormwater System, resulted in the creation of the San Antonio Water System (SAWS). The City Council of San Antonio determined that the interests of the citizens and the customers would best be served by placing authority for management and control of SAWS, as consolidated, with a board of trustees. This board of trustees includes the City's Mayor as an ex-officio member, along with six members appointed by the City Council for four-year staggered terms. The rates for user charges and bond issuance authorizations are approved by the City Council.

San Antonio Housing Trust Reinvestment Corp.
P.O. Box 15915
San Antonio, Texas 78212
Contact: John Kenny
Telephone No. (210) 735-2772

San Antonio Housing Trust Reinvestment Corporation (SAHTRC) was created to act as a duly constituted authority of the City and is authorized by the City Council of San Antonio to aid, assist, and act on behalf of the City to promote for the common good and general welfare of reinvestment zones. As SAHTRC had no activity through September 30, an audit is not deemed necessary in fiscal year 2010.

Essential disclosures related to the above mentioned discretely presented and blended component units are included in the complete financial statements of each of the individual component units. These statements may be obtained at the respective entity's administrative office.

It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to CPS Energy and SAWS would be misleading. CPS Energy and SAWS have been identified as major discretely presented component units as they both relate to total component units and to the primary government. Therefore, relevant disclosures have been included in the City's financial statements. Discretely presented component units with different fiscal year-ends from the City are CPS Energy and SAEAPFC with fiscal year-ends of January 31st and SAWS with a fiscal year-end of December 31st.

Note 1 Summary of Significant Accounting Policies (Continued)

Related Organizations

The City Council of San Antonio appoints members to the board of commissioners for the San Antonio Housing Authority (SAHA) and a majority of the board of directors for Keep San Antonio Beautiful, Inc. However, the City's accountability for these entities does not extend beyond making appointments to their boards, and the coordination and approval of strategic plans, for SAHA.

Basic Financial Statements - GASB Statement No. 34

Government-Wide and Fund Financial Statements - The basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements report information on all nonfiduciary activities of the primary government and its component units. MD&A introduces the basic financial statements and provides an analytical overview of the City's financial activities. Additionally, for the most part, the effect of interfund activity has been removed from the statements.

The Statement of Net Assets - Reflects both short-term and long-term assets and liabilities. In the government-wide Statement of Net Assets, governmental activities are reported separately from business-type activities. Governmental activities are supported by taxes and intergovernmental revenues, whereas business-type activities are normally supported by user fees and charges for services. Long-term assets, such as capital assets and unamortized bond issuance costs, and long-term obligations, such as debt, are now reported in the governmental activities. The components of net assets are presented in three separate components: (1) invested in capital assets, net of related debt, (2) restricted, and (3) unrestricted. Interfund receivables and payables within governmental and business-type activities have been eliminated in the government-wide Statement of Net Assets, which minimizes the duplication of assets and liabilities within the governmental and business-type activities. The net amount of interfund transfers between governmental, proprietary and fiduciary funds is the balance reported in the Statement of Net Assets. Component units are also reported in the Statement of Net Assets.

The Statement of Activities - Reflects both the gross and net cost format. The net cost (by function or business-type activity) is usually covered by general revenues (property tax, sales and use tax, revenues from utilities, etc.). Direct (gross) expenses of a given function or segment are offset by charges for services, and operating and capital grants and contributions. Program revenues must be directly associated with the function of program activity. The presentation allows users to determine which functions are self-supporting and which rely on the tax base in order to complete their mission. Internal Service Fund balances, whether positive or negative, have been eliminated against the expenses and program revenues shown in the governmental and business-type activities of the Statement of Activities.

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

The proprietary funds have a reconciliation presented in the proprietary funds' Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Fund Net Assets related to the Internal Service Fund allocation.

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CITY OF SAN ANTONIO, TEXAS

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Accounting

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

The criteria used to determine if a governmental or enterprise fund should be reported as a major fund are as follows: the total assets, liabilities, revenues or expenditures/expenses of that governmental or enterprise fund are at least 10.0% of the corresponding element total for all funds of that category or type (that is, total governmental or total enterprise funds), and the same element that met the 10.0% criterion above in the governmental or enterprise fund is at least 5.0% of the corresponding element total for all governmental and enterprise funds combined.

The following is a brief description of the major governmental funds that are each presented in a separate column in the fund financial statements:

- The General Fund is always presented as a major fund.
- The Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs, except those that are accounted for in enterprise funds.
- The Categorical Grant-In-Aid Fund, a special revenue fund, accounts for the receipt and disbursement of all federal and state grants, except for Community Development Block Grants, HUD 108 loans, HOME Investment Partnership Grants, and the American Recovery and Reinvestment Act Grants.
- The 2007 General Obligation Bonds Fund, a capital projects fund, accounts for the receipt and disbursement of $550,000 in bond sales for physical infrastructure development and improvement projects approved by a bond election held on May 12, 2007. These projects were within five areas: streets and pedestrian, drainage improvements, parks and recreation, library and public health.

The following is a brief description of the major enterprise fund that is presented separately in the fund financial statements:

- The Airport System accounts for the operation of the San Antonio International Airport and Stinson Municipal Airport. Financing for the Airport System operations is provided by user fees.

Governmental Funds

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

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

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

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

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

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

The governmental funds that have legally adopted budgets are the General Fund, Debt Service Fund, Special Revenue Funds (excluding HOME Program, Categorical Grant-In-Aid, HUD 108 Loan Program, Community Development Program, American Recovery and Reinvestment Act, and most Community Services Funds), and San Jose Burial Park Fund.

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 Fund includes reporting on funds restricted for the City's literacy programs. The Agency Funds account for the City's sales and use tax to be remitted to the State of Texas, various fees for other governmental entities, unclaimed property, and holds various deposits. Pension Trust, Retiree Health Care Trust, and the Private Purpose Trust Fund are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Measurement Focus and Basis of Accounting

Primary Government (City)

The government-wide financial statements present information about the City as a whole. Government-wide financial statements exclude both fiduciary funds and fiduciary component units. The Statement of Net Assets and the Statement of Activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The City recognizes revenue from property taxes in the period for which they were levied. Property taxes receivable includes taxes due and amounts expected to be collected within 60 days after the year-end, along with related interest and penalties. For additional disclosure related to property taxes see Note 2, Property Tax. Other taxes and fees are recognized as revenue in the year they are earned. Revenues from grants and similar items are recognized in the fiscal year the qualifying expenditures are made and all other eligibility requirements have been satisfied.

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Primary Government (City) (Continued)

Program revenues are presented in the government-wide Statement of Activities. The City reports program revenues in three categories: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions. Further descriptions of these three categories follow. They are presented separately as a reduction of the total expense to arrive at the net expense of each functional activity. Program revenues are revenues generated by transactions with outside parties who purchase, use, or directly benefit from a program. They also include amounts such as grants and contributions received from outside parties that restrict the use of those funds to specific programs.

1) Charges for services are revenues generated by those who purchase goods or services from the City. Examples of charges for services include airport landing fees, solid waste collection and disposal fees, vacant lot clean up, and food establishment licenses. Fines and forfeitures, license and permits and intergovernmental revenues as reported in the General Fund are also reported under charges for services.
2) Operating grants and contributions are those revenues that are restricted in the way they may be spent for operations of a particular program.
3) Capital grants and contributions are also restricted revenues; the funds may only be spent to purchase or build capital assets for specified programs.

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included in their balance sheets and revenues are recognized in the accounting period in which they become available and measurable. "Available" means collectible within the current period, or soon enough thereafter, to be used to pay liabilities of the current period. Revenues from property taxes, sales and use taxes, occupancy taxes, gross receipts taxes, municipal court fines and fees, licenses, revenues from utilities, investment earnings, and charges for services are recorded on the modified accrual basis of accounting, and therefore, are considered susceptible to accrual. The City's availability period is no more than 60 days beyond the end of the fiscal year. When collections are delayed beyond the normal time of receipt due to unusual circumstances, the amounts involved are still recognized as revenues of the current period. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by the provider have been met. Grant funds received in advance and delinquent property taxes are recorded as deferred revenue until earned and available.

Gross receipts and sales and use taxes are considered available when received by intermediary collecting governments, and are recognized at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Expenditures are recognized in the accounting period in which the fund liability is incurred; however, accrued leave, debt service expenditures, claims and judgments, arbitrage rebates, postemployment obligations, and pollution remediation are recorded only when the liability is matured.

The reported fund balance (net current assets) for each fund is considered a measure of "current financial resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "current financial resources" during the period.

Special reporting treatments are applied to governmental fund materials and supplies, prepaid expenditures, and deposits to indicate that they do not represent "current financial resources," since they do not represent net current assets. Such amounts are generally offset by fund balance reserve accounts.

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Primary Government (City) (Continued)

Proprietary, Pension, Private Purpose Trust, Health Funds, and governmental and business-type activities are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses and related liabilities, including claims, judgments, and accrued leave, are recognized when they are incurred. These funds are accounted for on a cost of services or "economic resources" measurement focus. Consequently, all assets and all liabilities (whether current or noncurrent) associated with their activity are included in their balance sheets. The reported proprietary fund net assets are segregated into three components: (1) invested in capital assets, net of related debt, (2) restricted, and (3) unrestricted net assets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net assets.

Proprietary funds report both operating and nonoperating revenues and expenses in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The City defines operating revenues as those receipts generated by a specified program offering either a good or service. For example, parking garage and street lot fees are operating revenues of the Parking System Fund. This definition is consistent with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* which defines operating receipts as cash receipts from customers and other cash receipts that do not result from transactions defined as capital and related financing, noncapital financing or investing activities. Operating expenses include personal services, contractual services, commodities, other expenses (such as insurance), and depreciation. Revenues and expenses not fitting the above definitions are considered nonoperating.

The City's proprietary funds, Pension, private purpose trust and Health Funds and business-type activities, as well as its discretely presented component units, apply all applicable GASB Statements as well as FASB Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

CPS Energy

CPS Energy's operating revenue includes receipts from energy sales and miscellaneous revenue related to the operation of electric and gas systems.

CPS Energy revenues are recorded when earned. Customers' meters are read and bills are prepared monthly based on billing cycles. Rate schedules include adjustment clauses that permit recovery of electric and gas fuel costs. CPS Energy has used historical information from the relative prior fiscal years as partial bases to estimate and record earned revenue not yet billed. This process has involved an extrapolation of customer usage over the days since the last meter read through the last day of the monthly period. Also included in unbilled revenue are the over/under-recoveries of electric and gas fuel costs and regulatory assessments.

CPS Energy's electric fuel cost adjustment clause also permits recovery of regulatory assessments. Specifically beginning in March 2000, CPS Energy began recovering assessments from the Public Utility Commission of Texas (PUCT) for transmission access charges, and from the Texas Independent System Operator, also known as the Electric Reliability Council of Texas (ERCOT), for its operating costs and other charges applicable to CPS Energy as a wholesale provider of power to other utilities.

Miscellaneous revenue includes late payment fees, rental income, jobbing and contract work, and ancillary services. Operating expenses are recorded as incurred and include those costs that result from the ongoing operations of the electric and gas systems.

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

CPS Energy (Continued)

Nonoperating revenue consists primarily of investment income, including fair market value adjustments. The amortization of net gains from the lease/leaseback of J.K. Spruce Unit 1 is also included. Certain miscellaneous income amounts from renting general property and providing various services are also recorded as nonoperating revenue when they are not directly identified with the electric or gas systems. These amounts for fiscal year 2010 were recorded net of expenses.

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

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

Current-year activity in the Decommissioning Trusts has been reported in the nonoperating income (expense) section of the Statement of Revenues, Expenses and Changes in Fund Net Assets as net costs recoverable (refundable) through future rates. There was no impact to fund net assets as a result of this change in accounting method.

To more accurately reflect funding methodology, the Allowance for Funds Used During Construction (AFUDC) rate was modified effective for fiscal year 2010 to include both a debt and an equity component. The new blended rate is composed of 50.0% equity and 50.0% debt based on construction funding forecasts for fiscal year 2010. Both the investment rate as well as the debt rate will continue to be reviewed quarterly to determine if any adjustments are necessary. Projects costing more than $100,000 use alternate AFUDC rates, which reflect the method by which they are funded.

San Antonio Water System (SAWS)

SAWS revenues are recorded when earned. Customers' meters are read and bills are prepared monthly based on billing cycles. SAWS uses historical information to estimate and record earned revenue not yet billed.

SAWS' principal operating revenues are charges to customers for water supply, water delivery, wastewater, and chilled water and steam services. Operating expenses include the cost of service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Nonoperating revenues consist primarily of interest income earned on investments, including the changes in fair value of investments. Nonoperating expenses consist primarily of interest expense, amortization of debt related costs, sales of capital assets and payments to the City.

Note 1 Summary of Significant Accounting Policies (Continued)

Current Year GASB Statement Implementations

In fiscal year 2010, the City implemented the following GASB Statements:

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes consistent guidance on recognition of intangible assets. The Statement requires that an intangible asset be recognized in the Statement of Net Assets only if it is considered identifiable. This Statement also establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. This Statement also establishes guidance specific to intangible assets related to amortization. It provides guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions, and if there are no factors that limit the useful life of an intangible asset, it is considered to have an indefinite useful life. It is the determination of the City that implementation of GASB Statement No. 51 did not materially impact the City's Financial Statements as the City's right of ways and internally generated systems have traditionally been recorded in construction in progress (CIP) and capitalized and depreciated, where deemed appropriate, upon the project's completion. The City did not restate beginning balances for implementation of this Statement due to immateriality of the $398 reduction to CIP. All indefinite life right of ways were previously recorded in non-depreciable assets (Land), and transferred to nondepreciable intangible assets as part of this implementation.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, is intended to improve how state and local governments recognize, measure, and disclose information about derivative instruments in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements. The guidance in this Statement also addresses hedge accounting requirements. The requirements for this Statement are effective for fiscal periods beginning after June 15, 2009. It is the determination of the City that implementation of GASB Statement No. 53 did not impact the City's financial statements since the City does not invest in or use derivative instruments, but did impact certain of the City's component units.

GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, is intended to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United Statements Bankruptcy Code. It is the determination of the City that requirements of GASB Statement No. 58 are not applicable to the City of San Antonio.

Future GASB Statement Implementations

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements for this Statement are effective for fiscal periods beginning after June 15, 2010. The City will implement this Statement in fiscal year 2011.

GASB Statement No. 57, *OPEB Measurements by Agent Employees and Agent Multiple-Employer Plans*, is intended to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agency multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements for this Statement are effective for fiscal periods beginning after June 15, 2011. The City will implement this Statement in fiscal year 2012.

Note 1 Summary of Significant Accounting Policies (Continued)

Future GASB Statement Implementations (Continued)

GASB Statement No. 59, *Financial Instruments Omnibus*, updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. This Statement provides for amendments to the National Council on Governmental Accounting Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*; GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plan*s, and No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plan*s; GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools;* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures.* The City will implement this Statement in fiscal year 2011.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, improves financial reporting by addressing issues related to service concession arrangements (SCAs). The requirements of this Statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. The requirements of this Statement are effective for fiscal periods beginning after December 15, 2011. The City will implement this Statement in fiscal year 2013.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34,* improves financial reporting for a governmental financial reporting entity. The requirements of this Statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. This Statement provides amendments to Statement No. 14, *The Financial Reporting Entity,* and Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* The requirements of this Statement are effective for fiscal periods beginning after June 15, 2012. The City will implement this Statement in fiscal year 2013.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, improves financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This requirement will bring the authoritative accounting and financial reporting literature together in one place. This Statement will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, resulting in more consistent application of applicable guidance. The requirements of this Statement are effective for fiscal periods beginning after December 15, 2011. The City will implement this Statement in fiscal year 2013.

The City has not fully determined the effects that implementation of Statements No. 54, No. 57, No. 59, No. 60, No. 61 and No. 62 will have on the City's financial statements.

Cash and Cash Equivalents and Investments

The City's investment practices are governed by state statutes and by the City's own Investment Policy. City cash is required to be deposited in FDIC-insured banks located within the State of Texas. A pooled cash and investment strategy is utilized, which enables the City to have one central depository. Investments are pooled into two primary categories: operating funds and debt service funds. The balances in these funds are invested in an aggregate or pooled amount, with principal and interest income distributed to each respective fund on a pro rata basis. In addition, the City may purchase certain investments with the available balance of a specific fund for the sole benefit of such fund. As of September 30, 2010, the City's investment portfolio did not contain any derivative or alternative investment products, nor was it leveraged in any way, except as noted in the Fire and Police Pension Fund and Fire and Police Retiree Health Care Fund. For a listing of authorized investments, see Note 3, Cash and Cash Equivalents and Investments.

Note 1 Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents and Investments (Continued)

The City, CPS Energy, and SAWS account for, and report investments, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The Fire and Police Pension Plan and the Fire and Police Retiree Health Care Fund report investments at fair value, in accordance with GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. The City's policy with respect to money market investments, which have a remaining maturity of one year or less at the time of purchase, is to report those investments at amortized cost, which approximates fair value. Amortization of premium or accretion of discount is recorded over the term of the investments.

For purposes of the statement of cash flows, the City, CPS Energy, and SAWS consider all highly liquid investments with an original maturity of approximately 90 days or less to be cash equivalents.

Materials and Supplies and Prepaid Items

Materials and supplies consist principally of expendable items held for consumption and are stated at cost, based on first-in first-out and lower of average cost or market methods. For governmental and proprietary fund types, the "consumption" method is used to account for certain materials and supplies. Under the consumption method, these acquisitions are recorded in material and supplies accounts and charged as expenditures (governmental fund types) or expenses (proprietary fund types) when used.

Prepaid items are goods and services that are paid in advance. These payments reflect costs applicable to future accounting periods, and are recorded in both government-wide and fund financial statements. Using the consumption method, prepaid items are charged as expenditures for governmental funds and as expenses for proprietary funds as the goods or services are used.

Capital Assets and Depreciation

Primary Government (City)

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Capital assets recorded under capital leases are recorded at the present value of future minimum lease payments. Depreciation on all exhaustible capital assets of the City is charged as an expense with accumulated depreciation being reported in the Statement of Net Assets. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The City has established capitalization thresholds for buildings, improvements, infrastructure, machinery and equipment, furniture and office equipment, and intangible assets (e.g. right of ways, easements, internally generated software). Some intangible assets may have an indefinite life. For those assets, depreciation is not calculated. The estimated useful lives and capitalization thresholds applied are as follows:

Assets	Useful Life (Years)	Capitalization Threshold
Buildings	15-40	$ 100
Improvements (Other than buildings)	20-40	100
Infrastructure	15-100	100
Machinery and Equipment	2-20	5
Furniture and Office Equipment	5-10	5
Intangible Assets	5-40	100

Note 1 Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation (Continued)

CPS Energy

The costs of additions and replacements of assets identified as major components or property units are capitalized. Maintenance and replacements of minor items are charged to operating expenses. Except for certain assets that may become impaired, the cost of depreciable plant retired, plus removal costs and less salvage, is charged to accumulated depreciation. Per the financial reporting requirements of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, any losses associated with capital asset impairments will be charged to operations, not to accumulated depreciation.

The CPS Energy's utility plant is stated at the cost of construction, including expenses for contracted services; direct equipment, material and labor; indirect costs, including general engineering, labor, equipment and material overheads; and an allowance for funds used during construction (AFUDC), which represents capitalized interest. CPS Energy computes AFUDC using rates that approximate the cost of borrowed funds measured as the investment rate for other funds used for construction. Noncash AFUDC is applied to projects estimated to require 30 days or more to complete.

Proceeds from customers to partially fund construction expenditures are reported in the Statements of Revenues, Expenses and Changes in Fund Net Assets as increases in fund net assets in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Except for nuclear fuel, which is amortized over units of production, CPS Energy computes depreciation using the straight-line method over the estimated service lives of the depreciable property according to asset type. Total depreciation as a percent of total depreciable assets, excluding nuclear fuel, was 3.3% for fiscal year 2010.

The estimated useful lives of capital assets were as follows:

Buildings and structures	20-60 years
Systems and improvements:	
Generation	18-60 years
Transmission and distribution	20-55 years
Gas	50-65 years
Machinery and equipment	4-30 years
Lignite mineral rights and other	20-40 years
Nuclear fuel	Units of Production

Capitalization thresholds contained in CPS Energy's capitalization policy for fiscal year 2010 were as follows:

Land, land improvements and certain easements	Capitalize All
Buildings and building improvements	$ 10
Computer software - purchased	10
Computer software – internally developed	100
Computer software – enhancements/upgrades	100
Computer hardware	3
All other assets	3

- 44 - Amounts are expressed in thousands
- 45 - Amounts are expressed in thousands

Note 1 Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation (Continued)

San Antonio Water System (SAWS)

SAWS' capital assets in service are capitalized when the unit cost is greater than or equal to $5. Utility plant additions are recorded at cost, which includes materials, labor, overhead, and interest capitalized during construction. Overhead consists of internal costs that are clearly related to the acquisition of capital assets. Assets acquired through capital leases are recorded on the cost basis and included in utility plant in service. Assets acquired through contributions, such as those from developers, are recorded at estimated fair market value at date of donation. Maintenance, repairs, and minor renewals are charged to operating expense; major plant replacements are capitalized. Capital assets are depreciated and property under capital lease is amortized on the straight-line method. This method is applied to all individual assets except distribution mains. Groups of mains are depreciated on the straight-line method using rates estimated to fully depreciate the costs of the asset group over their estimated average useful lives. Intangible assets, including water rights, which are considered to have indefinite useful lives, are not amortized but are periodically reviewed for potential impairment. The following table shows an estimated average of useful lives used in providing for depreciation of capital assets:

Structures and improvements	25-50 years
Pumping and purification equipment	10-50 years
Distribution and transmission system	25-50 years
Collection system	50 years
Treatment facilities	25 years
Equipment and machinery	5-20 years
Furniture and fixtures	3-10 years
Computer equipment	5 years
Software	3-10 years

General Bonded Debt Service

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service Fund. Amounts estimated to be required for debt service on general bonded debt are provided by allocated property taxes, investment earnings within the Debt Service Fund, and transfers from other funds.

Accrued Leave

Primary Government (City)

In the governmental fund financial statements, the City accrues annual leave and associated employee related costs when matured (payable from available resources) for both civilian and uniformed employees. The matured portion of the City's compensatory time is also accrued annually for both civilian and uniformed employees. In addition, the City accrues the matured portion of its uniformed employees' accrued sick leave, holiday, and bonus pay.

For governmental fund types, the matured current portion of the liability resulting from the accrual of these leave liabilities is recorded in the respective governmental fund and reported in the fund financial statements, while the entire vested liability is reported in the government-wide financials. The current and long-term portions of the liability related to proprietary fund types are accounted for in the respective proprietary funds.

Note 1 Summary of Significant Accounting Policies (Continued)

Accrued Leave (Continued)

CPS Energy

Employees earn vacation benefits based upon their employment status and years of service.

San Antonio Water System (SAWS)

It is SAWS' policy to accrue employee vacation pay as earned as well as the employer portion of Social Security taxes and required pension contributions related to the accrued vacation pay. Sick leave is not accrued as a terminating employee is not paid for accumulated sick leave.

Insurance

Activity for the City's self-insurance programs is recorded in the Internal Service Funds. Assets and obligations related to property and casualty liability, employee health benefits, workers' compensation, unemployment compensation, and employee wellness are included.

The City is insured for property loss on a primary basis through Great American Insurance Company of New York. Excess liability coverage for casualty losses is provided by Star Insurance Company. Related liabilities are accrued based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported prior to the end of the fiscal year. The City determines and accrues loss liabilities based on an actuarial assessment of historical claim data and industry trends performed annually.

The City also provides employee health insurance, which includes a pro rata share of retiree health benefits, Workers' Compensation, and unemployment benefits under its self-insurance programs. The City is a member of the Texas Municipal League Workers' Compensation Joint Insurance Fund, and uses this fund as a mechanism for administering Workers' Compensation claims that occurred prior to September 30, 1986. Workers' Compensation claims that occurred after October 1, 1986 are administered by third-party administrators. In addition, as of September 30, 2010, the City has excess Workers' Compensation coverage through Star Insurance Company. The City records all Workers' Compensation loss contingencies, including claims incurred but not reported. The City determines and accrues Workers' Compensation liabilities based on an actuarial assessment of historical claim data and industry trends performed annually.

Employee and retiree health benefit liabilities are determined and accrued based upon the City's estimates of aggregate liabilities for unpaid benefits utilizing claim lag data from the City's third party administrator (TPA). The City additionally determines and accrues postemployment liabilities based on an actuarial assessment of historical claim data performed bi-annually and reviewed annually. Current year unpaid benefit liabilities for retirees are netted against the postemployment liability as additional contributions.

Regarding unemployment compensation, the City is subject to the State of Texas Employment Commission Act. Under this act, the City's method for providing unemployment compensation is to reimburse the State for claims paid by the State.

All insurance carriers providing coverage for the City are required to possess an A.M. Best Company rating of A- or better; where A- denotes "Excellent." A.M. Best is an industry recognized rating service for insurance companies. For a more detailed explanation of the City's self-insurance programs, see Note 13, Risk Financing.

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Amounts are expressed in thousands

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Equity

Reservations of fund equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund equity represent tentative plans identified by management and are subject to change. Designations are utilized in the City's governmental funds for amounts that have been designated for subsequent years' expenditures and amounts allocated to making future improvements and replacements. Such designations are reflected on the fund financial statements.

Allocation of Indirect Expenses

The City recovers indirect costs in the General Fund through the application of departmental indirect cost rates. These rates are developed and documented in the City's departmental indirect cost rate plan. In this plan, each department is classified by function. Indirect costs are budgeted by department and are used as a basis for the City's actual indirect cost allocation. Base rates are then applied to actual indirect costs recovered and indirect costs are reclassified to reduce general government expenditures. For fiscal year 2010, general government expenditures were reduced by $9,360, resulting in increased expenditures/expenses in other governmental functions and in business-type activities in the amounts of $6,940 and $2,420, respectively.

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts are amortized over the life of the debt. Debt refundings (carrying value of the debt net of any unamortized costs of the old debt) are deferred and amortized over the shorter of the life of the original bonds or the life of the refunding bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses.

Bond Issuance Costs

In the government-wide and proprietary fund financial statements, bond issuance costs are reported as assets in the Statement of Net Assets and amortized over the life of the debt.

In the fund financial statements, governmental fund types recognize bond issuance costs during the current period as expenditures of the funds in which proceeds of debt issuances are recorded.

Elimination of Internal Activity

Elimination of internal activity, particularly related to Internal Service Fund transactions, is needed to make the transition from governmental funds to government-wide activities. The overriding objective in eliminating the effects of Internal Service Fund activity is to adjust the internal charges to cause a break-even result. Eliminating the effect of Internal Service Fund activity requires the City to look back and adjust the Internal Service Funds' internal charges. Net income derived from Internal Service Fund activity would cause a pro rata reduction in the charges made to the participating funds/functions. Conversely, an Internal Service Fund net loss would require a pro rata increase in the amounts charged to the participating funds/functions. Therefore, eliminations made to the Statement of Activities remove the doubling up effect of Internal Service Fund activity. The residual internal balances between the governmental and business-type activities are reported in the Statement of Net Assets and the internal balance amounts that exist within the governmental funds or within business-type funds are eliminated. The City reports Internal Service Fund balances in both governmental and business-type activities, based on the pro rata share of the amounts charged to the participating funds/functions.

Note 1 Summary of Significant Accounting Policies (Continued)

Elimination of Internal Activity (Continued)

The City has three Internal Service Funds: Other Internal Services, Information Technology Services, and Self-Insurance Funds. Other Internal Services and Information Technology Services charge user fees for requested goods or services. Building maintenance, a component of the Other Internal Services Fund, charges are based on the space occupied by departments. Information Technology Services also charges a monthly amount based on the number of personnel positions in each department. Through the tracking of these charges to the applicable departments, the net income or loss is allocated back to the user department, based on actual charges incurred.

The Self-Insurance Funds generate their revenues through fixed assessments charged to the various funds each year, as well as, a pro rata user fee charged to employees. The Employee Benefits Fund additionally generates revenue through a pro rata user fee charged to retirees. The net income or loss generated by the Self-Insurance Funds is allocated back, based on the same allocation by which the revenues are received over time.

Application of Restricted and Unrestricted Net Assets

The City may receive funding from an organization whose expenditures are restricted to certain allowable costs. In situations where both restricted and unrestricted net assets are expended to cover allowable expenses, the City will first expend the restricted net assets and cover additional costs with unrestricted net assets. The City reserves the right to selectively defer the use of restricted assets.

Unreserved Designated Fund Balance

The designated fund balances from the governmental funds balance sheet are composed of the following:

- The General Fund has designated unreserved fund balances of $5,289 for budgeted carryforwards, $547 for special projects, $79,837 reserve for revenue loss, $11,954 for Public, Educational and Government Access Funding (PEG) revenues, $112 for the Streets Endowment Funds, and $23 for Human Development Services Funds.
- Special Revenue Funds designated fund balance consists of a reservation of $4,183 in Hotel Occupancy Taxes received for the Grand Hyatt (Convention Center Hotel) that are pledged to cover debt repayments.
- Permanent Funds designated fund balance consists of a reservation from the sale of burial lots within the San Jose Burial Park Fund of $2,366, the endowment for the San Antonio Public Library Foundation of $1,920, and the endowment for the Boza Becica Fund of $516.

Reclassifications

During the City's annual review of its Component Units, two entities (SAEFC and WDC) had changes in their management or involvement with the City's Council that resulted in their reclassification from Discretely Presented to Blended.

Note 2 Property Taxes

Property taxes are levied and due upon receipt on October 1, attached as an enforceable lien on property as of January 1, and become delinquent the following February 1. Property tax billing and collections are performed via an inter-local agreement with the Bexar County Tax Assessor/Collector's Office.

The City is permitted by the Municipal Finance Law of the State of Texas to levy taxes up to $2.50 per $100 of taxable valuation (please note amounts are not reflected in thousands). The tax rate approved by City ordinance for the fiscal year-ended September 30, 2010, was $0.56569 per $100 taxable valuation, which means that the City has a tax margin of $1.93431 per $100 taxable valuation (please note that tax rate amounts are not reflected in thousands). This could raise an additional $1,407,079 per year based on the net taxable valuation of $72,743,219 before the limit is reached.

Note 2 Property Taxes (Continued)

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, 2010, there are 24 existing TIRZ with a total taxable captured value of $1,226,990. For fiscal year 2010, this total taxable captured value produced $6,488 in tax increment revenues for use by the City to fund capital costs of certain public infrastructure improvements in the TIRZ. The existing TIRZ have terms ranging from 13 years to 30 years which are anticipated to expire starting in fiscal year 2014 through fiscal year 2038. It is estimated that the City will contribute approximately $695,250 in tax increment revenues in aggregate over the life of these TIRZ projects. The existing TIRZ are referred to as the Rosedale, Highland Heights, 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, Heather Cove, Ridge Stone, Palo Alto Trails, Hunters Pond, Rosillo Ranch, River North, Verano Projects, Westside, Midtown, and Mission Drive-In.

Note 3 Cash and Cash Equivalents, Securities Lending and Investments

Summary of Cash and Cash Equivalents, Securities Lending and Investments

A summary of cash and cash equivalents, securities lending and investments for the primary government (City), Fire and Police Pension Fund, Fire and Police Retiree Health Care Fund, CPS Energy, and SAWS are presented below as of each entity's respective fiscal year. The information is provided in order to facilitate reconciliation between the Statement of Net Assets and the following note disclosures:

Totals from Statement of Net Assets

	City [1]	Fire and Police Pension Fund [2]	Fire and Police Retiree Health Care Fund [2]	CPS Energy [3]	SAWS [4]
Unrestricted:					
Cash and Cash Equivalents	$ 33,303	$ 65,684	$ 9,519	$ 298,818	$ 32,138
Security Lending Collateral	56,831	112,290	6,035	31,815	
Investments	370,035	1,850,877	176,315	102,996	137,879
Total Unrestricted	460,169	2,028,851	191,869	433,629	170,017
Restricted:					
Cash and Cash Equivalents	101,582			39,102	96,334
Security Lending Collateral	92,020				
Investments	773,539			779,092	310,301
Total Restricted	967,141	-	-	818,194	406,635
Total Cash and Cash Equivalents, Securities Lending and Investments	$ 1,427,310	$ 2,028,851	$ 191,869	$ 1,251,823	$ 576,652

[1] Private Purpose Trust and Agency Funds, City South Management Authority and San Antonio Development Agency's cash, security lending collateral and investments are included in the City's pooled cash, security lending collateral and investments but are not available for City activities and are excluded from the primary government's Statement of Net Assets. The Private Purpose Trust and Agency assets are presented above as Restricted Cash and Cash Equivalents of $1,509, Security Lending Collateral of $1,401 and Investments of $8,812. The other entities' assets are presented in the Discretely Presented Component Unit's Statement of Net Assets.

[2] The Fire and Police Pension Fund and the Fire and Police Retiree Health Care Fund are separately issued fiduciary component units and are excluded from the primary government's Statement of Net Assets.

[3] For the fiscal year ended January 31, 2010.

[4] For the fiscal year ended December 31, 2009.

CITY OF SAN ANTONIO, TEXAS

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

Summary of Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Summary of Cash and Cash Equivalents

	City	Fire and Police Pension Fund	Fire and Police Retiree Health Care Fund	CPS Energy	SAWS
Deposits with Financial Institutions	$ 38,003	$ 196	$ 34	$ 1,989	$ 56,884
Investments with Original Maturities of Less than Ninety Days	95,150	65,488	9,485	335,842	71,558
Cash with Other Financial Agents	1,556				
Petty Cash Funds	96			89	
Cash on Hand	80				30
Total Cash and Cash Equivalents	$ 134,885	$ 65,684	$ 9,519	$ 337,920	$ 128,472

Summary of Investments

	City	Fire and Police Pension Fund	Fire and Police Retiree Health Care Fund	CPS Energy	SAWS
U.S. Treasury, Government Agencies, and Money Market Mutual Funds	$ 1,235,381	$ 152,373	$ 9,485	$ 977,851	$ 519,738
Repurchase Agreements	1,154				
Fixed Income Securities [1]	657				
Equity Securities [1]	1,532				
Corporate Bonds		431,594	2,714	61,646	
Foreign Bonds				4,255	
Government & Agency Notes			1,945		
Common Stock		787,274	26,458	174,178	
Real Estate		138,959	24,970		
Hedge Funds		227,750	38,173		
International Equities - Common Stock			14,808		
Alternative Investment		178,375	67,247		
Total Investments	1,238,724	1,916,325	185,800	1,217,930	519,738
Less: Investments with original maturities of Less than Ninety Days included in Cash and Cash Equivalents	(95,150)	(65,448)	(9,485)	(335,842)	(71,558)
Total	$ 1,143,574	$ 1,850,877	$ 176,315	$ 882,088	$ 448,180

[1] These investments are reported under a blended component unit (San Antonio Public Library Foundation). As the Foundation is a self-governing agency the City has no control over or rights to the Foundation's investments. Further breakout of these investments was not attainable.

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- 50 - Amounts are expressed in thousands
- 51 - Amounts are expressed in thousands

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

Primary Government (City)

City monies are deposited in demand accounts at the City's depository. The City utilizes a pooled cash and investment strategy with each fund's cash balance and pro rata shares of highly liquid investments, including U.S. Treasury securities, U.S. government agency securities, and repurchase agreements with original maturities of ninety days or less, summarized by fund type and included in the combined Statement of Net Assets as cash and cash equivalents. Overdrafts, which result from a fund overdrawing its share of pooled cash, are reported as interfund payables by the overdrawn fund and as interfund receivables of either the General Fund or another fund within a similar purpose.

The City's investment portfolio is managed in accordance with the Texas Public Funds Investment Act, as amended, and its own Investment Policy. Authorized investments include demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. government agencies, commercial paper, and repurchase agreements. The City maintains in its investment portfolio U.S. Treasury securities and U.S. government agency securities with original maturities greater than ninety days. Each fund's pro rata share of these investments with original maturities greater than ninety days is combined with similar nonpooled securities (i.e., securities purchased and held for specific funds), including U.S. Treasury securities and U.S. government agency securities, and are reported as investments in the combined Statement of Net Assets, as of September 30, 2010.

The City accounts for and reports investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The City's policy with respect to money market investments that have a remaining maturity of one year or less at the time of purchase is to report these investments at amortized cost. Amortized cost approximates fair value for these investments. The increase in fair value for investments of the City with a remaining maturity of greater than one year at the time of purchase was $294 for the year-ended September 30, 2010. The City does not participate in external investment pools.

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Exposure*, the following table and narrative addresses the interest rate risk exposure by investment type, using the weighted average maturity (WAM) method, custodial credit risk, interest rate risk, credit risk, and concentration of credit risk. The City does not hold any foreign securities; therefore, foreign currency risk is not applicable.

A summary of the City's cash and cash equivalents is provided at the beginning of Note 3, with a comparison to the Statement of Net Assets and Statement of Fiduciary Net Assets.

City Investments

	Carrying [1] Amount	Fair [1] Value	Allocation [2]	Rating [3]	WAM
U.S. Government Agency Securities	$ 947,968	$ 948,092	76.5%	AAA/A-1+	.44 years
U.S. Treasuries	193,122	193,293	15.6%	N/A	.49 years
Money Market Mutual Fund	93,996	93,996	7.6%	AAA	1 day
Fixed Income Securities [4]	657	657	0.1%		
Equity Securities [4]	1,532	1,532	0.1%		
Repurchase Agreement	1,154	1,154	0.1%	N/A	1 day
Total City Investments	$ 1,238,429	$ 1,238,724	100.0%		

[1] The Carrying Amount and Fair Value include investments for the Starbright Industrial Development Corporation, Texas Municipal Facilities Corporation, Convention Center Hotel Finance Corporation, and San Antonio Public Library Foundation, which total $16,472.

[2] The allocation is based on fair value.

[3] Standard & Poors.

[4] These investments are reported under a blended component unit (San Antonio Public Library Foundation). As the Foundation is a self-governing agency the City has no control over or rights to the Foundation's investments. Further breakout of these investments, ratings and WAM were not attainable.

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

Primary Government (City) (Continued)

Custodial Credit Risk (Deposits) - Collateral pledged for demand accounts and certificates of deposit is required to be held in the City's name in the custody of a third-party institution that customarily provides such custodial services at 102.0% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the U.S. government and its agencies and obligations of the State and its municipalities, school districts, and district corporations.

Written custodial agreements are required which provide, among other things, that the collateral securities are held separate from the assets of the custodial banks. The City periodically determines that the collateral has a market value adequate to cover the deposits (not less than 102.0% of the deposit amount) and that the collateral has been segregated either physically or by book entry. At fiscal year-end, cash deposits for the City were entirely collateralized by the City's depository with securities consisting of U.S. government and its agencies or U.S. government guaranteed obligations held in book entry form by the Federal Reserve Bank in the City's name.

Custodial Credit Risk (Investments) - The City's investment securities are held at the City's depository bank's third-party custodian, The Bank of New York Mellon, in the depository bank's name "as a custodian for the City". Assets pledged as collateral must generally be a type of security specifically authorized to be held as a direct investment; must be held by an independent third party; and must be pledged in the name of the City.

Interest Rate Risk - The City manages exposure to value losses resulting from rising interest rates by limiting the investment portfolio's weighted-average maturity to five years. Per the City's Investment Policy, investments are diversified across issuers and maturity dates so that fewer funds will be subject to interest rate risk occurrence at any given time. In addition, the City generally follows a laddered approach to investing, whereby blocks of roughly the same increments are invested at similarly increased maturity lengths. This approach provides security that all investments will not become due at one particularly advantageous or disadvantageous period of time, thereby spreading the risk. Weighted-average maturity is defined as the weighted-average time to the return of a dollar of principal. It is used as an estimate of the interest rate risk of a fixed income investment. The City invests in money market mutual funds with 100.0% overnight liquidity. Additionally, the City has entered into several repurchase agreements with 100.0% overnight liquidity for investment of certain bond proceeds.

Credit Risk – The City's Investment Policy requires the purchase of securities that are of the highest credit quality, based on current ratings provided by nationally recognized credit rating agencies. The City deems investments in U.S. Treasury securities and U.S. government agency securities that are guaranteed to be without credit risk. Investments in other debt securities will consist of securities rated 'A' or better by at least two nationally recognized rating agencies. As of September 30, 2010, the City's investment portfolio, with the exception of the repurchase agreement and the money market mutual fund investments, consisted only of U.S. Treasury securities and U.S. government agency securities. Investments in U.S. government agency securities, including Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Bank, and Federal Agricultural Mortgage Corporation, were rated 'AAA' (Long-term) and 'A-1+' (Short-term) by Standard & Poor's. The investments in the money market funds were rated 'AAA' by Standard & Poor's, and all repurchase agreements were greater than 100.0% collateralized with U.S. government agency securities. The City manages its exposure to credit risk by limiting its fixed income investments to a rating of 'A' or better.

Concentration of Credit Risk - Although the City's Investment Policy does not limit the amount of the portfolio invested in any one U.S. government agency, the City manages exposure to concentration of credit risk through diversification. As of September 30, 2010, the U.S. government agency's 76.5% securities allocation was as follows: Federal National Mortgage Association 29.4%, Federal Home Loan Mortgage Corporation 35.9%, Federal Home Loan Bank 2.9%, and Federal Agricultural Mortgage Corporation 8.3%.

- 52 -   *Amounts are expressed in thousands*
- 53 -   *Amounts are expressed in thousands*

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

Primary Government (City) (Continued)

Securities Lending – The City engages in securities lending transactions under a contract with its lending agent, Frost National Bank, which became effective on April 1, 2010. Authority to engage in these transactions is authorized under the Texas Public Funds Investment Act ("the Act") and the City's Investment Policy. The City has authorized Frost National Bank to loan up to 75.0% of the par value of its investments in the Pooled Operating Funds Portfolio, consisting of agency and treasury securities, in securities lending transactions for fiscal year 2010.

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, provides guidance for reporting and disclosing securities lending transactions. This guidance includes reporting certain securities lending collateral on the Balance Sheet as an asset, with a corresponding liability for the obligation to repay the collateral.

In securities lending transactions, the City, through its lending agent, transfers securities to approved borrowers in exchange for collateral and simultaneously agrees to return the collateral for the same securities in the future. Cash collateral received from borrowers may be invested in 'AAA'-rated money market mutual funds or investments that adhere to the Act and the City's Investment Policy. The liquidity provided by the money market mutual funds allows for the easy return of collateral upon termination of a security loan. As of September 30, 2010, all cash collateral was invested in next day money market funds.

Securities lending income is earned if the investment returns on the cash collateral exceeds the rebate paid to borrowers of the securities. The income is then split with the lending agent to cover its fees based on a contractually negotiated rate (70.0% allocated to the City and 30.0% allocated to Frost National Bank). In the event that the investment income of the cash collateral does not provide a return that exceeds the rebate or if the investment incurs a loss of principal, the payment to the borrower would come from the City and the lending agent based on the negotiated rate split.

Loans that are collateralized with securities generate income when the borrower pays a loan premium for the securities borrowed. This income is split at the same rate as the earnings for cash collateral. The collateral pledged to the City for the loaned securities is held by the lending agent or the tri-party bank. These securities are not available to the City for selling or pledging unless the borrower is in default of the loan.

All collateral received is required to have a fair value of 102.0% of the loaned securities. Securities are marked to market daily and additional cash or securities are required from the borrower if the fair value of the collateral falls below 102.0%. Cash collateral is reported on the Balance Sheet as an asset, with a corresponding liability for the obligation to repay the cash collateral. Noncash collateral for securities lending activities is not recorded as an asset because it remains under the control of the transferor, except in the event of default.

In the event of default, where the borrower is unable to return the securities borrowed, the City has authorized the lending agent to seize the borrower's collateral. The collateral would then be used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities may not be able to be replaced. The lending agent has indemnified the City from any loss due to borrower default in the event the collateral is insufficient to replace the securities.

At September 30, 2010, the City had no credit risk exposure to borrowers because the amount of collateral held by the City exceeded the amount of the securities loaned to the borrowers. There were no violations of legal or contractual provisions nor were there any borrower or lending agent default losses related to securities lending in fiscal year 2010.

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

Primary Government (City) (Continued)

At September 30, 2010, there was a total of $745,463 in securities, or 74.4% of the par value of the City's Pooled Operating Funds Portfolio was on loan. In exchange, the City received $148,851 in cash collateral and $612,506 in securities collateral, or 102.1% of the market value of the corresponding securities loaned. Income generated from securities lending transactions, net of rebates to borrowers of $99, amounted to $716 in fiscal year 2010, of which 30.0% was paid as fees to the lending agent totaling $215.

Fire and Police Pension Fund

Investments of the Fire and Police Pension Fund (Pension Fund), a blended component unit, are administered by the Fire and Police Pension Fund board of trustees. Investments of the Pension Fund are reported at fair value and include corporate bonds; common stock; U.S. Treasury securities; U.S. government agency securities; notes, mortgages, hedge funds and contracts; and real estate. Equity and fixed income securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Notes, mortgages, and contracts are valued on the basis of future principal and interest payments discounted at prevailing interest rates. The fair value of real estate investments is based on independent appraisals and on the equity position of real estate partnerships in which the Pension Fund has invested. Investments in private equity and others that do not have an established market are reported at estimated fair value using discounted expected future cash flows at rates that are adjusted for the amount of expected risk and valuations of comparable assets with ascertainable market values. Investment income is recognized as earned. Net appreciation/(depreciation) in fair value of investments includes gains and losses that are being recognized based on the change in the market value of the investments, but have not been realized because the assets have not been sold or exchanged as of the balance sheet date. The Pension Fund's assets are invested as authorized by Texas state law. The fair value of the Pension Fund's cash and investments are $2,028,851. A summary of the Pension Fund's cash, cash equivalents, and investments can be found at the beginning of Note 3.

Credit Risk - Using Standard and Poor's rating system for fixed income securities as of September 30, 2010, 29.0% of the Pension Fund's bonds were rated 'AAA', 3.0% were rated 'AA', 8.0% were rated 'A', 14.0% were rated 'BBB', 15.0% were rated 'BB', 19.0% were rated 'B', 3.0% were rated 'CCC', and 9.0% were unrated or not rated.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Pension Fund will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. As of September 30, 2010, the Pension Fund had cash deposits held by investment managers in the amount of $457 that were uninsured and uncollateralized.

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

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

Interest Rate Risk - Only the fixed income securities of the Pension Fund are subject to interest rate risk due to the possibility that prevailing interest rates could change before the securities reach maturity. Securities that are subject to interest rate risk as of September 30, 2010 amount to $516,045 and have a weighted-average maturity (WAM) of 8.88 years. Securities that are subject to interest rate risk are shown in the following table.

Investment Type	Fair Value	Weighted-Average Maturity WAM (Years)
Corporate Bonds	$ 89,939	10.40
Government Agencies	12,730	7.44
Government Bonds	66,434	10.47
Index Linked Government Bonds	2,383	2.55
Mortage-backed securities	98,563	3.85
Corporate Convertible Bonds	558	8.64
Municipal/Provincial bonds	5,377	27.44
Non-Government Backed C.M.O.s	25,995	16.40
Bank Loans	2,181	3.60
Golden Tree*	64,095	9.70
Ashmore*	34,466	11.22
Ashmore LFC*	36,921	3.10
Wellington Emerging Market Debt*	76,403	10.00
Total Interest Rate Sensitive Securities	$ 516,045	

*Wellington Asset Management, Ashmore and Ashmore LCF are commingled funds invested in emerging market debt and report their weighted average maturities (WAM) for the portfolio. GoldenTree is a commingled fund invested in high-yield corporate bonds, and they also report their WAM for the portfolio.

Foreign Currency Risk - The Pension Fund's investments include investments in equities, bonds, and cash in foreign currency denominations. Equities denominated in foreign currencies as of September 30, 2010 amounted to $307,329 in equities, $159,481 in bonds and $28,999 in cash. Detailed as follows:

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

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

Country	Equities	Bonds	Cash	Total
Argentine Peso	$ 36	$ 1,479	$ -	$ 1,515
Australian Dollar	10,274	12,730	11	23,015
Bermuda Dollar	72			72
Brazilian Real	10,547	8,556		19,103
Canadian Dollar	6,137	7,859		13,996
Swiss Franc	14,689		44	14,733
Chinese Renminbi	6,894	576	2,498	9,968
Chilean Peso	1,504	2,303		3,807
Colombian Peso	-	4,140		4,140
Czech Republic Krona	1,620	3,053		4,673
Danish Krone	2,570		21	2,591
Egyptian Pound	-	1,532		1,532
European Union	72,397	1,453	430	74,280
British Pound	41,347	6,619	13,880	61,846
Hong Kong Dollar	16,633		1	16,634
Hungarian Forint	4	6,388		6,392
Indonesian Rupiah	855	7,247		8,102
Israeli New Shekel	1,216	1,200		2,416
Indian Rupee	9,415	3,435		12,850
Japanese Yen	43,572		(1)	43,571
South Korean Won	16,154	7,272		23,426
Kazakhstan Tenge	-	1,330		1,330
Cayman Dollar	22	3,929		3,951
Mexican Peso	5,160	7,947		13,107
Morocco Dirham	116			116
Malaysian Ringgit	2,651	7,839		10,490
Norwegian Krone	2,218		5,767	7,985
New Zealand Dollar	52	4,858	1,464	6,374
Pakistani Rupe	325			325
Panamanian Balboa	5			5
Peruvian Nuevo Sol		727		727
Philippine Peso	14	4,130		4,144
Polish Zloty	2,115	13,006		15,121
Romanian Leu		1,337		1,337
Russian Ruble	3,119	2,661		5,780
Swedish Krona	4,457	6,501		10,958
Singapore Dollar	3,880	5,949	34	9,863
Thai Baht	5,712	2,031		7,743
Turkey New Lira	4,229	5,443	4,850	14,522
Taiwan Dollar	10,846	1,373		12,219
Ukrainian Hyvnia		1,427		1,427
UAE Dirham		2,854		2,854
Uruguay Peso		1,906		1,906
Venezuelan Bolivar		1,696		1,696
South African Rand	6,472	6,695		13,167
	$ 307,329	$ 159,481	$ 28,999	$ 495,809

- 56 - *Amounts are expressed in thousands*
- 57 - *Amounts are expressed in thousands*

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

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

Securities Lending - State statutes and Pension Fund policies allow for securities lending transactions. The Pension Fund has entered into an agreement with its custodial bank to lend the Pension Fund's securities to one or more borrowers for a fee. It is the policy of the Pension Fund and the custodial bank to require that collateral equal to 102.0% and 105.0% for domestic and international securities, respectively, of the loaned securities be maintained by the custodial bank. Collateral may be in the form of cash, U.S. government securities, or irrevocable letters of credit. Until such time as the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event that the borrower fails to repay the borrowed securities, the Pension Fund may suffer a loss. Management of the Pension Fund considers the possibility of such a loss to be remote. Cash open collateral is invested in a short-term investment pool with an average weighted maturity of 21 days at September 30, 2010. For the year-ended September 30, 2009, the Pension Fund has recognized an unrealized loss amounting to $2,019. The loss is due to the write down of some of the fixed income assets in the investment pool. On December 16, 2009, a cash amount of $314 was due to the custodial bank to cover a portion of the loss that has been realized. The custodial bank has reimbursed the Pension Fund for $298 of this realized loss by contributing cash to the short term investment fund and by a reduction in the fees charged to the Pension Fund. The unrealized portion of the loss gradually reversed as the underlying securities regained their market value, and in March 2010, the loss was completely reversed. A gain of $1,740 was recognized in the year ended September 30, 2010, related to the reversal of the loss net of the amount of the loss that was realized.

As of September 30, 2010, the Pension Fund had lending arrangements outstanding with a total market value of $109,399, which were fully collateralized with cash and securities. Of this amount, cash collateral of $112,290 is recorded in the accompanying Statement of Fiduciary Net Assets. Net income for the year ended September 30, 2010, under the securities lending arrangement, was $1,948. This includes the $1,740 gain from reversing the unrealized loss on the valuation of the investment pool. Securities lending collateral-cash and cash equivalents at fair value is shown with the assets on the Statement of Fiduciary Net Assets.

Cash Collateral Pool

	2010
U.S. Treasury Notes	$ 351
U.S. Asset Backed Securities	16,838
U.S. Corporate Notes	2,685
U.S. Repo Agreements	20,292
U.S. Sweep Vehicle	85
U.S. Agencies Bonds	17,196
U.S. Certificates of Deposit	1,343
U.S. Time Deposits	1,280
International Commercial Paper	2,942
International Certificates of Deposit	29,312
International Time Deposits	17,369
International Asset Backed Securities	1,638
International Corporate Notes	959
Total	$ 112,290

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

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

Derivatives and Structured Investments - The Pension Fund has only limited involvement with derivatives and other structured financial instruments. The Pension Fund's investment philosophy regarding the use of derivatives and other structured financial instruments is to use derivatives to replicate exposures to equity or fixed income securities. The fair value of structured financial instruments held by the Pension Fund at September 30, 2010, was approximately $14,939, in commercial mortgage obligations and is included with investments in the Statement of Fiduciary Net Assets. The Pension Fund also invests in hedge funds which may employ the use of derivatives to reduce volatility. The Pension Fund's total investment in hedge funds was $227,750 as of September 30, 2010.

As of September 30, 2010, the fund held currency forward contracts as follows:

	2010	
Currency	Market Value Receivable/ (Payable)	Maturity Date
Austrialian Dollars	$ (7,273)	10/29/2010
British Pound	13,819	12/3/2010
Chinese Yuan	2,499	1/21/2011
New Zealand Dollar	1,463	12/7/2010
Norwegian Krone	5,751	10/12/2010
Turkish Lira	4,845	10/12/2010
U.S. Dollars	(9,536)	10/12/2010
U.S. Dollars	39	10/22/2010
U.S. Dollars	7,229	10/29/2010
U.S. Dollars	(13,608)	12/3/2010
U.S. Dollars	(1,402)	12/7/2010
U.S. Dollars	(2,506)	1/21/2011
Total	$ 1,320	

Fire and Police Retiree Health Care Fund

The Fire and Police Retiree Health Care Fund (Health Care Fund) board of trustees administers investments of the Fire and Police Retiree Health Care Fund, a blended component unit. Investments are reported at fair value. Short-term investments are reported at amortized cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have an established market value are reported at estimated fair value.

Alternative investments are substantially held in the form of nonmarketable limited partnerships interests, private real estate investment trusts, and open-ended hedge funds. These investments are subject to the terms of the respective partnerships' or other types of governing documents which may limit the Health Care Fund's withdrawal to specified times and conditions and restrict the transferability of the Health Care Fund's interest. The fair valuation of these investments is based on net asset values as set by the partnerships' fund managers or general partners. These net asset values may differ from the value that would have been used had a ready market for the investments existed. Such differences could be material.

Amounts are expressed in thousands

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

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

All investment income, including changes in the fair value of investments, is reported as additions in the Statement of Changes in Fiduciary Net Assets.

The Health Care Fund's assets are invested as authorized by the Investment Policy. The Health Care Fund utilizes an investment consultant that makes recommendations to the Health Care Fund as to the appropriate target portfolio weightings among the major asset classes (e.g. stocks, mutual funds, limited liability partnerships, cash, etc.) within the Health Care Fund. Additionally, the Health Care Fund has hired certain investment managers to exercise full discretionary authority as to all buy, hold, and sell decisions for each security under management, subject to the guidelines as defined in the Investment Policy. All of the Health Care Fund's assets are held by a custodial bank, Frost National Bank of San Antonio, Texas.

Investments authorized by the Health Care Fund's Investment Policy include U.S. equities, including common stocks, securities convertible into common stock, and open or closed end mutual funds; international equity; certain fixed income assets such as corporate bonds and certificates of deposit; commercial paper; private equity; and alternative investments, including real estate, absolute return hedge funds, and natural resources. The cash portion of the Health Care Fund will be invested in a short-term investment fund administered by the custodian bank, a money market mutual fund.

The fair value of the Health Care Fund's cash and investments at September 30, 2010 is $176,315. A summary of the Health Care Fund's cash, cash equivalents, and investments can be found at the beginning of Note 3.

Custodial Credit Risk (Deposits) - The Health Care Fund's deposits that are held with Frost Bank in non-interest bearing demand accounts are covered under the new FDIC Transaction Account Guarantee Program. Under this program, through December 31, 2010, all non-interest bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under this program is in addition to and separate from the coverage available under the FDIC's general deposit rules. It does not appear that deposits the Health Care Fund holds in demand accounts are exposed to custodial credit risk as of September 30, 2010.

The Health Care Fund does not have deposit or investment policies related to custodial credit risk as of September 30, 2010. The Health Care Fund is aware of these risks and monitors such risks, if any, as part of its day-to-day operations and through its daily dealings with the custodian bank.

Custodial Credit Risk (Investments) - The custodial credit risk for investments is the risk that, in the event of failure of the counterparty to an investment transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At September 30, 2010, the Health Care Fund's commercial paper, government and agency notes, corporate bonds, and common stock investments are held at Frost National Bank's third-party custodian, Bank of New York. Since the investments are maintained separately from the bank's assets, in the event of failure of the bank, the investments held in trust would not be affected.

Credit Risk – In accordance with the Health Care Fund's Investment Policy, investments in money market mutual funds and commercial paper must be rated at least 'A-2' by Standard and Poor's (S & P) and fixed income assets, which includes government and agency notes and corporate bonds, must have an average rating of 'A'. The Health Care Fund's investments ratings from S & P was 'AAAm' for money market mutual funds; 'A-1' to 'A-2' for commercial paper; 'NR' to 'AAA' for government and agency notes, and 'BBB+' to 'AAA' for corporate bonds.

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

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

Concentration of Credit Risk - The Health Care Fund's Investment Policy regarding concentration of credit risk for equities states that no more than 5.0% of any investment manager's portfolio at cost and 8.0% at the market value shall be invested in the securities of any one company. Regarding fixed-income assets, no more than 10.0% of an investment manager's bond portfolio at cost shall be invested in the securities of any one issuer. The policy further states there shall be no such limit on U.S. government securities, U.S. agency securities or government - sponsored entities, U.S. agency mortgage-backed securities, or other sovereign issues rated 'AAA' or 'Aaa'. At year-end, the Health Care Fund did not have any investments in any one issuer that represented 5.0% or more of total investments.

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Health Care Fund's Investment Policy limits the maturities of money market mutual funds to two years at time of purchase. For fixed income assets, which includes government and agency notes and corporate bonds, the Investment Policy limits their maturities to market value weighted average effective duration, adjusted for expected life and call provision, which cannot be plus or minus 25.0% of the benchmark's effective duration.

The weighted average maturity in days for the Health Care Fund's investments are 10 to 38 days for money market mutual funds; 1 to 8 days for commercial paper; 22 to 39 days for government and agency notes; and 5 to 304 days for corporate bonds.

Securities Lending – The Health Care Fund participates in a securities lending program as a means to augment income. The program is operated in accordance with a contract between the Health Care Fund and its custodian bank, Frost National Bank, and compliance with State statutes and Health Care Fund policies. Securities are lent to select borrowers for a fee. It is the policy of the Health Care Fund and the custodian bank to require that collateral equal 100.0% of the loaned security's market value plus accrued interest for domestic government or agency securities loaned, and 102.0% of the loaned security's market value plus accrued interest for approved, domestic nongovernment or agency securities loaned be maintained by the custodial bank. Collateral may be in the form of cash, U.S. government securities, or irrevocable letters of credit. Until such time as the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event the borrower fails to repay the borrowed securities when due and the value of the collateral is insufficient to replace the borrowed securities, the Health Care Fund may suffer a loss. Management of the Health Care Fund considers the possibility of such a loss to be remote.

At September 30, 2010, the Health Care Fund was not exposed to credit risk to borrowers because the amounts owed to borrowers exceeded the amount the borrowers owed. There were no violations of legal or contractual provisions nor were there any borrower or lending agent default losses in fiscal year 2010.

At September 30, 2010, there was a total of $5,890 in securities out on loan to borrowers. In exchange, the Health Care Fund received $6,035 in securities collateral invested in open-ended money market type mutual funds, or 103.0% of the market value of the corresponding securities loaned.

Subscribed Capital Commitments - As of September 30, 2010, the Fund had non-binding commitments to invest capital in sixteen investment companies under investment capital subscription agreements. These commitments are subject to periodic calls from the investment companies. The amount of this investment capital committed under the subscription agreements totaled to $70,946. As of September 30, 2010, $17,751 of this total had been called.

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

CPS Energy

CPS Energy's investments with a maturity date within one year of the purchase date are reported at amortized cost, which approximates fair value. Amortization of premium and accretion of discount are recorded over the terms of the investments that mature within one year. CPS Energy's investments with a maturity date of one year or longer from the purchase date are accounted for using fair value. As available, fair values are determined by using generally accepted financial reporting services, publications, and broker and dealer information. The specific identification method is used to determine costs in computing gains or losses on sales of securities. CPS Energy reports all investments of the Decommissioning Trusts at fair market value.

Restricted funds are generally for uses other than current operations. They are designated by law, ordinance or contract and are often used to acquire or construct noncurrent assets. Restricted funds consist primarily of unspent bond or commercial paper proceeds, debt service required for the New Series Bonds, Junior Lien Obligations and Tax-Exempt Commercial Paper, and funds for future construction or contingencies. This category also includes customer assistance programs where proceeds are received from outside parties, as well as, the assets of the Decommissioning Trusts.

The Repair and Replacement Account is restricted in accordance with CPS Energy's bond ordinances. In compliance with a bond ordinance, CPS Energy's board of trustees authorized that a portion of the Repair and Replacement Account be designated for converting overhead electric facilities to underground (also referred to as the Overhead Conversion Fund).

CPS Energy's cash deposits at January 31, 2010 were entirely insured by federal depository insurance or collateralized by banks. For deposits that were collateralized, the securities were U.S. government, U.S. government agency, or U.S. government-guaranteed obligations held in book entry form by the Federal Reserve Bank of New York in CPS Energy's name.

Since the assets in the Decommissioning Trusts are restricted for use only for decommissioning at some future date, securities lending cash collateral has been treated as long-term and thus has been classified as an investment in the Decommissioning Trusts. Consistent with other investments in the Decommissioning Trusts, securities lending cash collateral is shown separately on the table that lists investments by type in the Decommissioning Trust section of this Note.

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

CPS Energy (Continued)

Cash, Cash Equivalents and Securities Lending Cash Collateral

	January 31, 2010
Cash and cash equivalents	
Petty cash funds on hand	$ 89
Deposits with financial institutions	
Unrestricted CPS Energy deposits	1,497
Restricted CPS Energy deposits	
Debt service	333
Project Warm	159
Investments with original maturities of less than 90 days	
CPS Energy unrestricted (current)	297,232
CPS Energy restricted (noncurrent)	24,304
Decommissioning Trusts - restricted (noncurrent)	14,306
Total cash and cash equivalents	337,920
CPS Energy - securities lending cash collateral	31,815
Total cash, cash equivalents and securities lending cash collateral	$ 369,735

CPS Energy's cash, cash equivalents and investments can be separated in the following manner:

- Those directly managed by CPS Energy, and
- Those managed through the Decommissioning Trusts.

For financial reporting purposes, cash, cash equivalents and investments managed directly by CPS Energy have been consistently measured as of the end of the fiscal year. The Decommissioning Trusts are reported on a calendar-year basis.

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- 62 - Amounts are expressed in thousands
- 63 - Amounts are expressed in thousands

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

CPS Energy (Continued)

Summary of Cash and Cash Equivalents, Along with Current and Noncurrent Investments

	January 31, 2010
Cash and cash equivalents	
CPS Energy unrestricted and restricted	$ 323,614
Decommissioning Trusts - restricted	14,306
Total cash and cash equivalents	337,920
Gross investments - current and noncurrent	
CPS Energy - unrestricted and restricted	829,847
Decommissioning Trusts - restricted	388,083
Total gross investments	1,217,930
Investments with original maturities of less than 90 days also included in cash equivalents	
CPS Energy unrestricted and restricted	(321,536)
Decommissioning Trusts - restricted	(14,306)
Total investments also included in cash equivalents	(335,842)
Net current and noncurrent investments	882,088
Total cash, cash equivalents and investments	$ 1,220,008

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

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

CPS Energy's investments in the Decommissioning Trusts are held by an independent trustee. Investments are limited to those defined by CPS Energy Board Resolution, the South Texas Project Decommissioning Trust Investment Policy, the Investment Strategy Committee, the Trust Agreements and state law. Allowable investments for the Decommissioning Trusts include those directly permissible for CPS Energy, as well as equities and corporate bonds (including international securities traded in U.S. dollars and on U.S. stock exchanges). Specifically, starting in September 2005, in accordance with the applicable amended investment policies, total investments can include a maximum of 60.0% equity securities.

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

CPS Energy (Continued)

Permissible Investments

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

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- 64 - *Amounts are expressed in thousands*
- 65 - *Amounts are expressed in thousands*

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

CPS Energy (Continued)

Cash, Cash Equivalents and Investments by Fund

	January 31, 2010
Unrestricted	
Cash and cash equivalents	$ 298,818
Investments	102,996
Total Unrestricted (current)	401,814
Restricted	
Debt service	
Cash and cash equivalents	3,210
Total Debt Service	3,210
Capital projects	
Cash and cash equivalents	13,913
Investments	73,707
Total Capital Projects	87,620
Ordinance	
Investments	331,608
Total Ordinance	331,608
Other	
Project Warm	
Cash and cash equivalents	7,673
Total Project Warm	7,673
Decommissioning Trusts	
Cash and cash equivalents	14,306
Investments	373,777
Total Decommissioning Trusts	388,083
Total Other	395,756
Total Restricted	
Cash and cash equivalents	39,102
Investments	779,092
Total Restricted (noncurrent)	818,194
Total cash, cash equivalents and investments (unrestricted and restricted)	$ 1,220,008

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

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

CPS Energy (Continued)

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

Summary of Investments by Organizational Structure and Type

	January 31, 2010
CPS Energy investments	
U.S. Treasury, Government Agencies and money market funds	$ 829,847
Decommissioning Trusts	
U.S. Treasury, Government Agencies and money market funds	148,004
Corporate bonds	61,646
Foreign bonds	4,255
Subtotal	213,905
Common stock	174,178
Total Decommissioning Trusts	388,083
Grand total - all investments	$ 1,217,930

Effective September 1, 2005, as a result of a change in Texas law, the investment policies of the Decommissioning Trusts were revised to allow for investment in additional types of securities, such as corporate bonds and equity securities. The policies provide guidelines to ensure all funds are invested in authorized securities in order to earn a reasonable return. The primary emphasis is placed on long-term growth commensurate with the need to preserve the value of the assets and, at the time funds are needed for decommissioning costs, on liquidity. The investment policies continue to follow the "prudent person" concept.

In accordance with GASB Statement No. 40, additional disclosures have been provided in this note that address investment exposure to interest rate risk, credit risk (including custodial credit risk and concentration of credit risk), and foreign currency risk, as applicable. The disclosure requirements of this Statement do not apply to equity securities since they are not directly or immediately exposed to these risks. CPS Energy and the Decommissioning Trusts do not have custodial credit risk, as all investments are held either by an independent trustee or bank and are in CPS Energy's or the Decommissioning Trusts' names.

CPS Energy Investments - In accordance with GASB Statement No. 40, the following tables address credit risk (including custodial credit risk and concentration of credit risk) and interest rate risk exposure by investment type using the weighted-average maturity (WAM) method. Since CPS Energy does not hold foreign instruments in its direct investments (those held by CPS Energy), foreign currency risk is not applicable.

Interest Rate Risk – In accordance with its investment policy, CPS Energy manages exposure to fair market value losses resulting from rising interest rates by limiting the portfolio's WAM to two years or less. WAM is defined as the weighted-average time to return a dollar of principal. It is used as an estimate of the interest rate risk of a fixed-income investment. CPS Energy invests the cash collateral received from securities lending and other funds in money market mutual funds that have no fixed maturities. Accordingly, a WAM in terms of years for money market mutual funds is not applicable.

- 66 - Amounts are expressed in thousands
- 67 - Amounts are expressed in thousands

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

CPS Energy (Continued)

Concentration of Credit Risk – In accordance with its investment policy, CPS Energy manages exposure to concentration of credit risk through diversification and by limiting its investment in each federal agency to 50.0% and its investment in any other issuer of debt securities to 5.0% of the total fixed-income portfolio. Additionally, certificates of deposit are limited to 50.0% per issuer.

Investment Type	Carrying Value	Market Value	Allocation	Weighted-Average Maturity (Years)
U.S. Agencies:				
Federal Home Loan Mortgage Corp.	$ 124,228	$ 124,228	15.0%	3.9
Federal National Mortgage Assn.	95,467	95,467	11.5%	4.0
Federal Home Loan Bank	147,419	147,461	17.8%	0.7
Federal Farm Credit Bank	7,551	7,551	0.9%	2.4
Municipal bonds	20,645	20,645	2.5%	1.3
Certificates of Deposit	113,000	113,000	13.6%	0.4
Money Market Mutual Funds	321,537	321,537	38.7%	0.0
Total Fixed-Income Investments	829,847	829,889	100.0%	2.1
Cash Collateral - Securities Lending	31,815	31,815		
Total Fixed-Income Portfolio	$ 861,662	$ 861,704		

Credit Risk - In accordance with its investment policy, CPS Energy manages exposure to credit risk by limiting its fixed-income investments to a credit rating of 'A' or better. As of January 31, 2010, CPS Energy held no direct investments with a credit rating below 'Aa'.

Credit Rating	Carrying Value	Market Value	Allocation
AAA	$ 733,725	$ 733,767	85.2%
Aaa	200	200	0.0%
AA	13,664	13,664	1.6%
Aa	1,073	1,073	0.1%
Certicates of Deposits (not rated)	113,000	113,000	13.1%
Total Fixed-Income Investments	$ 861,662	$ 861,704	100.0%

Decommissioning Trust Investments – As mentioned above, the Decommissioning Trust report their assets on a calendar-year basis; therefore, the tables in this section are as of December 31. These tables address interest rate risk exposure by investment type, credit risk, concentration of credit risk and foreign currency risk. All investments held by the Decommissioning Trusts are long-term in nature and are recorded at market value.

Interest Rate Risk - Generally, the long-term nature of the liabilities and the limited need for daily operating liquidity allow interim fluctuations in market value to occur without jeopardizing the ultimate value of the assets. Where long-term securities are held, the interim market value of assets can be sensitive to changes in interest rates. As the general level of interest rates moves up and down, the interim market value of longer-maturity bonds may change substantially.

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

CPS Energy (Continued)

To mitigate this interest rate risk, a limitation is placed on the duration of the fixed-income portfolio. Weighted-average duration is defined as the weighted-average time to return a dollar of principal and interest and also incorporates potential changes in the timing of principal and interest return that may occur as a result of changes in interest rates. It makes assumptions regarding the most likely timing and amounts of variable cash flows and is used as an estimate of the interest rate risk of a fixed-income investment – especially those with payment terms dependent on market interest rates. The overall portfolio duration should not deviate from the weighted-average duration of the Investment Strategy Committee's specified fixed-income index by more than +/- 1.5 years. The Investment Strategy Committee's fixed-income index is based on the Barclays Capital Aggregate Index, which is 4.4 for 2009.

Concentration of Credit Risk - In accordance with the investment policy, exposure to concentration of credit risk is managed through diversification and by limiting investments in each government-sponsored entity to 30.0% and investments in any nongovernment-sponsored issuer to 5.0% of the total fixed-income portfolio (excluding cash collateral from securities lending). At December 31, 2009, total nongovernment-sponsored (corporate and foreign) issuers amounted to 41.6% of the 28% Decommissioning Trust and 18.2% of the 12% Decommissioning Trust.

The following tables list the fixed-income investment holdings by type:

	28% Interest			12% Interest		
Investment Type	Market Value	Allocation	Weighted-Average Duration (Years)	Market Value	Allocation	Weighted-Average Duration (Years)
U.S. Treasuries	$ 8,349	5.9%	3.8	$ 7,788	19.6%	6.8
U.S. Agencies:						
Federal National Mortgage Assn.	32,318	22.9%	2.7	9,429	23.7%	3.3
Federal Home Loan Mortgage Corp.	16,312	11.6%	3.0	6,289	15.8%	3.4
Small Business Administration	4,581	3.3%	6.1			
Government National Mortgage Assn.	2,003	1.4%	3.5	2,867	7.2%	6.8
Municipal Bonds - Texas	624	0.4%	4.9	2,026	5.1%	6.3
Municipal Bonds - Other States	5,951	4.2%	9.5	2,159	5.4%	3.2
Corporate Bonds	54,417	38.6%	6.0	7,229	18.1%	5.6
Foreign Bonds	4,255	3.0%	6.0	-		
AIM Money Market	12,287	8.7%	0.0	2,019	5.1%	
Total Fixed-income Investments	$ 141,097	100.0%	4.8	$ 39,806	100.0%	4.9
Cash Collateral - Securities Lending	20,407			12,595		
Total Portfolio	$ 161,504			$ 52,401		

Credit Risk - In accordance with the investment policy, exposure to credit risk is managed by limiting all fixed-income investments to a credit rating of 'BBB-' or better from at least two nationally recognized credit rating agencies. If a security's rating falls below the minimum investment grade rating of 'BBB-' after it has been purchased, the investment policy allows investment managers to continue to hold the security as long as the total fair value of securities rated below investment grade does not exceed 5.0% of the total fixed-income portfolio.

- 68 - Amounts are expressed in thousands
- 69 - Amounts are expressed in thousands

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

CPS Energy (Continued)

The following table lists the fixed-income investment holdings by credit rating:

	28% Interest		12% Interest	
Credit Rating	Market Value	Allocation	Market Value	Allocation
U.S. Treasuries	$ 8,349	5.2%	$ 7,788	14.9%
AAA	100,280	62.1%	35,724	68.2%
Aaa	1,215	0.8%		
AA+	1,414	0.9%	1,393	2.6%
AA	1,198	0.7%	522	1.0%
Aa2	296	0.2%		
AA-	3,095	1.9%	538	1.0%
Aa3	78	0.1%		
A+	2,347	1.5%	526	1.0%
A	10,539	6.5%	2,859	5.4%
A-	8,916	5.5%	1,401	2.7%
A3	150	0.1%		
BBB+	5,131	3.2%	925	1.8%
BBB	10,321	6.4%	725	1.4%
BBB-	5,025	3.1%		
BB	1,681	1.0%		
B	57	0.0%		
B-	39	0.0%		
CCC	471	0.3%		
D	71	0.0%		
Not rated	831	0.5%		
Total Fixed-income Portfolio	$ 161,504	100.0%	$ 52,401	100.0%

Foreign Currency Risk – With the exception of dedicated foreign-equity portfolios, all investments authorized for purchase by the Decommissioning Trusts are U.S. dollars. This reduces the potential foreign currency risk exposure to the portfolio. Total foreign bonds outstanding amounted to $4,255 as of December 31, 2009. In accordance with the investment policy, investments in international portfolios are limited to international commingled funds and Exchange Traded Funds that are diversified across countries and industries. The international portfolio will be limited to 20.0% of the total equity portfolio. At December 31, 2009, total foreign equity securities amounted to 14.6% of the 28% Trust's equity portfolio. There were no foreign equity securities held by the 12% Trust at December 31, 2009.

Securities Lending – CPS Energy and the Decommissioning Trusts engage in securities lending transactions under a contract with their lending agent, Frost National Bank. Authority to engage in these transactions is granted under each entity's Investment Policy. The entities are authorized to loan up to 100.0% of their investments in securities lending transactions.

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions,* provides guidance for entities reporting and disclosing securities lending transactions. This guidance includes reporting certain securities lending collateral on the Balance Sheet as an asset, with a corresponding liability for the obligation to repay the collateral.

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

CPS Energy (Continued)

In securities lending transactions, CPS Energy and the Decommissioning Trusts, through their lending agent, transfer securities to brokers/dealers in exchange for collateral and simultaneously agree to return the collateral for the same securities in the future. Cash collateral received from the borrower is invested entirely in money market mutual funds. The liquidity provided by the money market mutual funds allows for the easy return of collateral at the termination of a security loan.

Lending income is earned if the returns on the cash collateral invested exceed the rebate paid to borrowers of the securities. The income is then shared with the lending agent to cover its fees based on a contractually negotiated rate split. However, if the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, part of the payment to the borrower would come from CPS Energy's or the Decommissioning Trusts' resources and the lending agent based on the rate split.

Loans that are collateralized with securities generate income when the borrower pays a loan premium for the securities loaned. This income is split at the same ratio as the earnings for cash collateral. The collateral pledged to CPS Energy or the Decommissioning Trusts for the loaned securities is held by the lending agent. These securities are not available to CPS Energy or the Decommissioning Trusts for selling or pledging unless the borrower is in default of the loan.

Any collateral received is required to have a fair value of 102.0% of the loaned securities. Securities are marked to market daily and additional cash or securities are required from the borrower if the market value of the collateral falls below 100.0%. Cash collateral is reported on the Balance Sheet as an asset, with a corresponding liability for the obligation to repay the cash collateral. Noncash collateral for securities lending activities is not recorded as an asset because it remains under the control of the transferor, except in the event of default.

In the event of default, where the borrower is unable to return the securities loaned, CPS Energy and the Decommissioning Trusts have authorized the lending agent to seize the collateral held. The collateral would then be used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities may not be able to be replaced. The lending agent has indemnified CPS Energy and the Decommissioning Trusts from any loss due to borrower default in the event the collateral is not sufficient to replace the securities.

At January 31, 2010, neither CPS Energy nor the Decommissioning Trusts had any credit risk exposure to borrowers because the amounts CPS Energy and the Decommissioning Trusts owed to borrowers exceeded the amounts the borrowers owed. There were no violations of legal or contractual provisions nor were there any borrower or lending agent default losses related to securities lending in fiscal year 2010.

Direct Investments – At January 31, 2010, there was a total of $181,330 in securities, or 21.8% of CPS Energy's direct investments, out on loan to brokers/dealers. In exchange, CPS Energy received $31,815 in cash collateral and $153,491 in securities collateral, or 102.2% of the market value of the corresponding securities loaned. Income generated from securities lending transactions amounted to $922 in fiscal year 2010, of which 30.0% was paid as fees to the lending agent totaling $277.

Decommissioning Trusts – For the 28% Decommissioning Trust at December 31, 2009, there was a total of $20,284 in securities, or 7.6% of the Decommissioning Trust's investments, out on loan to brokers/dealers. In exchange, the Trust received $20,407 in cash collateral and $464 in securities collateral, or a total of 102.9% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for the Decommissioning Trust amounted to $67 in calendar year 2009, of which 30.0% was paid as fees to the lending agent totaling $20.

- 70 - *Amounts are expressed in thousands*
- 71 - *Amounts are expressed in thousands*

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

CPS Energy (Continued)

For the 12% Decommissioning Trust at December 31, 2009, there was a total of $13,000 in securities, or 14.5% of the Decommissioning Trust's investments, out on loan to brokers/dealers. In exchange, the Trust received $12,595 in cash collateral and $830 in securities collateral, or a total of 102.9% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for this Decommissioning Trust amounted to $27 in calendar year 2009, of which 30.0% was paid as fees to the lending agent totaling $8.

San Antonio Water System (SAWS)

SAWS is permitted by City Ordinance No. 75686, SAWS' Investment Policy and Texas state law, to invest in direct obligations of the U.S. or its agencies and instrumentalities. Other allowable investments include direct obligations of the State of Texas or its agencies and instrumentalities; secured certificates of deposit issued by depository institutions that have their main office or a branch office in the State of Texas; defined bankers acceptances and commercial paper; collateralized direct repurchase agreements, reverse repurchase agreements; no-load money market mutual funds; investment pools; and other types of secured or guaranteed investments. These investments are subject to market risk, interest rate risk, and credit risk, which may affect the value at which these investments are recorded. Investments other than money market investments are reported at fair value. Under the provisions of GASB Statement No. 31, money market investments, including U.S. Treasury and agency obligations, with a remaining maturity at time of purchase of one year or less are reported at cost. A summary of SAWS cash, cash equivalents, and investments can be found at the beginning of Note 3.

Custodial Credit Risk (Deposit) - All funds are deposited in demand and savings accounts or certificates of deposit at Frost National Bank, SAWS' general depository bank. The general depository agreement with the bank does not require SAWS to maintain an average monthly balance. As required by state law, all deposits are fully collateralized and/or are covered by federal depository insurance. At December 31, 2009, the collateral pledged is being held by the Federal Reserve Bank of Boston under SAWS' name so SAWS incurs no custodial credit risk. As of December 31, 2009, the bank balance of demand and savings account was $16,770 and the reported amount was $12,914 which included $30 of cash on hand, and certificates of deposits totaled $44,000.

Custodial Credit Risk (Investment) - All investments, with the exception of those held in escrow, are securities issued by Agencies of the United States and are held in safekeeping by SAWS' depository bank, Frost National Bank and registered as accounts of SAWS. Funds held in escrow are Money Market Funds managed by Frost National Bank or Wells Fargo Bank and are invested in securities issued by the U.S. government or by U.S. Agencies.

As of December 31, 2009, SAWS had the following investments and maturities:

	Investments Maturities (in Days)					
Investment Type	90 Days or Less	91 to 180	181 to 365	Greater than 365	Fair Value	Reported
U.S. Agency Discount Notes	$ 89,993	$ 145,423	$ 31,022	$ -	$ 266,438	$ 266,428
U.S. Agency Coupon Notes	45,677	53,134	49,707	33,221	181,739	181,751
Money Market Funds:						
Frost National Bank	17,021				17,021	17,021
Wells Fargo Bank	54,538				54,538	54,538
	$ 207,229	$ 198,557	$ 80,729	$ 33,221	$ 519,736	$ 519,738
Percentage of Portfolio	39.9%	38.2%	15.5%	6.4%	100.0%	

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

San Antonio Water System (SAWS) (Continued)

Interest Rate Risk - As a means of limiting its exposure to fair value losses due to rising interest rates, SAWS' investment policy limits its investment maturities to no more than five years. As indicated in the table above, 93.6% of SAWS' investment portfolio is invested in maturities less than one year.

Credit Risk - In accordance with its investment policies, SAWS manages exposure to credit risk by limiting its investments in obligations of other states and cities to those with a credit rating of 'A' or better. Additionally, any investments in commercial paper require a rating of at least 'A-1' or 'P-1'. As of December 31, 2009, SAWS held no direct investments with a credit rating below 'AAA'.

Credit Rating	Carrying Value	Market Value	Allocation	Investment Policy Limit
December 31, 2009				
AAA	$ 519,738	$ 519,736	100.0%	Max. = 100.0%
Total Portfolio	$ 519,738	$ 519,736	100.0%	

Concentration of Credit Risk - SAWS' investment policy does not limit the amount it may invest in U.S. Treasury securities, government-guaranteed securities, or government-sponsored entity securities. However, in order to manage its exposure to credit risk, SAWS' investment policy does limit the amount that can be invested in any one government-sponsored issuer to no more than 50.0% of the total investment portfolio, and no more than 5.0% of the total investment portfolio on any non-government issuer unless it is fully collateralized. As of December 31, 2009, SAWS has invested more than 5.0% of its investments in the following government-sponsored entities in the form of discount or coupon notes: 25.0% in Federal Home Loan Bank, 26.0% in Federal National Mortgage Association, and 26.0% in Federal Home Loan Mortgage Corporation.

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Amounts are expressed in thousands

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

San Antonio Water System (SAWS) (Continued)

The following is a reconciliation of deposits and investments disclosed in the note to the amounts presented for cash and cash equivalents and investments in the balance sheet for 2009:

	December 31, 2009
Reported amounts in note for:	
Deposits, including certificates of deposit	$ 56,914
Investments	519,738
Total Deposits and Investments	$ 576,652
Totals for Balance Sheet:	
Cash and Cash Equivalents:	
Unrestricted cash and cash equivalents	$ 32,138
Restricted cash and cash equivalents:	
Capital Projects Accounts	96,331
Other Restricted Accounts:	
Reserve Fund	3
Total Cash and Cash Equivalents	$ 128,472
Investments:	
Unrestricted current investments	$ 137,879
Restricted current investments:	
Debt Service Accounts	37,010
Capital Project Accounts	20,762
Other Restricted Accounts:	
Operating reserve	34,649
Customer deposits	8,194
Total Other Restricted Accounts	42,843
Total Current Investments	$ 238,494
Restricted noncurrent investments:	
Capital Project Accounts	$ 162,321
Other Restricted Accounts:	
Reserve Fund	47,365
Total Cash, Cash Equivalents and Investments	$ 576,652

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Note 4 Capital Assets

Primary Government (City)

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes guidance for accounting and reporting for the impairment of assets and for insurance recoveries. Impairments of $204 were identified and reduced in capital assets for governmental activities.

Capital asset activity for governmental activities, to include Internal Service Funds, for the period-ended September 30, 2010, is as follows:

Capital Assets - Governmental Activities

Governmental Activities	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Non-Depreciable Assets:					
Land	$ 1,430,280	$ 14,347	$ (179)	$ (80,021)	$ 1,364,427
Intangible Assets				81,809	81,809
Construction in Progress	388,357	215,920	(2,610)	(121,898)	479,769
Other Assets	500				500
Total Non-Depreciable Assets	1,819,137	230,267	(2,789)	(120,110)	1,926,505
Depreciable Assets:					
Buildings	714,311	2,127	(1,037)	18,703	734,104
Improvements	316,990		(2,177)	58,814	373,627
Infrastructure	2,349,470	4,036	(1,868)	31,333	2,382,971
Machinery and Equipment	366,725	33,663	(21,993)	11,260	389,655
Intangible Assets		120			120
Total Depreciable Assets	3,747,496	39,946	(27,075)	120,110	3,880,477
Accumulated Depreciation:					
Buildings	(257,088)	(23,616)	1,037		(279,667)
Improvements	(84,920)	(15,369)	122		(100,167)
Infrastructure	(1,497,444)	(65,970)			(1,563,414)
Machinery and Equipment	(207,274)	(34,155)	15,361		(226,068)
Intangible Assets		(11)			(11)
Total Accumulated Depreciation	(2,046,726)	(139,121)	16,520		(2,169,327)
Total Depreciable Assets, net	1,700,770	(99,175)	(10,555)	120,110	1,711,150
Total Capital Assets, net	$ 3,519,907	$ 131,092	$ (13,344)	$ -	$ 3,637,655

Depreciation expense was charged to governmental functions as follows:	
General Government	$ 22,207
Public Safety	7,753
Public Works	60,564
Health Services	8,856
Welfare	525
Culture and Recreation	12,729
Convention and Tourism	4,379
Urban Redevelopment and Housing	646
Economic Development and Opportunity	120
Depreciation on Capital Assets Held by City's Internal Service Funds are Charged to Various Functions Based on Asset Usage	21,342
Total Depreciation Expense for Governmental Activities	$ 139,121

The capital assets of Internal Service Funds are included in governmental activities. In fiscal year 2010, Internal Service Funds capital assets increased by $15,860, and decreased by $17,958, resulting in an ending balance of $164,489. Depreciation expense of $21,342 resulted in an ending accumulated depreciation balance of $107,447, to arrive at net book value of $57,042.

- 74 - *Amounts are expressed in thousands*
- 75 - *Amounts are expressed in thousands*

Note 4 Capital Assets (Continued)

Primary Government (City) (Continued)

The City capitalizes interest incurred on construction projects, in accordance with Statement of Accounting Standards No. 62, *Special Reports*, issued by the Financial Accounting Standards Board. In fiscal year 2010, the City capitalized construction period interest for the Airport System in the amount of $3,736. Capital asset activity for business-type activities for the year-ended September 30, 2010, is as follows:

Capital Assets - Business-Type Activities

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Non-Depreciable Assets:					
Land:					
Airport System	$ 5,323	$ 4	$ (5)	$ -	$ 5,322
Nonmajor Enterprise Funds	9,018				9,018
Total Land	14,341	4	(5)		14,340
Construction in Progress:					
Airport System	226,186	97,687	(138)	(6,088)	317,647
Nonmajor Enterprise Funds	1,012	1,528		(1,803)	737
Total Construction in Progress	227,198	99,215	(138)	(7,891)	318,384
Total Non-Depreciable Assets	241,539	99,219	(143)	(7,891)	332,724
Depreciable Assets:					
Buildings:					
Airport System	195,802		(459)	5,330	200,673
Nonmajor Enterprise Funds	24,566	419		362	25,347
Total Buildings	220,368	419	(459)	5,692	226,020
Improvements:					
Airport System	225,281	5,255	(5,628)	758	225,666
Nonmajor Enterprise Funds	10,140	317			10,457
Total Improvements	235,421	5,572	(5,628)	758	236,123
Machinery and Equipment:					
Airport System	13,304	1,511	(212)		14,603
Nonmajor Enterprise Funds	26,612	994	(150)	1,441	28,897
Total Machinery and Equipment	39,916	2,505	(362)	1,441	43,500
Total Depreciable Assets	495,705	8,496	(6,449)	7,891	505,643
Accumulated Depreciation:					
Buildings:					
Airport System	(73,170)	(4,664)			(77,834)
Nonmajor Enterprise Funds	(8,156)	(696)			(8,852)
Total Buildings	(81,326)	(5,360)			(86,686)
Improvements:					
Airport System	(96,876)	(5,052)			(101,928)
Nonmajor Enterprise Funds	(2,202)	(498)			(2,700)
Total Improvements	(99,078)	(5,550)			(104,628)
Machinery and Equipment:					
Airport System	(10,201)	(943)	206		(10,938)
Nonmajor Enterprise Funds	(6,416)	(2,840)	148		(9,108)
Total Machinery and Equipment	(16,617)	(3,783)	354		(20,046)
Total Accumulated Depreciation	(197,021)	(14,693)	354		(211,360)
Total Depreciable Assets, net	298,684	(6,197)	(6,095)	7,891	294,283
Total Capital Assets, net	$ 540,223	$ 93,022	$ (6,238)	$ -	$ 627,007

Note 4 Capital Assets (Continued)

CPS Energy

CPS Energy's plant-in service includes seven power plants, which are solely owned and operated by CPS Energy. In total, the plants have 19 generating units—three of which are coal-fired and 16 of which are gas-fired. The following is a list of plants and relative generating units:

Plant	Generating Units	Type	Plant	Generating Units	Type
J.T. Deely	2	Coal	V.H. Brauning	3	Gas
J.K. Spruce	1	Coal	W.B. Tuttle	4 *	Gas
Arthur von Rosenberg	1	Gas	Leon Creek	6	Gas
O.W. Sommers	2	Gas			

* Included as a part of the 16 gas generating units are W.B. Tuttle Unit 2, which is currently not available for use, and W.B. Tuttle Units 1,3 and 4, which were mothballed in FY 2010. All W.B. Tuttle units are fully depreciated.

Construction on J.K. Spruce Unit 2 (Spruce 2) was started on March 21, 2006, with plans for commercial operation in fiscal year 2011. Spruce 2, a 750-megawatt unit, will be the largest of the coal units at Calavaras Lake and will be equipped with current emissions-control technology.

Construction of the V.H. Braunig (VHB) peaking units project began on September 10, 2008, and commercial operations is expected to begin in fiscal year 2011. The peaking units will provide an additional 186 megawatts of capacity to the CPS Energy generation portfolio to meet customer demand during periods of peak load.

Other notable capital assets in electric and gas plant include a fleet of rail cars, a transmission network for the movement of electric power from the generating stations to substations, and the electric and gas distribution systems.

Included in the general plant are: the Energy Management Center; the main office complex; the construction and customer service centers; the Villita Assembly Building; and a fleet of automobiles, trucks, and work equipment.

Impairments – No capital asset impairments were identified for fiscal year 2010.

Investment in STP – STP is currently a two-unit nuclear power plant located in Matagorda County, Texas. It is maintained and operated by the STP Nuclear Operating Company (STPNOC), a nonprofit Texas corporation special-purpose entity. It is financed and controlled by the owners – CPS Energy; the City of Austin; and NRG South Texas LLP, a wholly owned subsidiary of NRG Energy, Inc. CPS Energy's 40% interest in STP Units 1 and 2 is included in plant assets. See Note 10 for more information on CPS Energy's South Texas Project.

On October 29, 2007, the CPS Energy board of trustees approved a resolution enabling CPS Energy to participate in development activities related to new nuclear generation units to be constructed in Bay City, Texas, on a site where Units 1 and 2 currently operate. These generation units are referred to as STP Units 3 and 4. At January 31, 2010, CPS Energy held a 50.0% interest in the development. As a result of a litigation settlement with Nuclear Innovation North America, Inc. (NINA), CPS Energy's partner in the project, CPS Energy's ownership in STP Units 3 and 4 was reduced from 50.0% to 7.6% effective March 1, 2010. Project costs to date of $380,000 are included in construction-in-progress. For more detailed information on project development and legal issues associated with STP Units 3 and 4, see Note 10.

- 76 - Amounts are expressed in thousands
- 77 - Amounts are expressed in thousands

Note 4 Capital Assets (Continued)

CPS Energy (Continued)

STP Capital Investment (40.0% share), Net

	January 31, 2010
STP capital assets, net	
Construction-in-progress	$ 415,815
Land	5,701
Electric and general plant	1,224,886
Nuclear fuel	107,092
Total STP capital assets, net	$ 1,753,494
Total CPS Energy capital assets, net	$ 7,064,193
STP capital investments as a percentage of total CPS Energy capital assets, net	24.8%

The following tables provide more detailed information on the activity of CPS Energy's net capital assets as presented on the Balance Sheet, including capital asset activity for fiscal year 2010:

Capital Assets - CPS Energy

	Beginning Balance	Additions/ Increases	Transfers In/(Out)	Reductions/ Decreases	Ending Balance
Non-Depreciable Assets:					
Land	$99,122	$ -	$ 8,032	$ (4)	$ 107,150
Construction in Progress	1,346,182	842,027	(294,523)		1,893,686
Total Non-Depreciable Assets	1,445,304	842,027	(286,491)	(4)	2,000,836
Depreciable Capital Assets:					
Utility Plant in Service:					
Electric Plant	7,058,003	43,465	242,451	(25,663)	7,318,256
Gas Plant	639,943	4,015	19,320	(515)	662,763
General Plant	702,660	5,698	24,720	(16,739)	716,339
Nuclear Fuel	574,707	68,838			643,545
Total Depreciable Capital Assets	8,975,313	122,016	286,491	(42,917)	9,340,903
Accumulated Depreciation					
Depletion and Amortization:					
Utility Plant in Service:					
Electric Plant	(3,035,371)	(227,037)		35,121	(3,227,287)
Gas Plant	(231,045)	(14,335)		913	(244,467)
General Plant	(240,395)	(44,346)		15,402	(269,339)
Nuclear Fuel	(503,957)	(32,496)			(536,453)
Total Accumulated Depreciation Depletion and Amortization	(4,010,768)	(318,214)		51,436	(4,277,546)
Total Capital Assets, net	$6,409,849	$ 645,829	$ -	$ 8,515	$ 7,064,193

Cash flow information - Cash paid for additions and net removal costs was $810,600. This included $895,200 in additions to construction-in-progress and electric, gas and general plant; partially offset by $59,200 in AFUDC and $13,400 in donated assets.

Other - The increases in electric plant included new substations and distribution infrastructure. Depreciation and amortization totaled $285,800, which included $105 related to intangible assets.

Note 4 Capital Assets (Continued)

San Antonio Water System (SAWS)

SAWS' interest on debt proceeds used to finance utility plant additions is capitalized as part of the cost of capital assets. For the year-ended December 31, 2009, interest capitalized was $9,953. Capital asset activity for SAWS is as follows:

Capital Assets - San Antonio Water System

	Beginning Balance	Increases	Transfers	Decreases	Ending Balance
Non-Depreciable Assets:					
Land:					
Land	$ 78,572	$ -	$ 242	$ -	$ 78,814
Acquisition of Water Rights	104,056		52,648		156,704
Other Intangible Assets	365	23			388
Construction in Progress	372,607	281,532	(225,479)	689	427,971
Total Non-Depreciable Assets	555,600	281,555	(172,589)	689	663,877
Depreciable Assets:					
Utility Plant in Service:					
Structures and Improvements	415,477	117	28,407	1	444,000
Pumping and Purification	122,793	155	3,286		126,234
Distribution and Transmission System	1,434,989	737	75,406	2,585	1,508,547
Treatment Facilities	1,365,247		63,668	3,935	1,424,980
Machinery and Equipment:					
Machinery and Equipment	102,758	10,241	(99)	10,276	102,624
Furniture and Fixtures	5,048				5,048
Computer Equipment	18,409	2,000	1,915	873	21,451
Software	17,587	142	6		17,735
Total Depreciable Assets	3,482,308	13,392	172,589	17,670	3,650,619
Accumulated Depreciation:					
Utility Plant in Service:					
Structures and Improvements	(90,901)	(9,058)		(1)	(99,958)
Pumping and Purification	(24,137)	(3,046)			(27,183)
Distribution and Transmission System	(381,333)	(32,988)		(1,987)	(412,334)
Treatment Facilities	(492,819)	(30,615)		(3,935)	(519,499)
Machinery and Equipment:					
Machinery and Equipment	(53,668)	(6,933)		(10,271)	(50,330)
Furniture and Fixtures	(3,624)	(264)			(3,888)
Computer Equipment	(13,910)	(2,039)		(827)	(15,122)
Software	(10,326)	(1,592)			(11,918)
Total Accumulated Depreciation	(1,070,718)	(86,535)		(17,021)	(1,140,232)
Total Depreciable Assets, net	2,411,590	(73,143)	172,589	649	2,510,387
Total Capital Assets, net	$ 2,967,190	$ 208,412	$ -	$ 1,338	$ 3,174,264

- 78 - *Amounts are expressed in thousands*
- 79 - *Amounts are expressed in thousands*

Note 5 Receivables and Payables

Primary Government (City)

Disaggregation of Receivables

Net receivables at September 30, 2010 are as follows:

	Accounts	Taxes	Notes and Loans	Accrued Interest	Other	Total Net Receivables
Governmental Activities	$ 130,781	$ 25,547	$ 37,058	$ 235	$ 118	$ 193,739
Business-Type Activities:						
Airport System	$ 4,876	$ -	$ -	$ 13	$ -	$ 4,889
Nonmajor Enterprise Funds	7,064			5		7,069
Total Business-Type Activities	$ 11,940	$ -	$ -	$ 18	$ -	$ 11,958

The receivable balances for Governmental Activities have been reduced by estimated allowances for doubtful accounts of $58,672 against customer, other governmental agencies and other receivables, and $4,711 against property and occupancy taxes. The receivable balances for Business-Type Activities have been reduced by estimated allowances for doubtful accounts of $265 against customer and other receivables.

The only receivables not expected to be collected within one year are $37,034 of notes and loans receivables, net of allowance for doubtful accounts, related to General Government, Urban Redevelopment and Housing and Economic Development and Opportunity. These notes and loans have a corresponding deferred revenue balance recorded within the respective funds.

Disaggregation of Payables

Payables at September 30, 2010 are as follows:

	Accounts	Accrued Payroll	Other	Total Payables
Governmental Activities	$ 154,549	$ 26,571	$ -	$ 181,120
Business-Type Activities:				
Airport System	$ 19,609	$ 1,126	$ 22	$ 20,757
Nonmajor Enterprise Funds	3,753	1,326	2	5,081
Total Business-Type Activities	$ 23,362	$ 2,452	$ 24	$ 25,838

Interfund Receivable and Payable Balances

As of September 30, 2010, the interfund receivable and payable balances represent short-term loans resulting from (1) timing differences between the dates that transactions are recorded in the accounting system and (2) short-term borrowings at year-end. Of the $43,436 due from other funds in the General Fund, $42,404 is a result of overdraws of pooled cash. Except for internal loans from the Other Internal Service Fund of $648 and $257 to the Nonmajor Governmental Fund and General Fund, respectively, all interfund balances are expected to be paid within one year. See Note 6 Long-Term Debt, for additional information regarding the internal loans.

Note 5 Receivables and Payables (Continued)

Primary Government (City) (Continued)

Interfund Receivable and Payable Balances (Continued)

The following is a summary of interfund receivables and payables for the City as of September 30, 2010:

Summary Table of Interfund Receivables and Payables
As of September 30, 2010

	Due from Other Funds	Due To Other Funds
General Fund:		
Debt Service Fund	$ 1,500	$ -
Categorical Grant In-Aid	30,605	524
2007 General Obligation Bonds	30	
Airport System Fund	77	
Nonmajor Governmental Funds	10,275	432
Nonmajor Enterprise Funds	101	315
Internal Service Funds	339	466
Fiduciary Funds	509	
Total General Fund	43,436	1,737
Debt Service Fund:		
General Fund		1,500
Nonmajor Governmental Funds	477	
Nonmajor Enterprise Fund	4	1
Total Debt Service Fund	481	1,501
Categorical Grant In-Aid:		
General Fund	524	30,605
Nonmajor Governmental Funds	2,706	53
Internal Service Funds	22	3
Total Categorical Grant In-Aid	3,252	30,661
2007 General Obligation Bonds:		
General Fund		30
Nonmajor Governmental Funds	9,200	
Total 2007 General Obligation Bonds	9,200	30
Airport System Fund:		
General Fund		77
Airport System Fund	806	806
Internal Service Funds	235	
Nonmajor Governmental Funds	185	
Total Airport System Fund	1,226	883
Nonmajor Governmental Funds:		
General Fund	432	10,275
Debt Service Fund		477
Categorical Grant In-Aid	53	2,706
2007 General Obligation Bonds		9,200
Airport System Fund		185
Nonmajor Governmental Funds	11,178	11,178
Nonmajor Enterprise Funds		1,118
Internal Service Funds	139	648
Total Nonmajor Governmental Funds	11,802	35,787
Nonmajor Enterprise Funds:		
General Fund	315	101
Debt Service Fund	1	4
Nonmajor Governmental Funds	1,118	
Internal Service Funds		232
Total Nonmajor Enterprise Funds	1,434	337
Internal Service Funds:		
General Fund	466	339
Categorical Grant In-Aid	3	22
Airport System Fund		235
Nonmajor Governmental Funds	648	139
Nonmajor Enterprise Funds	232	
Total Internal Service Funds	1,349	735
Fiduciary Funds:		
General Fund		509
Total Fiduciary Funds	-	509
Total	$ 72,180	$ 72,180

- 80 - Amounts are expressed in thousands
- 81 - Amounts are expressed in thousands

Note 5 Receivables and Payables (Continued)

CPS Energy

Disaggregation of Receivables - Net customer accounts receivable as of January 31, 2010, included $40,069 for unbilled revenue receivables and $161,991 for billed utility services. Interest and other receivables included $2,699 for regulatory-related receivables, $1,456 for interest receivables and $13,505 for other miscellaneous receivables.

Disaggregation of Payables - At January 31, 2010, accounts payable and accrued liabilities included $296,929 related to standard operating supplier and vendor payables, including fuels payable; $26,167 for employee-related payables; and $78,849 for other miscellaneous payables and accrued liabilities.

San Antonio Water System (SAWS)

Accounts Receivable – Accounts receivable, net of allowance for uncollectible accounts are broken down by core business as follows:

	December 31, 2009
Water Delivery	$ 12,043
Water Supply	12,843
Wastewater	15,387
Chilled Water and Steam	1,307
	$ 41,580

Included within the receivables above are unbilled revenue receivables of $16,987 at December 31, 2009.

Note 6 Long-Term Debt

Primary Government (City)

Governmental Activity Long-Term Debt

The City's debt management and on-going capital improvement financing for infrastructure and "quality of life" purposes resulted in the issuance of additional indebtedness during fiscal year 2010:

On March 23, 2010, the City issued $156,255 in General Improvement Refunding Bonds, Series 2010 to refund certain obligations of the City (Refunded Obligations). Solid Waste Management was allocated $545 from the Refunded Obligations. The Governmental Activities' share of the net proceeds from the sale of the General Improvement Refunding Bonds, Series 2010, which included a premium of $20,685, were applied, together with a cash contribution of $1,500 from the City, to fund an escrow account for the redemption, discharge, and defeasance of the refunded obligations. As a result of converting the debt, the City will realize a total decrease of $9,265 in debt service payments and total deferred charges of $13,147. Through this defeasance, the City obtained an economic gain (difference between the present values of the debt service payments on the old and new debt plus the City's cash contribution) of $7,591. The Bonds have maturities ranging from 2011 to 2023, with interest rates ranging from 2.0% to 5.0%.

On July 13, 2010, the City issued the following: $8,800 in General Improvements Bonds, Series 2010A, $191,550 in General Improvement Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds), and $38,375 in Combination Tax and Revenue Certificates of Obligation, Series 2010.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

The General Improvement Bonds, Series 2010A were issued to finance improvements to parks, recreation, and open space and athletics. The Bonds have maturities ranging from 2019 to 2020, with interest rates of 5.0%.

The General Improvement Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds) were issued to finance improvements to streets, bridges and sidewalks, drainage, and libraries. The Bonds have maturities ranging from 2020 to 2040, with interest rates ranging from 4.314% to 6.038%.

The Combination Tax and Revenue Certificates of Obligation, Series 2010 were issued to provide funds for making permanent public improvements and for other public purposes, including police and fire improvements, municipal facilities improvements, park and recreation improvements, street improvements, drainage improvements, riverwalk improvements, library improvements, and golf course improvements. The Certificates have maturities ranging from 2014 to 2019, with interest rates ranging from 4.0% to 5.0%.

On July 13, 2010, the City issued $9,655 in Tax Notes, Series 2010A. The Notes were issued to provide funds for computer and information technology systems. The Notes have maturities ranging from 2011 to 2013, with interest rates ranging from 2.0% to 4.0%.

On March 31, 2010, Municipal Facilities Corporation issued $9,090 in Municipal Facilities Corporation Lease Revenue Refunding Bonds, Series 2010 (Development & Business Services Center Project). The Bonds were issued to refund certain Municipal Facilities Corporation bonds in order to lower the overall annual debt service requirements of the Corporation and the lease payments made by Municipal Facilities Corporation. The net proceeds from the sale of the Municipal Facilities Corporation Lease Revenue Refunding Bonds, Series 2010, which included a premium of $33, were applied to fund an escrow account for the redemption, discharge, and defeasance of the refunded obligations. As a result of converting the debt, Municipal Facilities Corporation will realize a total decrease of $599 in debt service payments and total deferred charges of $633. Through this defeasance, Municipal Facilities Corporation obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $530. The 2010 Refunding Bonds have maturities ranging from 2010 to 2020, with interest rates ranging from 1.00% to 3.25%.

The City of San Antonio's General Obligation, Certificates of Obligation, and Tax Notes are pledged by ad-valorem taxes levied upon all taxable property located within the City, within the limitations prescribed by law. The Certificates of Obligations are additionally secured by a lien on and pledge of certain pledged revenues of the City's municipal parks system not to exceed $1 during the entire period the Certificates of Obligation or interest thereon remains outstanding in order to permit the Certificates of Obligation to be sold for cash.

The Hotel Occupancy Tax Revenue Bonds are secured by Hotel Occupancy Tax (HOT) currently levied at 9.0% of which 7.0% is designated as "General HOT" and 2.0% is designated as the "Expansion HOT". The General HOT is comprised of the pledged 1.75% HOT and the pledged 5.25% HOT. The Series 1996 HOT Bonds are secured by prior liens on revenues from the General HOT and a lien on the revenues from the Expansion HOT. The 2004A, 2006, and the 2008 HOT Bonds are secured by subordinate liens on revenues from the General HOT. The 2008 HOT Bonds are additionally supported by an irrevocable direct-pay Letter of Credit dated as of July 8, 2010 issued by Wells Fargo Bank, National Association, whom also serves as the remarketing agent. The Letter of Credit agreement will expire July 11, 2012. As of September 30, 2010, there have been no borrowings under the Letter of Credit.

The 2008 HOT Bonds were issued as variable-rate bonds and as such have interest rates set on a weekly basis.

- 82 - *Amounts are expressed in thousands*
- 83 - *Amounts are expressed in thousands*

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

The Municipal Drainage Utility System Revenue Bonds are secured by a lien on Stormwater revenues.

The Municipal Facilities Corporation Lease Revenue Bonds are paid by annually appropriated lease payments made by the City which equal the annual debt service on the Bonds.

The Starbright Industrial Development Corporation Contract Revenue Bonds are secured with a pledge of utility revenue received by the City from CPS Energy.

The Convention Center Hotel Finance Corporation Contract Revenue Empowerment Zone Bonds are secured by net operating revenues to be received from the Convention Center Hotel operations. In the event the net operating revenues are insufficient to pay all debt service, City tax revenues will be pledged in the following order of priority: first, from the Convention Center Hotel State HOT revenues; second, from Convention Center Hotel State sales tax revenues; third, from Convention Center Hotel 7.0% local HOT revenues; and fourth, from available Expansion HOT revenues on a subordinate basis.

Prior Years' Defeased Debt

In prior years, the City advance refunded, prior to maturity, certain general obligation bonds, revenue bonds, certificates of obligation and tax notes. The refunding bonds were utilized to purchase securities, which are direct obligations of the United States of America (the Purchase Securities). The Purchased Securities plus cash were deposited into irrevocable escrow accounts in amounts scheduled to mature in principal amounts that, when added to interest earned on the Purchased Securities plus remaining balances in the escrow fund, are fully sufficient to make timely payment on the principal, premium if any, and interest scheduled to come due on the refunded obligations. The refunded obligations represent a legal defeasance and are no longer a liability of the City; therefore, they are not included in the City's financial statements. On September 30, 2010, $287,710 of previously defeased bonds was outstanding.

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

The following table is a summary of changes for the year-ended September 30, 2010 for governmental activity debt:

Governmental Activity Long-Term Debt

Issue	Time of Original Issuance: Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2009	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2010
General Obligation Bonds:							
Series 1998 Refunding	$ 30,855	2018	4.500-5.000	$ 3,180	$ -	$ 3,180	$ -
Series 1998A Refunding	49,110	2019	4.000-5.250	14,605		14,605	
Series 1999	12,000	2020	5.375-6.000	1,170		1,170	
Series 2000	27,565	2020	4.500-5.000	4,170		4,170	
Series 2000A	15,615	2021	5.250-5.375	3,035		2,300	735
Series 2001	84,945	2022	3.000-5.250	2,565		385	2,180
Series 2002 Forward Refunding	251,280	2013	4.000-5.250	93,170		37,210	55,960
Series 2002	55,850	2023	2.000-5.500	24,100		16,895	7,205
Series 2003	40,905	2014	2.750-5.000	17,155		1,140	16,015
Series 2003A	56,515	2016	2.000-5.000	43,020		4,940	38,080
Series 2004	33,570	2024	2.375-4.750	30,655		16,160	14,495
Series 2005	116,170	2025	3.500-5.250	116,170		15,335	100,835
Series 2006 Forward Refunding	33,090	2016	5.250-5.500	30,690		2,550	28,140
Series 2006 Refunding	169,785	2026	3.500-5.000	159,160		26,985	132,175
Series 2007 Refunding	121,220	2028	4.000-5.000	113,365		27,405	85,960
Series 2008	75,060	2028	4.000-5.500	75,060			75,060
Series 2010 Refunding	155,710	2023	2.000-5.000		155,710		155,710
Series 2010A	8,800	2020	5.000		8,800		8,800
Series 2010B BABs	191,550	2040	4.314-6.038		191,550		191,550
Total General Obligation Bonds	$ 1,529,595			$ 731,270	$ 356,060	$ 174,430	$ 912,900
Tax-Exempt Certificates of Obligation:							
Series 1998	$ 4,315	2018	4.600-5.000	$ 360	$ -	$ 360	$ -
Series 1998A	36,535	2019	4.000-5.250	6,065		6,065	
Series 1999	4,230	2020	5.750-6.000	410		410	
Series 2000	8,490	2020	4.500-4.625	1,280		1,280	
Series 2000A	8,810	2021	5.250-5.375	1,710		1,295	415
Series 2000C	6,415	2020	5.000-5.500	4,925		4,925	
Series 2001	65,195	2014	4.000-5.250	26,580		20,120	6,460
Series 2002	69,930	2023	3.000-5.500	40,410		23,570	16,840
Series 2004	29,525	2024	2.000-5.000	23,580		3,440	20,140
Series 2005	10,535	2025	4.000-5.250	10,535			10,535
Series 2006	72,755	2026	3.500-4.375	65,200		2,705	62,495
Series 2007	104,255	2028	4.000-5.000	85,010		15,930	69,080
Series 2008	85,005	2028	3.500-5.500	82,170		2,875	79,295
Series 2010	38,375	2019	4.000-5.000		38,375		38,375
Total Tax-Exempt Certificates of Obligation	$ 544,370			$ 348,235	$ 38,375	$ 82,975	$ 303,635
Taxable Certificates of Obligation:							
Series 2000B	$ 1,755	2021	7.450-7.550	$ 155	$ -	$ 75	$ 80
Total Taxable Certificates of Obligation	$ 1,755			$ 155	$ -	$ 75	$ 80
Tax Notes:							
Series 2007A	$ 21,270	2012	4.000-5.000	$ 13,715	$ -	$ 4,380	$ 9,335
Series 2008	15,320	2013	3.500-5.000	12,905		3,035	9,870
Series 2009	30,100	2010	1.840-2.610	21,475		21,475	
Series 2010A	9,655	2013	2.000-4.000		9,655		9,655
Total Tax Notes	$ 76,345			$ 48,095	$ 9,655	$ 28,890	$ 28,860
Revenue Bonds:							
Series 1996 Hotel Occupancy Tax [1]	$ 182,012	2017	4.500-6.200	$ 18,112	$ -	$ -	$ 18,112
Series 2004A Hotel Occupancy Tax	10,390	2029	5.000	10,390			10,390
Series 2006 Hotel Occupancy Tax Ref	72,620	2026	4.000-4.500	71,320		265	71,055
Series 2007 Hotel Occupancy Tax Note	5,500	2010	4.042	5,500		5,500	
Series 2008 Hotel Occupancy Tax Ref	135,000	2034	Variable	131,000		1,500	129,500
Series 2003 Municipal Drainage	44,150	2028	2.000-5.000	37,395		1,280	36,115
Series 2005 Municipal Drainage	61,060	2030	3.500-5.250	55,535		1,515	54,020
Series 2001 Municipal Facility Corp	14,465	2020	3.370-5.200	9,780		9,055	725
Series 2010 Municipal Facility Corp Ref	9,090	2020	1.000-3.250		9,090	125	8,965
Convention Series 2005A	129,930	2039	4.750-5.000	129,930			129,930
Convention Series 2005B	78,215	2028	4.500-5.310	78,215		2,150	76,065
Starbright Industrial Development Corp.	24,685	2033	2.180-5.110	23,075		565	22,510
Total Revenue Bonds	$ 767,117			$ 570,252	$ 9,090	$ 21,955	$ 557,387
Total	$ 2,919,182			$ 1,698,007	$ 413,180	$ 308,325	$ 1,802,862

[1] A portion of the Hotel Occupancy Tax Revenue Bonds Series 1996 was sold as Capital Appreciation Bonds (CABS). Interest on the CABS accrete from date of delivery and will be payable only at maturity or redemption. Interest accreted through Fiscal Year 2010 has resulted in an increase of $20,077 in revenue bonds payable. This increase is reflected in the combined Statement of Net Assets but is not shown in the above table.

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Annual Requirements

The annual requirement to amortize all general obligation bonds, certificates of obligation, tax notes, and all revenue bonds outstanding as of September 30, 2010 are as follows:

Principal and Interest Requirements									
	General Obligation Bonds			Certificates of Obligation		Tax Notes		Revenue Bonds	
Year Ending September 30,	Principal	Interest	Direct Subsidy	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 72,780	$ 46,377	$ (4,017)	$ 26,625	$ 13,687	$ 10,855	$ 1,155	$ 10,197	$ 26,508
2012	60,465	42,225	(3,825)	21,360	12,486	11,290	715	10,744	26,177
2013	68,620	39,159	(3,825)	18,470	11,655	6,715	303	11,101	25,837
2014	56,045	35,970	(3,825)	24,985	10,906			11,395	25,476
2015	43,070	33,243	(3,825)	28,480	9,791			11,415	25,083
2016-2020	224,275	133,888	(19,127)	79,060	34,141			83,780	117,478
2021-2025	187,505	79,581	(17,652)	70,515	18,106			120,420	93,272
2026-2030	89,985	45,117	(14,191)	34,220	3,079			131,055	61,425
2031-2035	49,815	27,461	(9,611)					112,140	29,526
2036-2040	60,340	11,210	(3,923)					55,140	7,056
Total	$ 912,900	$ 494,231	$ (83,821)	$ 303,715	$ 113,851	$ 28,860	$ 2,173	$ 557,387	$ 437,838

In May 2007, the citizens authorized the City to sell $550,000 in debt for the 2007-2012 Municipal Bond Program. The program included 151 projects designed to improve and enhance existing, as well as acquire or construct, new local streets, bridges, sidewalks, drainage facilities, parks, athletic facilities, libraries, and public health centers. The Bonds are categorized in five areas: Streets, Bridges and Sidewalks Improvements; Drainage Improvements; Parks, Recreation, Open Space, and Athletics Improvements; Library Improvements; and Public Health Facilities Improvements. The Bonds are pledged with and will be repaid from ad valorem tax revenue the City collects on an annual basis. The Bonds authorized but unissued as of September 30, 2010 are as follows:

Authorized but Unissued General Obligation Debt				
Authorization Date	Purpose	Amount Authorized	Bonds Previously Issued	Bonds Authorized but Unissued
5/12/2007	Streets, Bridges, and Sidewalks	$ 306,998	$ 199,449	$ 107,549
5/12/2007	Drainage	152,052	97,532	54,520
5/12/2007	Parks, Recreation, Open Space, and Athletics	79,125	78,187	938
5/12/2007	Library	11,025	11,025	
5/12/2007	Public Health Facilities	800	800	
Total		$ 550,000	$ 386,993	$ 163,007

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Debt Limitation

The amount of debt that the City may incur is limited by City Charter and by the Constitution of the State of Texas. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10.0% of the total assessed valuation. The total assessed valuation for the fiscal year 2010 was $84,481,611, which provides a debt ceiling of $8,448,161. The total outstanding debt that is secured by an ad valorem tax pledge is $1,300,330 including $54,855 that is reported in business-type activities.

The Constitution of the State of Texas provides that the ad valorem taxes levied by the City for debt service and maintenance and operation purposes shall not exceed $2.50 for each 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 90.0% collections (please note that dollar figures in this paragraph are not reflected in thousands).

Interfund Borrowings

In certain instances, after an evaluation of project/purchase funding requirements, it has been determined that some funds or operations may require temporary financing. As an alternative to the issuance of external debt to finance those projects/purchases, the City has authorized internal temporary financing from available cash balances in the Internal Service Equipment Replacement Fund (Other Internal Service Fund) to meet those needs.

In May 2008, a loan was authorized from the City's Other Internal Service Fund to the City's Tax Increment Reinvestment Zone to finance the purchase of the draft River North Master Plan, in an amount not to exceed $650. The principal amount of the loan was $648, with quarterly interest to be calculated at the City's pooled investment portfolio rate. The City's average rate for the year ended September 30, 2010, was 0.5%, resulting in interest of $3. Repayment of the principal and interest on this loan will occur as funding is available from the revenues of the TIRZ.

The following is a summary of changes in the loan for the year-ended September 30, 2010:

Balance October 1, 2009	Additions	Reductions	Balance September 30, 2010
$ 648	$ -	$ -	$ 648

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

In June 2009, a loan in the amount of $460 was authorized for a period of not more than two years from the City's Other Internal Service Fund to the General Fund to finance the City's participation in an interagency agreement with the San Antonio Water System to implement a water efficiency project at the HemisFair Fountain. Upon completion of the project, the City was eligible for a one-time rebate, subject to SAWS Board approval. In January 2010, the City received a rebate of $182. This rebate will be used to reimburse the loan from the Other Internal Service Fund along with the annual utility savings that will be realized in the Downtown Operations Department Operating Budget (General Fund) by reducing the Fountain's need to use SAWS water.

The HemisFair Fountain uses an estimated 36,000 gallons of water each year which equates to an annual estimated cost of $130 to the Downtown Operations Department (General Fund). These savings will be transferred to the Other Internal Service Fund with interest as needed to reimburse the Fund for its loan for the capital project.

The following is a summary of changes in the loan for the year ended September 30, 2010:

Balance October 1, 2009	Additions	Reductions	Balance September 30, 2010
$ 460	$ -	$ 203	$ 257

Leases

The City leases property and equipment from others. Leased property having elements of ownership are recorded in the government-wide financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in the government-wide financial statements. Other leased property, not having elements of ownership, are classified as operating leases. Both capital and operating lease payments are recorded as expenditures when matured in the governmental fund financial statements. Total expenditures for operating leases for the fiscal year-ended September 30, 2010 were approximately $7,636.

The City has entered into various lease purchase agreements for the acquisition of printers and related components, fire fighting gear, self-contained breathing apparatus, a mainframe computer, various fire trucks and parts, electrocardiograms, an inventory theft detection system, and hybrid vehicles. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council.

The assets acquired through capital leases for governmental activities are as follows:

Machinery and Equipment	$ 38,423
Less: Accumulated Depreciation	(21,290)
Total	$ 17,133

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

As of September 30, 2010, the City had future minimum lease payments under capital and operating leases with a remaining term in excess of one year for governmental activities as follows:

	Capital Leases	Operating Leases	Total
Fiscal Year Ending September 30:			
2011	$ 3,621	$ 7,267	$ 10,888
2012	1,437	6,755	8,192
2013	699	5,349	6,048
2014	281	3,175	3,456
2015		2,029	2,029
2016-2020		7,308	7,308
2021-2025		1,413	1,413
2026-After		412	412
Future Minimum Lease Payments	6,038	$ 33,708	$ 39,746
Less: Interest	(242)		
Present Value of Future Minimum Lease Payments	5,796		
Less: Current Portion	(3,467)		
Capital Lease, Net of Current Portion	$ 2,329		

Business-Type Activity Long-Term Debt

Business-Type Activity long-term debt applies to those City operations that relate to business and quasi-business activities where net income and capital maintenance are measured (Enterprise Funds). Long-term debt, which is to be repaid from enterprise fund resources, is reported in the respective proprietary fund. The long-term indebtedness of the City's Enterprise Funds is presented in the discussion that follows.

Airport System – The Airport System includes the City of San Antonio International Airport and Stinson Municipal Airport and all land, buildings, structures, equipment, and facilities pertaining thereto. The Airport System's long-term debt consists of Airport System Revenue Improvement Bonds (GAR) and Passenger Facility Charge and Subordinate Lien Bonds (PFC). GAR Bonds are payable from and secured solely by an irrevocable first lien on and pledge of the gross revenues of the Airport System. Gross revenues of the Airport System include all revenues of any nature derived from contracts or use agreements with airlines and other users of the Airport System and its facilities. PFC Bonds are payable from and secured by an irrevocable first lien on and pledge of the PFC revenues and a first lien on and pledge of the subordinate net revenues.

On March 18, 2010, the City issued $34,500 in Tax Notes, Series 2010. The Notes were issued to provide interim financing to fund $15,250 in General Airport capital improvements and $19,250 in PFC eligible capital improvements at the San Antonio International Airport. The Notes mature in 2011 and have an interest rate of 0.6%. While the Notes are secured by ad valorem taxes, no property taxes will be utilized to pay the debt service on the Notes and the Notes will be refunded through the issuances of GAR and PFC Bonds planned for fiscal year 2011.

Parking System – The Parking System operation includes the ownership and operation of parking facilities, parking lots, parking meters, and retail/office space. Long-term debt is allocated to the Parking System on a pro rata basis from proceeds received from the issuance of taxable general obligation debt and is paid from revenues derived from the operation of the Parking System. The allocated debt is secured by an ad valorem tax pledge.

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

Solid Waste Management – Solid Waste Management was established on a financially self-supporting basis in 1988. Revenues are received from garbage collection fees which are utilized to pay operating costs and indebtedness. Long-term debt is allocated to Solid Waste Management on a pro rata basis from proceeds received from the issuance of general obligation and certificates of obligation debt for Solid Waste Management related improvements and is paid from revenues derived from the operation of Solid Waste Management. The allocated debt is secured by an ad valorem tax pledge.

On March 23, 2010, $545 of the $156,255 General Improvement Refunding Bonds, Series 2010 was allocated to Solid Waste Management. The net proceeds for the allocated portion of the bonds from the sale of the General Improvement Refunding Bonds, Series 2010, which included a premium of $72, were applied to fund an escrow account for the redemption, discharge, and defeasance of the refunded obligations. As a result of converting the debt, the City will realize a total decrease of $37 in debt service payments and total deferred charges of $44. Through this defeasance, the City obtained an economic gain (difference between the present values of the debt service payments on the old and new debt plus the City's cash contribution) of $23. The allocated Bonds have maturities ranging from 2018 to 2021, with interest rates ranging from 2.0% to 5.0%.

Capitalized Interest Costs - Interest costs incurred on revenue bonds and other borrowing totaled $18,890 for the Airport System. For fiscal year 2010, the amount of $3,736 was capitalized for the Airport System and included as an addition to construction in progress. Interest costs for nonmajor enterprise funds were not capitalized as there was no construction in progress in these funds during fiscal year 2010.

Prior Years' Defeased Debt

In prior years, the City advance refunded, prior to maturity, certain revenue bonds. The refunding bonds were utilized to purchase securities, which are direct obligations of the United States of America (the Purchased Securities). The Purchased Securities plus cash were deposited into irrevocable escrow accounts in amount scheduled to mature in principal amounts that, when added to interest earned on the Purchase Securities plus remaining balances in the escrow fund, are fully sufficient to make timely payment on the principal, premium if any, and interest scheduled to come due on the refunded obligations. The refunded obligations represent a legal defeasance and are no longer a liability of the City; therefore, they are not included in the City's financial statements. On September 30, 2010, $18,435 of previously defeased bonds was outstanding.

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

The following table is a summary of changes in debt obligations for the fiscal year ended September 30, 2010:

Business-type Activity Long-Term Debt

Issues	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2009	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2010
Airport System:							
Revenue Bonds:							
Series 2001	$ 17,795	2016	5.375	$ 17,795	$ -	$ -	$ 17,795
Series 2002	92,470	2027	5.000-5.750	85,450		2,410	83,040
Series 2002 PFC	37,575	2027	4.000-5.750	31,400		1,040	30,360
Series 2003 Refunding	50,230	2013	5.500-6.000	23,525		5,380	18,145
Series 2005 PFC	38,085	2030	3.375-5.250	34,590		955	33,635
Series 2006	17,850	2014	5.000	14,095		2,410	11,685
Series 2007	82,400	2032	4.950-5.250	82,400		1,965	80,435
Series 2007 PFC	74,860	2032	5.000-5.250	71,125		1,695	69,430
Tax Notes							
Series 2010	34,500	2011	0.600		34,500		34,500
Subtotal	$ 445,765			$ 360,380	$ 34,500	$ 15,855	$ 379,025
Parking System:							
General Obligation Bonds:							
Series 2004 Refunding	$ 13,245	2016	2.800-4.650	$ 7,455	$ -	$ 700	$ 6,755
Series 2008 Refunding	10,120	2024	5.820-6.570	10,120			10,120
Subtotal	$ 23,365			$ 17,575	$ -	$ 700	$ 16,875
Solid Waste Management:							
General Obligation Bonds:							
Series 2006 Refunding	$ 1,000	2026	3.500-5.000	$ 905	$ -	$ 105	$ 800
Series 2010 Refunding	545	2021	2.000-5.000		545		545
Certificate of Obligations:							
Series 2006	400	2026	3.500-5.000	365		15	350
Series 2007	2,500	2028	4.000-5.000	2,350		565	1,785
Subtotal	$ 4,445			$ 3,620	$ 545	$ 685	$ 3,480
Total	$ 473,575			$ 381,575	$ 35,045	$ 17,240	$ 399,380

The annual requirements to amortize long-term debt for the City's Enterprise Funds related to general obligation bonds, certificates of obligation, tax notes, and revenue bonds outstanding at September 30, 2010 are as follows:

Principal and Interest Requirements

	Airport System			Parking System			Solid Waste Management		
Year Ending Sept. 30:	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2011	$ 17,210	$ 18,158	$ 35,368	$ 800	$ 901	$ 1,701	$ 135	$ 164	$ 299
2012	52,625	17,541	70,166	1,175	862	2,037	140	157	297
2013	19,135	16,226	35,361	1,300	810	2,110	145	151	296
2014	17,170	15,168	32,338	1,480	750	2,230	150	145	295
2015	18,265	14,259	32,524	1,000	694	1,694	165	137	302
2016-2020	72,625	58,139	130,764	5,465	2,773	8,238	925	549	1,474
2021-2025	84,440	38,610	123,050	5,655	934	6,589	1,180	303	1,483
2026-2030	76,120	15,919	92,039				640	53	693
2031-2035	21,435	1,665	23,100						
Total	$ 379,025	$ 195,685	$ 574,710	$ 16,875	$ 7,724	$ 24,599	$ 3,480	$ 1,659	$ 5,139

Amounts are expressed in thousands

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

Leases

The City has entered into various lease purchase agreements for the acquisitions of refuse collection containers, refuse collections trucks, brush grappler trucks, and brush tractor/trailer combinations. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council. While the garbage containers meet the criteria for capital lease recognition these items were expensed during the current year as their individual costs were below the City's capitalization threshold.

The assets acquired through capital leases for business-type activities are as follows:

Machinery and Equipment	$ 23,893
Less: Accumulated Depreciation	(5,781)
Total	$ 18,112

As of September 30, 2010, the City had future minimum payments under capital and operating leases with a remaining term in excess of one year for business-type activities as follows:

	Capital Leases	Operating Leases	Total
Fiscal Year Ending September 30,			
2011	$ 8,467	$ 318	$ 8,785
2012	5,776	18	5,794
2013	4,671		4,671
2014	3,422		3,422
2015	3,374		3,374
2016-2017	2,071		2,071
Future Minimum Lease Payments	27,781	$ 336	$ 28,117
Less: Interest	(2,166)		
Present Value of Future Minimum Lease Payments	25,615		
Less: Current Portion	(7,688)		
Capital Leases, Net of Current Portion	$ 17,927		

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Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt

Long-term obligations and amounts due within one year:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	$ 731,270	$ 356,060	$ (174,430)	$ 912,900	$ 72,780
Tax-Exempt Certificates of Obligation	348,235	38,375	(82,975)	303,635	26,545
Taxable Certificates of Obligation	155		(75)	80	80
Tax Notes	48,095	9,655	(28,890)	28,860	10,855
Revenue Bonds	570,252	9,090	(21,955)	557,387	10,197
Gross Bonds Payable	1,698,007	413,180	(308,325)	1,802,862	120,457
Unamortized (Discount) / Premium	46,566	27,680	(10,220)	64,026	7,462
Deferred Amount on Refunding	(14,038)	(13,780)	2,444	(25,374)	(1,919)
Net Bonds Payable	1,730,535	427,080	(316,101)	1,841,514	126,000
Total Commercial Paper [1]	25,805		(11,435)	14,370	
Other Payables:					
Accrued Arbitrage Rebate Payable [3]	182		(182)	-	
Capital Lease Liability	10,567		(4,771)	5,796	3,467
Accrued Leave Payable	184,080	4,751	(270)	188,561	41,788
Notes Payable	53,355		(2,475)	50,880	2,000
Pollution Remediation Liability [4]	904	1,529	(608)	1,825	
Net OPEB Obligation [2]	41,441	18,661		60,102	
Total Other Payables	290,529	24,941	(8,306)	307,164	47,255
Total Governmental Activities Long-Term Liabilities	$ 2,046,869	$ 452,021	$ (335,842)	$ 2,163,048	$ 173,255
Business-Type Activities:					
Bonds Payable:					
General Obligation Bonds	$ 18,480	$ 545	$ (805)	$ 18,220	$ 835
Tax-Exempt Certificates of Obligation	2,715		(580)	2,135	100
Tax Notes		34,500		34,500	
Revenue Bonds	360,380		(15,855)	344,525	17,210
Gross Bonds Payable	381,575	35,045	(17,240)	399,380	18,145
Unamortized (Discount) / Premium	10,185	94	(1,112)	9,167	966
Deferred Amount on Refunding	(4,206)	(44)	729	(3,521)	(726)
Net Bonds Payable	387,554	35,095	(17,623)	405,026	18,385
Capital Lease Liability	24,664	7,495	(6,544)	25,615	7,688
Accrued Landfill Postclosure Costs [3]	2,353		(296)	2,057	177
Pollution Remediation Liability [4]	700			700	
Net OPEB Obligation [2]	8,510	3,632		12,142	
Accrued Leave Payable	4,390		(121)	4,269	712
Total Other Payables	40,617	11,127	(6,961)	44,783	8,577
Total Business-Type Activities Long-Term Liabilities	$ 428,171	$ 46,222	$ (24,584)	$ 449,809	$ 26,962

NOTE: The accreted interest through fiscal year 2010 has resulted in an increase of $20,077 in Hotel Occupancy Tax Revenue Bonds payable in governmental activities. The accreted interest in the amount of $20,077 is reflected on the governmental fund combined statement but is not reflected in this table.

[1] See Note 7, Commercial Paper Programs for a description of the commercial paper program.

[2] See Note 9, Postemployment Retirement Benefits for a description of the postemployment program.

[3] See Note 11, Commitments and Contingencies for a description of the Arbitrage and Landfill Postclosure Care Costs.

[4] See Note 12, Pollution Remediation Obligation for a description of the Pollution Remediation Liability.

- 92 - *Amounts are expressed in thousands*
- 93 - *Amounts are expressed in thousands*

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt (Continued)

Accrued Leave

The following is a summary of accrued leave for the year-ended September 30, 2010:

	Governmental Activities				
Fund Type	Short-Term Available	Short-Term Remaining	Total Short-Term	Long-Term	Total
Governmental Funds	$ 12,433	$ 28,902	$ 41,335	$ 144,511	$ 185,846
Internal Service Funds		453	453	2,262	2,715
Total Governmental Activities	$ 12,433	$ 29,355	$ 41,788	$ 146,773	$ 188,561

The General Fund accounts for approximately 65.0% of the City's employees; therefore, most of the accrued leave liability has been liquidated from the General Fund. When a City employee terminates, the fund that their salary was charged to throughout the year will be the same fund that will pay their accrued leave.

	Business-Type Activities		
Fund	Short-Term	Long-Term	Total
Airport System	$ 372	$ 1,858	$ 2,230
Nonmajor Enterprise Funds	340	1,699	2,039
Total Business-Type Activities	$ 712	$ 3,557	$ 4,269

Conduit Debt Obligations

The City facilitates the issuance of bonds to enable the San Antonio Industrial Development Authority, Health Facilities Development Corporation and the Education Facilities Corporation (formerly known as Higher Education Authority), component units of the City, to provide financial assistance to various entities for the acquisition, construction, or renovation of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired property transfers to the entity served by the bond issuance. As of September 30, 2010, the aggregate principal amounts payable are as follows: seven series of Education Facility Revenue Bonds in the amount of $113,174; and one series of Empowerment Zone Development Revenue Bonds in the amount of $12,800.

The City also facilitates the issuance of tax-exempt revenue bonds to enable the San Antonio Housing Finance Corporation to provide financing of residential developments for persons of low and moderate income. The bonds are secured by the property financed and are payable solely from, and secured by, a pledge of rental receipts. As of September 30, 2010, 29 series of tax-exempt revenue bonds were outstanding, with an aggregate principal amount payable of $265,139 and an aggregate principal amount issued of $223,802.

To provide for the acquisition and construction of certain airport facilities, the City has issued Special Airport Facilities Revenue Refunding Bonds, Series 1995. The bond is payable pursuant to lease agreements, which stipulate that various commercial entities are obligated to pay amounts to a third-party trustee in lieu of lease payments to the City. These payments are sufficient to pay for the principal, premium, interest, and purchase price of the bond when they become due. The aggregate principal amount outstanding for the Special Airport Facilities Revenue Refunding Bonds, Series 1995 at September 30, 2010 was $3,000.

Note 6 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt (Continued)

The City entered into an agreement with the Port to fund renovations at the Port, in the amount of $20,000. The Department of Housing and Urban Development (HUD) provides the funding for the loan through a Section 108 Loan. The loan is secured by pledged Port revenues and property and is payable solely from payments received by the Port. As of September 30, 2010, the aggregate amount of the outstanding loan totaled $12,155.

The City has authorized San Antonio Housing Trust Finance Corporation to issue single family and multi-family mortgage revenue bonds used to provide affordable housing to the City of San Antonio. The bonds are payable solely out of the revenues and receipts derived from any residential development or home mortgage financed by the bonds. As of September 30, 2010, the amount of conduit debt was $49,188.

The City also facilitates the issuance of tax-exempt revenue bonds for SA Energy Acquisition Public Facility Corporation (SAEAPFC) to enter into long-term prepaid purchases of natural gas. SAEAPFC in turn, sells contracted volumes of the prepaid gas to CPS Energy on a monthly basis at a discounted rate, which is passed on to CPS Energy's gas customers through reduced utility costs. The bonds are secured by the gas supplier and are payable primarily from the contracted volume sales and associated gas swap payments. As of September 30, 2010, SAEAPFC issued one series of tax-exempt revenue bonds with an aggregate principal amount outstanding of $587,940.

Neither the City, the State of Texas, nor any political subdivision of the State of Texas, is obligated in any manner for repayment of the aforementioned bonds, loans or leases. Accordingly, the bonds, loans, and leases are not reported as liabilities in the accompanying financial statements.

CPS Energy

To support its long-term capital financing needs, CPS Energy uses several types of debt instruments. As of January 31, 2010 these included fixed-rate and variable-rate bonds, as well as commercial paper. Relative to the bond instruments, provisions may be included that allow for refunding after specified time periods during the bond term.

Current refundings involve issuing new debt (refunding bonds) to redeem existing debt (refunded bonds) that can be called within 90 days of issuing the refunding bonds. Advance refunding of bonds involves issuing new debt to redeem existing debt that cannot be called within 90 days of issuing the refunding bonds. In these circumstances, the refunding bond proceeds are irrevocably escrowed with a third party. These proceeds, and income thereon, are used to pay the debt service on the refunded bonds until the refunded bonds can be called. Refunding bonds are generally issued to achieve debt service savings.

Subject to applicable timing restrictions that may prevent early payoff, CPS Energy also has the option to defease or extinguish debt with cash. A bond defeasance occurs when cash is placed in an irrevocable trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt, which fully discharges the bond issuer's obligation. At the time of an extinguishment with cash, since the issuer no longer has the legal obligation, the defeased debt is removed from the balance sheets, the related unamortized costs are expensed and the gain or loss is immediately recognized.

For current and advance refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a deduction or addition to the new debt liability. The deferred amount is amortized as a component of interest expense over the shorter remaining life of the refunding or the refunded debt.

- 94 - *Amounts are expressed in thousands*
- 95 - *Amounts are expressed in thousands*

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

On January 20, 2009, CPE Energy's board of trustees authorized the establishment of a flexible rate revolving note program to provide additional liquidity in support of the Systems. Under the program, CPS Energy can issue taxable or tax-exempt notes with individual maturities of one year or less at fixed or variable interest rates in an aggregate principal amount at any one time outstanding not to exceed $100,000. The program became effective on April 28, 2009, and authorizes the issuance of such notes through November 1, 2028. There were no outstanding notes under this program as of January 31, 2010.

As of January 31, 2010, the bond ordinances for New Series Bonds issued on and after February 1, 1994 contained, among others, the following provisions:

Revenue deposited in CPS Energy's General Account shall be pledged and appropriated to be used in the following priority for:

- Maintenance and operating expenses of CPS Energy;
- Payments of the New Series Bonds;
- Payment of Prior Lien Bonds, including Junior Lien Obligations;
- Payment of the Notes and the Credit Agreement (as defined in the ordinance authorizing Commercial Paper);
- Payment of any Inferior Lien Obligations issued, which are inferior in lien to the New Series Bonds, the Prior Lien Bonds and the Notes and Credit Agreement;
- An annual amount equal to 6.0% of the gross revenue of CPS Energy to be deposited in the Repair and Replacement Account;
- Cash payments and benefits to the General Fund of the City not to exceed 14.0% of the gross revenue of CPS Energy; and
- Any remaining net revenues of CPS Energy in the General Account to the Repair and Replacement Account, which is used to partially fund construction costs.

The maximum amount in cash to be transferred or credited to the City's General Fund from the net revenues of CPS Energy during any fiscal year shall not exceed 14.0% of the gross revenues of CPS Energy, less the value of gas and electric services of CPS Energy used by the City for municipal purposes and the amounts expended during the fiscal year for additions to the street lighting system and other authorized exclusions. The percentage of gross revenues of CPS Energy to be paid over, or credited to, the City's General Fund each fiscal year shall be determined (within the 14.0% limitation) by the governing body of the City.

The net revenues of CPS Energy are pledged to the payment of principal of and interest on the New Series Bonds, which are classified as Senior Lien Obligations. All New Series Bonds and the interest thereon shall have a first lien upon the net revenues of CPS Energy.

The Junior Lien, Variable-Rate Demand Obligation (VRDO) bonds are debt instruments of the City payable solely from, and equally and ratably secured by, a junior lien on and pledge of the net revenues of CPS Energy, subject and subordinate to liens and pledges securing the outstanding Senior Lien Obligations and any additional Senior Lien Obligations hereafter issued, and superior to the pledge and lien securing the currently outstanding Commercial Paper Obligations, all as fully set forth in the ordinances authorizing the issuance of the Junior Lien Obligations as noted below:

The City agrees that it will at all times maintain rates and charges for the sale of electric energy, gas, or other services furnished, provided, and supplied by CPS Energy to the City and all other consumers, which shall be reasonable and nondiscriminatory and which will produce income and revenues sufficient to pay:

- All operation and maintenance expenses, depreciation, replacement and betterment expenses, and other costs as may be required by Chapter 1502 of the Texas Government code, as amended;

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

- The interest on, and principal of, all Parity Bonds, as defined in the New Series Bond Ordinances, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the Parity Bonds;
- The interest on, and principal of, the Prior Lien Bonds, including the Junior Lien Obligations and any additional Junior Lien Obligations hereafter issued (all as defined in the New Series Bond Ordinances), as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the Junior Lien Obligations and any additional Junior Lien Obligations;
- To the extent the same are reasonably anticipated to be paid with available revenues (as defined in the Ordinance authorizing the Commercial Paper), the interest on and principal of all Notes (as defined in said Ordinance), and the Credit Agreement (as defined in said Ordinance); and
- Any legal debt or obligation of CPS Energy as and when the same shall become due.

As of January 31, 2010, the Tax-Exempt Commercial Paper (TECP) Ordinance contains, among others, the following provisions:

To secure the payment of TECP principal and interest, a pledge is made of:

- Proceeds from:
  - The sale of bonds and additional notes issued for such purposes, and
  - The sale of TECP;
- Loans under and pursuant to the revolving credit agreement; and
- The net revenues of CPS Energy, after payment on New Series Bond requirements and Prior Lien Bond Obligations.

Revenue Bonds

On March 12, 2009, CPS Energy issued $442,005 of New Series 2009A Revenue Refunding Bonds. The true interest cost for this issue, which has maturities that extend from 2015 to 2034, was 4.9%. The bond proceeds, including the premium associated with the bonds, were used on March 13, 2009 to refund $450,000 of outstanding TECP obligations.

The American Recovery and Reinvestment Act of 2009 provided authority for the issuance of Build America Bonds (BABs), which are issuable in calendar years 2009 and 2010, limited to new money capital expenditures, and only issued as taxable bonds. The BABs also permit the issuer (or the bondholder) to receive a subsidy payment equal to 35.0% of the bond's interest directly from the U.S. Department of the Treasury. On June 12, 2009, CPS Energy issued $375,000 of taxable New Series 2009C Revenue Direct Subsidy BABs. The true interest cost for this issue, which has maturities that extend from 2033 to 2039, was 3.9%. The total BABs subsidy received in fiscal year 2010 was $5,000. Total bond proceeds are primarily being used to fund generation and electric distribution construction projects.

At one point, CPS Energy contemplated issuing a portion of the 2009C instruments as nontaxable bonds. These would have been 2009B Revenue Bonds (2009B Bonds). Since the effective interest rate and investor interest were more favorable for BABs, the 2009B Bonds were not pursued.

On July 30, 2009, CPS Energy issued $207,940 of tax exempt New Series 2009D Revenue Refunding Bonds. The true interest cost for this issue, which has maturities that extend from 2017 to 2021, was 3.7%. On September 1, 2009, the escrowed proceeds, including the premium associated with the bonds, were used to refund $227,660 par value of the remaining New Series 1998A Bonds. This refunding transaction resulted in a net present value debt service savings of $14,800, or 6.5% of the par amount of the bonds being refunded.

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds (Continued)

CPS Energy Revenue Bond Summary		
Maturities	Weighted-Average Yield on Outstanding Bonds at January 31, 2010	January 31, 2010
Tax Exempt New Series Bonds, 1994A-2009D; 2011-2034	4.8%	$ 3,366,495
Taxable new series bonds 2009C, 2033-2039	3.9%	375,000
Total	4.6%	3,741,495
Tax Exempt Variable-Rate Series Bonds, 2003-2004, 2024-2033		402,000
Total Long-Term Revenue Bonds Outstanding		4,143,495
Less: Current Maturities of Bonds		162,235
Total Revenue Bonds Outstanding, Net of Current Maturities		$ 3,981,260

As of January 31, 2010, principal and interest amounts due for all revenue bonds outstanding for each of the next five years and thereafter to maturity are:

CPS Energy Principal and Interest Requirements				
Year	Principal	Interest	Direct Subsidy	Total
2011	$ 162,235	$ 197,855	$ (7,855)	$ 352,235
2012	176,190	189,476	(7,855)	357,811
2013	173,925	180,519	(7,855)	346,589
2014	184,255	171,335	(7,855)	347,735
2015	157,035	161,584	(7,855)	310,764
2016-2020	863,970	684,623	(39,277)	1,509,316
2021-2025	1,185,445	449,965	(39,277)	1,596,133
2026-2030	496,965	238,727	(39,277)	696,415
2031-2035	476,333	135,727	(37,803)	574,257
2036-2039	267,142	40,734	(14,257)	293,619
Totals	$ 4,143,495	$ 2,450,545	$ (209,166)	$ 6,384,874

The above table includes Senior Lien and Junior Lien bonds. Interest on the Senior Lien bonds is based upon the stated coupon rates of each series of bonds outstanding. The direct subsidy associated with the New Series 2009C BABs has been presented in a separate column. CPS Energy has taken the position that the BABs direct subsidy should be deducted when calculating total debt service.

The 2003 Junior Lien bonds were issued as variable-rate bonds and as such have interest rates that reset on a weekly basis. On December 1, 2007, the 2004 Junior Lien bonds were remarketed for a three-year term at an interest rate of 3.6%. This interest rate will remain in effect until the next interest reset date of December 1, 2010. The total interest amounts for all revenue bonds outstanding included a blended interest rate of 1.5% for the 2003 and 2004 Junior Lien Bonds.

Note 6 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds (Continued)

The interest rate term mode for the Junior Lien Revenue bonds, or any portion thereof, may be converted to a different mode, or to an auction rate or term rate with an interest rate period of different duration, at the direction of the City. Following such a conversion, the Junior Lien Revenue bonds, or portion thereof, will bear interest at the corresponding daily rate, weekly rate, auction rate, commercial paper rate, term rate, or fixed rate.

The turmoil in the capital markets has had a minimal impact on CPS Energy's variable-rate debt. Initially, rates increased during a two-month period at the onset of the financial crisis, but have since decreased and stabilized. CPS Energy continues to monitor the markets on a daily basis and is in close communication with its remarketing agents, financial advisors and bond counsel.

Long-Term Debt Activity							
Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding February 1, 2009	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2010
Revenue and Refunding Bonds:							
1994A Tax Exempt	$ 684,700	2012	5.008	$ 68,965	$ -	$ -	$ 68,965
1998A Tax Exempt	785,515	2021	4.918	227,660		227,660	
2000A Tax Exempt	170,770	2010	5.374	2,490		2,490	
2001 Tax Exempt	115,280	2011	3.843	38,135		25,710	12,425
2002 Tax Exempt	436,090	2017	4.055	406,610		45,030	361,580
2002 Tax Exempt	140,615	2015	4.751	10,525			10,525
2003 Tax Exempt Junior Lien	250,000	2033	Variable	250,000			250,000
2003A Tax Exempt	93,935	2014	3.675	81,550		310	81,240
2003 Tax Exempt	350,490	2013	3.081	144,785		25,835	118,950
2004 Tax Exempt Junion Lien	160,000	2027	Variable	152,000			152,000
2005 Tax Exempt	294,625	2020	4.381	294,625			294,625
2005 Tax Exempt	240,675	2025	4.683	240,675			240,675
2005A Tax Exempt	197,335	2025	4.571	197,335			197,335
2006A Tax Exempt	384,185	2025	4.555	371,515		13,290	358,225
2006B Tax Exempt	128,845	2021	3.974	112,670		8,540	104,130
2007 Tax Exempt	46,195	2018	4.159	46,195			46,195
2007 Tax Exempt	403,215	2032	4.575	403,215			403,215
2008 Tax Exempt	287,935	2032	4.582	287,935			287,935
2008A Tax Exempt	158,030	2016	3.736	158,030		27,500	130,530
2009A Tax Exempt	442,005	2034	4.863		442,005		442,005
2009C Taxable	375,000	2039	3.944		375,000		375,000
2009D Tax Exempt	207,940	2021	3.720		207,940		207,940
				3,494,915	1,024,945	376,365	4,143,495
Bonds Outstanding:							
Bond Current Maturities				(148,705)	(13,530)		(162,235)
Bond (Discount)/Premium				124,408	33,975	21,051	137,332
Bond Reacquisition Costs				(76,497)	(11,889)	(27,078)	(61,308)
Revenue Bonds, Net				3,394,121	1,033,501	370,338	4,057,284
Tax Exempt Commercial Paper (TECP)			Variable	450,000	350,000	450,000	350,000
Total Long-Term Debt, Net				$ 3,844,121	$ 1,383,501	$ 820,338	$ 4,407,284

Accrued Leave

As of January 31, 2010 the accruals for employee vested benefits were $15,500. These accruals are reported under Accounts Payable and Other Current Liabilities.

- 98 - *Amounts are expressed in thousands*
- 99 - *Amounts are expressed in thousands*

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS)

On April 30, 1992, the City Council approved the consolidation of City owned utilities related to water including the water, wastewater, and water reuse systems as the San Antonio Water System.

The System – SAWS has been defined in City Ordinance No. 75686 as all properties, facilities and plants currently owned, operated, and maintained by the City and/or the board of trustees, for the supply, treatment, transmission and distribution of treated potable water, chilled water and steam, for the collection and treatment of wastewater and for water reuse, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, and any other projects and programs of SAWS provided, however, that the City retains the right to incorporate a stormwater system as provided by the Texas Local Government Code.

Funds Flow – City Ordinance No. 75686 requires that gross revenues of SAWS be applied in sequence to (1) payment of current maintenance and operating expenses including a two-month reserve amount based upon the budgeted amount of maintenance and operating expenses for the current fiscal year; (2) Debt Service Fund requirements of Senior Lien Obligations; (3) Reserve Fund requirements of Senior Lien Obligations; (4) Interest and Sinking Fund and Reserve Fund requirements of Junior Lien Obligations; (5) Interest and Sinking Fund and Reserve Fund requirements of Subordinate Lien Obligations; (6) payment of amounts required on Inferior Lien Obligations; and (7) transfers to the City's General Fund and to the Renewal and Replacement Fund.

Reuse Contract – SAWS has a contract with CPS Energy, the City-owned electricity and gas utility, for the provision of reuse water. According to City Ordinance No. 75686, the revenues derived from the contract have been restricted in use to only reuse activities and are excluded from gross revenue for purposes of calculating any transfers to the City's General Fund.

No Free Service – City Ordinance No. 75686 also provides for no free services except for municipal firefighting purposes.

Revenue Bonds

On February 12, 2009, SAWS issued $163,755 City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2009. The proceeds from the sale of the bonds were used to (i) finance capital improvement projects, (ii) refund $143,000 in outstanding commercial paper notes, and (iii) pay the cost of issuance. The bonds are collateralized, together with other currently outstanding Senior Lien Obligations, solely by a lien on a pledge of net revenues.

On December 10, 2009, SAWS issued $12,250 City of San Antonio, Texas Water System Revenue Bonds, Series 2009A. The proceeds from the sale of the bonds were used to (i) finance capital improvement projects, and (ii) pay the cost of issuance. The bonds are collateralized, together with other currently outstanding Senior Lien Obligations, solely by a lien on a pledge of net revenues.

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Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

On December 10, 2009, SAWS issued $102,750 City of San Antonio, Texas Water System Revenue Bonds, Taxable Series 2009B (Direct Subsidy – Build America Bonds) (the Series 2009B Bonds). The proceeds from the sale of the bonds were used to (i) finance capital improvement projects, and (ii) pay the cost of issuance. The Series 2009B Bonds qualify for and were designated as Build America Bonds under and pursuant to the authority provided for in the American Recovery and Reinvestment Act of 2009 (the Stimulus Act). In connection with the issuance of the Series 2009B Bonds, and as permitted in the Stimulus Act, SAWS elected an option (which election is irrevocable pursuant to the provisions of the Stimulus Act) permitting it to receive directly from the United States Department of the Treasury (the Treasury) a subsidy payment equal to 35.0% of the taxable interest it pays on the Series 2009B Bonds (the Tax Credit). SAWS has provided for the Tax Credit to be delivered from the Treasury directly to the paying agent/registrar of the Series 2009B Bonds solely for the use to reduce the amount of the regularly scheduled debt service payment on the Series 2009B Bonds that SAWS is required to make. The Tax Credit is a general revenue of SAWS and is not directly pledged to the payment of the Series 2009B Bonds, however, SAWS anticipates that the entirety of the Tax Credit, as a result of the direct deposit from the Treasury to the paying agent/registrar will be available solely to off-set the scheduled debt service payment requirements attributable to the Series 2009B Bonds. The bonds are collateralized, together with other currently outstanding Senior Lien Obligations, solely by a lien on a pledge of net revenues.

On December 30, 2009, SAWS issued $54,300 City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2009 through the Texas Water Development Board. The bonds were sold under the State Revolving Fund (SRF) Program. The proceeds from the sale of the bonds were used to (i) finance capital improvement projects which qualify under the Texas Water Development Board program, and (ii) pay the cost of issuance. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On December 30, 2009, SAWS issued $35,000 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2009A (the Junior Lien Series 2009A Bonds) through the Texas Water Development Board. The bonds were sold under the Water Infrastructure Fund Loan Program (the WIF). The proceeds from the sale of the bonds were used to (i) finance the planning and design of the Brackish Groundwater Desalination Project, (ii) refund $12,000 in outstanding commercial paper notes, and (iii) pay the cost of issuance. Loans through the WIF are offered at a subsidized interest rate which is 2.0% below the Texas Water Development Board's cost of funds, with a repayment period of 20 years. In order to advance projects which have significant development lead times, a portion of the WIF is available specifically for planning and design of projects (WIF Deferred), which offers an additional subsidy of deferring all interest and principal payments for up to 10 years, or until the end of the construction of the project, whichever is sooner. Interest is not charged by the Texas Water Development Board during the deferral period and the loan is amortized over the remaining life of the bond with a maximum maturity of 20 years. The Junior Lien Series 2009A Bonds were issued under the WIF Deferred option with amortization of principal and interest to begin in 2015 with a final maturity of 2029. The interest rates range from 0.6% to 2.8%, with an overall effective rate of 1.4% taking into account the deferral period. The bonds are collateralized, together with other currently outstanding Junior Lien Obligations, solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

Senior Lien Water System Revenue Bonds, comprised of Series 2001, Series 2002, Series 2002-A, Series 2004, Series 2005, Series 2007, Series 2009, Series 2009A, and Series 2009B outstanding in the amount of $1,395,665 at December 31, 2009, are collateralized by a senior lien and pledge of the gross revenues of SAWS after deducting and paying the current expenses of operation and maintenance of SAWS and maintaining a two-month operating reserve for such expenses. Interest rates range from 2.5% to 6.3%.

Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

Junior Lien Water System Revenue Bonds, comprised of Series 1999, Series 1999-A, Series 2001, Series 2001-A, Series 2002, Series 2002-A, Series 2003, Series 2004, Series 2004-A, Series 2007, Series 2007A, Series 2008, Series 2008A, Series 2009, and Series 2009A outstanding in the amount of $364,035 at December 31, 2009, are collateralized by a junior lien and pledge of the gross revenues of SAWS after deducting the current expenses of operation and maintenance of SAWS, maintaining a two-month operating reserve for such expenses, and paying debt service on senior lien debt. Interest rates range from 0.3% to 4.4%.

The following summarizes transactions of the Revenue Bonds for the year-ended December 31, 2009:

	Beginning Balance Jan. 1, 2009	Additions	Reductions	Ending Balance Dec. 31, 2009	Due Within One Year
Bonds Payable	$ 1,427,525	$ 368,055	$ 35,880	$ 1,759,700	$ 38,590
Deferred Amounts for Issuance					
(Discounts)/Premiums/(Losses)	(19,343)	$ 3,345	13	(16,011)	
Total Bonds payable, Net	$ 1,408,182	$ 371,400	$ 35,893	$ 1,743,689	$ 38,590

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

Annual Debt Service Requirements
Revenue and Refunding Bonds

	Senior Lien				Junior Lien	
Year Ended December 31,	Principal	Interest Expense	Federal Subsidy	Net Interest	Principal	Interest Expense
2010	$ 21,685	$ 68,313	$ (1,772)	$ 66,541	$ 16,905	$ 10,770
2011	22,360	67,753	(1,904)	65,849	17,135	10,550
2012	23,365	66,746	(1,904)	64,842	17,615	10,068
2013	24,410	65,620	(1,904)	63,716	18,210	9,543
2014	25,635	64,374	(1,904)	62,470	18,790	8,978
2015-2019	154,460	300,186	(9,052)	291,134	113,170	38,046
2020-2024	254,515	249,354	(7,803)	241,551	74,725	22,401
2025-2029	302,695	175,807	(6,052)	169,755	40,265	13,311
2030-2034	228,545	113,782	(3,967)	109,815	22,475	7,786
2035-2039	295,455	47,153	(1,430)	45,723	24,745	2,504
2040	42,540	1,064		1,064		
Total	$ 1,395,665	$ 1,220,152	$ (37,692)	$ 1,182,460	$ 364,035	$ 133,957

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Note 6 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Debt Covenants – SAWS is required to comply with various provisions included in the ordinances which authorized the bond issuances. SAWS is in compliance with all significant provisions of the ordinances.

Defeasance of Debt – In current and prior years, SAWS defeased certain revenue bonds by placing revenues or proceeds of new bond issues in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in SAWS' financial statements. At December 31, 2009, $44,605 of bonds outstanding were considered defeased.

Accrued Vacation Payable – SAWS records an accrual for vacation payable for all full-time employees and pays unused vacation hours available at the end of employment with the final paycheck. These accruals are reported under Other Payables.

	Liability Balance at Beginning of Fiscal Year	Current-Year Accruals	Payments	Liability Balance at End of Fiscal Year	Estimated Due Within One Year
Year Ended December 31, 2009	$ 6,328	$ 5,659	$ (4,785)	$ 7,202	$ 4,785

Note 7 Commercial Paper Programs

Primary Government (City)

In May 2007, the City adopted an ordinance authorizing the issuance of up to $50,000 in Sales Tax Revenue Commercial Paper Notes, Series A. Proceeds from the sale of the Commercial Paper Notes are to provide funds to acquire property for a conservation easement or open-space preservation program with the intent of protecting water in the Edwards Aquifer as contemplated by the "Edwards Aquifer Protection Venue Project" (authorized at an election held on May 7, 2005). As of September 30, 2010, $14,370 of Commercial Paper Notes are outstanding with various maturities ranging from 1 to 270 days.

The Commercial Paper Notes are supported by an irrevocable direct-pay Letter of Credit dated as of May 23, 2007 issued by Bank of America, N.A. The role of the Letter of Credit provider is to assure the timely payment of principal and interest on the Commercial Paper Notes at maturity. The Letter of Credit provider has issued its irrevocable, direct-pay Letter of Credit for the account of the City and for the benefit of the issuing and paying agent on behalf of the note holders. The dealer for the Commercial Paper Notes is Ramirez & Co., Inc. as of July 1, 2008 and the issuing and paying agent is Wells Fargo, N.A. The Letter of Credit in an amount equal to $53,699 enables the City to pay at maturity the principal amount of the Commercial Paper Notes plus up to 270 days interest, at an assumed interest rate of 10.0% per year; provided however that none of the Commercial Paper Notes shall mature later than August 1, 2017. Under the terms of the Letter of Credit, the City may borrow up to an aggregate amount not to exceed $50,000 for the purpose of paying principal due under the Commercial Paper Notes. The Letter of Credit agreement will expire April 30, 2012, unless previously terminated or extended. As of September 30, 2010, there have been no borrowings under the Letter of Credit.

The Commercial Paper Notes have been classified as long-term in accordance with the refinancing terms of the revolving credit agreement included in the Letter of Credit. The Commercial Paper Notes are secured by and payable from a pledge of and lien on two-thirds of one-eighth of one percent (1/8 of 1.0%) sales and use tax in an amount not to exceed $90,000.

Amounts are expressed in thousands

Note 7 Commercial Paper Programs (Continued)

Primary Government (City) (Continued)

Issue	Balance Outstanding October 1, 2009	Additions	Deletions	Balance Outstanding September 30, 2010
Series A (2007)	$ 25,805	$ -	$ (11,435)	$ 14,370

CPS Energy

In 1988, the City Council adopted an ordinance authorizing the issuance of up to $300,000 in TECP. This ordinance, as amended in June 1997, provides for funding to assist in the financing of eligible projects in an aggregate amount not to exceed $450,000. Eligible projects include fuel acquisition, capital improvements to the utility systems, and refinancing or refunding any outstanding obligations which are secured by and payable from a lien and/or a pledge of net revenues of CPS Energy. The program's scheduled maximum maturities cannot extend beyond November 1, 2028.

The TECP has been classified as long-term in accordance with the refinancing terms under a revolving credit agreement with a consortium of banks, which supports the commercial paper. Under the terms of the amended revolving credit agreement, effective September 6, 2007, CPS Energy may borrow up to an aggregate amount not to exceed $450,000 for the purpose of paying principal due under the TECP. On September 6, 2007, the revolving credit agreement was extended until November 1, 2012. At January 31, 2010, there was no amount outstanding under the agreement. Further, there have been no borrowings under the agreement since inception.

On March 12, 2009, CPS Energy issued $442,000 of New Series 2009A Revenue Refunding Bonds to refund $450,000 of outstanding TECP. On March 16, 2009, CPS Energy issued $260,000 of TECP. On November 24 and December 29, 2009, CPS Energy issued $30,000 and $40,000 of TECP, respectively. All proceeds were used to fund generation and distribution construction projects.

On January 28, 2010, CPS Energy issued an additional $20,000 of TECP, which was used to remediate debt.

The current outstanding TECP balance as of January 31, 2010, was $350,000. Of the total TECP outstanding at January 31, 2010, $130,000 was used to fund the development of STP Units 3 and 4. The TECP is secured by the net revenues of CPS Energy. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing New Series Bonds and Junior Lien Obligations.

TECP Outstanding	$ 350,000
TECP New Money Issues	350,000
Weighted Average Interest Rate of Outstanding TECP	0.3%
Average Life of Outstanding TECP (Approximate Number of Days)	93

San Antonio Water System (SAWS)

SAWS maintains a commercial paper program that is used to provide funds for the interim financing of a portion of its capital improvements. The City Council of the City of San Antonio has authorized the commercial paper program in an amount of $500,000. Notes payable under the program cannot exceed maturities of 270 days.

Note 7 Commercial Paper Programs (Continued)

San Antonio Water System (SAWS) (Continued)

The City has covenanted in the ordinance authorizing the commercial paper program (the Note Ordinance) to maintain at all times credit facilities with banks or other financial institutions which would provide available borrowing capacity sufficient to pay the principal of the commercial paper program. The credit facility is maintained under the terms of a revolving credit agreement. Pursuant to the most recent amendment to the revolving credit agreement, the capacity of the revolving credit agreement has been reduced to $300,000.

The issuance of commercial paper is further supported by the following agreements and related participants:

- Dealer Agreements with Goldman, Sachs & Co., J.P. Morgan Securities Inc., and Ramirez & Co., Inc.
- Revolving Credit Agreement with Bank of America, N.A. and State Street Bank and Trust Company
- Issuing and Paying Agency Agreement with The Bank of New York Mellon Trust Company, N.A.

The borrowings under the commercial paper program are equally and ratably secured by and are payable from (i) the proceeds from the sale of bonds or additional borrowing under the commercial paper program and (ii) borrowing under and pursuant to the revolving credit agreement.

Commercial paper notes of $173,650 are outstanding as of December 31, 2009. Of this balance, $109,130 relates to the refunding of the Series 2003 Bonds while the remaining $64,520 proceeds were used solely for financing of capital improvements. Interest rates on the notes outstanding at December 31, 2009 range from 0.2% to 0.4% and maturities range from 16 to 126 days. The outstanding notes had an average rate of 0.3% and averaged 96 days to maturity.

SAWS intends to reissue maturing commercial paper, in accordance with the terms of the revolving credit agreement, and ultimately refund such maturities with proceeds from the issuance of long-term revenue bonds. Consistent with this intent, SAWS has classified nearly all outstanding commercial paper notes as long-term debt. In accordance with the amortization schedule of the interest rate swap agreement discussed in Note 6, SAWS intends to redeem $2,600 of commercial paper in 2010. Therefore, this portion of the commercial paper is classified as a current liability.

The following summarizes transactions of the program for the year-ended December 31, 2009.

	Beginning Balance January 1, 2009	Additions	Reductions	Ending Balance December 31, 2009
Tax Exempt Commercial Paper Notes	$ 261,115	$ 70,000	$ 157,465	$ 173,650

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- 104 - Amounts are expressed in thousands
- 105 - Amounts are expressed in thousands

Note 8 Pension and Retirement Plans

Primary Government (City)

General Plan Information

The City of San Antonio, SAWS, and CPS Energy participate in several contributory retirement plans. These are funded plans covering substantially all full-time employees. Payroll and contribution information as of the year-end for each entity is presented as follows:

Contributory Pension and Retirement Plans						
Entity	Title	Type of Plan	Covered Payroll	Employee Contribution	Employer Contribution	Total Contribution
City	Fire and Police Pension Plan	Single Employer Defined Benefit Plan	$ 259,904	$ 34,849	$ 64,498	$ 99,347
	Texas Municipal Retirement System (TMRS) - Civilian	Nontraditional Hybrid Defined Benefit Agent Plan	$ 258,932	$ 15,544	$ 32,338	$ 47,882
Component Units:						
SAWS	[1] Texas Municipal Retirement System (TMRS)	Nontraditional Hybrid Defined Benefit Agent Plan	$ 81,821	$ 2,553	$ 4,275	$ 6,828
	[1] SAWSRP Contract	Single Employer Defined Benefit Plan	$ 82,923	$ -	$ 6,035	$ 6,035
CPS Energy	[2] CPS All Employee Plan	Single Employer Defined Benefit Plan	$ 219,716	$ 11,212	$ 23,732	$ 34,944

[1] Plan year ended December 31, 2009

[2] Fiscal year ended January 31, 2010

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Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan

The Pension Fund is a single-employer defined benefit retirement plan established in accordance with the laws of the State of Texas. The governing document for the Pension Fund is found in Vernon's Texas Civil Statutes, Article 6243o. The pension law governing the Pension Fund was amended on October 1, 2009. The Pension Fund is administered by a nine-member board of trustees (Board), which includes two City Council members, the mayor or his appointee, two police officers, two fire fighters, and two retirees. The Pension Fund meets the criteria of a "fiduciary fund" of the City of San Antonio as established by *Governmental Accounting Financial and Reporting Standards* and is therefore included in the City's financial statements as a pension trust fund. A more complete description of the Plan is provided in the summary plan description. At September 30, 2010, membership of the Pension Fund consisted of:

	2010
Retirees and beneficiaries receiving benefits	2,085
Active participants	3,807
Total	5,892

Currently, the Pension Fund provides retirement benefits to eligible employees of the fire and police departments of the City who have served for 20 years or more. Employees who terminate prior to accumulating 20 years of service may apply to receive a refund of their contributions. Upon application for a service retirement pension from the Pension Fund, retiring employees are entitled to a retirement annuity computed based on the average of the employee's total salary, excluding overtime pay, for the highest three years of the last five years. The retirement annuity computation (Annuity Computation) for employees retiring after September 30, 2009 is 2.3% of such average for each of the first 20 years served, plus 5.0% of the member's average total salary for each of the next seven years, plus 0.5% of the member's average total salary for each of the next three years of service, with fractional years of service prorated based on full months served as a contributing member. In making the computation for a year, the year is considered to begin on the first day a contribution is made. A retirement annuity under this subsection may not exceed, as of the date of retirement, 87.5% of the member's average total salary. The minimum monthly pension provided to a member or the member's beneficiaries is $1,850 (please note figure not reflected in thousands). If there is more than one beneficiary, the minimum pension is divided between them.

There is a provision for the Backwards Deferred Retirement Option Plan (BackDROP), which, as of October 1, 2007, permits retiring members who had actual service credit of at least 20 years and one month to elect to receive a lump-sum payment for a number of full months of service elected by the member that does not exceed the lesser of the number of months of service credit the member had in excess of 20 years or 48 months and a reduced annuity payment. As of October 1, 2009, the maximum BackDROP period is increased to 60 months. For purposes of a BackDROP benefit calculation, the participant's salary beyond 34 years of service is used to determine the participant's average salary.

There is also a provision for a thirteenth and fourteenth pension check. At the end of each fiscal year, the Board may authorize the disbursement of a thirteenth monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 100 basis points. In the same way, the Board may authorize a fourteenth monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 300 basis points. The thirteenth and fourteenth pension checks are paid to each retiree and beneficiary receiving a pension at the end of the fiscal year and are in an amount equal to the pension check paid in the last month of the preceding fiscal year of the Pension Fund (retirees/beneficiaries with less than one year of benefits will receive a prorated check, and no check will be paid to members who retired after the end of the fiscal year). Authorization for one year does not obligate the Board to authorize a thirteenth and fourteenth check for any other year. The Pension Fund did not meet the criteria for the thirteenth and fourteenth checks for the year ended September 30, 2010.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

The Pension Fund also provides benefits when service is terminated by reason of death or disability. The employee's beneficiary or the employee shall be entitled to one-half of the average of the employee's total salary, excluding overtime pay, or vested benefit as is provided in the computation of normal retirement benefits, whichever is higher. If a member dies after retiring, spouses or beneficiaries who were married to or dependents of the member at the time of retirement receive the same annuity paid to the member as of the date of the member's death up to the maximum benefit. The maximum benefit for surviving spouses and dependent children is equal to a 27-year service pension. As of October 1, 2009, the allocation of death benefits between a surviving spouse and the dependent children of a member is 75.0% to the spouse and 25.0% to the children. The spousal death benefit for a spouse who married a retiree after retirement and at least five years prior to the date of the retiree's death is the same as a spouse who married a member prior to retirement. At October 1, 2009 amendments establish a 55-year-old minimum age for marriage-after-retirement spouses to begin receiving annuity payments for those that qualify for such annuity payments. As of October 1, 2009, the spousal death benefit for a spouse who married a retiree after retirement, and less than five years prior to the date of the retiree's death, was $15,000 (please note figure not reflected in thousands).

The Pension Fund provides a disability annuity equal to 87.5% of average total salary, if the member suffers a catastrophic injury. A catastrophic injury is described as an irreparable physical bodily injury suffered during the performance of high-risk line of duty activities, when the injury results in the individual being unable to obtain any sort of employment sufficient to generate income above the poverty level.

The surviving spouse of an active member may elect to receive benefits in the form of a lump-sum payment and reduced annuity, similar to a BackDROP election made by a retiring member. The maximum service credit allowed in determining the spousal BackDROP lump-sum is 30 years.

The estate of an active member who dies and does not leave a beneficiary will receive either 10 times the amount of an annuity computed according to the Annuity Computation mentioned above using the deceased member's service credit and average total salary as of the date of death or the deceased member's contributions that were picked up by the City. The estate of a retired member who dies and does not leave a beneficiary will receive a lump-sum benefit equal to 10 times the amount of the annuity awarded by the Board effective on the retiree's date of retirement, less any retirement or disability annuity and any lump-sum payments paid to the retiree.

The Pension Fund also provides benefits when an eligible member is killed in the line of duty. The member's surviving spouse and dependent children are entitled to a total pension equal to the member's base salary at the time of death.

Another important provision of the Pension Fund is the Cost of Living Adjustment (COLA). The COLA is based on the Consumer Price Index for all Urban Consumers – U.S. City Average (CPI) as published by the Bureau of Labor Statistics. Members whose retirement, disability, or death occurred before August 30, 1971, receive an increase equal to 100.0% of the increase in the CPI. Members whose retirement, disability, or death occurred after August 30, 1971, but before October 1, 1997, receive an increase equal to 100.0% of the increase in the CPI up to 8.0% and 75.0% of the increase in the CPI in excess of 8.0%. Members whose retirement, disability, or death occurred after October 1, 1997 receive an increase equal to 75.0% of the increase in the CPI. On October 1, 2007, a special cost of living increase of $200 per month (please note figure not reflected in thousands) was awarded to members who retired prior to October 1, 1989 or their beneficiaries. If there is more than one beneficiary, the special COLA is divided between them. The cost of living increase is awarded prior to determining the minimum monthly pension. Beginning October 1, 2009, the COLA for members who retired between October 1, 1997 and September 30, 1999, is increased to 100.0% of the increase in CPI up to 8.0% and 75.0% of the increase in the CPI in excess of 8.0%.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

Beginning October 1, 2009, the Pension Fund has a provision that allows the fire chief and police chief to opt out of membership in the Pension Fund.

The Pension Fund's contribution requirements are established and funded in accordance with Texas state statues and are not actuarially determined. The City was required to contribute 24.6% of salary, excluding overtime pay, in 2010. The employee contribution rate was 12.3% in 2010. New fire fighters and police officers are immediately eligible for membership after they receive state certification and complete all other requirements. The new member contributes to the Pension Fund upon becoming eligible. As part of the amendments effective October 1, 2009, from October 1, 2009 to December 31, 2009, members who served probationary time prior to becoming a member were allowed to elect to purchase service credit for that time. If the member elected to purchase the service credit, the member was responsible for paying 3 times the member's contribution rate that would have been due during the probationary period, with interest calculated from the time of the probation until the amount was paid.

The annual required contributions for fiscal year 2010 were determined as part of the October 2009 actuarial valuations, using the entry-age actuarial cost method. The actuarial assumptions included (a) an 8.0% investment rate of return and (b) a projected annual salary increase of 4.3%. Both (a) and (b) include inflation components of 4.3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at October 1, 2009 was 10.4 years which, as reported under GASB guidelines, does not consider the assumption of payroll growth rate. The amounts of the actuarial value of assets represent estimates based upon the assumptions described above. Changes in those assumptions will result in changes in such estimates in the future. The amounts of benefits ultimately to be paid could differ materially from the current estimates.

Contributions for the year-ended September 30, 2010 were as follows:

	2010	
		Percentage of Covered Payroll
Employer	$ 64,498	24.6%
Employee	32,249	12.3%
Total	96,747	
Purchase of Service Credit	2,600	
	$ 99,347	

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.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

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.

The City of San Antonio is responsible for funding the deficiency, if any, between the amount available to pay all retirement annuities and other benefits owed by the Pension Fund and the amount required to pay such benefits.

The Pension Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the Fire and Police Pension Fund of San Antonio, 311 Roosevelt, San Antonio, Texas 78210-2700 or by calling (210) 534-3262.

Texas Municipal Retirement System (TMRS)

The City provides benefits for all eligible employees (excluding firefighters and police officers) through a nontraditional, joint contributory, hybrid defined benefit plan in the TMRS. The TMRS is a statewide agent multiple-employer public employee retirement system created by law in 1948 to provide retirement and disability benefits to City employees. TMRS as of December 31, 2009, is the agent for 837 participating entities. It is the opinion of the TMRS management that the plans in TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the TMRS plan.

At its December 4, 2009 meeting, TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2009. A summary of actuarial assumptions and methods definitions can be found later in this note.

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.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

In addition, the Board also adopted a change in the amortization period from a 25-year “open” to a 25-year “closed” period. TMRS Board of 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, 2009 resulted in an $187,969 unfunded actuarial accrued liability utilizing the adopted actuarial assumption and changed funding method. The projected calendar year 2011 contribution rate under a 29-year amortization period for the City was estimated by TMRS to be 12.4%. However, under the phase-in option the rate would be not applicable for calendar year 2011.

During fiscal year 2008, the City created a work plan to review and address the changes made by TMRS, obtained a voting seat on the TMRS Board, and conducted six focus groups with employees and retirees asking input via a survey on their TMRS benefits and priorities. The survey results provided valuable input as the City continues to evaluate its options.

The City also contracted with a legal firm to provide legal advice and assistance on TMRS and other pension related issues. The legal firm engaged an actuarial firm to evaluate the assumptions and results of TMRS’ report, to provide a historical performance analysis of the funds within TMRS, and will assist in exploring viable pension alternatives. A task force of current employees and retirees was formed to provide input regarding the work to be completed by this actuarial firm.

As approved by City Council, the annual repeating COLA applied towards retirees’ accounts were turned off in the fiscal year 2010 budget. This resulted in a reduction in the City’s contribution rate from a phased in rate of 13.9% to 12.3%. Ad hoc COLAs remain available to retirees subject to certain retroactive requirements. The City is continuing to evaluate additional options in coordination with the task force of current employees and retirees.

Benefits depend upon the sum of the employee's contributions to the TMRS plan, with interest, and the City-financed monetary credits, with interest. At the date the TMRS plan began, the City granted monetary credits for service rendered before the TMRS plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the TMRS plan. Monetary credits for service since the TMRS plan began are a percentage of the employee's accumulated contributions. In addition, the City may grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the TMRS plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percentage had always been in existence and if the employee's salary had always been the average salary for the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the City-financed monetary credits with interest were used to purchase an annuity.

Members are eligible to retire upon attaining the normal retirement age of 60 and above with 5 or more years of service, or with 20 years of service regardless of age. The TMRS plan also provides death and disability benefits. A member is vested after five years, but must leave accumulated contributions in the TMRS plan. If a member withdraws the contributions with interest, the member would not be entitled to the City-financed monetary credits, even if vested.

Note 8 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

TMRS provisions and contribution requirements are adopted by the governing body of the City within the options available in the state statutes governing TMRS and within the actuarial constraints contained in the statutes.

Contribution requirements are actuarially determined by TMRS' actuary (see summary of TMRS Actuarial Assumptions and Methods at the end of Note 8). The contribution rate for the City's employees is 6.0% and the matching percent was 12.4% for calendar year 2009, both as adopted by the governing body of the City (see summary of contribution information at the beginning of Note 8.) Under the state law governing TMRS, the employer's contribution rates are annually determined by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percentage of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortized the unfunded (overfunded) actuarial liability (asset) over the applicable period for the City. Both the normal cost and prior service contribution rates includes recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The normal cost contribution finances the currently accruing monetary credits due to the City matching percentage, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percentage of payroll necessary to satisfy the obligation of the City to each employee at the time the employee's retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 29-year amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is being amortized over a new 29-year period. Currently, the unfunded actuarial liability is amortized over a constant 29-year period as a level percentage of payroll. Contributions are made monthly by both the employees and the City. All current year required contributions of the employees and the City were made to TMRS. Due to the fact that the City requires the contribution rates in advance for budget purposes, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

The required schedule of funding progress follows immediately the notes to the financial statements, and they present multi-year trend information regarding the actuarial value of plan assets relative to the actuarial liability for benefits.

TMRS issues a publicly available financial report that includes financial information and required supplementary information for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used related to participating municipalities. The report may be obtained by writing to the TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling (800) 924-8677. In addition, the report is available on TMRS' website at www.TMRS.com.

San Antonio Water System (SAWS)

SAWS' retirement program includes benefits provided by the Texas Municipal Retirement System (TMRS), the San Antonio Water System Retirement Plan, the San Antonio Water System Deferred Compensation Plan, and Social Security. The following information related to the TMRS was prepared as of December 31, 2008, while the information related to the San Antonio Water System Retirement Plan has been prepared as of January 1, 2009.

Texas Municipal Retirement System (TMRS)

SAWS provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide TMRS, one of more than 833 administered by TMRS, an agent multiple-employer public employee retirement system.

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and SAWS financed monetary credits, with interest. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. Members can retire at age 60 and above with 5 or more years of services or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by SAWS within the options available and actuarial constraints in the state statutes governing TMRS.

Under the state law governing TMRS, SAWS is required to contribute at an actuarially determined rate. These rates are provided on an annual basis, following the completion of the actuarial valuation. There is a delay in the valuation and when the rate becomes effective – for example the 2009 contribution rate is based on the December 31, 2007 valuation results. If a change in plan provisions is adopted by SAWS' Board of Trustees, the contribution rate can change.

Beginning with the December 31, 2007 actuarial valuation, a change was made in the funding method and the amortization period used in the valuation. To assist in this transition to higher rates, TMRS approved an eight-year phase-in period, which allows governments the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate). SAWS elected to transition the increase in its contribution rate over the eight-year phase-in period. As a result of these changes, SAWS' actuarially required contribution for 2009 was 5.0% while the phased-in rate of 2009 was 3.8% of salary. The current contribution rate for employees is 3.0% of salary.

TMRS
Schedule of Contributions

	2009
Employer Contribution	$ 4,275
Employee Contribution	$ 2,553
Employer Contribution Rate	5.0%

San Antonio Water System Retirement Plan (SAWSRP)

The San Antonio Water System Retirement Plan (SAWSRP) is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 75686, which serves as a supplement to TMRS and Social Security benefits. SAWSRP is governed by SAWS, which may amend plan provisions and which is responsible for the management of plan assets. SAWS has delegated the authority to manage certain plan assets and administer the payment of benefits to Principal Financial Group.

SAWS provides supplemental pension benefits for all persons customarily employed at least 20 hours per week and five months per year through this defined benefit pension plan. Employees are eligible to participate in SAWSRP on January 1 of the calendar year following date of hire. A member does not vest in this plan until completion of five years of service.

Covered employees are eligible to retire upon attaining the normal retirement age of 65. An employee may elect early retirement, with reduced benefits, upon attainment of:

- Twenty years of vesting service regardless of age, or
- Five years of vesting service and at least age 60.

- 112 - Amounts are expressed in thousands
- 113 - Amounts are expressed in thousands

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

San Antonio Water System Retirement Plan (SAWSRP) (Continued)

The normal retirement benefit is based upon two factors: average compensation and years of vesting service. Average compensation is defined as the monthly average of total compensation received for the three consecutive years ending December 31st, out of the last ten compensation years prior to normal retirement date, which gives the highest average.

The normal retirement benefit under the Principal Financial Group contract is equal to the following:

- 1.2% of the average compensation, times years of credited service not in excess of 25 years, plus
- 0.8% of the average compensation, times years of credited service in excess of 25 years but not in excess of 35 years, plus
- 0.4% of the average compensation, times years of credited service in excess of 35 years.

Upon retirement, an employee must select from one of seven alternative payment plans. Each payment plan provides for monthly payments as long as the retired employee lives. The options available address how plan benefits are to be distributed to the designated beneficiary of the retired employee. The program also provides death and disability benefits.

An employee is automatically 100.0% vested upon attainment of age 65 or upon becoming totally and permanently disabled. The pension plan's unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities or pay administrative expenses charged by Principal Financial Group (PFG). Funds under the contract that have been allocated and applied to purchase annuities are excluded from the pension plan's assets. The pension plan's unallocated separate accounts are valued at fair value.

The plan's funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. Contribution requirements are established and may be amended by SAWS. Active members are not required to contribute to the plan. Any obligation with respect to SAWSRP shall be paid by SAWS.

A summary of the actuarial assumptions utilized in determining SAWS' contribution requirements is as follows:

SAWSRP Actuarial Assumptions

Actuarial Cost Method	Entry Age Normal - Frozen Initial Liability Period
Amortization Method	Level Dollar
Remaining Amortization Period	28 Years - Closed Period
Asset Valuation Method	Smoothed Market Value (4 years)
Investment Rate of Return	8.0%
Inflation Rate	None
Salary Scale	Table S-5 from the Actuary's Pension Handbook plus 3.4%
Cost of Living Adjustments	None

Note 8 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

San Antonio Water System Retirement Plan (SAWSRP) (Continued)

The Pension Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Principal Financial Group at:

711 High Street
Des Moines, Iowa 50392
Telephone: (800) 986-3343
Website: www.principal.com

San Antonio Water System Deferred Compensation Plan (SAWSDCP)

SAWS has a deferred compensation plan for its employees, created in accordance with Internal Revenue Code Section 457. SAWSDCP, available to all regular employees, permits them to defer a portion of their salary until future years. The compensation deferred under this plan is not available to employees until termination, retirement, death, or qualifying unforeseeable emergency. Participation in SAWSDCP is voluntary, and SAWS does not make any contributions. SAWS has no liability for losses under SAWSDCP, but does have the usual fiduciary responsibilities of a plan sponsor.

CPS Energy

All Employee Plan

The CPS Energy Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan (Plan) covering substantially all employees who have completed one year of service. It is an unconsolidated entity within which normal retirement is age 65; however, early retirement is available with 25 years of benefit service, as well as to those employees who are ages 55 or older with at least ten years of benefit service. Retirement benefits are based on length of service and compensation, and benefits are reduced for retirement before age 55 with 25 years or more of benefit service or before age 62 with less than 25 years of service.

The plan is sponsored by and may be amended at any time by CPS Energy, acting by and through an Oversight Committee, which includes the General Manager and CEO, the Chief Financial Officer and the Audit Committee Chair of CPS Energy's board of trustees. Its assets are segregated from CPS Energy's assets and are separately managed by an Administrative Committee whose members are appointed by the Oversight Committee.

The Plan reports results on a calendar-year basis, and the separately audited financial statements, which contain historical trend information, may be obtained by contacting Benefit Trust Administration at CPS Energy. Plan net assets had a market value of $973,700 at December 31, 2009.

In addition to the defined-benefit pension plan, CPS Energy has two Restoration Plans that were effective as of January 1, 1998, which supplement benefits paid from the Pension Plan due to federal tax restrictions on benefit amounts. The benefits due under those Restoration Plans have been paid annually by CPS Energy.

Employees who retired prior to 1983 receive annuity payments from an insurance carrier, as well as some benefits directly from CPS Energy. The costs for the benefits directly received from CPS Energy were $120 for fiscal year 2010. These costs were recorded when paid.

- 114 - Amounts are expressed in thousands
- 115 - Amounts are expressed in thousands

Note 8 Pension and Retirement Plans (Continued)

CPS Energy (Continued)

All Employee Plan (Continued)

Funding Policy – The current policy of CPS Energy is to establish funding levels, considering annual actuarial valuations and recommendations of the Administrative Committee, using both employee and employer contributions. Generally, participating employees contribute 5.0% of their total compensation and are normally fully vested in CPS Energy's contribution after completing seven years of credited service or upon reaching age 40. Employee contributions commence with the effective date of participation and continue until normal or early retirement, completion of 44 years of benefit service, or termination of employment. The employee contribution interest crediting rate was 8.0% for fiscal year 2010.

The balance of Plan contributions is the responsibility of CPS Energy, giving consideration to actuarial information, budget controls, legal requirements, compliance, and industry and/or community norms. For fiscal year 2009, the amount to be funded was established using a general target near the 20-year funding contribution level as determined by the Plan's actuary. CPS Energy's contributions in relation to the annual required contribution (ARC) amounted to 10.8% of covered payroll in fiscal year 2010.

Annual Pension Cost and Net Pension Obligation – CPS Energy's annual pension cost (APC) and net pension obligation (NPO) for fiscal year 2010 is presented at the end of this note. The NPO may be either positive, reflecting a liability, or negative, reflecting an asset. The term net pension obligation, as used in this Note, refers to either situation.

Funded Status and Funding Progress – The funded status of the Plan as of February 1, 2009 valuation date is noted at the end of this note. The schedule of funding progress, presented as required supplementary information, presents multi-year trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions – Beginning with the 2008 Plan year, the cost method was revised to project January 1 data to February 1 of the next calendar year based on assumptions. Actuarial valuation methods used for the February 1, 2009 valuation included (a) the five-year smoothed market for asset valuation, (b) the projected unit credit for the actuarial accrued liability, and (c) the twenty year level dollar open for amortization of pension service costs.

Significant actuarial assumptions used for the February 1, 2009, actuarial valuation included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases averaging 5.8%, and (c) post retirement cost-of-living increases of 1.8%. The projected salary increases included an inflation rate of 3.5%.

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Note 8 Pension and Retirement Plans (Continued)

Three-Year Trend Information

Trend information compares the annual required contribution to annual pension cost and the resultant net pension obligation, as required by GASB Statement No. 27.

Three-Year Trend Information

Pension Plan	Fiscal Year	Annual Required Contribution (ARC)	Interest on Net Pension Obligation (NPO)	Adjustment To ARC	Annual Pension Cost (APC)	Contributions In Relation to ARC	Increase (Decrease) in NPO	Net Pension Obligation at Beginning of Year	Net Pension Obligation at End of Year	Percentage of ARC Contributed
Fire and Police	2008	$ 58,101	$ -	$ -	$ 58,101	$ (58,101)	$ -	$ -	$ -	100.0%
Pension Plan City	2009	62,071			62,071	(62,071)				100.0%
of San Antonio	2010	64,498			64,498	(64,498)				100.0%
TMRS -	2008	$ 30,538	$ -	$ -	$ 30,538	$ (30,538)	$ -	$ -	$ -	100.0%
City of	2009	33,510			33,510	(33,510)				100.0%
San Antonio	2010	32,338			32,338	(32,338)				100.0%
CPS All	2008	$ 20,868	$ -	$ -	$ 20,868	$ (22,841)	$ (1,973)	$ -	$ (1,973)	109.5%
Employee Plan [1]	2009	20,561	(164)	193	20,590	(20,561)	29	(1,973)	(1,944)	99.9%
	2010	23,468	(156)	191	23,503	(23,732)	(229)	(1,944)	(2,173)	101.0%
TMRS -	2007	$ 2,386	$ -	$ -	$ 2,386	$ (2,386)	$ -	$ -	$ -	100.0%
SAWS [2]	2008	2,600			2,600	(2,600)				100.0%
	2009	4,275			4,275	(4,275)	1,066		1,066	100.0%
SAWRP -	2007	$ 4,710	$ -	$ -	$ 4,710	$ (4,710)	$ -	$ -	$ -	100.0%
SAWS [2]	2008	4,891			4,891	(4,891)				100.0%
	2009	6,035			6,035	(6,035)				100.0%

[1] Fiscal year-ended January 31, 2010
[2] Plan year-ended December 31, 2009

Funded Status and Funding Progress

	Fire and Police Pension Plan [1]	City of San Antonio TMRS [2]	SAWS TMRS	SAWS SAWSRP	CPS Energy
Actuarial value of plan assets (a)	$ 2,166,924	$ 515,884	$ 68,756	$ 77,365	$ 1,145,029
Actuarial accrued liability (b)	2,442,620	703,853	107,311	112,263	1,169,302
Unfunded actuarial accrued liability (funding excess) (b) - (a)	$ 275,696	$ 187,969	$ 38,555	$ 34,898	$ 24,273
Funded ratio (a) / (b)	88.7%	73.3%	64.1%	68.9%	97.9%
Covered payroll (c)	$ 269,359	$ 258,932	$ 81,821	$ 82,923	$ 219,716
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(b) - (a)] / (c))	102.4%	72.6%	47.1%	42.1%	11.0%

1 Covered payroll presented in this table is as of 10/31/2009
2 Covered payroll presented in this table is as of 12/31/2009

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Amounts are expressed in thousands

Note 8 Pension and Retirement Plans (Continued)

Significant TMRS Actuarial Assumptions and Methods

Significant assumptions used in the actuarial valuation of December 31, 2009, by the Texas Municipal Retirement System's (TMRS) actuary are provided in the following table for both the City and SAWS:

TMRS Actuarial Assumptions and Methods	
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period - SAWS	28 Years - Closed Period
Remaining Amortization Period - City	28 Years - Closed Period
Asset Valuation Method	Amortization Cost
Investment Return - City	7.5%
Investment Return - SAWS	8.0%
Projected Salary Increases	Varies by Age and Service
Includes Inflation At	3.0%
Cost of Living Adjustments	0.0%

Note 9 Postemployment Retirement Benefits

Primary Government (City)

Plan Description - In addition to the pension benefits discussed in Note 8, Pension and Retirement Plans, the City provides most retired employees with certain health benefits under two postemployment benefit programs. Pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 45, the City is 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 programs having actuarial valuations performed for these programs as required.

The first of the two programs is a health insurance plan, which provides benefits for nonuniformed City retirees and for pre-October 1, 1989 uniformed (fire and police) retirees who are not eligible for Medicare. The program compromises 4 self-funded PPO health plans currently administered by United Healthcare. These plans may be amended at any time with approval from the City Council. This program is funded on a pay-as-you-go basis with an aggregate sharing of premium costs based on the following targets: 67.0% by the City and 33.0% by the retiree for those retirees hired prior to October 2007, 50.0% for retirees hired on or after October 2007 with 10+ years of service to City of San Antonio and 100.0% for retirees hired on or after October 2007 with 5-9 years of City of San Antonio service. Currently, there are 5,744 active civilian employees who may become eligible in the future. Employees may become eligible to participate in this Program based on eligibility for participation in the TMRS Pension Plan and their number of years of service to City of San Antonio. Under the TMRS Pension Plan, employees may retire at age 60 and above with five or more years of service or with 20 years of service regardless of age. Retiree medical benefits continue for the life of the retiree and their surviving eligible dependents that were covered at the time of the employee's retirement. Nonuniformed City employees who qualify for a disability pension under TMRS rules are also eligible to receive the retiree medical benefit under this plan. As of September 30, 2010, there were 551 retirees participating in this program.

The second program with 837 participating retirees is available to eligible retirees who have Medicare coverage. All retirees and dependents are required to apply for and maintain Medicare Part A & B coverage once they reach age 65 or otherwise become eligible for Medicare. Of the current 837 participating Medicare retirees, 280 participate in a fully insured Medicare Advantage HMO and the remaining 557 participate in a fully insured Medicare Supplement. This program may be amended at any time by the City Council.

An additional 90 retirees participate in CitiMed which is a self-funded health plan administered by United Healthcare.

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

With the adoption of the fiscal year 2008 Budget, additional changes were made to this retirement health plan. For all non-uniformed employees beginning employment on or after October 1, 2007, a revised schedule for sharing of the costs on a pay-as-you-go basis is effective. The revised schedule is as follows: (1) Employees who separate from the City with less than five years of service are not eligible to participate in the Program; (2) Employees who separate with at least five years of service but less than 10 years of service are eligible to participate in the Program but without City subsidy; and (3) Employees who separate from employment with 10 years of service or more will pay for 50.0% of the pay-as-you-go contributions to the Program and the City will contribute 50.0%. The ability to participate in the Program remains based on eligibility for the TMRS Pension Plan. Please note that the number of employees, retirees, and deductible amounts in the above are not expressed in thousands.

Funding Policy - The cost of the program is reviewed annually, and the costs of medical claims are funded jointly by the City and retirees on a pay-as-you-go basis, based on the allocations described above. For retirees, total program expenses were $9,468 of which $7,468 were medical claims. For the year-ended September 30, 2010, total contributions were as follows:

Total Contributions	
City	$ 6,090
Retiree Premiums	3,378
Total Contributions	$ 9,468

No contributions were made in fiscal year 2010 to prefund benefits.

The Medicare Prescription Drug Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D entitled the health plan to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by the health plan on behalf of certain plan participants. As of September 30, 2010, the City received $534 in payments. In accordance with GASB Technical Bulletin 2006-01, *Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D,* future projected payments from the federal government have not been used to lessen total projected obligations under the City's plan.

Annual OPEB Cost and Net OPEB Obligation - For the fiscal year-ended September 30, 2010, the City's annual postemployment benefits other than pension (OPEB) cost was not equal to its annual required contribution (ARC) to the plan. The City's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial balance over thirty years. The City will not be fully funding the ARC at this time. The City will continue to fund OPEB on a pay-as-you-go basis.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The table below details the actuarial methods and assumptions for the City's OPEB calculation for the fiscal year-ended September 30, 2010:

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Assumptions	
Actuarial Valuation Date	1/1/2009
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar, Open
Remaining Amortization Period	30 years
Asset Valuation Method	N/A
Actuarial Assumptions:	
Investment Rate of Return	3.00%
Projected Salary Increase	N/A
Healthcare Inflation Rate - Medical	10% initial (2009) 5% ultimate (2014)
Healthcare Inflation Rate - Presription	12% initial (2009) 5% ultimate (2016)

Below are the health care cost trend assumptions used for the City's January 1, 2010 actuarial study for the fiscal year-ended September 30, 2010.

City's Health Care Cost Trend Assumptions

Year	Medical	Prescription Drugs
2010	9.0%	11.0%
2011	8.0%	10.0%
2012	7.0%	9.0%
2013	6.0%	8.0%
2014	5.0%	7.0%
2015	5.0%	6.0%
2016+	5.0%	5.0%

The City's retiree participation rate is estimated to be at 60.0%. This estimate is based on evaluation of City retiree's enrolled in the City's retiree plan, versus those enrolled in TMRS. Numerous City retirees are former military, or are able to obtain healthcare through spouses insurance, etc.

Fire and Police Retiree Health Care Fund

Plan Description - The second postemployment benefit program of the City the Fire and Police Retiree Health Care Fund, San Antonio (Health Care Fund) is a Texas statutory retirement health trust for firefighters and police officers of the City. The trust holds assets and liabilities of the City's Fire and Police Retiree Health Care Plan (Plan). This Plan is a single-employer defined benefit postemployment health care plan that was created in October 1989 in accordance with provisions established by contract with the local fire and police unions to provide postemployment health care benefits to police officers and firefighters of the City of San Antonio retiring after September 30, 1989. Authority to establish and amend the plan's postemployment health care benefits is based on such contracts and the Texas Legislature enacts regulations that control the operation of the Fund. The statutory trust is governed by a board of trustees that meets on a monthly basis. The board consists of nine members: the Mayor or his appointee; two members of the City Council; one retired and two active duty police officers; and one retired and two active duty firefighters. The Health Care Fund board has the ability to modify benefits within certain parameters. The City is the only participating employer in the Plan.

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

WEB-TPA Employer Services, LLC serves as the third party administrator for the Health Care Fund. Additional administrative services were provided to the Health Care Fund by PTRX, Inc. during fiscal year 2010.

Contributions - Since its inception, the Health Care Fund has been funded primarily by contributions from the City and City active firefighters and police officers, as part of the compensation for services rendered by the union members, and by contributions made by retirees for their dependents. Effective October 1, 2007, the board implemented state-mandated changes to increase contributions from the Plan's single employer, the City, and plan members in order to reduce actuarially determined funding deficits and ensure the existence of the Fund for future retired firefighters and police officers. The increased contributions were initiated to take effect over a span of years through October 2011. The state-mandated changes also called for a decrease in the level of benefits.

The contribution amounts for each fiscal year, beginning October 1, 2007, are based on statutory contribution rates and on the average member salary expected for that fiscal year, which is to be determined by the Health Care Fund's actuary. For the years ending September 30, 2010, 2011, and years thereafter, the specified employee contribution rates were 3.4%, 4.1% and 4.7%, respectively. The City's contributions will be set at 9.4% of the specified wage base. The table below summarizes the actuary's determinations of the contribution amount for the fiscal year-ended September 30, 2010:

Biweekly Contributions:	
Active Fire and Police Members	$82.76
City of San Antonio for Each Member	$228.80
Monthly Contributions for Each Retiree with Under 30 Years of Service who Retires after October 1, 2007	$179.80
Dependent Children	$157.35

Total contributions by active firefighters and police officers were $8,055 for the year ended September 30, 2010.

Membership in the Plan consisted of the following at September 30, 2010:

Retirees and Beneficiaries Receiving Benefits	2,884
Active Plan Members	3,785
Total Membership	6,669

Funding Status and Funding Progress - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of the plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

- 120 - Amounts are expressed in thousands
- 121 - Amounts are expressed in thousands

Note 9 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by the City in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuations follows:

Assumptions	
Valuation Date	10/1/2009
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Pay, Open
Remaining Amortization Period	Open, 30 Years
Asset Valuation Method	5-Year Adjusted Market Rate
Actuarial Assumptions:	
Investment Rate of Return	
Net of Expense	8.0%
Annual Inflation Rate	4.0%
Projected Annual Salary	
Increases	4.5% to 15.0%
Health Care Cost Rate Trend:	8.0% Initial
	5.5% Ultimate
Annual Payroll Growth Rate	4.0%

CPS Energy

CPS Energy provides certain health, life insurance and disability income benefits for employees. Additionally, most CPS Energy employees are also eligible for these benefits upon retirement from CPS Energy. Assets of the plans are held in three separate, single-employer contributory plans:

- City Public Service of San Antonio Group Health Plan (Health Plan) – a contributory group health plan that provides health, dental and vision benefits.
- City Public Service of San Antonio Group Life Insurance Plan (Life Plan) – a contributory plan that provides life insurance benefits.
- City Public Service of San Antonio Group Disability Plan (Disability Plan) – an employer funded plan that provides disability income benefits.

The Employee Benefit Plans may be amended at any time by CPS Energy, acting by and through an Oversight Committee, which includes the General Manager and CEO, the Chief Financial Officer and the Audit Committee Chair of the Board.

Note 9 Postemployment Retirement Benefits (Continued)

CPS Energy (Continued)

The Employee Benefit Plans' assets are segregated from CPS Energy's assets and are separately managed by an Administrative Committee whose members are appointed by the Oversight Committee. These plans report results on a calendar-year basis and issue separately audited financial statements that may be obtained by contacting Employee Services at CPS Energy.

Funding Policy – The funding requirements for both the Plan participants and the employer are established by and may be amended by CPS Energy. Funding is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by CPS Energy.

Retired employees contribute to the Health Plan in varying amounts depending upon an equity formula that considers age and years of service. Individuals who retired before February 1, 1993, contribute a base rate plus 2¼% of the difference between that amount and the aggregate rate for each year that the sum of age and service is less than 95. Those who retired on or after February 1, 1993, contribute a base rate plus a percentage of the CPS Energy contribution, based on the number of years of service, if they retired with less than 35 years of service. Retirees and covered dependents contributed $4,100 in fiscal year 2010.

CPS Energy's contributions in relation to the ARC for the Health Plan amounted to 6.3% of covered payroll in fiscal year 2010.

The Medicare Prescription Drug Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D entitled the Health Plan to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by the Health Plan on behalf of certain Plan participants. These payments totaled $646 for fiscal year 2010. In accordance with GASB Technical Bulletin 2006-01, *Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D,* future projected payments from the federal government have not been used to lessen total projected obligations under CPS Energy's Plan.

Employees who retired prior to February 1, 1993, contribute to the Life Plan at a rate of $0.1 per $1,000 of insurance per month on amounts in excess of $20,000 plus 2¼% of the difference between that amount and the aggregate rate for retiree coverage for each year the sum of retirement age and service is less than 95. Those who retired on or after February 1, 1993, contribute $0.1 per $1,000 of insurance per month on amounts in excess of $20,000 plus a percentage of the CPS Energy contribution, based on number of years of service, if they retired with less than 35 years of service. Retirees and covered dependents contributed $228 in fiscal year 2010 for their life insurance benefits. CPS Energy's contributions in relation to the ARC for the Life Plan amounted to 0.1% of covered payroll in fiscal year 2010.

The Disability Plan is funded completely by CPS Energy. CPS Energy's contributions in relation to the ARC were 0.3% of covered payroll in fiscal year 2010.

Annual OPEB Cost and Net OPEB Obligation – CPS Energy's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The annual OPEB cost consists of the ARC, interest on the net OPEB obligation and adjustments to the ARC for the Health, Life and Disability Plans. The annual OPEB cost was $8,800 for fiscal year 2009. The net OPEB obligation may be either positive, reflecting a liability, or negative, reflecting an asset. The term net OPEB obligation, as used in this Note, refers to either situation.

- 122 - *Amounts are expressed in thousands*
- 123 - *Amounts are expressed in thousands*

Note 9 Postemployment Retirement Benefits (Continued)

CPS Energy (Continued)

CPS Energy has selected the aggregate cost method for determining Life and Disability Plan funding amounts. Since this method does not identify or separately amortize unfunded actuarial liabilities, information about the funded status and funding progress has been prepared using the entry age actuarial cost method, which approximates the funding progress of the plans.

Actuarial Methods and Assumptions – Actuarial valuations of ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plans and the annual required contributions of the employer are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information, present multiyear trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

For the Health Plan, the actuarial cost method used was the projected unit credit actuarial cost method. For the Life and Disability Plans, the aggregate actuarial cost method was used to determine the cost of benefits. Since this method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress was prepared using the entry age actuarial cost method, which is intended to approximate the funding progress of the Plans.

The amortization method used for all three Plans was the level dollar open method. Effective with the January 1, 2007, valuation, CPS Energy elected to establish an amortization period of 20 years to be used for actuarial valuations for the current and future periods. The asset valuation method used for all three Plans was the five-year smoothed market valuation method. Beginning with the 2008 plan year, the cost method was revised to project January 1 data to February 1 of the next calendar year based on assumptions.

Significant actuarial assumptions used in the calculations for the February 1, 2009 valuation included (a) a rate of return on the investment of present and future assets of 8.0% for the Health, Life and Disability Plans, (b) a Consumer Price Index increase of 4.0% for the Disability Plan, (c) projected salary increases for the Health Plan ranging from 4.1% to 10.5% depending on age for base and other salaries and an inflation rate for salary increases of 3.5% for the Life and Disability Plans, and (d) medical cost increases projected at 8.5% for 2009 decreasing to 5.5% in 2016 and thereafter.

San Antonio Water System (SAWS)

SAWS provides certain healthcare and life insurance benefits for eligible retirees, their spouses, and their dependents through a single-employer defined benefit plan administered by SAWS. The authority to establish and amend the OPEB provisions is vested in the SAWS Board of Trustees.

By State law, any employee that retires under either the TMRS or SAWS retirement plans is eligible, at the time of retirement, to obtain health insurance benefits similar to those offered to active SAWS employees. Contributions made by retirees for health insurance benefits vary based on retirement date, years of service and the health care options selected. Retirees can purchase coverage for their spouse at SAWS' group rates. After age 65, healthcare benefits under the plan are supplemental to Medicare benefits.

The following is the participant summary as of January 1, 2009 (the most recent actuarial valuation date):

Active employees	1,548
Retired employees	625
Spouses of retired employees	448
Total	2,621

Note 9 Postemployment Retirement Benefits (Continued)

San Antonio Water System (SAWS) (Continued)

Funding Policy – The contribution requirements of plan members and SAWS are established and may be amended by the SAWS Board of Trustees. To date, SAWS has funded all obligations arising under these plans on a pay-as-you-go basis. Going forward, SAWS' required contribution will be based on a projected pay-as-you-go financing requirement, with an additional amount, if any, to prefund benefits as determined annually by SAWS' Board of Trustees. SAWS is currently evaluating ways to phase-in full funding of the actuarially determined annual required contribution.

Plan members' required contributions vary depending on the health plan selected by the retiree as well as the number of years of service at the time of retirement. For the year-ended December 31, 2009, SAWS' contribution to the plan equaled the current premiums of $5,884, while plan members receiving benefits contributed $296 through their required contribution. No contributions were made in 2009 to prefund benefits.

Annual OPEB Cost and Net OPEB Obligation – For the year-ended December 31, 2009, SAWS' annual OPEB cost is calculated based on the annual required contributions (ARC).

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

Since no portion of SAWS' OPEB obligation has been funded in a separate trust as of December 31, 2009, SAWS does not issue a separate financial report for its OPEB plan.

In the January 1, 2009 actuarial valuation, the projected unit credit funding method was used. The investment return assumption used in the calculation of the AAL was 4¾%, which is a blended rate of the estimated long-term investment return on the investments that are expected to be used to finance the payment of benefits. The investment return assumes SAWS will phase-in fully funding the annual required contribution over the years. There is not an inflation rate projected for this actuarial valuation. As of December 31, 2009, the UAAL is being amortized as a level dollar amount over a 28 year closed period.

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- 124 - Amounts are expressed in thousands
- 125 - Amounts are expressed in thousands

Note 9 Postemployment Retirement Benefits (Continued)

San Antonio Water System (SAWS) (Continued)

Health care cost trend rates are used to anticipate increases in medical benefit costs expected to be experienced by the retiree health plan in each future year. The trend rates used are as follows:

	Annual Rate of Increase		
Year Beginning January 1	Pre-Medicare Medical	Medicare Eligible Medical	Prescription Drugs
2010	7.4%	6.1%	8.3%
2011	7.3%	6.2%	8.0%
2012	7.2%	6.3%	7.8%
2013	7.1%	6.4%	7.6%
2014	7.1%	6.5%	7.4%
2015	7.0%	6.6%	7.2%
2016	6.9%	6.7%	7.0%
2017	6.8%	6.8%	6.8%
2018	6.6%	6.6%	6.6%
2019	6.4%	6.4%	6.4%
2020	6.2%	6.2%	6.2%
2021	6.0%	6.0%	6.0%
2022	5.8%	5.8%	5.8%
2023	5.6%	5.6%	5.6%
2024	5.4%	5.4%	5.4%
2025	5.2%	5.2%	5.2%
2026	5.0%	5.0%	5.0%
2027	4.9%	4.9%	4.9%
2028+	4.5%	4.5%	4.5%

Three-Year Trend Information

The City's, CPS Energy's and SAWS' annual OPEB cost, employer contributions, percentage cost contributed to the plan, and net OPEB obligation for fiscal years 2010, 2009 and 2008 were as follows:

Three-Year Trend Information

Pension Plan	Fiscal Year	Annual Required Contribution (ARC)	Interest on Net OPEB Obligation	Adjustment To ARC	Annual OPEB Cost	Contributions In Relation to ARC	Increase (Decrease) in Net OPEB	Net OPEB Obligation at Beginning of Year	Net OPEB Obligation at End of Year	Percentage of ARC Contributed
City of San Antonio	2008	$ 29,786	$ -	$ -	$ 29,786	$ (7,914)	$ 21,872	$ -	$ 21,872	26.6%
	2009	35,818	656	(1,116)	35,358	(7,279)	28,079	21,872	49,951	14.6%
	2010	35,818	1,499	(2,549)	34,768	(12,475)	22,293	49,951	72,244	17.3%
CPS - Health Plan[1]	2008	$ 13,181	$ 71	$ (84)	$ 13,168	$ (43,864)	$ (30,696)	$ 893	$ (29,803)	333.1%
	2009	12,337	(2,384)	2,810	12,763	(15,192)	(2,429)	(29,803)	(32,232)	119.0%
	2010	7,940	(2,578)	3,040	8,402	(13,820)	(5,418)	(32,232)	(37,650)	164.5%
CPS - Life Plan[1]	2008	$ -	$ (7)	$ 8	$ 1	$ (349)	$ (348)	$ (90)	$ (438)	27007.3%
	2009		(35)	42	7	(127)	(120)	(438)	(558)	2028.4%
	2010		(45)	58	13	(140)	(127)	(558)	(685)	1039.3%
CPS - Disability Plan[1]	2008	$ 209	$ 9	$ (10)	$ 208	$ (291)	$ (83)	$ 106	$ 23	140.0%
	2009	285	2	(2)	285	(433)	(148)	23	(125)	151.9%
	2010	381	(10)	12	383	(617)	(234)	(125)	(359)	160.9%
SAWS - OPEB[2]	2007	$ 17,696	$ -	$ -	$ 17,696	$ (4,479)	$ 13,217	$ -	$ 13,217	25.3%
	2008	17,696	765		18,461	(5,132)	13,329	13,217	26,546	27.8%
	2009	25,759	1,261	(1,655)	25,365	(5,884)	19,481	26,546	46,027	28.7%

[1] Fiscal year-ended January 31, 2010
[2] Plan year-ended December 31, 2009

The Fire and Police Retiree Health Care Fund was not able to provide the documentation for the table above.

Note 9 Postemployment Retirement Benefits (Continued)

Three-Year Trend Information (Continued)

The City's, Fire and Police Health Care Fund, SAWS' and CPS Energy's funded status for the most recent year are as follows:

Funded Status and Funding Progress

Pension Plan	City of San Antonio	Fire and Police Health Care Fund	SAWS	CPS Energy Health Plan	CPS Energy Life Plan	CPS Energy Disability Plan
Actuarial value of plan assets (a)	$ -	$ 200,329	$ -	$ 204,246	$ 49,614	$ 3,763
Actuarial accrued liability (b)	342,018	549,466	297,259	219,364	35,491	6,575
Unfunded actuarial accrued liability (funding excess) (b) - (a)	$ 342,018	$ 349,137	$ 297,259	$ 15,118	$ (14,123)	$ 2,812
Funded ratio (a) / (b)	0.0%	36.5%	0.0%	93.1%	139.8%	57.2%
Covered payroll (c)	$ 259,224	$ 236,372	$ 75,270	$ 219,716	$ 198,669	$ 198,669
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(b) - (a)] / (c))	131.9%	147.7%	394.9%	6.9%	-7.1%	1.4%

Note 10 CPS Energy South Texas Project (STP)

Joint Operations

Units 1 and 2 – CPS Energy is one of three participants in STP, a two-unit nuclear power plant with each unit having a nominal output of approximately 1,350 megawatts. The units, along with their support facilities and administrative offices, are located on a 12,220-acre site in Matagorda County, Texas. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. The other participants in STP Units 1 and 2 are NRG South Texas LLP, a wholly owned subsidiary of NRG Energy, Inc. (NRG) and the City of Austin.

Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated. At that time, the STPNOC, a Texas nonprofit, nonmember corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC. STPNOC is financed and controlled by the owners pursuant to an operating agreement among the owners and STPNOC. Currently, a four-member board of directors governs STPNOC, with each owner appointing one member to serve with STPNOC's chief executive officer.

CPS Energy amortizes its share of nuclear fuel for STP to fuel expense on a units-of-production method. Under the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS Energy is charged a fee for disposal of spent nuclear fuel, which is based upon CPS Energy's share of STP generation that is available for sale to CPS Energy customers. This charge is included in fuel expense monthly.

CPS Energy's 40.0% ownership in STP Units 1 and 2 represents approximately 1,080 megawatts of total plan capacity. See Note 4, Capital Assets for more information about CPS Energy's capital investments in STP.

Units 3 and 4 Project – On June 28, 2006, NRG announced plans to construct two additional reactors ("STP Units 3 and 4") at the current two-unit STP site. With this addition, energy production at that site is projected to increase by approximately 2,700 megawatts. In July 2006, in response to NRG's announcement, CPS Energy formed a cross-functional task force of more than 30 in-house staff from various disciplines and external consultants who conducted an extensive feasibility study comparing the proposed development of new nuclear plants against CPS Energy's alternatives for other sources of baseload generation (Feasibility Study). The initial results of the Feasibility Study were reported to the Board in early 2007, and an ongoing due diligence team was established to monitor project developments and make additional recommendations regarding CPS Energy's potential participation in STP Units 3 and 4.

- 126 - Amounts are expressed in thousands
- 127 - Amounts are expressed in thousands

Note 10 CPS Energy South Texas Project (STP) (Continued)

Joint Operations (Continued)

In September 2007, NRG and CPS Energy signed the South Texas Project Supplemental Agreement (Supplemental Agreement) under which CPS Energy elected to participate in the development of STP Units 3 and 4 pursuant to the terms of the participation agreement among the STP owners and agreed to potentially own up to 50% of STP Units 3 and 4. The Supplemental Agreement provided for CPS Energy to reimburse NRG for its pro rata share, based on its ownership percentage, of initial project costs incurred and to pay its pro rata share of future development costs. The Boards of CPS Energy and NRG subsequently approved the Supplemental Agreement, which was effective on October 29, 2007. CPS Energy's adoption of its resolution to participate in the initial development of STP Units 3 and 4 did not constitute a commitment to make the complete investment in the proposed construction and operation of new nuclear units at STP.

Also in September 2007, STPNOC, on behalf of CPS Energy and NRG, filed with the NRC a combined construction and operating license application (COLA) to build and operate STP Units 3 and 4. This COLA was the first complete application for new commercial nuclear units to be filed with the NRC in nearly 30 years. On November 29, 2007, the NRC announced it had accepted the COLA for review.

On March 26, 2008, NRG announced the formation of Nuclear Innovation North America, LLC (NINA). NRG has an 88.0% ownership interest in NINA, while Toshiba Corporation (Toshiba) owns the remaining 12.0%. Upon the formation of NINA, NRG contributed its 50.0% ownership of, and its development rights to, STP Units 3 and 4 to NINA. As a result, NINA is now CPS Energy's partner for the co-development of STP Units 3 and 4.

On September 24, 2008, STPNOC, on behalf of CPS Energy and NINA, filed with the NRC an updated COLA naming Toshiba as the provider of STP Units 3 and 4. On February 10, 2009, the NRC issued a schedule for completing its review of the COLA. The NRC expects to issue the final Safety Evaluation Report in September 2011. Receipt of the NRC-approved combined operating license is a condition precedent to starting significant project construction.

Also in September 2008, CPS Energy filed a Phase I application for a Department of Energy ("DOE") loan guarantee related to its portion of the estimated project costs. Following the DOE's evaluation of all Phase I applications, the DOE ranked the project third out of a field of fourteen nuclear loan guarantee project applications that were submitted. Subsequently, the DOE narrowed the list of nuclear project candidates for DOE loan guarantees to four projects, including STP Units 3 and 4.

On November 5, 2008, STPNOC and the DOE executed a Standard Contract in which the DOE undertook the obligation to provide for permanent disposal of used nuclear fuel from the proposed STP Units 3 and 4 project.

On January 20, 2009, the Board authorized CPS Energy to work with STPNOC to enter into an engineering, procurement and construction (EPC) agreement with Toshiba for STP Units 3 and 4. The EPC agreement did not commit CPS Energy to build the new nuclear units. Instead, it enabled CPS Energy to lock in favorable terms and conditions with the contractor prior to a final construction decision once the NRC issues a license for the project. The agreement was subsequently signed by all parties on February 24, 2009.

On October 13, 2009, the Board approved selection of STP Units 3 and 4 as the next baseload generation resource and approved a request for $400,000 in bonds to support the project. However, amid reports that CPS Energy had knowledge that costs of the project might be significantly higher than previously reported, the City Council's vote on the bonds was postponed. This higher project cost estimate prompted the San Antonio City Council to reevaluate CPS Energy's stake in the project and members of CPS Energy's management to engage in negotiations with representatives from Toshiba Corporation in November 2009.

CITY OF SAN ANTONIO, TEXAS

Note 10 CPS Energy South Texas Project (STP) (Continued)

Joint Operations (Continued)

Following the postponement of the City Council's vote, the Board undertook an investigation to determine whether CPS Energy's management had knowledge of an increase in the preliminary cost estimate for STP Units 3 and 4 and why that information was not previously communicated to the Board. The results of this investigation were reported to the Board in late 2009 and, based on the report, the Board adopted a resolution finding that there was a failure of the communication from certain members of CPS Energy executive management to the Board and the City Council regarding a revised cost estimate that was publicly disclosed in October 2009. The investigation report also concluded that there was no malicious intent on the part of any member of the management team in connection with the failure of the communication. Further, the report found that no member of management instructed any other employee to conceal or withhold any information from the Board and that lack of information flowing to the Board was, at worst, due to a difference of opinion about what information should be deemed material and deserving of the Board's attention.

While the project's cost controversy was being investigated, CPS Energy explored all its options regarding participation in or withdrawal from the project. On December 6, 2009, CPS Energy filed a petition in Bexar County district court to clarify the roles and obligations of CPS Energy and NINA to define the rights of both parties should either decide to withdraw from the project. NRG escalated the litigation when it sued CPS Energy and claimed CPS Energy should forfeit all investment to date and lose all value in the project's land and water rights. CPS Energy amended its petition on December 23, 2009, and raised significant issues concerning misconduct by NRG and NINA. CPS Energy specified actual and exemplary damages of $32,000,000.

On February 17, 2010, CPS Energy and NINA announced that a proposed settlement had been reached that ended the parties' legal disagreement and allowed the proposed expansion of STP Units 3 and 4 to proceed. As a result of the settlement, CPS Energy's ownership stake in STP Units 3 and 4 was reduced from 50.0% to 7.6%, while NINA and Toshiba Corporation retained 92.4% ownership. NINA will pay all development costs incurred after January 31, 2010. CPS Energy has withdrawn its pending application for a DOE loan guarantee and will support the NINA loan guarantee applications. In addition to receiving a higher ownership interest (due to the reduction in CPS Energy's ownership level to 7.6% which approximates CPS Energy's expenditures on the project through January 31, 2010), NINA also agreed to pay CPS Energy $80,000, in two $40,000 payments, conditional on their loan guarantees being approved by the DOE. NINA also agreed to make a contribution of $10,000 over a four-year period to the Residential Energy Assistance Partnership, which provides emergency bill payment assistance to low-income customers in San Antonio and Bexar County. The settlement agreement was finalized on March 1, 2010. CPS Energy's project costs to date of $380,000 for development of STP Units 3 and 4 are included in construction-in-progress.

Nuclear Insurance

The Price-Anderson Act is a comprehensive statutory arrangement for providing limitations on liability and governmental indemnities with respect to nuclear accidents or events. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $100,600, subject to adjustment for inflation, for the number o f operating nuclear units and for each licensed reactor, payable at $10,000 per year per reactor for each nuclear incident. CPS Energy and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests. For purposes of these assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC in accordance with the financial protection requirements of the Price-Anderson Act. A Master Worker Nuclear Liability policy, with a maximum limit of $300,000 for the nuclear industry as a whole, provides protection from nuclear-related claims.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of approximately $1,100,000. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

Note 10 CPS Energy South Texas Project (STP) (Continued)

Nuclear Insurance (Continued)

The owners of STP Units 1 and 2 currently maintain approximately $2,800,000 of nuclear property insurance, which is above the legally required amount of $1,100,000. The $2,800,000 of nuclear property insurance consists of $500,000 in primary property damage insurance and $2,300,000 of excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited (NEIL). A retrospective assessment could occur if property losses, as a result of an accident at any nuclear plant insured by NEIL, exceed the accumulated funds available to NEIL.

Nuclear Decommissioning

CPS Energy, together with the other owners of STP Units 1 and 2, files a certificate of financial assurance with the Nuclear Regulatory Commission (NRC) for the decommissioning of the nuclear power plant every two years or upon transfer of ownership. The certificate assures that CPS Energy and the other owners meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. The most recent cost study conducted by the owners in March 2008 showed that CPS Energy's share of decommissioning costs was $386,300 in 2007 dollars. Included in the cost study was a 10.0% contingency component as required to comply with the PUCT. Based on the level of funds accumulated in the 28.0% Decommissioning Trust and an analysis of this cost study, CPS Energy determined that no further decommissioning contributions will be required to be deposited into the Decommissioning Trust.

In 1991, CPS Energy started accumulating the decommissioning funds for their original 28.0% portion in an external trust in accordance with the NRC regulations. The 28% Decommissioning Trust's assets and related liabilities are included in CPS Energy's financial statements as a component unit. Excess or deficient funds related to the 28% Trust will be received from or distributed to CPS Energy's ratepayers after decommissioning is complete.

In conjunction with the acquisition of the additional 12.0% interest in STP in May 2005, CPS Energy also assumed control of a relative portion of the Decommissioning Trust previously established by the prior owner, American Electric Power (AEP). This is referred to as the 12% Decommissioning Trust, and its assets and related liabilities are also included in CPS Energy's financial statements as a component unit. Subject to PUCT approval as requested in the future, excess or deficient funds related to the 12% Trust will be received from or distributed to AEP customers after decommissioning is complete.

CPS Energy has determined that some decommissioning activities will be required prior to shutdown of STP Units 1 and 2 at the end of the plant's life. Since the NRC prohibits any spending out of the Decommissioning Trusts for other than administrative expenses prior to shutdown, CPS Energy established a preshutdown account to fund decommissioning expenses incurred prior to shutdown. Contributions to fund preshutdown decommissioning costs for CPS Energy's 28.0% ownership in STP amounted to $2,200 in fiscal year 2010. Preshutdown decommissioning expenses for the 28.0% ownership totaled $270 for fiscal year 2010. For the 12.0% ownership, preshutdown costs were funded by AEP's ratepayers; preshutdown decommissioning expenses for this ownership totaled $116 for fiscal year 2010.

Excluding securities lending collateral, as of December 31, 2009, CPS Energy had accumulated approximately $266,800 in the 28% Trust. Total funds are allocated to decommissioning costs, spent fuel management and site restoration. Based on the most recent annual calculation of financial assurance required by the NRC, the 28% Trust funds allocated to decommissioning costs totaled $153,900, which exceeded the calculated financial assurance amount of $107,700 at December 31, 2008.

Note 10 CPS Energy South Texas Project (STP) (Continued)

Nuclear Decommissioning (Continued)

The March 2008 cost study estimated decommissioning costs for the 12.0% ownership in STP Units 1 and 2 at $165,600 million in 2007 dollars. Excluding securities lending cash collateral, as of December 31, 2009, approximately $90,300 had been accumulated in the 12% Trust. Total funds are allocated to decommissioning costs, spent fuel management and site restoration. Based on the most recent annual calculation of financial assurance required by the NRC, the 12% Trust funds allocated to decommissioning costs totaled $54,400, which exceeded the calculated financial assurance amount of $46,100 at December 31, 2008.

In fiscal year 2009, CPS Energy changed its method of accounting for the Decommissioning Trusts. Under the new method, a pro rata share of total decommissioning costs (as determined by the March 2008 cost study) has been recognized as a liability. In subsequent years, annual decommissioning expense and an increase in the liability will reflect the effects of inflation and an additional year of plant usage. Additionally, guidance under FASB Statement 71, *Accounting for the Effects of Certain Types of Regulation*, will be followed to retain the zero fund net assets approach to accounting for the Decommissioning Trusts. There was no impact to fund net assets as a result of this change in accounting method.

Both Decommissioning Trusts have separate calendar-year financial statements, which are separately audited and can be obtained by contacting the Controller at CPS Energy.

STP Pension Plan and Other Postretirement Benefits

STP maintains a noncontributory defined-benefit pension plan covering most employees. Retirement benefits are based on length of service and compensation. Plan assets are invested in various equity and fixed-income securities. Contributions totaling $11,300 were made in fiscal year 2009, of which $10,500 related to the 2009 plan year, while $800 related to plan year 2008. A final contribution of $448 for plan year 2009 will be required to be made by September 15, 2010, in order to meet minimum funding requirements of the Internal Revenue Code.

In September 2006, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – An Amendment of FASB Statements No. 87, 88, 106 and 132(R).* FASB Statement No. 158 required STP, as the sponsor of a plan, to (a) recognize on its balance sheet as an asset the plan's overfunded status or as a liability the plan's underfunded status, (b) measure the plan's assets and obligations as of the end of the calendar year, and (c) recognize changes in the funded status of the plans in the year in which changes occur. Additional minimum liabilities are also derecognized upon adoption of the new standard. FAS No. 158 required STP to recognize additional liabilities and eliminate the intangible asset related to certain of its qualified and nonqualified plans. The effect of the defined benefit funding obligations to CPS Energy was $(9,788) for fiscal year 2010 and was reflected as a reduction in Other Changes in Fund Net Assets on the Statements of Revenues, Expenses and Changes in Fund Net Assets.

Employees whose pension benefits exceed $230 for the 2008 Employee Retirement Income Security Act limitations are covered by a supplementary nonqualified, unfunded pension plan, which is provided for by charges to operations sufficient to meet the projected benefit obligation. The accruals for the cost of that plan are based on substantially the same actuarial methods and economics as the noncontributory defined-benefit pension plan.

STPNOC approved a change to the pension plan, effective January 1, 2007, to preclude the eligibility of employees hired after December 31, 2006, in the plan. Employees hired after this date will receive enhanced matching contributions under the STP Nuclear Operating Company Savings Plan.

STP also maintains a defined-benefit postretirement plan that provides medical, dental and life insurance benefits for substantially all retirees and eligible dependents. The cost of these benefits is recognized in the project statements during an employee's active working career. STP has a trust to partially meet the obligations of the plan.

Note 10 CPS Energy South Texas Project (STP) (Continued)

STP Pension Plan and Other Postretirement Benefits (Continued)

The owners of STP, including CPS Energy, share in all plan costs in the same proportion as their respective ownership percentages.

Schedule of Funding Status (RSI-Unaudited)
Calendar Year 2009

	Pension Benefits	Other Benefits
Change in benefit obligation:		
Benefit Obligation - Beginning	$ 240,915	$ 70,701
Service Cost	9,675	5,839
Interest Cost	14,336	4,151
Actuarial Loss	(2,331)	(953)
Benefits Paid	(3,350)	(2,748)
Benefit Obligation - Ending	259,245	76,990
Change in Plan Assets:		
Fair Value of Plan Assets - Beginning	132,279	8,706
Actual Return on Plan Assets	21,593	1,511
Employer Contributions	11,323	2,196
Benefits Paid	(3,350)	(2,748)
Fair Value of Plan Assets - Ending	161,845	9,665
Funded Status - Ending	(97,400)	(67,325)
Unrecognized Net Actuarial Loss	79,835	23,798
Unrecognized Prior Service Cost	6,752	(12,023)
Unrecognized Transition Obligation		251
Net Amount Recognized	(10,813)	(55,299)
Accrued Benefit Cost	$ (10,813)	$ (55,299)
Weighted-average Assumptions:		
Discount Rate	6.0%	6.0%
Expected Return on Plan Assets	8.0%	8.0%
Rate of Compensation Increase	3.0%	3.0%

Note 11 Commitments and Contingencies

Primary Government (City)

Grants

The City has received significant financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a materially adverse effect on the City's financial position at September 30, 2010. Grants awarded by federal, state, and other governmental agencies but not yet earned as of September 30, 2010 were $61,998.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Capital Improvement Program

The City will be undertaking various capital improvements during fiscal year 2011. The estimated cost of these improvements is $711,036, which consist of the following:

Function/Program	FY 2011
General Government	
Information Technology	$ 18,145
Municipal Facilites	46,705
Other Facilities	6,561
Total General Government	$ 71,411
Public Health & Safety	
Drainage	$ 101,600
Fire Protection	27,435
Law Enforcement	88,296
Total Public Health & Safety	$ 217,331
Recreation & Culture	
Libraries	$ 17,539
Municipal Facilites	30,749
Parks	64,246
Total Recreation & Culture	$ 112,534
Transportation	
Air Transportation	$ 98,576
Street	211,184
Total Transportation	$ 309,760
Total Capital Plan	$ 711,036

These projects are scheduled to be funded with a combination of grants, contributions from others, bonds, certificates, notes and other designated City resources.

Litigation

The City is a party to various lawsuits alleging personal and property damages, wrongful death, breach of contract, property tax assessment disputes, environmental matters, class actions, employment claims and cases. The estimated liability, including an actuarially determined amount of incurred but not reported claims, is recorded in the Insurance Reserve Fund in the amount of $23,135. The City estimates the amounts of unsettled claims under its self-insurance program and believes that the self-insurance reserves recorded in the Insurance Reserve Fund are adequate to cover losses for which the City may be liable. Whether additional claims or revisions to estimates required for settlement on existing claims could have a material effect on the general purpose financial statements cannot be determined.

Amounts are expressed in thousands

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Litigation (Continued)

Kopplow Development, Inc. v. City of San Antonio. Plaintiff contends that the construction of a regional storm water detention facility was an inverse condemnation of its property by increasing the flood plain elevation on its property. The City also filed a statutory condemnation to acquire an easement involving Plaintiff's property to construct and maintain part of the facility. This matter was tried in July 2008, but the City's motion for new trial was granted. After a retrial, the jury awarded approximately $600 to Plaintiff for the inverse condemnation and statutory condemnation. The City and Plaintiff appealed. The Fourth Court of Appeals recently issued its opinion affirming the trial court's ruling awarding Kopplow $5 as compensation for the land taken, but reversed the other portion of the judgment for the remainder of the damages. Kopplow's motion for rehearing was denied on December 29, 2010. The City anticipates Kopplow will appeal this matter to the Texas Supreme Court.

Shawn Rosenbaum, et. al. v. City of San Antonio, et. al. Plaintiff's decedent, Diane Rosenbaum, was operating her motorized wheelchair, crossing a parking area where she allegedly was struck by a City vehicle. Ms. Rosenbaum later died, allegedly as a result of this incident. Discovery is on-going. Damages in this matter are capped by the Texas Tort Claims Act at $250. A trial date has not been set.

Daniel Thomas, et. al. v. City of San Antonio, et. al. Plaintiffs' decedent was involved in two vehicle accidents in a short period of time and fled the scene of the second one on foot. After decedent refused commands to stop and drop his weapon, and in fear for their safety, the officers shot and killed the decedent. Plaintiffs filed suit in Federal Court against the City and the officers in their individual capacities. Discovery is on-going. If liability is determined, damages could be in excess of $250.

Chacon, et. al. v. City of San Antonio, et. al. Plaintiffs are land owners who own property in an area that had been part of a limited purpose annexation by the City. The area was deannexed in March 2008 and City South Management Authority ("CSMA") took over responsibility for planning and zoning pursuant to State statute. Plaintiffs filed suit in Federal Court challenging both the City and CSMA's authority to enact and enforce zoning and planning regulations, alleging that these restrictions have devalued their property by limiting their ability to develop it. Under the City's Indemnification Ordinance, the City has provided a defense for CSMA. On cross-motions for Summary Judgment, the Court dismissed most of Plaintiffs' claims, but retained their claim of violations of Texas Government Code Chapter 2007. Plaintiffs seek damages in excess of $4,000.

Galvan, et al. v. City of San Antonio, et al. Plaintiffs filed suit for wrongful death under State and Federal laws related to the death of Sergio Galvan. During the course of an arrest, decedent became violent and, in response, the defendant officers used taser guns to subdue him. Decedent became unresponsive and was later pronounced dead. The trial court granted summary judgment in favor of all defendants in November 2008. Plaintiffs have appealed the judgment with respect to the defendant officers to the Fifth Circuit Court of Appeals. The Fifth Circuit affirmed the judgment in favor of the Defendants in June 2010. During the pendency of that suit, a second lawsuit was filed by different family members of the decedent, in State District Court. That matter was removed to Federal Court. The Court requested briefing on why the second suit should not be dismissed in light of the Fifth Circuit opinion in the first case. The Court's decision is pending. If the matter is not dismissed and plaintiffs are successful, damages could be in excess of $250.

Smith, et al. v. Ybarra, et al. Plaintiffs' decedent was killed in a motor vehicle accident. Plaintiffs filed suit against the driver of the vehicle involved, as well as the City. As to the City, plaintiffs contend that paramedics did not render medical aid to decedent based on their mistaken belief that she was already dead. Damages are capped at $250.

Wissmann v. City of San Antonio. Plaintiff was involved in a motor vehicle accident with a SAPD cruiser and filed suit for injuries allegedly sustained in the accident. This case is covered by the Texas Tort Claims Act. If liability is determined, damages are capped at $250. This case is set for trial on May 2, 2011.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Litigation (Continued)

KGME, Incorporated v. City of San Antonio. Plaintiff entered into a contract with the City to provide construction services. The parties determined that work on portions of the contract had become impracticable and further work would cease. Plaintiff sued for Breach of Contract and Violations of the Prompt Payment Act. Damages could exceed $250. The City filed a plea to the jurisdiction, which was denied by the Court. The Fourth Court of Appeals issued its opinion on February 16, 2011, affirming the trial court's denial of the City's Plea to the Jurisdiction. The City is currently assessing whether to continue the appeal process or return to the trial court for further litigation on this matter.

Vasquez, et al. v. City of San Antonio Police Department. Plaintiffs were involved in a motor vehicle accident while pursued by SAPD officers. Plaintiff filed suit on her behalf and on behalf of her minor child for injuries allegedly sustained in the accident. This case is covered by the Texas Torts Claims Act. If liability is determined, damages are capped at $250. This case is set for trial on July 11, 2011.

David Ash v. City of San Antonio. Plaintiff struck a City vehicle from behind. Plaintiff claims he could not see that the City vehicle was stopping because of the dust cloud kicked up by the truck. This case was tried to a jury in September 2009 and Plaintiff was awarded damages of approximately $190. The Fourth Court of Appeals issued its opinion on February 9, 2011. The Court found that some of the damages awarded by the jury were not supported by the evidence. They encouraged the parties to agree to a remittitur of the award to an amount of approximately $94 or the matter will be returned to the trial court for a new trial. The parties are still assessing their options.

Valemas, Inc. v City of San Antonio. The City contracted with Plaintiff for construction work associated with the Brackenridge Park Rehabilitation Project. The City refused to pay the Plaintiff the balance of the contract due to delays in completion. Plaintiff contends that the delays were due to actions of the City and filed suit to recover the balance of the contract. Damages could be in excess of $250. This matter is to be set for mediation in April, 2011 and set for trial in October, 2011.

L. Payne Constructors v City of San Antonio. The City contracted with Plaintiff for construction work associated with the Clark Avenue/Fair Avenue project. Plaintiff filed suit for breach of contract alleging the City caused delays and increased costs through change orders. Plaintiffs have sued for damages in excess of $500. This matter has been recently filed and discovery is just beginning.

Sayani v City of San Antonio and City South Management Authority. Plaintiff contended that City and City South Management Authority effected a taking of his property by allegedly improperly imposing zoning restrictions on his property without performing a takings analysis. Plaintiff sought damages in loss of value to his property in an amount of approximately $1,500. This matter was settled in October, 2010 for $500 payable to the Plaintiff by the City.

Rosemary Flammia v City of San Antonio. Plaintiff initially filed an Equal Employment Opportunity Commission (EEOC) complaint alleging discrimination based on gender and race based on not being appointed as Assistant Chief. She amended her complaint on several occasions and also asserted claims of retaliation based on her prior EEOC filings. This matter settled in October, 2010 for $249.

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Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Arbitrage

The City has issued certain tax-exempt obligations that are subject to Internal Revenue Service (IRS) arbitrage regulations. Noncompliance with these regulations, which pertain to the utilization and investment of proceeds, can result in penalties, including the loss of the tax-exempt status of the applicable obligations retroactive to the date of original issuance. In addition, the IRS requires that interest income earned on proceeds in excess of the arbitrage rate on applicable obligations be rebated to the federal government. The City monitors its bond proceeds in relation to arbitrage regulations, and "arbitrage rebate" is estimated and recorded in the government-wide and proprietary financial statements when susceptible to accrual, and in the governmental fund type when matured. As of September 30, 2010, the City has no arbitrage liability for its governmental or proprietary funds.

Leases

The City leases City-owned property to others consisting of buildings, real property, and parking spaces. Costs of specific leased components are not readily determinable. The Airport System's revenue is net Ground Abatement Credits and Building Improvement Credits allowed to lessees per signed contracts. Total rental revenue on operating leases for the fiscal year-ended September 30, 2010 was $28,738. As of September 30, 2010, the leases provide for the following future minimum rentals:

Lease Revenues	Governmental Activities	Airport System	Parking System	Total
Fiscal year ending September 30:				
2011	$ 7,364	$ 16,089	$ 100	$ 23,553
2012	6,217	15,346	100	21,663
2013	5,744	11,804	100	17,648
2014	5,200	4,022	100	9,322
2015	4,833	3,810	100	8,743
2016-2020	9,152	15,046	500	24,698
2021-2025	4,874	9,066	500	14,440
2026-2030	2,517	5,393	100	8,010
2031-2035	693	979		1,672
2036-After	734			734
Future Minimum Lease Rentals	$ 47,328	$ 81,555	$ 1,600	$ 130,483

Landfill Postclosure Care Costs

In October 1993, the City Council approved closure of the Nelson Gardens Landfill, which immediately stopped accepting solid waste. Subsequent to landfill closure, federal and state laws required the City to incur certain postclosure care costs over a period of 30 years. As of September 30, 1994, the City estimated these costs for postclosure of the Nelson Gardens Landfill at $3,825. The estimate was based on estimated costs for installation of a leachate and groundwater collection system, installation of a methane recovery system, geotechnical and environmental engineering services, and monitoring and maintaining the facility for a 30-year period. In accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Cost*, the estimated postclosure cost of $3,825 for the Nelson Gardens Landfill was recorded as a liability and expensed in the Solid Waste Management Fund in fiscal year 1994. This cost is an estimate and is subject to changes resulting from inflation/deflation, advances in technology, or changes in applicable laws or regulations. Each fiscal year, the City performs an annual re-evaluation of the postclosure care costs associated with the Nelson Gardens Landfill. The annual re-evaluation conducted for the fiscal year-ended September 30, 2010 resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of $2,057. This represents a decrease of $296 from the prior fiscal year for expenditures incurred for geotechnical and environmental engineering services.

Note 11 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Texas Commission on Environmental Quality (TCEQ) Financial Assurance

The City is required under the provision of the Texas Administrative Code to provide financial assurance to the Texas Commission on Environmental Quality (TCEQ) related to the closure of municipal solid waste operations including, but not limited to, storage, collection, handling, transportation, processing, and disposal of municipal solid waste. As such, financial assurance is required to ensure that funds are available, when needed, to meet costs associated with the closure of the City's North East Transfer Station. As of September 30, 2001, the permit for the North East Transfer Station has been transferred from the City, and the new permitee has provided adequate financial assurance and assumes all liabilities for this facility. Additionally, financial assurance is required to demonstrate financial responsibility for underground storage petroleum facilities. Based on the number of underground petroleum storage tanks, the City is required to provide $1,000 of financial assurance related to the underground storage facilities.

Brooks City-Base – Electric and Gas Utilities

The Brooks City-Base Project is a collaborative effort between the U.S. Air Force (the Air Force) and the City designed to retain the Air Force missions and jobs at Brooks Air Force Base, improve mission effectiveness, assist in reducing operating costs, and promote and enhance economic development at Brooks City-Base. On July 22, 2002, the land and improvements were transferred to the Brooks Development Authority (BDA) for the purpose of creating the Brooks Technology and Business Park, a facility that will foster the development of key targeted industries. The Air Force is currently the Park's anchor tenant and is leasing back facilities to perform its missions.

In fiscal year 2003, CPS Energy entered into a 20-year agreement with Brooks Development Authority (BDA) to upgrade the electric and gas utility systems located within the Brooks City-Base. CPS Energy and BDA have each committed to invest $6,300 ($4,200 in year 2002 dollars, which accumulates interest at the rate of 3.7% compounded annually) to upgrade the infrastructure at that location. BDA is required to pay its annual minimum payment from its available operating revenues. If BDA's operating revenues cannot cover the annual minimum payment, then, as BDA's obligation is backed by the City, the City will fund the obligation for that fiscal year. Obligations for fiscal year 2010 were fully funded through BDA operating revenues. BDA's obligations are additionally reduced annually, in accordance with contract terms, for economic development that benefits CPS Energy's electric and gas systems at the Brooks City-Base.

To the extent that the capital renewals and upgrades do not total $12,600 by September 2022, BDA's and CPS Energy's committed investments each will be reduced equally. To date, CPS Energy has invested $5,100 and BDA has invested, net of annual interest, $4,200. BDA has fully funded its commitment.

CPS Energy

Litigation

In the normal course of business, CPS Energy is involved in legal proceedings related to alleged personal and property damages, breach of contract, condemnation appeals, and discrimination cases. In addition, CPS Energy's power generation activities and other utility operations are subject to extensive state and federal environmental regulation. In the opinion of CPS Energy's management, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS Energy.

- 136 - Amounts are expressed in thousands
- 137 - Amounts are expressed in thousands

Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Leases

Capital Leases - CPS Energy has one capital lease arrangement for the use of computer servers, associated software and maintenance of the hardware and software. The four year lease began in fiscal year 2007 and will end in fiscal year 2011. As of January 31, 2010, there were no future lease payments associated with this capital lease. The value of the assets acquired through capital leases at January 31, 2010, was as follows:

	January 31, 2010
Equipment	$ 2,723
Accumulated Depreciation	(2,159)
Net book value	$ 564

Operating Leases – CPS Energy has entered into operating lease agreements to secure the usage of natural gas storage facilities, land, a building, office space, parking lot space and engineering equipment. The lease of the building contains a lease payment escalation clause whereby the minimum monthly lease payments will increase by $3 per month beginning in the sixth year of the lease. Additionally, the building lease contains an option to purchase the facility before the end of the third year of the lease. The leases for the parking lot space contain a provision for a slight escalation in the monthly payment amount in the second and third years of the lease.

As of January 31, 2010, the future minimum lease payments for noncancelable operating leases with terms in excess of one year were as follows:

Year Ended January 31,	Operating Lease Payments
2011	$ 5,192
2012	2,329
2013	499
2014	365
Total future minimum lease payments	$ 8,385

CPS Energy's minimum lease payments for all operating leases for which CPS Energy was the lessee amounted to $6,300 in fiscal year 2010. There were no contingent lease or sublease payments in fiscal year 2010.

CPS Energy has entered into operating lease agreements allowing cable and telecommunication companies to attach telephone, cable and fiber-optic lines to CPS Energy's electric poles. Operating leases also exist between CPS Energy and telecommunication companies allowing the companies to attach communication equipment to CPS Energy's communication towers. Additionally, CPS Energy has three operating leases for the use of land that CPS Energy owns. The majority of the operating leases pertaining to the use of CPS Energy's communication towers contain a provision for contingent lease receipts that will equal the lesser of a 15.0% increase in the prior five-year lease payment or the percentage increase in the Consumer Price Index over the same five-year period. Furthermore, the three land leases also contain a provision for contingent lease receipts based on the Consumer Price Index.

Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Leases (Continued)

As of January 31, 2010, the future minimum lease receipts for noncancelable operating leases with terms in excess of one year were as follows:

Year Ended January 31,	Operating Lease Receipts
2011	$ 2,188
2012	2,180
2013	2,101
2014	1,566
2015	590
Later years	2,407
Total future minimum lease payments	$ 11,032

CPS Energy's minimum lease receipts for all operating leases for which CPS Energy was the lessor amounted to $8,600 in fiscal year 2010. Contingent lease receipts amounted to $553 for fiscal year 2010. There were no sublease receipts in fiscal year 2010.

Lease/Leaseback - In June 2000, CPS Energy entered into a lease/leaseback transaction with an affiliate of Exelon involving CPS Energy's Spruce 1 coal-fired electric generating unit. The transaction included a lease for a term of approximately 65 years in combination with a leaseback of the facility by CPS Energy for approximately 32 years.

CPS Energy retains fee simple title to, and operating control of, the facility and retains all revenues generated from sales of electricity produced from the facility. CPS Energy received the appraised fair value of the unit, $725,000, which is being amortized over 381 months, or approximately 32 years. The transaction expenses and leaseback costs of $628,300 were recorded as prepaid items in 2001 and are being amortized over 381 months, or approximately 32 years.

CPS Energy has the option to cancel the leaseback after it expires by making a payment to Exelon's affiliate. CPS Energy entered into a collateralization payment-undertaking agreement that will generate amounts sufficient to fund the cancellation option.

CPS Energy's net benefits associated with the transaction were approximately $88,000. The City was paid $12,300 in accordance with the provisions of the New Series Bond Ordinance that permit 14.0% of this net benefit to be distributed. The distribution was recorded as a prepayment in 2001 and is being amortized over 381 months, or approximately 32 years. As a result, net proceeds from the transaction of approximately $75,700 are being reported over the 32-year leaseback term. In fiscal year 2010, the net amount recorded as income by CPS Energy was $2,800.

Other

Purchase and construction commitments amounted to approximately $2,400,000 at January 31, 2010. This amount includes provisions for natural gas purchases expected through June 2027; the actual amount to be paid will depend upon CPS Energy's actual requirements during the contract period and the price of gas. Also included are provisions for coal purchases through December 2021 and for coal transportation through December 2014.

CPS Energy also has other purchase commitments totaling $2,800,000. This amount includes provisions for wind power through May 2030, solar power through December 2040, landfill power through December 2020, and raw uranium associated with STP fabrication and conversion services needed for refueling through May 2026.

- 138 - Amounts are expressed in thousands
- 139 - Amounts are expressed in thousands

Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Other (Continued)

On January 20, 2009, the Board approved a policy statement on sustainability. The basis of the policy is to affirm that CPS Energy's strategic direction centers on transforming from a company focused on providing low-cost power from traditional generation sources to a company providing competitively priced power from a variety of sources. To be sustainable, CPS Energy has to balance its financial viability, environmental commitments and social responsibility as a community-owned provider. Further, the objective of sustainable energy development is to meet current needs without compromising the ability of future generations to meet their needs. A total of $5,700,000 has been committed over the next 12 years in the areas of renewable energy, energy efficiency and conservation, transition to a smart grid, compliance with state energy conservation mandates, energy research and environmental improvements.

In October 2008, CPS Energy agreed to an amendment with Calaveras Power Partners, L.P. under which CPS Energy is obligated to make a payment of $10,000 if the milestones and progress are achieved per the amendment. CPS Energy has paid $7,400 of this amount to date.

During fiscal year 2008, CPS Energy entered into a Natural Gas Supply Agreement with the SA Energy Acquisition Public Facility Corporation (PFC), a component unit of the City, to purchase, to the extent of its gas utility requirements, all natural gas to be delivered under a Prepaid Natural Gas Sales Agreement. Under the Prepaid Natural Gas Sales Agreement between the PFC and a third-party gas supplier, the PFC has prepaid the cost of a specified supply of natural gas to be delivered over 20 years. CPS Energy's 20-year commitment under the Natural Gas Supply Agreement is included in the aforementioned $2,400,000 purchase and construction commitments amount.

In December 2007, CPS Energy and Exelon Generation Company LLC (Exelon) signed an agreement granting CPS Energy an option to participate in a possible joint investment in a nuclear-powered electric generation facility in Southeast Texas (the Exelon Project). Preliminary plans indicate that the Exelon Project would be located in Victoria County, Texas, and would involve the development of two Economic Simplified Boiling Water Reactors (ESBWR), nominally rated at 1,520 megawatts each. Under this agreement, CPS Energy has the option to acquire between 25.0% and a 40.0% ownership in the Exelon Project. Exelon submitted the COLA for the Exelon Project to the NRC on September 3, 2008. On October 30, 2008, the NRC accepted the application for a detailed review. Exelon announced on November 24, 2008, that they intended to select an alternate technology, other than the ESBWR, for the Exelon Project. Subsequently on December 18, 2008, the NRC placed the review of Exelon's COLA on hold. On March 27, 2009, Exelon announced that it had selected Hitachi's Advanced Boiling Water Reactor design for the Exelon Project, and that it planned to revise the COLA and its DOE loan guarantee application accordingly. The Exelon Project failed to qualify for the initial round of DOE loan guarantees. Exelon has delayed development of the Exelon Project but will continue to pursue an Early Site Permit for the Victoria County location. The parties are in discussions to execute a new agreement, with a possible change in ownership percentage. Exelon has not notified CPS Energy of any intention to terminate the agreement or to abandon the project.

In fiscal year 2003, CPS Energy entered into a 20-year agreement with Brooks Development Authority (BDA) to upgrade the electric and gas utility systems located within the Brooks City-Base. CPS Energy and BDA have each committed to invest $6,300 ($4,200 in year 2002 dollars, which accumulates interest at the rate of 3.7% compounded annually) to upgrade the infrastructure at that location. BDA is required to pay its annual minimum payment from its available operating revenues. If BDA's operating revenues cannot cover the annual minimum payment, then, as BDA's obligation is backed by the City, the City will fund the obligation for that fiscal year. Obligations for fiscal year 2010 were fully funded through BDA operating revenues. BDA's obligations are additionally reduced annually, in accordance with contract terms, for economic development that benefits CPS Energy's electric and gas systems at the Brooks City-Base.

To the extent that the capital renewals and upgrades do not total $12,600 by September 2022, BDA's and CPS Energy's committed investments each will be reduced equally. To date, CPS Energy has invested $5,100 and BDA has invested, net of annual interest, $4,200. BDA has fully funded its commitment.

Note 11 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Save for Tomorrow Energy Program ("STEP")

During fiscal year 2009, CPS Energy committed to spending $849,000 over the next 12 years on energy efficiency and conservation through STEP. Annually, the first $8,000 of STEP expenses will be funded through the base rate and will be reported as CPS Energy operation and maintenance (O&M) expenses.

STEP expenses over the initial $8,000 per year will be recovered or funded through the fuel adjustment factor in the year after they are incurred and have been independently validated. These STEP recoveries will be deferred as STEP net costs recoverable through future rates in accordance with guidance provided by FAS 71, *Accounting for the Effects of Certain Types of Regulation*. This guidance requires that certain costs be capitalized as a regulatory asset until they are recovered through future rates. As a result, there is no impact to net income from the STEP expenses over the initial $8,000.

San Antonio Water System (SAWS)

Litigation

SAWS is the subject of various claims and potential litigation, which arise in the ordinary course of its operations. Management, in consultation with legal counsel, makes an estimate of potential costs that are expected to be paid in the future as a result of known claims and potential litigation and records this estimate as a contingent liability. The amount of such contingent liability totaled $5,504 at December 31, 2009. While the exact amount of any potential liability that may arise from these claims and potential litigation is indeterminable, management believes that the amounts recorded are a reasonable estimate.

During 2007, the Environmental Protection Agency Region 6 (EPA) informed SAWS that the agency intended to institute an enforcement action based on reported sewer overflows related to the operation of SAWS' wastewater treatment plants and collection system under SAWS' Texas Pollutant Discharge Elimination System (TPDES) permits. The EPA has alleged that certain aspects of SAWS' operations constitute violations of the Clean Water Act. SAWS is vigorously defending these claims while also pursuing settlement negotiations with EPA and the Department of Justice (DOJ). These settlement discussions may result in SAWS, EPA and DOJ entering a civil Consent Decree to resolve the EPA's allegations. Such a Consent Decree may impose injunctive relief in the form of required capital construction projects, increased operational costs and civil penalties.

During 2009, SAWS continued settlement discussions with DOJ, which included examining a variety of proposed actions that would help prevent sewer overflows in the future. To address what SAWS believes to be the leading cause of sewer overflows, SAWS expanded its sewer line cleaning activities in 2009. As the settlement negotiations with DOJ continue to be in a preliminary stage, the range of cost of any injunctive relief can not be reasonably estimated.

The Lower Colorado River Authority-San Antonio Water System (LCRA-SAWS) Water Project was conceived to develop and make available up to 150,000 acre feet per year of surface water supplies for San Antonio in 2025 while firming up water supplies in the Colorado River Basin. In 2002, SAWS and LCRA executed a Definitive Agreement outlining SAWS' and LCRA's obligations. The agreement called for a multi-year study period, at the end of which both SAWS and LCRA were to determine whether or not to proceed with implementation of the project. Finalization of studies and obtaining appropriate permits for the project were expected to be completed between 2013 and 2015 (figures in this paragraph are not in thousands).

SAWS has expensed $39,300 in study period costs through December 31, 2009. Under the terms of the 2002 Definitive Agreement with LCRA, SAWS is entitled to receive a reimbursement from LCRA of approximately one-half of those study period costs in the event the agreement is terminated by SAWS.

Note 11 Commitments and Contingencies (Continued)

San Antonio Water System (SAWS) (Continued)

Litigation (Continued)

Throughout the study period, SAWS and LCRA evaluated the project's viability on an ongoing basis. In December 2008, the LCRA Board of Directors adopted several water supply planning guidance resolutions which led to a conclusion by LCRA that there would be no firm water supply available to San Antonio from the planned project. In May 2009, SAWS' Board of Trustees declared LCRA in breach of the 2002 Definitive Agreement between the parties. The parties unsuccessfully conducted formal mediation in August 2009 and SAWS filed suit against LCRA. In September 2009, LCRA filed a plea asserting full or partial governmental immunity from suit.

Other

As of December 31, 2009, SAWS has entered into various water leases to obtain rights to pump water from the Edwards Aquifer. The term of these agreements vary, with some expiring as early as 2010 and others continuing until 2019. Some of the leases include price escalations and the average annual cost per acre foot ranges from $134 to $165 (these figures not in thousands). The future commitments under these leases are as follows:

	2010	2011	2012	2013	2014	Thereafter
Lease obligations	$ 5,551	$ 5,904	$ 5,138	$ 2,760	$ 1,860	$ 6,399
Lease obligations (acre feet)	42	39	33	19	13	41

SAWS has various commitments relating to the production of water supplies. A summary of these commitments is provided below. As with any estimates, the actual amounts paid could differ materially.

	2010	2011	2012	2013	2014	Thereafter
Firm purchased water obligations	$ 4,351	$ 4,246	$ 4,318	$ 4,390	$ 4,462	$ 122,844
Firm purchased water obligations (acre feet)	6	6	6	6	6	101
Variable purchased water obligations	$ 3,743	$ 3,217	$ 3,165	$ 2,789	$ 2,469	$ 66,021
Variable purchased water obligations (acre feet)	5	4	4	3	3	66

SAWS' firm and variable purchased water obligations relate to the contractual commitments made in connection with SAWS' wholesale water contracts with Guadalupe Blanco River Authority (GBRA) and two wholesale agreements for the supply of raw water from the Trinity Aquifer. All water provided under these contracts is subject to availability. Under the contract with GBRA, SAWS will receive between 4,000 and 11,000 acre feet of water annually during the years 2010-2037 at prices ranging from $890 to approximately $1,523 per acre foot. SAWS has an option to extend this contract until 2077 under new payment terms (figures in this paragraph are not in thousands).

In 2000, SAWS entered into a wholesale contract with the Massah Development Corporation to deliver raw water from the Lower Glen Rose/Cow Creek formations of the Trinity Aquifer in northern Bexar County. SAWS determined the sustainable yield of the project to be 4,685 acre feet. Under this contract, SAWS is required to take or pay for 50.0% of the determined sustainable yield of the project, or 2,343 acre feet annually. In 2010, SAWS and Massah Development Corporation negotiated a new Water Supply Agreement for a term of 15 years beginning July 1, 2010. The minimum Take of Pay for the contract is 100 acre feet per month or 1,200 acre feet per year. The negotiated price is $550 per acre foot with an escalator based on the Producers Price Index. SAWS has an option at the end of the primary term to extend the contract for 10 years. (Figures in this paragraph are not in thousands).

Note 11 Commitments and Contingencies (Continued)

San Antonio Water System (SAWS) (Continued)

Other (Continued)

In 2006, SAWS renegotiated the terms of a contract with Sneckner Partners, Ltd. to supply raw water from the Trinity Aquifer. Under this contract, SAWS is required to take or pay for 1,500 acre feet annually at a minimum annual cost of $225 per acre foot through 2020 (these figures not in thousands). SAWS has an option to extend the contract through 2026, if it desires. As part of this contract, SAWS agreed to make payments quarterly for any residential customers within a defined, currently undeveloped geographical area that begin taking water service from SAWS. While it is impossible to estimate the exact amount of any potential future payments associated with this provision of the agreement, management estimates of this potential contingent liability are less than $5,000.

SAWS has entered into various agreements to pump water from the Carrizo aquifers. SAWS makes minimum water payments under the terms of these agreements until such time as SAWS' pending permit application to pump water from the Carrizo Aquifer has been approved and the necessary infrastructure to produce and transport the water has been completed. At December 31, 2009, SAWS is committed to make payments under only three of these agreements. Minimum water payments are required under these three agreements through 2029 even if no water is produced. The remaining agreements are currently subject to cancellation by SAWS. The table below summarizes both the required minimum water payments under the three agreements that cannot be cancelled as well as the projected additional payments under all agreements assuming that none are cancelled and water production begins in 2013.

	2010	2011	2012	2013	2014	Thereafter
Required minimum water payments	$ 178	$ 183	$ 198	$ 204	$ 210	$ 6,170
Projected additional payments	$ 265	$ 402	$ 417	$ 746	$ 768	$ 14,372
Produced water (acre feet)				12	12	175

SAWS is also committed under various contracts for completion of construction or acquisition of utility plant totaling approximately $288,000 as of December 31, 2009. Funding of this amount will come from excess revenues, contributions from developers, restricted assets and available commercial paper capacity.

Note 12 Pollution Remediation Obligation

Primary Government (City)

The City implemented the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, in fiscal year 2009.

The general nature of existing pollution that has been identified on City property is consistent with City operations of acquiring properties for infrastructure and improvement development. Under most circumstances, the triggering event relevant to the City is the voluntary commencement of activities to clean up the pollution. Costs were estimated using the expected cash flow technique prescribed under GASB Statement No. 49 utilizing information provided by the City's respective departments which included previous knowledge of clean-up costs, existing contracts, etc. Depending on the length of time it takes the City to remediate the pollution, costs may be different from that estimated below as a result of market rate changes, improvements to technology, etc.

	Balance at 10/1/2009	Additions	Deletions	Balance at 9/30/2010
Governmental Activities:				
Liabilities	$ 904	$ 1,529	$ (608)	$ 1,825
Construction in Progress	788	1,038	(621)	1,205
Business-Type Activities:				
Liabilities	$ 700	$ -	$ -	$ 700

Note 12 Pollution Remediation Obligation (Continued)

Primary Government (City) (Continued)

The Governmental Activities' liabilities were a result of cost estimates to clean existing pollution found on land acquired by the City's Capital Improvement Management Services and Parks Departments for the construction of streets and drainage and parks, respectively. Any net changes in the Governmental Activities pollution liability that was not capitalized under Construction in Progress was expensed under the City's public works activities.

The Business-Type Activities' liability was a result of cost estimates to clean existing pollution found on land acquired by the Airport System for the construction of airport structures. As the City acquired this property in the early 1940s, the liability did not meet the criteria to be capitalized, and as such was expensed in fiscal year 2009. There have been no changes regarding this obligation in fiscal year 2010.

The City does not foresee receiving any recoveries from third parties for the costs associated with cleaning up these pollution obligations.

CPS Energy

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, requires that a liability be recognized for expected outlays for cleaning up existing pollution when certain triggering events occur. The general nature of existing pollution that has been identified at CPS Energy sites is consistent with that experienced within the electric and gas utilities industry. Under most circumstances, the triggering event most relevant to CPS Energy is the voluntary commencement of activities to clean up pollution.

Under the Federal Energy Regulatory Commission guidance, reserves have been established for dismantling and closure costs. In fiscal year 2008, in preparation for implementation of GASB Statement No. 49, a portion of those reserves were reclassified to remediation and dismantling reserve accounts reported on the balance sheet within other liabilities and deferred credits. When a triggering event occurs, those reserves will be reclassified as a pollution remediation liability also reported within other liabilities and deferred credits.

The pollution remediation liability was $888 as of January 31, 2010. Costs were estimated using the expected cash flow technique prescribed under GASB Statement No. 49 utilizing information provided by CPS Energy's environmental staff and consultants. FY 2009 beginning balances were not restated as a result of the implementation of GASB Statement No. 49 due to immateriality.

San Antonio Water System (SAWS)

SAWS had no material pollution remediation liabilities at December 31, 2009.

Note 13 Risk Financing

Primary Government (City)

Property and Casualty Liability

At September 30, 2010, the City maintains excess liability insurance coverage through Star Insurance Company. The policy provides general liability, law enforcement legal liability, public official's liability, employee benefits liability, and workers' compensation excess liability coverage. The City utilizes a third-party administrator to adjust its claims. Great American Insurance Company provides coverage for the City's real property and contents.

Obligations for claims under these programs are accrued in the City's Self-Insurance Reserve Fund based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported. The departments are assessed contributions to cover expenditures. There were no significant reductions in insurance coverage. Claims settlements have not exceeded insurance coverage limits for the past four years.

Note 13 Risk Financing (Continued)

Primary Government (City) (Continued)

Workers' Compensation

As of September 30, 2010, the City maintains excess workers' compensation insurance coverage through Star Insurance Company. The policy provides coverage for claims by or on behalf of injured workers where the total liability exceeds the City's self-insured retention of $500. The City utilizes a third-party administrator to adjust its claims.

Obligations for claims under these programs are accrued in the City's Self-Insurance Reserve Fund, Enterprise Funds and Convention Visitors Facility Fund based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported. The departments are assessed contributions to cover expenditures. There were no significant reductions in insurance coverage. Claims settlements have not exceeded insurance coverage limits for the past four years.

Employee Health Benefits

The City offers employees and their eligible dependents a comprehensive employee benefits program including medical, dental, vision and basic and supplemental life insurance. Employees may also participate in healthcare or dependent care spending accounts through our Section 125 Cafeteria Plan. The City's health and dental programs are self-funded. Obligations for benefits are accrued in the City's Employee Health Benefits Insurance Fund based upon the City's estimates of the aggregate liability for unpaid benefits.

Retiree Health Benefits

The City offers medical coverage for its retirees and their dependents. The City offers both self insured and fully insured plans to participating retirees who retire from the TMRS Pension Plan immediately following retirement from the City. Self Funded obligations for benefits are accrued in the City's Retiree Health Benefits Insurance Fund based upon the City's estimates of the aggregate liability for unpaid benefits. The City additionally, determined and accrued OPEB liabilities based on an actuarial assessment of historical self funded claims data performed bi-annually and reviewed annually. Current year unpaid benefit liabilities for retirees are netted against the OPEB liability as additional contributions.

Unemployment Compensation Program

The Unemployment Compensation Program provides a central account for payment of unemployment compensation claims. As of the fiscal year-end, claims were being administered externally and are paid to the Texas Workforce Commission on a reimbursement basis. All costs incurred are recorded on a claim paid basis in the City's Employee Health Benefits Insurance Fund.

Extended Sick Leave Program

The Extended Sick Leave Program is used to pay benefits associated with the City's employee long-term disability plan. Benefits are administered by the City. Actual costs are incurred when extended leave is taken. The Extended Sick Leave Program is currently administered out of the City's Employee Health Benefits Insurance Fund.

Employee Wellness Program

The Employee Wellness Program is designed to mitigate future health and productivity loss costs by creating awareness of health risks and providing education about healthy lifestyle choices. In 2008, the City opened the COSA Health and Wellness Center in partnership with Gonzaba Medical Group. The Center is available exclusively to provide primary and occupational medicine to active employees. Additionally, the City provides every employee and members of their household an Employee Assistance Program to assist employees with basic situational and behavioral counseling, as well as, financial counseling and legal referral services. The Employee Wellness Program is managed out of the Employee Health Benefits Fund.

Note 13 Risk Financing (Continued)

Primary Government (City) (Continued)

Claims Liability

The liability for the Employee Health Benefits Program is based on the estimated aggregate amount outstanding at the statement of net assets date for unpaid benefits. Liabilities for the Insurance Reserve and Workers' Compensation Programs are reported when it is probable that a loss has occurred as of the statement of net assets date, and the amount of the loss can be reasonably estimated. These liabilities include allocable loss adjustment expenses, specific incremental claim adjustment expenses such as the cost of outside legal counsel, and a provision for claims that have been incurred but not reported (IBNR). Unallocated claim adjustment expenses have not been included in the calculation of the outstanding claims liability, as management of the City feels it would not be practical or cost beneficial. In addition, based on the difficulty in determining a basis for estimating potential recoveries and the immateriality of prior amounts, no provision for subrogation or salvage has been included in the calculation of the claims liability. The claims liability reported in the accompanying financial statements for both the Insurance Reserve and Workers' Compensation Programs is based on a 3.0% discount rate.

The following is a summary of changes in claims liability for the City's Insurance Reserve, Employee Health Benefits, and Workers' Compensation Programs Funds for the year-ended September 30, 2010:

Fund	October 1,	Estimates	Claims	Payments	September 30,
Insurance Reserve:					
Fiscal Year 2009	$ 19,435	$ (938)	$ 5,286	$ (5,286)	$ 18,497
Fiscal Year 2010	18,497	4,638	4,031	(4,031)	23,135
Employee Health Benefits: [1]					
Fiscal Year 2009	$ 9,611	$ (957)	$ 75,077	$ (75,077)	$ 8,654
Fiscal Year 2010	8,654	(289)	85,058	(85,058)	8,365
Workers' Compensation: [2]					
Fiscal Year 2009	$ 24,547	$ 1,670	$ 11,778	$ (11,778)	$ 26,217
Fiscal Year 2010	26,217	1,703	12,270	(12,270)	27,920

[1] FY10 fund financial claims expense reflects an additional $548 in Unemployment Claims that are not shown above.

[2] The Workers' Compensation Liability Balance of $27,920 is comprised of $25,594 recorded in the Workers' Compensation Fund, and the remaining liability of $2,326 recorded in the enterprise funds.

CPS Energy

CPS Energy is exposed to various risks of loss including, but not limited to, those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS Energy maintains property and liability insurance programs that combine self-insurance with commercial insurance policies to cover major risks. The property insurance program provides $4,700,000 of replacement-value coverage for property and boiler machinery loss, including comprehensive automobile coverage, fire damage coverage for construction equipment, and valuable papers coverage. The deductible for the property insurance policy is $5,000 per occurrence with a secondary deductible of $1,000 per occurrence applicable to non-power-plant and non-substation property locations. The liability insurance program includes:

- $100,000 of excess general liability coverage over a retention amount of $2,000;
- $25,000 of fiduciary liability coverage;
- $100,000 of employment practice liability coverage; and
- Other property and liability insurance coverage, which includes commercial crime, employee travel, event insurance.

Note 13 Risk Financing (Continued)

CPS Energy (Continued)

CPS Energy also manages its own workers' compensation program. Additionally, to support this program, $35,000 of excess workers' compensation coverage over a retention amount of $2,000 is maintained. No claims settlements exceeded insurance coverage in the last three fiscal years.

Actuarial studies are performed periodically to assess and determine the adequacy of insurance reserve retentions. Actuarial valuations include nonincremental claims expenses. An actuarial study was performed during the third quarter of fiscal year 2010.

In the table below, the remaining balance under the property reserves column at January 31, 2010, relates to estimated obligations for the clean up, closure, and post-closure care requirements of CPS Energy's landfills. CPS Energy has seven landfill sites, four of which are at full capacity. The estimates for landfill liability are based upon capacity to date and are subject to change due to inflation or deflation, as well as new developments in technology, applicable laws or regulations.

Under CPS Energy's reserve program, all claims are recorded against the reserve.

Schedule of Changes in Claims Liability				
Fund	Liability February 1,	Claims Adjustments	Claims Payments	Liability January 31,
Property Reserves:				
Fiscal Year 2009	$ 3,671	$ (566)	$ -	$ 3,105
Fiscal Year 2010	3,105	799		3,904
Employee and Public Liability Claims:				
Fiscal Year 2009	$ 8,231	$ 6,658	$ (4,586)	$ 10,303
Fiscal Year 2010	10,303	4,314	(4,254)	10,363

Counterparty Risk – CPS Energy is exposed to counterparty risk associated with various transactions primarily related to debt, investments, a lease/leaseback transaction and wholesale power. Counterparty risk is the risk that a counterparty will fail to meet its obligations in accordance with the terms and conditions of its contract with CPS Energy. CPS Energy has policies and practices in place to ensure the solvency of counterparties is assessed accurately, monitored regularly and managed actively through its Enterprise Risk Management Division.

Hedging – The 1999 Texas utility deregulation legislation, Senate Bill 7, contained provisions modifying the Texas Public Funds Investment Act to allow municipal utilities the ability to purchase and sell energy-related financial instruments in order to hedge or mitigate the effect of market price fluctuations of natural gas, fuel oil, and electric energy. In 2002, CPS Energy began hedging its exposure to changes in natural gas prices, with the goal of controlling fuel costs to native load customers and stabilizing the expected cash flows associated with wholesale power transactions.

In fiscal year 2010, CPS Energy implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses recognition, measurement and disclosures related to derivative instruments. CPS Energy does not use derivative instruments for speculative purposes. The only derivative instruments entered into are for the purposes of risk mitigation; therefore, these instruments are considered potential hedging derivative instruments under GASB Statement No. 53.

On January 20, 2009, the CPS Energy board of trustees reaffirmed the Energy Price Risk Management Policy, which sets forth the guidelines for the purchase and sale of certain financial instruments and certain physical products, collectively defined as hedge instruments. The essential goal of the Energy Price Risk Management Policy is to provide a framework for the operation of a fuel and energy price hedging program to better manage CPS Energy's risk exposures in order to stabilize pricing and costs for the benefit of CPS Energy and its customers.

- 146 - Amounts are expressed in thousands
- 147 - Amounts are expressed in thousands

Note 13 Risk Financing (Continued)

CPS Energy (Continued)

In accordance with the requirements of GASB Statement No. 53, all fuel hedges are reported on the Balance Sheet at fair value. The fair value of option contracts is determined using New York Mercantile Exchange (NYMEX) closing settlement prices as of the last day of the reporting period. For futures and basis swap contracts, the fair value is calculated by deriving the difference between the closing futures prices on the last day of the reporting period and the futures or basis swap purchase prices at the time the positions were established, less applicable commissions.

All potential hedging derivative instruments were evaluated for effectiveness at January 31, 2010, and were determined to be effective in substantially offsetting the changes in cash flows of the hedgeable items. The instruments were categorized into two broad groups for purposes of this testing. In one category, hedges utilize only NYMEX natural gas futures and options that are priced based on the underlying Henry Hub natural gas price, while the physical gas is typically purchased at prices based on either the Western Area Hub Association (WAHA) or the Houston Ship Channel (HSC). Therefore, effectiveness testing was based on the extent of correlation between the first of the month index prices of natural gas at each of these locations and the settlement price at Henry Hub. The correlation coefficient was established at the critical term to be evaluated, with 0.8944 established as the minimum standard tolerated. The testing, based on two different location hubs (WAHA and HSC), demonstrated a substantial offset in the fair values, as evidenced by their calculated R values, 0.9664 and 0.9961, respectively, indicating that the changes in cash flows substantially offset the changes in cash flows of the hedgeable item. Additionally, the substantive characteristics of the hedge have been considered, and the evaluation of this effectiveness measure has been sufficiently completed and documented such that a different evaluator, using the same method and assumptions, would reach substantially similar results.

In the second category, hedges utilize both NYMEX natural gas futures and their associated location basis. The effectiveness of these hedges was tested using a quantitative method similar to the synthetic instrument method prescribed by GASB Statement No. 53, with the combination of the hedging instrument and the hedged expected transaction substantively resulting in a hedged fixed price for natural gas. The method requires that the hedged fixed price fall within a range of 90.0% to 111.0% of the confirmed price. Effectiveness testing demonstrated that the hedged price was fixed within the tolerable range, thus demonstrating that the variable cash flows of the hedged instrument substantially offset the variable cash flows of the hedgeable item to create a synthetic price that is effectively fixed. Additionally, the substantive characteristics of the hedge have been considered, and the evaluation of this effectiveness measure has been sufficiently completed and documented such that a different evaluator, using the same method and assumptions, would reach substantially similar results.

As of January 31, 2010, the total fair value of outstanding hedge instruments was a net liability of $5,520. Fuel hedging instruments with a fair value of $(5,520) are reported as a current liability and classified on the Balance Sheet as a component of accounts payable and accrued liabilities. Long-term fuel hedging instruments with a fair value of $6 are reported as a noncurrent asset and classified as a component of noncurrent and other assets. Additionally, long-term fuel hedges with a fair value of $(31) are reported as a noncurrent liability and classified as a component of other liabilities and deferred credits.

Consistent with hedge accounting treatment required for derivative instruments that are determined to be effective in offsetting changes in the cash flows of the hedged item, changes in fair value are reported as deferred (inflows) outflows of resources on the Balance Sheet until the contract expiration that occurs in conjunction with the hedged expected fuel purchase transaction. When fuel hedging contracts expire, at the time the purchase transactions occur, the deferred balance is recorded as an adjustment to fuel expense. The current deferred (inflows) outflows of resources related to fuel hedges totaled $6,400 at January 31, 2010. These amounts are reported on the Balance Sheet as current assets and are classified as a component of prepayments, deferred and other current assets. The noncurrent deferred (inflows) outflows of resources totaled $376 at January 31, 2010. These amounts are reported on the Balance Sheet as noncurrent assets and are classified as a component of other deferred costs.

Amounts are expressed in thousands

Note 13 Risk Financing (Continued)

CPS Energy (Continued)

In fiscal year 2010, some hedging derivative instruments were terminated early, causing them to be ineffective under GASB Statement No. 53. Accordingly, losses from the closed positions were recorded as a decrease in investment income of $2,100.

Following is information related to CPS Energy's outstanding fuel hedging derivative instruments:

Fuel Derivative Transactions as of January 31, 2010				
Type of Transaction	Duration	Volumes in MMBTU	Fair Value	Changes in Fair Value
Long Call	Mar 2010 - Jul 2011	4,750,000	$ 1,308	$ (1,388)
Long Put	Mar 2010 - Jul 2010	980,000	66	(58)
Short Put	Mar 2010 - Jul 2011	4,320,000	(1,468)	61
Long NG Futures	Mar 2010 - Dec 2010	5,510,000	(5,960)	(1,881)
Long Basis Swap	Feb 2010 - Dec 2010	3,475,000	534	527
			$ (5,520)	$ (2,739)

In the event purchased options are allowed to expire, the related premiums paid to acquire those options will be lost. When a short position is established and options are sold, premiums are received and an obligation to honor the terms of the option contract, if exercised, is created. The decision to exercise the options or let them expire rests with the purchasing party.

Futures contracts represent a firm obligation to buy or sell the underlying asset. If held to expiration, the contract holder must take delivery of, or deliver, the underlying asset at the established contract price. Basis swap contracts represent a financial obligation to buy or sell the underlying delivery point basis. If held to expiration, the financial difference determined by mark-to-market valuation must be settled on a cash basis. Only if expressly requested in advance may an exchange for physical assets take place.

Preassigned Congestion Rights - In the normal course of business, CPS Energy acquires Preassigned Congestion Rights (PCRs) and Transmission Congestion Rights (TCRs) as a hedge against unexpected congestion costs. The TCRs are purchased at auction, annually and monthly, at market value. Municipally owned utilities are granted the right to purchase PCRs annually at 15.0% of the cost of TCRs. This low initial investment is an indication of the leverage characteristic of derivatives. Additionally, PCRs exhibit the other two characteristics of derivatives as defined by GASB Statement No. 53 (settlement factors and net settlement). Therefore, PCRs are reported at fair value on the Balance Sheet in accordance with GASB Statement No. 53, with fair value determined by the cost of annual TCRs purchased at the same time.

The effectiveness of these hedges is satisfied utilizing the "consistent critical terms method" prescribed under GASB Statement No. 53, whereby the forward contract is for the same quantity of the hedgeable item (one Megawatt per PCR) and covers the same time (15-minute intervals over the course of a month) and location (a specified directional constraint). When combined with the hedgeable item (congestion cost), the contract value is zero since the reference rate of the contract is consistent with the rate of the hedgeable item.

PCRs had a market value of $2,554 at January 31, 2010. These hedging derivative instruments were reported as current assets and classified as a component of prepayments, deferred and other current assets. The deferred (inflows) outflows of resources related to PCRs was $(2,200) at January 31, 2010. These balances are reported on the Balance Sheet as noncurrent liabilities and are classified as a component of accounts payable and accrued liabilities.

Preassigned Congestion Rights as of January 31, 2010				
Purchase Date	Direction	MWhs	Fair Value	Cost
December 11, 2009	North to West	8,760	$ 52	$ 8
December 11, 2009	North to South	8,760	2,502	375
			$ 2,554	$ 383

Amounts are expressed in thousands

Note 13 Risk Financing (Continued)

CPS Energy (Continued)

Credit Risk - The fuel hedging contracts expose CPS Energy to a minimal amount of credit risk. In the event of default or nonperformance by brokers or NYMEX, the operations of CPS Energy could be materially affected. However, CPS Energy does not expect the brokerages to fail in meeting their obligations given their high credit rating and the strict and deep credit requirements upheld by NYMEX, of which these brokerage firms are members.

Termination Risk - All of CPS Energy's fuel hedges are exchange-traded instruments; therefore, the risk of termination is greatly reduced by the strict rules and guidelines established by NYMEX, which is governed by the Commodity Futures Trade Commission.

Basis Risk - CPS Energy is exposed to basis risk on its fuel hedges because the expected commodity purchases being hedged will price based on a pricing point (HSC or WAHA) different than that at which the contracts are expected to settle (Henry Hub). For January 2010, the HSC price was $5.83 per MMBtu, the WAHA price was $5.71 per MMBtu, and the Henry Hub price was $5.81 per MMBtu.

San Antonio Water System (SAWS)

Risk Management

SAWS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. SAWS is self-administered and self-insured for the first $500 of each workers' compensation, general liability, automobile liability and public official's liability claim and for the first $250 for each pollution remediation, legal liability and commercial property claim. Claims that exceed the self-insured retention limit are covered through SAWS' comprehensive commercial insurance program. For the year-ended December 31, 2009, there were no reductions in insurance coverage from the previous year and there were no new claims incurred during the period that exceeded the self-insured retention limit. Settled claims have never exceeded the insurance coverage in any year. SAWS has recorded accrued claims liability in the amount of $5,504 as of December 31, 2009, which is reported as a current liability. The claims liability, including incurred but not reported claims, is based on the estimated ultimate cost of settling the claims. Changes in the liability amount for the last two fiscal years were as follows:

San Antonio Water System
Schedule of Changes in Claims Liability

Year Ended	Balance at Beginning of Fiscal Year	Claims and Adjustments	Claims Payments	Balance at End of Fiscal Year	Estimated Due Within One Year
Dec. 31, 2009	$ 5,401	$ 2,050	$ (1,947)	$ 5,504	$ 5,504
Dec. 31, 2008	$ 5,312	$ 2,276	$ (2,187)	$ 5,401	$ 5,401

Even though the effective date of implementing GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, allowed SAWS to adopt the Statement in fiscal year 2010, as SAWS is a component unit of the City, it was required to implement GASB Statement No. 53 in fiscal year 2009 for inclusion in the City's fiscal year 2010 CAFR. SAWS did not implement GASB Statement No. 53 in fiscal year 2009. The swaps noted below were prepared in compliance with pre-GASB Statement No. 53 requirements.

Note 13 Risk Financing (Continued)

San Antonio Water System (SAWS) (Continued)

Pay-Fixed, Receive-Variable Interest Rate Swap - On March 27, 2003, SAWS entered into an interest rate swap agreement in connection with its City of San Antonio, Texas Water System Subordinate Lien Revenue and Refunding Bonds, Series 2003-A and 2003-B (the Series 2003 Bonds) issued in a variable interest rate mode. The Series 2003 Bonds were issued to provide funds for the SAWS' Capital Improvement Program and to refund certain outstanding commercial paper notes. The swap was used to hedge interest rates on the Series 2003 Bonds to a synthetic fixed rate that produced a lower expected interest rate cost than traditional long-term fixed rate bonds. At the time of issuance, the principal and interest payments on the Series 2003 Bonds were insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation (MBIA). In August 2008, SAWS issued a Notice of Partial Redemption for $110,615 of the outstanding principal amount of $111,615 of the Series 2003 Bonds due to continued unfavorable market conditions relating to the ratings downgrade of MBIA, resulting in significantly higher variable rates of interest being paid on the Series 2003 Bonds. This partial redemption was effected with commercial paper notes, leaving $1,000 of the Series 2003 Bonds outstanding. In May 2009, SAWS redeemed $20 of the Series 2003 Bonds and $2,465 of commercial paper notes according to the amortization schedule of the Series 2003 Bonds and the swap. In June 2009, SAWS issued a Notice of Partial Redemption for the remaining $980 of Series 2003 Bonds outstanding with commercial paper notes. At December 31, 2009, the interest rate swap serves to hedge $109,130 of commercial paper notes. Upon the maturity of the commercial paper notes, SAWS intends to reissue commercial paper in amounts matching the notional amounts and amortization schedule of the swap. There was no economic gain or loss as a result of this refunding since the debt service requirements of the commercial paper are expected to closely match the debt service requirements of the refunded debt.

Terms – The swap agreement contains scheduled reductions to the outstanding notional amounts that are expected to follow the original scheduled reductions in the Series 2003 Bonds. The Series 2003 Bonds were issued on March 27, 2003, with a principal amount of $122,500. The swap agreement matures on May 1, 2033. At the time the swap was entered into, the counterparty was Bear Stearns Financial Products, Inc. (Bear Stearns FPI), with the index for the variable rate leg of the SWAP being the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index.

In March 2008, JP Morgan Chase & Co. announced its acquisition of The Bear Stearns Companies, Inc., the parent of Bear Stearns FPI. The transaction closed on May 30, 2008. JP Morgan Chase has guaranteed the trading obligations of Bear Stearns and its subsidiaries. Effective June 16, 2009, the swap agreement was amended between SAWS, JP Morgan Chase & Co. , and MBIA to provide for JP Morgan Chase Bank N.A. to become the swap counterparty and allow for the remaining $980 of outstanding Series 2003 Bonds to be redeemed with commercial paper notes, while maintaining the swap agreement as an obligation to all parties. The amendment provides for the conditional release of MBIA's swap insurance policy upon the occurrence of certain future events. The combination of commercial paper notes and a floating-to-fixed swap creates a synthetic fixed-rate of 4.2%. The synthetic fixed-rate protects against the potential of rising interest rates.

Fair Value - The swap had a negative fair value as of December 31, 2009 of approximately $10,600. This value was calculated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These net payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit Risk - As of December 31, 2009, SAWS was not exposed to credit risk on its outstanding swap because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, SAWS would be exposed to credit risk in the amount of the swap's fair value. The swap counterparty, JP Morgan Chase Bank, N.A. was rated "AA-" by Fitch Ratings and Standard & Poor's and "Aa1" by Moody's Investors Service as of December 31, 2009. The amended swap agreement contains a credit support annex which will become effective upon the release of MBIA from the swap insurance policy. Collateralization would be required by either party should the fair market value of the swap reach applicable thresholds as stated in the amended swap agreement.

Amounts are expressed in thousands

Note 13 Risk Financing (Continued)

San Antonio Water System (SAWS) (Continued)

Basis Risk - SAWS is exposed to basis risk to the extent that the interest payments on its hedged commercial paper notes do not match the variable-rate payments received on the associated swap. SAWS attempts to mitigate this risk by (a) matching the outstanding hedged commercial paper notes associated with the redemption of the variable-rate debt to the notional amount and amortization schedule of the swap and (b) selecting an index for the variable-rate leg of the swap that is reasonably expected to closely match the interest rate on the hedged commercial paper notes.

Termination Risk - SAWS may terminate the swap at any time for any reason. JP Morgan Chase may terminate the swap if SAWS fails to perform under the terms of the agreement. The ongoing payment obligations under the swap are insured as provided for in the swap amendment and JP Morgan Chase cannot terminate as long as the insurer does not fail to perform. Also, if at the time of the termination the swap has a negative fair value, SAWS would be liable to the counterparty for a payment equal to the swap's fair value.

Market-access Risk – SAWS is subject to market-access risk as $109,130 of variable-rate debt hedged by the swap is outstanding commercial paper notes with current maturities less than 87 days. As previously noted, SAWS intends to reissue commercial paper in amounts matching the notional amounts and amortization schedule of the swap.

Swap Payments and Associated Debt - As of December 31, 2009, debt service requirements of the hedged commercial paper notes and net swap payments, assuming current interest rates remain the same, are detailed in the following table. As rates vary, variable-rate interest payments and net swap payments will vary. Principal payments assume that commercial paper will be repaid in accordance with the amortization schedule of the swap.

Pay-Fixed, Receive-Variable Interest Rate Swap
Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments

Year	Principal	Interest Paid on Debt	Interest Rate Swap, Net	Total
2010	$ 2,600	$ 297	$ 4,221	$ 7,118
2011	2,720	289	4,115	7,124
2012	2,840	282	4,005	7,127
2013	2,970	274	3,891	7,135
2014	3,105	265	3,770	7,140
2015-2019	17,780	1,185	16,845	35,810
2020-2024	22,220	908	12,902	36,030
2025-2029	27,770	561	7,974	36,305
2030-2033	27,125	142	2,014	29,281
Total	$ 109,130	$ 4,203	$ 59,737	$ 173,070

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Amounts are expressed in thousands

Note 14 Interfund Transfers

The following is a summary of interfund transfers for the City for the year-ended September 30, 2010:

Summary Table of Interfund Transfers
Year-Ended September 30, 2010

	Transfers From Other Funds	Transfers To Other Funds
General Fund:		
Airport System Fund	$ 193	$ -
Categorical Grant-In Aid	22	6,649
Internal Service Funds		7,650
Nonmajor Governmental Funds	35,072	39,376
Nonmajor Enterprise Funds	1,294	580
Total General Fund	36,581	54,255
Debt Service Fund:		
Nonmajor Governmental Funds	57,122	13
Total Debt Service Fund	57,122	13
Categorical Grant-In Aid:		
General Fund	6,649	22
Nonmajor Governmental Funds	2,276	4,273
Total Categorical Grant-In Aid	8,925	4,295
2007 General Obligation Bonds:		
Nonmajor Governmental Funds		59,268
Total 2007 General Obligation Bonds		59,268
Airport System Fund:		
General Fund		193
Internal Service Funds		169
Nonmajor Governmental Funds		32
Total Airport System Fund		394
Internal Service Funds:		
General Fund	7,650	
Airport System Fund	169	
Internal Service Funds	535	535
Nonmajor Governmental Funds	971	3,490
Nonmajor Enterprise Funds	572	
Total Internal Service Funds	9,897	4,025
Nonmajor Governmental Funds:		
General Fund	39,376	35,072
Debt Service Fund	13	57,122
Categorical Grant-In Aid	4,273	2,276
2007 General Obligation Bonds	59,268	
Airport System Fund	32	
Internal Service Funds	3,490	971
Nonmajor Governmental Funds	151,328	151,328
Nonmajor Enterprise Funds	1,100	
Total Nonmajor Governmental Funds	258,880	246,769
Nonmajor Enterprise Funds:		
General Fund	580	1,294
Internal Service Funds		572
Nonmajor Governmental Funds		1,100
Total Nonmajor Enterprise Funds	580	2,966
Total	$ 371,985	$ 371,985

Amounts are expressed in thousands

Note 14 Interfund Transfers (Continued)

Transfers are made to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds. These transfers are in the form of operating subsidies, grant matches, and funding for capital projects. In addition, transfers are routinely made from other funds to fund debt service payments and for other restricted purposes. All transfers are in accordance with budgetary authorizations.

Note 15 Deficits in Fund Balances / Net Assets

Special Revenue Funds

As of September 30, 2010, deficit fund balances are reported in the Categorical Grant-in-Aid Fund and Community Development Program Fund in the amounts of $4,397 and $1,105. The deficit fund balance in Categorical Grant-in-Aid is a result of providing additional program services to the community beyond what monies were provided by grantor agencies. The uncollectible amounts were incorporated into the City's annual budget process to be funded over five years of which the City has two years remaining to fund. The deficit balance in the Community Development Program Fund is a result of utilizing grant monies for activities that were determined not to benefit the mission/purpose of the grant. The City has created an obligation to reimburse the grantor and will incorporate this deficit into the annual budget process to fund.

Capital Projects Funds

As of September 30, 2010, deficit fund balances are reported in the General Obligation Project Fund, Certificates of Obligation Project Fund, and Improvement Projects in the amounts of $24,550, $7,062, and $6,370, respectively. The deficit balances in these work effort funds are a result of a one year reimbursement clause allowing departments to spend up to one year in advance of bonds being sold and proceeds transferred in to fund the work efforts. Another contribution to this deficit is the timing of invoices billed to third party contributors. The deficits will be addressed by identifying the appropriate funding source and transferring funds from a bond authorization (when sold), operating funds, grants, and/or by billing and collecting contributions from third party contributors.

Internal Service Funds

As of September 30, 2010, the Workers Compensation Program had deficit net assets of $1,111. The deficit balance was a result of higher than expected claims activity and associated actuarially determined accruals that were more than the amount considered in the annual Workers Compensation assessment. The City will fund the deficit by revising the future assessment charged to various City funds over the course of the next three years.

Note 16 Other Disclosures

Donor Restricted Endowment

The City has five Permanent Funds: the San Jose Burial Park Fund, the Carver Cultural Center Endowment Fund, the San Antonio Housing Trust Fund, the William C. Morris Endowment Fund, and the Boza Becica Endowment Fund. The City is only allowed to spend interest proceeds generated from the principal amount for each of these funds. The net assets from these endowment funds are classified as restricted net assets and are reported in the government-wide financial statements.

The San Jose Burial Park Fund generated $10 in investment earnings to be expended for specified purposes. Chapter 713 of the Texas Health and Safety Code governs what expenditures the City may incur when spending the interest income. Per Chapter 713, the revenue can be spent for the maintenance and care of the graves, lots, and burial places, and to beautify the entire cemetery. The principal amount of this fund is increased each year by sales of lots from the San Jose Cemetery. The principal is required to be retained in perpetuity.

Note 16 Other Disclosures (Continued)

Donor Restricted Endowment (Continued)

The Carver Cultural Center Endowment Fund generated $2 in investment earnings. These earnings can be used for the Carver Community Cultural Center's operating program, or reinvestment expenses (as detailed in the grant agreement). This fund is managed in accordance with the Uniform Prudent Management of Institutional Funds Act, which is codified as Section 163.001 in the Texas Property Code. The principal portion of the fund came from a one-time grant from the National Endowment for the Arts.

The San Antonio Housing Trust Fund generated $106 in investment earnings. These earnings may be disbursed to projects with particular emphasis on housing programs as grants or secured loans. All distributions or disbursements of San Antonio Housing Trust shall be made for the primary purpose of providing additional and continuing housing opportunities for low and moderate income families. This trust shall at all times be governed, regulated, and administered in all respects under the laws of the State of Texas.

The William C. Morris Endowment Fund generated $1 in investment earnings. These earnings are used on an annual basis to enhance the City Library's Educational Programming and Services for Children. The earnings of the funds will be expended in accordance with the spending policy of the Library's board of directors or trustees.

The Boza Becica Endowment Fund generated $2 in investment earnings. These earnings will be used for the acquisition of books and materials for the San Antonio Public Library in accordance with the terms and conditions of the Last Will and Testament of Boza Becica. The principal is required to be retained in perpetuity.

Note 17 Prior Period Restatement

Discretely Presented Component Units

During fiscal year 2010, San Antonio Development Agency's management performed a more in-depth analysis of the existing property (land and building inventory records). Based on additional information discovered by management, it was determined various properties that are actually owned by the City or others were recorded by SADA in error. Thus, an adjustment for $496 has been made to restate (decrease) beginning net assets and land and building inventory as of September 30, 2009.

In addition, San Antonio Local Development Company Inc. dba South Texas Business Fund dissolved its operations effective August 2010. As the entity did not exist at the City's fiscal year-end, it no longer qualified as a component unit and its beginning net assets of $4,822 were removed from the City's financial statements.

Blended Component Units

The City was unable to obtain fiscal year 2010 financial statements for four of its component units that were presented in the prior year. The City feels the removal of these component units would not materially misstate the CAFR. The City reduced its beginning fund balances as noted below:

	Fund Balance
Nonmajor Governmental Funds - Blended Component Units:	
San Antonio Health Facilities Development Corportation	$ 7
San Antonio Industrial Development Authority	15
San Antonio Education Facilities Corporation	43
Westside Development Corporation	26
	$ 91

- 154 - *Amounts are expressed in thousands*
- 155 - *Amounts are expressed in thousands*

Note 18 Subsequent Events

Primary Government (City)

Governmental and Business-Type Activities Long-Term Debt

In the May 7, 2005 Election, the voters authorized the imposition of a sales and use tax at the rate of one-eighth of one percent (1/8 of 1.0%) for the purpose of financing an Edwards Aquifer Protection Venue Project and a Parks Development and Expansion Venue Project. That one-eighth of one percent (1/8 of 1.0%) sales and use tax is expected to be fully collected by the end of August 2011.

On November 2, 2010, the voters of the City elected to establish the Edwards Aquifer Protection Venue Project and the Parks Development and Expansion Venue Project, and extend the sales and use tax rate of one-eighth of one percent (1/8 of 1.0%) for the purpose of financing the Venue Projects, in an amount not to exceed $90,000 for the Edwards Aquifer Protection Venue Project and $45,000 for the Parks Development and Expansion Venue Project. The one-eighth of one percent (1/8 of 1.0%) sales and use tax approved by the voters in this most recent election will take effect immediately after the collection authorized in the 2005 Election.

On December 21, 2010, the City issued $42,220 in Airport System Revenue Improvement and Refunding Bonds, Series 2010A, $20,885 in Airport System Revenue Refunding Bonds, Taxable Series 2010B, and $37,335 in Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement and Refunding Bonds, Series 2010 for the purpose of funding the Capital Improvement Plan for the Airport System as well as refunding certain outstanding Airport debt.

The Tax-Exempt GAR Bonds and the PFC Bonds refunded $34,500 of Tax Notes, Series 2010 which were utilized as interim financing to allow the Airport expansion program as well as other planned Airport capital improvements to move forward without delay prior to this issuance. Additionally, certain Airport bonds are being refunded to effectuate a restructuring of the Airport's existing debt service.

Fire and Police Pension Fund

The Pension Fund had their actuarial study as of October 1, 2010 completed and issued in January 2011. The results of the study include a decrease in the Fund's Unfunded Actuarially Accrued Liability (UAAL) from $275,696 as of October 1, 2009 to $231,075 and a decrease in the years to amortize the UAAL from 10.4 years to 9.1 years as a level percent of payroll.

As is the case with most public pension plans, the Pension Fund has incurred substantial investment losses due to financial market conditions. The actuarial valuation includes a five-year smoothed market approach for the value of assets which provides for asset gains or losses to be smoothed over a five-year period. As such, under this approach, the Fund's investment returns as of September 30, 2010 have been smoothed which results in the deferral of $328,575 in investment losses. These investment losses will be recognized in future year's actuarial valuations to the extent they are not offset by recognition of investment gains above the Fund's assumed investment return of 7.8% or other actuarial gains.

Contribution rates for the members of the Pension Plan and the City are established under Texas state statutes and do not change with the results of the annual actuarial valuations. Staff of the Pension Fund and the City will continue to monitor the situation closely. Please see Note 8, Pension and Retirement Plans for more information on the Fire and Police Pension Plan.

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Note 18 Subsequent Events (Continued)

CPS Energy

Rates are set by the CPS Energy Board of Trustees and approved by City Council. On February 18, 2010, the City Council unanimously approved a 7.5% increase in CPS Energy's electric base rates and an 8.5% increase in its natural gas base rates, which became effective March 1, 2010.

Long-Term Debt

On March 23, 2010, CPS Energy issued $380,000 of taxable New Series 2010A Revenue Direct Subsidy BABs. The true interest cost for this issue, which has two term bonds maturing in 2041, was 3.8%. Total bond proceeds are primarily being used to fund generation and electric distribution construction projects.

On November 4, 2010, CPS Energy issued $300,000 of Junior Lien Taxable Series 2010A Revenue Direct Subsidy BABs and $200,000 of Junior Lien Taxable Series 2010B Revenue Refunding Direct Subsidy BABs. The true interest cost for the 2010A issue, which has a term bond maturing in 2041, was 3.8%. Total bond proceeds are being used to fund general system improvements. The true interest cost for the 2010B issue, which has a term bond maturing in 2037, was 4.1%. On November 5, 2010, proceeds from the 2010B issue were used to refund $200,000 of outstanding TECP obligations.

Flexible Rate Revolving Note

In FY 2010, the San Antonio City Council adopted an ordinance authorizing the establishment of the Flexible Rate Revolving Note ("FRRN") Private Placement Program. This ordinance provides for funding to assist in the interim financing of eligible projects in an aggregate amount not to exceed $100,000. Eligible projects include the acquisition or construction of improvements, additions, or extensions for the Systems, including capital assets and facilities incident and related to the operation, maintenance, and administration of fuel acquisition and development and facilities for the transportation thereof; capital improvements to the Systems; and refinancing or refunding any outstanding obligations secured by the net revenues of the Systems; or with respect to the payment of any obligation of the Systems pursuant to any credit. Under the program, maturity dates cannot extend beyond November 1, 2028.

On May 10, 2010, CPS Energy drew $25,200 on the taxable Flexible Rate Revolving Note, Series A. On May 11, 2010, the proceeds from the note, along with cash, were used to defease $25,700 in principal amounts of the allocable portion of the debt associated with the common facilities of STP Units 3 and 4. The outstanding FRRN balance at October 31, 2010, was $25,200.

The FRRN has been classified as short-term in accordance with the financing terms under the Note Purchase Agreements, which support the Program Notes. Under the terms of the two current Note Purchase Agreements, $75,000 of the credit facility is taxable and secured by collateral pledged in the form of investments. The remaining $25,000 of the credit facility is tax-exempt and secured by an inferior lien obligation with a pledge of net revenues. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of New Series Bonds, Junior Lien Obligations and TECP. Both the current taxable and tax-exempt Note Purchase Agreements expire on December 31, 2011.

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Required Supplementary Information Other Than MD&A (Unaudited)

Budgetary Comparison Schedule
General Fund
Year-Ended September 30, 2010
(In Thousands)

	2010			
	BUDGETED AMOUNTS		BUDGETARY BASIS	VARIANCE WITH FINAL BUDGET POSITIVE
	ORIGINAL	FINAL	ACTUAL	(NEGATIVE)
Resources (Inflows):				
Taxes	$ 473,681	$ 472,161	$ 479,775	$ 7,614
Licenses and Permits	7,036	6,939	7,769	830
Intergovernmental	6,543	6,212	7,768	1,556
Revenues from Utilities	261,208	282,485	292,726	10,241
Charges for Services	43,031	44,333	45,850	1,517
Fines and Forfeits	14,157	14,139	11,506	(2,633)
Investment Earnings	2,174	1,034	1,832	798
Miscellaneous	8,364	9,555	10,267	712
Transfers from Other Funds	27,955	36,581	36,581	
Amounts Available for Appropriation	844,149	873,439	894,074	20,635
Charges to Appropriations (Outflows):				
General Government	97,975	86,977	82,942	4,035
Public Safety	506,841	507,106	505,045	2,061
Public Works	41,933	45,341	44,237	1,104
Health Services	71,862	74,782	73,898	884
Sanitation	3,163	3,385	3,212	173
Culture and Recreation	75,447	77,655	76,983	672
Welfare	39,177	42,627	41,142	1,485
Economic Development and Opportunity	2,459	2,838	2,907	(69)
Transfers to Other Funds	48,199	66,495	66,495	
Total Charges to Appropriations:	887,056	907,206	896,861	10,345
Surplus (Deficiency) of Resources Over (Under) Charges to Appropriations	(42,907)	(33,767)	(2,787)	30,980
Fund Balance Allocation	42,907	33,767	2,787	(30,980)
Excess (Deficiency) of Resources Over (Under) Charges to Appropriations	$ -	$ -	$ -	$ -

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/Inflows of Resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	$ 894,074
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(36,581)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 857,493
Uses/Outflows of Resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 896,861
Differences - budget to GAAP:	
Encumbrances for supplies, equipment, and services ordered but not received are reported in the year the orders are placed for budgetary purposes, but in the year the supplies, equipment and services are received for financial reporting purposes	(25,916)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(54,255)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 816,690

General Fund Budgetary Information

The City Charter establishes requirements for the adoption of budgets and budgetary control. Under provisions of the Charter, expenditures of each City function within individual funds cannot legally exceed the final budget approved by the City Council. Amendments to line items within a departmental budget may be initiated by Department Directors.

The City prepares an annual budget for the General Fund on a budgetary basis, which is consistent with generally accepted accounting principles. The annual budgetary data reported for the General Fund represents the original appropriation ordinance and amendments thereto as adopted by the City Council, adjusted for encumbrances outstanding at the beginning of the fiscal year. All annual appropriations lapse at fiscal year-end.

The City noted budget violations within the Economic Development and Opportunity function. However, as sufficient fund balance covered individual functional excesses this was not deemed to be a material violation.

(unaudited - see accompanying auditors' report)

City of San Antonio, Texas

Pension and Postemployment Schedules

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

FIRE AND POLICE PENSION PLAN - CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
10-01-09	$ 2,166,924	$ 2,442,620	$ 275,696	88.7%	$ 269,359	102.4%
10-01-08	2,096,072	2,350,132	254,060	89.2%	243,904	104.2%
10-01-07	2,017,856	2,200,851	182,995	91.7%	229,547	79.7%

TEXAS MUNICIPAL RETIREMENT SYSTEM - CITY OF SAN ANTONIO*

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-09	$ 515,884	$ 703,853	$ 187,969	73.3%	$ 258,932	72.6%
12-31-08	492,604	825,180	332,576	59.7%	259,224	128.3%
12-31-07	479,005	796,725	317,720	60.1%	244,530	129.9%

CPS ENERGY - ALL EMPLOYEE PLAN

ACTUARIAL VALUATION DATE [2]	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL) [1]	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
02-01-09	$ 1,145,029	$ 1,169,302	$ 24,273	97.9%	$ 219,716	11.0%
02-01-08	1,084,569	1,103,865	19,296	98.3%	217,018	8.9%
01-01-07	1,012,067	1,041,471	29,404	97.2%	209,070	14.1%

[1] Actuarial assumptions were changed for the January 1, 2007, valuation as a result of an experience study and actuarial assumption review covering 2001 through 2006 actuarial valuation data.

[2] Subsequent to the January 1, 2007, valuation, the cost method was revised to project January 1 data to February 1 of the next calendar year based on assumptions.

* In December 2007, TMRS adopted the projected unit credit actuarial funding method. Previously TMRS used the traditional unit credit method.

(unaudited - see accompanying auditors' report)

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

SAN ANTONIO WATER SYSTEM - TMRS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-09	$68,756	$107,311	$38,555	64.1%	$81,821	47.1%
12-31-08	63,674	96,539	32,865	66.0%	74,448	44.1%
12-31-07	62,023	90,776	28,753	68.3%	68,412	42.0%

SAN ANTONIO WATER SYSTEM - SAWSRP

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-10	$77,365	$112,263	$34,898	68.9%	$82,923	42.1%
01-01-09	74,611	99,144	24,533	75.3%	70,252	34.9%
01-01-08	73,777	81,587	7,810	90.4%	66,996	11.7%

(unaudited - see accompanying auditors' report)

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

CPS ENERGY - HEALTH PLAN

ACTUARIAL VALUATION DATE [1]	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL) [2]	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
02-01-09	$ 204,246	$ 219,364	$ 15,118	93.1%	$ 219,716	6.9%
02-01-08	194,876	247,283	52,407	78.8%	217,018	24.1%
01-01-07	150,818	220,691	69,873	68.3%	209,070	33.4%

CPS ENERGY - DISABILITY PLAN

ACTUARIAL VALUATION DATE [1]	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) [3]	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
02-01-09	$ 3,763	$ 6,575	$ 2,812	57.2%	$ 198,669	1.4%
02-01-08	3,734	5,712	1,978	65.4%	185,090	1.1%
01-01-07	3,925	5,211	1,286	75.3%	177,558	0.7%

CPS ENERGY - LIFE PLAN

ACTUARIAL VALUATION DATE [1]	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) [3]	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
02-01-09	$ 49,614	$ 35,491	$ (14,123)	139.8%	$ 198,669	(7.1)%
02-01-08	49,098	33,024	(16,074)	148.7%	185,090	(8.7)%
01-01-07	47,809	31,219	(16,590)	153.1%	177,558	(9.3)%

[1] Subsequent to the January 1, 2007 valuation, the cost method was revised to project January 1 data to February 1 of the next calendar year based on assumptions

[2] The AAL consisted of the liability for both retired employees and active employees. The AAL for retired employees was $87,900 for February 1, 2009; $94,200 for February 1, 2008; and $97,900 for January 1, 2007.

[3] CPS Energy has selected the aggregate cost method for determining Disability and Life Plans' funding amounts. Since this method does not identify or separately amortize unfunded actuarial liabilities, information about the funded status and funding progress has been prepared using the entry age actuarial cost method, which approximates the funding progress of the Plan.

(unaudited - see accompanying auditors' report)

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

CITY OF SAN ANTONIO RETIREE HEALTH BENEFITS FUND

ACTUARIAL VALUATION DATE [1]	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-09	$ -	$ 342,018	$ 342,018	0.0%	$ 259,224	131.9%
01-01-06		258,428	258,428	0.0%	231,262	111.7%

FIRE AND POLICE RETIREE HEALTH CARE FUND

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
10-01-09	$ 200,329	$ 549,466	$ 349,137	36.5%	$ 236,372	147.7%
10-01-08	208,384	561,035	352,651	37.1%	226,707	155.5%
10-01-07	188,147	513,484	325,337	36.6%	213,446	152.4%

SAN ANTONIO WATER SYSTEM - OPEB PLAN

ACTUARIAL VALUATION DATE [2]	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-09	$ -	$ 297,259	$ 297,259	0.0%	$ 75,270	394.9%
01-01-07		200,083	200,083	0.0%	69,288	288.8%

[1] City will perform actuarial studies bi-annually and review annually assumptions and changes in plan design to compute OPEB liability for the Retiree Health Benefits Fund.

[2] SAWS will perform actuarial studies bi-annually and review annually assumptions and changes in plan design to compute OPEB liability.

CITY OF SAN ANTONIO, TEXAS

Comprehensive Annual Financial Report
Year-Ended September 30, 2010

City of San Antonio, Texas

Supplementary Budget and Actual Schedules for Legally Adopted Funds

GENERAL FUND

DEBT SERVICE FUND

SPECIAL REVENUE FUNDS:

- *Advanced Transportation District*
- *Capital Improvement Reserve*
- *Capital Improvements Management Services*
- *Community and Visitor Facilities*
- *Confiscated Property*
- *Planning and Development Services*
- *Hotel/Motel Tax 2% Revenue*
- *International Center*
- *Job Training, Neighborhood Revitalization, and Economic Development*
- *Parks Development and Expansion – 2005 and 2000 Venue Projects*
- *Right of Ways*
- *Stormwater Operations*
- *Tax Increment Financing*
- *Community Service Funds:*
  - *Child Safety*
  - *Economic Development Incentive*
  - *Golf Course Operating and Maintenance*
  - *Juvenile Case Manager*
  - *Municipal Court Security*
  - *Municipal Court Technology*
  - *Visitor Information Center and City Store*
  - *South Texas Business*
  - *Starbright Industrial Development Corporation*
  - *Tree Canopy Investment*
  - *Tree Preservation Mitigation*

PERMANENT FUND:

- *San Jose Burial Park*

Schedules of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2010
(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	2010 VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Taxes	$ 472,161	$ 479,775	$ 7,614
Licenses and Permits	6,939	7,769	830
Intergovernmental	6,212	7,768	1,556
Revenues from Utilities	282,485	292,726	10,241
Charges for Services	44,333	45,850	1,517
Fines and Forfeits	14,139	11,506	(2,633)
Investment Earnings	1,034	1,832	798
Miscellaneous	9,555	10,267	712
Total Revenues	836,858	857,493	20,635
Expenditures:			
General Government	86,977	82,942	4,035
Public Safety	507,106	505,045	2,061
Public Works	45,341	44,237	1,104
Health Services	74,782	73,898	884
Sanitation	3,385	3,212	173
Welfare	42,627	41,142	1,485
Culture and Recreation	77,655	76,983	672
Economic Development and Opportunity	2,838	2,907	(69)
Total Expenditures	840,711	830,366	10,345
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,853)	27,127	30,980
Other Financing Sources (Uses):			
Transfers In	36,581	36,581	
Transfers Out	(66,495)	(66,495)	
Total Other Financing Sources (Uses)	(29,914)	(29,914)	
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(33,767)	(2,787)	$ 30,980
Fund Balances, October 1	206,507	206,507	
Add Encumbrances		25,916	
Fund Balances, September 30	$ 172,740	$ 229,636	

Schedule of Revenues Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2010
(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	2010 VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Taxes:			
Property:			
Current	$ 245,076	$ 244,378	$ (698)
Delinquent	2,407	2,486	79
General Sales and Use:			
City Sales	186,591	188,741	2,150
Selective Sales and Use:			
Alcoholic Beverages	5,517	5,921	404
Gross Receipts Business:			
Telecommunication Access Lines Fees	16,432	20,704	4,272
Cablevision Franchise	12,895	14,058	1,163
Bingo	889	944	55
Other	204	207	3
Penalties and Interest on Delinquent Taxes	2,150	2,336	186
Total Taxes	472,161	479,775	7,614
Licenses and Permits:			
Alcoholic Beverages Licenses	416	487	71
Health Licenses	3,456	4,321	865
Amusement Licenses	150	138	(12)
Professional and Occupational Licenses	2,064	2,073	9
Animal Licenses	127	93	(34)
Street Permits	726	657	(69)
Total Licenses and Permits	6,939	7,769	830
Intergovernmental:			
Library Aid from Bexar County	3,521	3,520	(1)
Park Reservation Services	39	39	
Bexar County - Child Support	51	51	
Magistration and Detention - Bexar	1,158	1,154	(4)
EMS Contributions	260	260	
Health Aid from Bexar County	1,133	1,162	29
SAWS Reimbursement to Streets		1,233	1,233
VIA Contributions		295	295
Hotel/Motel Tax Collection Fee	50	54	4
Total Intergovernmental	6,212	7,768	1,556
Revenues from Utilities:			
CPS Energy	273,310	283,502	10,192
San Antonio Water System	9,175	9,224	49
Total Revenues from Utilities	282,485	292,726	10,241

(Continued)

Schedule of Revenues Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2010
(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	2010 VARIANCE - POSITIVE (NEGATIVE)
Charges for Services:			
General Government	$ 4,675	$ 3,840	$ (835)
Public Safety:			
Police Department	6,936	7,592	656
Fire Department	756	809	53
Sanitation:			
Abatement of Nuisances	342	397	55
Health	20,426	21,488	1,062
Culture and Recreation:			
Tower of the Americas	465	463	(2)
Hemisphere Plaza		138	138
La Villita	421	447	26
Recreation Fees	1,012	1,066	54
Concessions in Other Parks	61	60	(1)
River Boats	5,293	5,331	38
Governor's Palace	391	443	52
Swimming Pools	119	139	20
Community Centers	491	495	4
Library	901	1,054	153
Market Square - Markets and Warehouses	1,348	1,374	26
Cemeteries	85	95	10
Miscellaneous Recreation Revenue	611	619	8
Total Charges for Services	44,333	45,850	1,517
Fines and Forfeits:			
Municipal Court Fines	14,139	11,506	(2,633)
Investment Earnings:			
Interest	1,034	1,832	798
Miscellaneous:			
Sales	3,566	3,454	(112)
Recovery of Expenditures	3,098	3,529	431
Interfund Charges	1,688	1,948	260
Rents, Leases, and Concessions	750	650	(100)
Other	453	686	233
Total Miscellaneous	9,555	10,267	712
Total Revenues	$ 836,858	$ 857,493	$ 20,635

(End of Statement)

Schedule of Expenditures Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2010
(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	2010 VARIANCE - POSITIVE (NEGATIVE)
Expenditures:			
General Government:			
Legislative:			
Personal Services	$ 6,500	$ 6,679	$ (179)
Contractual Services	1,422	951	471
Commodities	510	276	234
Other Expenditures	2,899	2,888	11
Total Legislative	11,331	10,794	537
Judicial:			
Personal Services	10,606	10,008	598
Contractual Services	668	2,197	(1,529)
Commodities	158	192	(34)
Other Expenditures	1,518		1,518
Capital Outlay		10	(10)
Total Judicial	12,950	12,407	543
Executive:			
Personal Services	33,307	33,630	(323)
Contractual Services	20,881	17,090	3,791
Commodities	3,057	3,329	(272)
Other Expenditures	5,431	4,901	530
Capital Outlay	20	791	(771)
Total Executive	62,696	59,741	2,955
Total General Government	86,977	82,942	4,035
Public Safety:			
Police:			
Personal Services	249,045	248,631	414
Contractual Services	7,633	8,137	(504)
Commodities	1,725	1,415	310
Other Expenditures	16,845	16,611	234
Capital Outlay		96	(96)
Total Police	275,248	274,890	358
Fire:			
Personal Services	132,708	130,854	1,854
Contractual Services	3,215	2,783	432
Commodities	2,554	3,272	(718)
Other Expenditures	14,454	15,006	(552)
Capital Outlay	2,210	2,206	4
Total Fire	155,141	154,121	1,020

(Continued)

Schedule of Expenditures Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2010
(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	2010 VARIANCE - POSITIVE (NEGATIVE)
Public Safety (Continued):			
Building Inspection and Regulations:			
Personal Services	$ 290	$ 279	$ 11
Contractual Services	7	5	2
Commodities	3	3	
Other Expenditures	29	29	
Total Building Inspection and Regulations	329	316	13
Administration:			
Personal Services	15,088	16,173	(1,085)
Contractual Services	2,150	1,914	236
Commodities	1,262	720	542
Other Expenditures	7,580	7,550	30
Total Administration	26,080	26,357	(277)
Other Protection:			
Personal Services	26,809	27,366	(557)
Contractual Services	6,118	5,154	964
Commodities	3,685	3,416	269
Other Expenditures	13,696	13,276	420
Capital Outlay		149	(149)
Total Other Protection	50,308	49,361	947
Total Public Safety	507,106	505,045	2,061
Public Works:			
Streets:			
Personal Services	11,509	11,363	146
Contractual Services	2,905	3,612	(707)
Commodities	12,423	10,409	2,014
Other Expenditures	6,524	6,454	70
Capital Outlay		48	(48)
Total Streets	33,361	31,886	1,475
Lighting:			
Contractual Services	90		90
Commodities	11,890	12,351	(461)
Total Lighting	11,980	12,351	(371)
Total Public Works	45,341	44,237	1,104

(Continued)

Schedule of Expenditures Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2010
(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	2010 VARIANCE - POSITIVE (NEGATIVE)
Health Services:			
Personal Services	$ 55,902	$ 55,041	$ 861
Contractual Services	8,108	7,467	641
Commodities	3,130	3,608	(478)
Other Expenditures	7,455	7,499	(44)
Capital Outlay	187	283	(96)
Total Health Services	74,782	73,898	884
Sanitation:			
Personal Services	2,512	2,403	109
Contractual Services	170	173	(3)
Commodities	161	81	80
Other Expenditures	542	545	(3)
Capital Outlay		10	(10)
Total Sanitation	3,385	3,212	173
Welfare:			
Personal Services	14,152	14,364	(212)
Contractual Services	20,153	19,318	835
Commodities	1,188	826	362
Other Expenditures	7,103	6,407	696
Capital Outlay	31	227	(196)
Total Welfare	42,627	41,142	1,485
Culture and Recreation:			
Libraries:			
Personal Services	18,535	17,759	776
Contractual Services	3,243	3,440	(197)
Commodities	3,908	3,830	78
Other Expenditures	3,974	3,912	62
Total Libraries	29,660	28,941	719
Parks:			
Personal Services	27,574	26,209	1,365
Contractual Services	7,082	8,229	(1,147)
Commodities	3,971	4,448	(477)
Other Expenditures	9,347	8,721	626
Capital Outlay	21	435	(414)
Total Parks	47,995	48,042	(47)
Total Culture and Recreation	77,655	76,983	672
Economic Development and Opportunity:			
Personal Services	2,024	1,907	117
Contractual Services	648	566	82
Commodities	44	40	4
Other Expenditures	122	394	(272)
Total Economic Development and Opportunity	2,838	2,907	(69)
Total Expenditures	$ 840,711	$ 830,366	$ 10,345

(End of Statement)

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Debt Service Fund
Year-Ended September 30, 2010
(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Taxes:			
Current	$ 145,979	$ 146,205	$ 226
Delinquent	1,581	1,480	(101)
Penalties and Interest on Delinquent Taxes	1,218	1,393	175
Investment Earnings	2,013	843	(1,170)
Miscellaneous		384	384
Total Revenues	150,791	150,305	(486)
Expenditures:			
General Government:			
Contractual Services	16	1,807	(1,791)
Debt Service:			
Principal Retirement	121,820	147,085	(25,265)
Interest	60,102	60,886	(784)
Issuance Costs		1,303	(1,303)
Total Expenditures	181,938	211,081	(29,143)
(Deficiency) of Revenues (Under) Expenditures	(31,147)	(60,776)	(29,629)
Other Financing Sources (Uses):			
Issuance of Long-Term Debt		155,710	155,710
Premium/(Discount) on Long-Term Debt		20,685	20,685
Payments to Refunded Bond Escrow Agent		(176,569)	(176,569)
Transfers In	28,198	57,122	28,924
Transfers Out		(13)	(13)
Total Other Financing Sources (Uses)	28,198	56,935	28,737
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(2,949)	(3,841)	$ (892)
Fund Balances, October 1	112,924	112,924	
Fund Balances, September 30	$ 109,975	$ 109,083	

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

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Advanced Transportation District
Year-Ended September 30, 2010
(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
General Sales and Use:			
City Sales Tax	$ 10,885	$ 11,077	$ 192
Investment Earnings	119	46	(73)
Total Revenues	11,004	11,123	119
Expenditures:			
Public Works:			
Personal Services	1,384	1,348	36
Contractual Services	264	371	(107)
Commodities	71	37	34
Other Expenditures	261	297	(36)
Total Expenditures	1,980	2,053	(73)
Excess of Revenues Over Expenditures	9,024	9,070	46
Other Financing Sources (Uses):			
Transfers In		500	500
Transfers Out	(29,355)	(12,561)	16,794
Total Other Financing Sources (Uses)	(29,355)	(12,061)	17,294
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(20,331)	(2,991)	$ 17,340
Fund Balances, October 1	10,977	10,977	
Add Encumbrances		4,643	
Fund Balances, September 30	$ (9,354)	$ 12,629	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Capital Improvement Reserve
Year-Ended September 30, 2010
(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	2010 VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Investment Earnings	$ -	$ 23	$ 23
Total Revenues		23	23
Expenditures:			
General Government:			
Other Expenses		2	(2)
Total Expenditures		2	(2)
Excess of Revenues Over Expenditures		21	21
Other Financing (Uses):			
Transfers Out	(106)	(106)	
Total Other Financing (Uses)	(106)	(106)	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(106)	(85)	$ 21
Fund Balances, October 1	4,749	4,749	
Add Encumbrances		106	
Fund Balances, September 30	$ 4,643	$ 4,770	

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

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Capital Improvements Management Services
Year-Ended September 30, 2010
(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	2010 VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services	$ 11,033	$ 10,901	$ (132)
Investment Earnings		1	1
Total Revenues	11,033	10,902	(131)
Expenditures:			
Public Works:			
Personal Services	12,829	12,899	(70)
Contractual Services	841	466	375
Commodities	249	201	48
Other Expenditures	1,458	1,500	(42)
Total Public Works	15,377	15,066	311
Economic Development and Opportunity:			
Personal Services	387	368	19
Contractual Services	46	5	41
Commodities	10	1	9
Other Expenditures	66	61	5
Total Economic Development and Opportunity	509	435	74
Total Expenditures	15,886	15,501	385
(Deficiency) of Revenues (Under) Expenditures	(4,853)	(4,599)	254
Other Financing Sources (Uses):			
Transfers In	4,654	4,664	10
Transfers Out	(88)	(88)	
Total Other Financing Sources (Uses)	4,566	4,576	10
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(287)	(23)	$ 264
Fund Balances, October 1	23	23	
Add Encumbrances		46	
Fund Balances, September 30	$ (264)	$ 46	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community and Visitor Facilities
Year-Ended September 30, 2010

(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	2010 VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Taxes:			
Occupancy	$ 47,883	$ 46,460	$ (1,423)
Penalties and Interest on Delinquent Taxes	78	121	43
Intergovernmental		20,782	20,782
Charges for Services	16,620	16,489	(131)
Investment Earnings	30	159	129
Miscellaneous	867	1,031	164
Total Revenues	65,478	85,042	19,564
Expenditures:			
General Government:			
Contractual Service	2,294	1,942	352
Other Expenditures		11	(11)
Total General Government	2,294	1,953	341
Cultural and Recreation:			
Arts and Cultural Affairs:			
Personal Services	940	885	55
Contractual Services	999	969	30
Commodities	13	11	2
Other Expenditures	50	51	(1)
Total Arts and Cultural Affairs	2,002	1,916	86
Convention Facilities:			
Personal Services	16,529	15,933	596
Contractual Services	3,721	3,481	240
Commodities	928	855	73
Other Expenditures	11,593	10,668	925
Total Convention Facilities	32,771	30,937	1,834
Nondepartmental:			
Personal Services	282	202	80
Contractual Services	2,372	1,757	615
Commodities	2		2
Other Expenditures	10	12	(2)
Total Nondepartmental	2,666	1,971	695
Contributions to Other Agencies	5,864	6,093	(229)
Total Cultural and Recreation	43,303	40,917	2,386
Convention and Tourism:			
Convention and Visitors Bureau:			
Personal Services	6,914	7,455	(541)
Contractual Services	12,012	11,677	335
Commodities	343	279	64
Other Expenditures	589	600	(11)
Total Convention and Tourism	19,858	20,011	(153)
Economic Development and Opportunity:			
Personal Services	484	447	37
Contractual Services	448	386	62
Commodities	47	40	7
Other Expenditures	30	39	(9)
Total Economic Development and Opportunity	1,009	912	97
Total Expenditures	66,464	63,793	2,671
Excess (Deficiency) of Revenues Over (Under) Expenditures	(986)	21,249	22,235
Other Financing Sources (Uses):			
Transfers In	1,068	425	(643)
Transfers Out	(19,849)	(26,443)	(6,594)
Total Other Financing Sources (Uses)	(18,781)	(26,018)	(7,237)
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(19,767)	(4,769)	$ 14,998
Fund Balances, October 1	25,720	25,720	
Add Encumbrances		6,354	
Fund Balances, September 30	$ 5,953	$ 27,305	

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

Note: Includes revenues and expenditures generated from Convention and Tourism activities relating to the promotion of City of San Antonio owned facilities to be used for conventions, community and entertainment venues; the marketing and promotion of San Antonio through the Convention and Visitors Bureau and support for arts and cultural organizations in the Office of Cultural Affairs and International Affairs.

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Confiscated Property
Year-Ended September 30, 2010

(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	2010 VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Investment Earnings	$ 61	$ 16	$ (45)
Miscellaneous	1046	3,769	2,723
Total Revenues	1,107	3,785	2,678
Expenditures:			
Public Safety:			
Office of the Chief of Police:			
Personal Services	299	323	(24)
Contractual Services	424	306	118
Commodities	1,384	453	931
Other Expenditures	219	146	73
Capital Outlay		50	(50)
Total Expenditures	2,326	1,278	1,048
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,219)	2,507	3,726
Other Financing (Uses):			
Transfers Out	(959)	(954)	5
Total Other Financing (Uses)	(959)	(954)	5
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing (Uses)	(2,178)	1,553	$ 3,731
Fund Balances, October 1	3,431	3,431	
Add Encumbrances		27	
Fund Balances, September 30	$ 1,253	$ 5,011	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Planning and Development Services
Year-Ended September 30, 2010
(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	2010 VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services	$ 22,522	$ 20,336	$ (2,186)
Investment Earnings		6	6
Miscellaneous	281	1,067	786
Total Revenues	22,803	21,409	(1,394)
Expenditures:			
Urban Redevelopment and Housing:			
Development Services:			
Personal Services	13,556	13,662	(106)
Contractual Services	810	703	107
Commodities	180	123	57
Other Expenditures	2,836	2,862	(26)
Total Development Services	17,382	17,350	32
Office of Historic Preservation:			
Personal Services	619	561	58
Contractual Services	31	22	9
Commodities	10	5	5
Other Expenditures	43	44	(1)
Total Office of Historic Preservation	703	632	71
Total Expenditures	18,085	17,982	103
Excess of Revenues Over Expenditures	4,718	3,427	(1,291)
Other Financing Sources (Uses):			
Transfers In	1,584	1,584	
Transfers Out	(4,340)	(4,333)	7
Total Other Financing Sources (Uses)	(2,756)	(2,749)	7
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing (Uses)	1,962	678	$ (1,284)
Fund Balances, October 1	(93)	(93)	
Add Encumbrances		40	
Fund Balances, September 30	$ 1,869	$ 625	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Hotel/Motel 2% Revenue
Year-Ended September 30, 2010
(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	2010 VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Taxes:			
Occupancy	$ 15,229	$ 13,274	$ (1,955)
Penalties and Interest on Delinquent Taxes	22	35	13
Investment Earnings	10	90	80
Miscellaneous		1	1
Total Revenues	15,261	13,400	(1,861)
Expenditures:			
Convention and Tourism:			
Contractual Service	625	725	(100)
Other Expenditures		90	(90)
Total Convention and Tourism	625	815	(190)
Total Expenditures	625	815	(190)
Excess of Revenues Over Expenditures	14,636	12,585	(2,051)
Other Financing Sources (Uses):			
Transfer In		4,015	4,015
Transfers Out	(18,538)	(15,807)	2,731
Total Other Financing Sources (Uses)	(18,538)	(11,792)	6,746
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	(3,902)	793	$ 4,695
Fund Balances, October 1	18,080	18,080	
Add Encumbrances		650	
Fund Balances, September 30	$ 14,178	$ 19,523	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
International Center
Year-Ended September 30, 2010
(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services	$ 1,275	$ 1,262	$ (13)
Investment Earnings	4	9	5
Miscellaneous		7	7
Total Revenues	1,279	1,278	(1)
Expenditures:			
Convention and Tourism:			
Personal Services	138	153	(15)
Contractual Services	163	140	23
Commodities	42	42	
Other Expenditures	854	841	13
Total Expenditures	1,197	1,176	21
Excess of Revenues Over Expenditures	82	102	20
Other Financing (Uses):			
Transfers Out	(202)	(202)	
Total Other Financing (Uses)	(202)	(202)	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(120)	(100)	$ 20
Fund Balances, October 1	1,989	1,989	
Add Encumbrances		17	
Fund Balances, September 30	$ 1,869	$ 1,906	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Job Training, Neighborhood Revitalization, and Economic Development
Year-Ended September 30, 2010
(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Investment Earnings	$ -	$ 6	$ 6
Total Revenues		6	6
Excess of Revenues Over Expenditures		6	6
Other Financing (Uses):			
Transfers Out	(283)	(283)	
Total Other Financing (Uses)	(283)	(283)	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(283)	(277)	$ 6
Fund Balances, October 1	1,599	1,599	
Add Encumbrances		233	
Fund Balances, September 30	$ 1,316	$ 1,555	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Parks Development and Expansion - 2005 and 2000 Venue Projects
Year-Ended September 30, 2010
(In Thousands)

	2010		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
General Sales and Use:			
City Sales Tax	$ 24,288	$ 23,657	$ (631)
Investment Earnings	609	144	(465)
Miscellaneous	3,000	-	(3,000)
Total Revenues	27,897	23,801	(4,096)
Expenditures:			
Culture and Recreation:			
Contractual Services	496	520	(24)
Other Expenditures		64	(64)
Total Expenditures	496	584	(88)
Excess of Revenues Over Expenditures	27,401	23,217	(4,184)
Other Financing (Uses):			
Transfers Out	(60,707)	(53,670)	7,037
Total Other Financing (Uses)	(60,707)	(53,670)	7,037
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(33,306)	(30,453)	$ 2,853
Fund Balances, October 1	34,688	34,688	
Add Encumbrances		26,136	
Fund Balances, September 30	$ 1,382	$ 30,371	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Right of Ways
Year-Ended September 30, 2010
(In Thousands)

	2010		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services	$ 1,266	$ 1,804	$ 538
Investment Earnings		3	3
Total Revenues	1,266	1,807	541
Expenditures:			
Public Works:			
Streets and Roadways:			
Personal Services	1,071	1,126	(55)
Contractual Services	131	159	(28)
Commodities	23	15	8
Other Expenditures	229	225	4
Total Public Works	1,454	1,525	(71)
Total Expenditures	1,454	1,525	(71)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(188)	282	470
Other Financing (Uses):			
Transfers Out	(33,355)	(33,355)	
Total Other Financing (Uses)	(33,355)	(33,355)	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(33,543)	(33,073)	$ 470
Fund Balances, October 1	34,260	34,260	
Add Encumbrances		35	
Fund Balances, September 30	$ 717	$ 1,222	

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

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Stormwater Operations
Year-Ended September 30, 2010
(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	2010 VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services	$ 39,374	$ 39,128	$ (246)
Investment Earnings	338	165	(173)
Miscellaneous		98	98
Total Revenues	39,712	39,391	(321)
Expenditures:			
Public Works:			
Administration:			
Personal Services	1,058	1,061	(3)
Contractual Services	3,928	3,831	97
Commodities	181	266	(85)
Other Expenditures	166	174	(8)
Capital Outlay		83	(83)
Total Administration	5,333	5,415	(82)
Vegetation Control:			
Personal Services	2,597	2,766	(169)
Contractual Services	2,289	648	1,641
Commodities	599	449	150
Other Expenditures	887	973	(86)
Capital Outlay	47	269	(222)
Total Vegetation Control	6,419	5,105	1,314
River Maintenance:			
Personal Services	4,579	5,380	(801)
Contractual Services	990	811	179
Commodities	550	655	(105)
Other Expenditures	2,102	2,139	(37)
Capital Outlay		89	(89)
Total River Maintenance	8,221	9,074	(853)
Street Sweeping:			
Personal Services	2,366	2,390	(24)
Contractual Services	540	654	(114)
Commodities	301	332	(31)
Other Expenditures	1,084	1,062	22
Total Street Sweeping	4,291	4,438	(147)
Tunnel Maintenance:			
Personal Services	1,370	1,321	49
Contractual Services	423	297	126
Commodities	435	351	84
Other Expenditures	447	484	(37)
Capital Outlay		72	(72)
Total Tunnel Maintenance	2,675	2,525	150
Design Engineering:			
Personal Services	1,466	1,463	3
Contractual Services	417	201	216
Commodities	11	14	(3)
Other Expenditures	143	138	5
Capital Outlay		65	(65)
Total Design Engineering	2,037	1,881	156
Total Expenditures	28,976	28,438	538
Excess of Revenues Over Expenditures	10,736	10,953	217
Other Financing Sources (Uses):			
Transfers In	1,000	1,000	
Transfers Out	(33,492)	(33,814)	(322)
Total Other Financing Sources (Uses)	(32,492)	(32,814)	(322)
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(21,756)	(21,861)	$ (105)
Fund Balances, October 1	36,287	36,287	
Add Encumbrances		22,353	
Fund Balances, September 30	$ 14,531	$ 36,779	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Tax Increment Financing
Year-Ended September 30, 2010
(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	2010 VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services:			
Administrative Fee	$ 560	$ 125	$ (435)
Processing Fee	62		(62)
Investment Earnings		1	1
Miscellaneous		16	16
Total Revenues	622	142	(480)
Expenditures:			
Economic Development and Opportunity:			
Personal Services	470	333	137
Contractual Services	23	5	18
Commodities	7	32	(25)
Other Expenditures	34	35	(1)
Capital Outlay		2	(2)
Total Expenditures	534	407	127
Excess (Deficiency) of Revenues Over (Under) Expenditures	88	(265)	(353)
Other Financing (Uses):			
Transfers Out	(76)	(67)	9
Total Other Financing (Uses)	(76)	(67)	9
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing (Uses)	12	(332)	$ (344)
Fund Balances, October 1	381	381	
Add Encumbrances		28	
Fund Balances, September 30	$ 393	$ 77	

This fund is incorporated within the Tax Increment Reinvestment Zone reporting unit.

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Child Safety
Year-Ended September 30, 2010
(In Thousands)

	2010		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services:			
Parking Fines	$ 191	$ 177	$ (14)
Moving Violations	251	270	19
Intergovernmental	1,533	1,544	11
Investment Earnings		1	1
Total Revenues	1,975	1,992	17
Expenditures:			
General Government:			
Personal Services	1,593	1,324	269
Contractual Services	3	9	(6)
Commodities	39	28	11
Other Expenditures	311	474	(163)
Total Expenditures	1,946	1,835	111
Excess of Revenues Over Expenditures	29	157	128
Other Financing (Uses):			
Transfers Out	(377)	(377)	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(348)	(220)	$ 128
Fund Balances, October 1	384	384	
Fund Balances, September 30	$ 36	$ 164	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Economic Development Incentive
Year-Ended September 30, 2010
(In Thousands)

	2010		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Investment Earnings	$ 46	$ 25	$ (21)
Miscellaneous	183	1,139	956
Total Revenues	229	1,164	935
Expenditures:			
Economic Development and Opportunity:			
Contractual Services	5,723	8,784	(3,061)
Other Expenditures		2	(2)
Total Expenditures	5,723	8,786	(3,063)
(Deficiency) of Revenues (Under) Expenditures	(5,494)	(7,622)	(2,128)
(Deficiency) of Revenues (Under) Expenditures	(5,494)	(7,622)	$ (2,128)
Fund Balances, October 1	6,518	6,518	
Add Encumbrances		3,475	
Fund Balances, September 30	$ 1,024	$ 2,371	

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

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Services Funds - Golf Course Operating and Maintenance
Year-Ended September 30, 2010
(In Thousands)

	2010		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Miscellaneous	$ 1,071	$ 686	$ (385)
Total Revenues	1,071	686	(385)
Expenditures:			
Culture and Recreation:			
Other Expenditures	610	585	25
Total Expenditures	610	585	25
Excess of Revenues Over Expenditures	461	101	(360)
Other Financing (Uses):			
Transfers Out		(18)	(18)
Total Other Financing (Uses)		(18)	(18)
Excess of Revenues Over Expenditures and Other Financing (Uses)	461	83	$ (378)
Fund Balances, October 1	(2,337)	(2,337)	
Fund Balances, September 30	$ (1,876)	$ (2,254)	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Juvenile Case Manager
Year-Ended September 30, 2010
(In Thousands)

	2010		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services:			
Juvenile Case Manager Fee	$ 655	$ 529	$ (126)
Investment Earnings		1	1
Total Revenues	655	530	(125)
Expenditures:			
General Government:			
Personal Services	293	361	(68)
Contractual Services		3	(3)
Other Expenditures	20	20	
Capital Outlay	45		45
Total Expenditures	358	384	(26)
Excess of Revenues Over Expenditures	297	146	(151)
Other Financing Sources:			
Transfers In	65	65	
Total Other Financing Sources	65	65	
Excess of Revenues and Other Financing Sources Over Expenditures	362	211	$ (151)
Fund Balances, October 1			
Fund Balances, September 30	$ 362	$ 211	

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

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Municipal Court Security
Year-Ended September 30, 2010

(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	2010 VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services:			
Building Security	$ 439	$ 493	$ 54
Investment Earnings		1	1
Total Revenues	439	494	55
Expenditures:			
General Government:			
Personal Services	343	361	(18)
Contractual Services	111	208	(97)
Commodities	8	3	5
Other Expenditures	29	32	(3)
Capital Outlay	284	163	121
Total Expenditures	775	767	8
(Deficiency) of Revenues (Under) Expenditures	(336)	(273)	63
Other Financing Sources (Uses):			
Transfers In	153	153	
Transfers Out	(4)	(4)	
Total Other Financing Sources (Uses)	149	149	
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(187)	(124)	$ 63
Fund Balances, October 1	191	191	
Add Encumbrances		15	
Fund Balances, September 30	$ 4	$ 82	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Municipal Court Technology
Year-Ended September 30, 2010

(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	2010 VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services:			
Technology Improvements	$ 585	$ 656	$ 71
Investment Earnings		8	8
Total Revenues	585	664	79
Expenditures:			
General Government:			
Personal Services	69	8	61
Contractual Services	615	380	235
Commodities		1	(1)
Other Expenditures	4	15	(11)
Capital Outlay		56	(56)
Total Expenditures	688	460	228
Excess (Deficiency) of Revenues Over (Under) Expenditures	(103)	204	307
Other Financing (Uses):			
Transfers Out	(1,130)	(1,130)	
Total Other Financing (Uses)	(1,130)	(1,130)	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(1,233)	(926)	$ 307
Fund Balances, October 1	1,554	1,554	
Add Encumbrances		1,140	
Fund Balances, September 30	$ 321	$ 1,768	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Visitor Information Center and City Store
Year-Ended September 30, 2010
(In Thousands)

	2010		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services	$ 310	$ 332	$ 22
Investment Earnings	3		(3)
Total Revenues	313	332	19
Expenditures:			
General Government:			
Personal Services	280	287	(7)
Contractual Services	34	18	16
Commodities	139	159	(20)
Other Expenditures	87	87	
Capital Outlay	1		1
Total Expenditures	541	551	(10)
(Deficiency) of Revenues (Under) Expenditures	(228)	(219)	9
Other Financing Sources (Uses):			
Transfers In		200	200
Transfers Out	(15)	(18)	(3)
Total Other Financing Sources (Uses)	(15)	182	197
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(243)	(37)	$ 206
Fund Balances, October 1	115	115	
Fund Balances, September 30	$ (128)	$ 78	

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

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - South Texas Business
Year-Ended September 30, 2010
(In Thousands)

	2010		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Intergovernmental:			
Contributions from Other Agencies (STBF)	$ 781	$ 445	$ (336)
Total Revenues	781	445	(336)
Expenditures:			
Economic Development and Opportunity:			
Personal Services	547	350	197
Contractual Services	23	2	21
Commodities	7	1	6
Other Expenditures	32	32	
Capital Outlay		7	(7)
Total Expenditures	609	392	217
Excess of Revenues Over Expenditures	172	53	(119)
Other Financing (Uses):			
Transfers Out	(17)	(20)	(3)
Total Other Financing (Uses)	(17)	(20)	(3)
Excess of Revenues Over Expenditures and Other Financing (Uses)	155	33	$ (122)
Fund Balances, October 1	(59)	(59)	
Fund Balances, September 30	$ 96	$ (26)	

This fund is separate and distinct from the component unit.

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Starbright Industrial Development Corporation
Year-Ended September 30, 2010
(In Thousands)

	2010		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Investment Earnings	$ -	$ 1	$ 1
Total Revenues		1	1
Expenditures:			
Economic Development and Opportunity:			
Other Expenditures	1,663	1,662	1
Total Expenditures	1,663	1,662	1
(Deficiency) of Revenues (Under) Expenditures	(1,663)	(1,661)	2
Other Financing Sources:			
Transfers In	1,662	1,662	
Total Other Financing Sources	1,662	1,662	
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures	(1)	1	$ 2
Fund Balances, October 1	105	105	
Fund Balances, September 30	$ 104	$ 106	

In fiscal year 2005-2006, the Starbright Industrial Development Corporation Fund was established to account for the proceeds from CPS Energy to be used to repay the debt service associated with the Toyota plant land purchase. This fund is separate and distinct from the component unit.

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Tree Canopy Investment
Year-Ended September 30, 2010
(In Thousands)

	2010		
	FINAL BUDGET	ACTUAL	VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services:			
Canopy Fee - Residential	$ 68	$ 93	$ 25
Canopy Fee - Commercial	124	90	(34)
Investment Earnings	3	3	
Total Revenues	195	186	(9)
Expenditures:			
Culture and Recreation:			
Contractual Services		1	(1)
Commodities	840	231	609
Other Expenditures	4	4	
Total Expenditures	844	236	608
(Deficiency) of Revenues (Under) Expenditures	(649)	(50)	599
Other Financing (Uses):			
Transfers Out	(109)	(109)	
Total Other Financing (Uses)	(109)	(109)	
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(758)	(159)	$ 599
Fund Balances, October 1	515	515	
Add Encumbrances		143	
Fund Balances, September 30	$ (243)	$ 499	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Tree Preservation Mitigation
Year-Ended September 30, 2010
(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	2010 VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services:			
Tree Mitigation Fee	$ 422	$ 163	$ (259)
Investment Earnings	23	6	(17)
Total Revenues	445	169	(276)
Expenditures:			
Culture and Recreation:			
Personal Services	118	107	11
Contractual Services	649	278	371
Commodities	641	461	180
Other Expenditures	22	23	(1)
Capital Outlay	265	228	37
Total Expenditures	1,695	1,097	598
(Deficiency) of Revenues (Under) Expenditures	(1,250)	(928)	322
Other Financing (Uses):			
Transfers Out	(18)	(26)	(8)
Total Other Financing (Uses)	(18)	(26)	(8)
(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)	(1,268)	(954)	$ 314
Fund Balances, October 1	1,602	1,602	
Add Encumbrances		357	
Fund Balances, September 30	$ 334	$ 1,005	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Permanent Fund
San Jose Burial Park
Year-Ended September 30, 2010
(In Thousands)

	2010 FINAL BUDGET	2010 ACTUAL	2010 VARIANCE - POSITIVE (NEGATIVE)
Revenues:			
Charges for Services:			
Sales	$ 410	$ 515	$ 105
Investment Earnings	22	10	(12)
Miscellaneous		1	1
Total Revenues	432	526	94
Expenditures:			
Culture and Recreation:			
Personal Services	387	363	24
Contractual Services	11	34	(23)
Commodities	12	24	(12)
Other Expenditures	104	100	4
Total Expenditures	514	521	(7)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(82)	5	87
Other Financing Sources (Uses):			
Transfers In	100	100	
Transfers Out	(4)	(4)	
Total Other Financing Sources (Uses)	96	96	
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing (Uses)	14	101	$ 87
Fund Balances, October 1	2,265	2,265	
Fund Balances, September 30	$ 2,279	$ 2,366	

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

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APPENDIX D

FORM OF BOND COUNSEL OPINION

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August __, 2011

CITY OF SAN ANTONIO, TEXAS MUNICIPAL FACILITIES CORPORATION
LEASE REVENUE BONDS, SERIES 2011
(PUBLIC SAFETY ANSWER POINT PROJECT)
DATED JULY 1, 2011
IN THE AGGREGATE PRINCIPAL AMOUNT OF $27,925,000

WE HAVE ACTED AS BOND COUNSEL for the **CITY OF SAN ANTONIO, TEXAS MUNICIPAL FACILITIES CORPORATION** (the "***Issuer***"), the issuer of the Bonds described above (the "***Bonds***"), solely for the purpose of rendering an opinion as to the validity of the "Lease" and the "Trust Agreement" (hereinafter defined) and the Bonds under Texas law, and the status of the interest on the Bonds under federal income tax law, and for no other purpose. In such capacity, we do not take responsibility for any matters relating to such transaction except as covered below.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the City, and other pertinent instruments authorizing and relating to the issuance of the Bonds including (i) the resolution adopted by the Board of Directors of the Issuer on June 23, 2011 which authorized the issuance of the Bonds (the "***Bond Resolution***"), (ii) the *Lease Agreement Relating to the City of San Antonio, Texas Public Safety Answering Point Project*, dated as of July 1, 2011, between the Issuer, as Lessor, and the **CITY OF SAN ANTONIO, TEXAS** (the "***City***"), as Lessee (the "***Lease***"), (iii) one of the executed Bonds (T-1), and (iv) the Issuer's Federal Tax Certificate of even date herewith.

WE HAVE FURTHER EXAMINED into the validity of the Bonds, bearing interest from their date of initial delivery, until maturity or redemption, at the rates per annum set forth in the *Trust Agreement Relating to the City of San Antonio, Texas Public Safety Answering Point Project*, dated as of July 1, 2011 (the "***Trust Agreement***"), between the Issuer and U.S. Bank National Association, as trustee (the "***Trustee***"). Interest on the Bonds is payable, and the Bonds mature, on the dates set forth in the Trust Agreement, and the Bonds are subject to redemption prior to maturity in accordance with the terms and conditions stated in the Trust Agreement and in the text of the Bonds.

WE HAVE FURTHER EXAMINED the opinion of Michael Bernard, as City Attorney of the City, upon which we rely to the extent described below.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that the Issuer is a nonprofit local government corporation organized and existing under the laws of the State of Texas, including particularly Subchapter D of Chapter 431, Texas Transportation Code, as amended (the "***Act***"); the Bond Resolution has been duly and lawfully adopted by, and constitutes a valid and binding obligation of, the Issuer, and that the Bonds have been duly authorized, issued and delivered in accordance with Texas law and constitute legal, valid, binding and enforceable obligations of the Issuer in accordance with their terms. The principal of, redemption premium, if any, and interest on the Bonds are payable solely from "Lease Payments" (as defined in the Lease) to be made by the City as provided in the Trust Agreement and the Lease. Subject to the limitations described below, the City has agreed and is obligated to the Issuer to make periodic Lease Payments due under the Lease to the Trustee under the Trust Agreement for deposit into the Payment Account established by the Trust Agreement in amounts sufficient to pay and redeem, or provide for the payment and redemption of, the principal of, redemption premium, if any, and interest on the Bonds, when due, as required by the Trust Agreement. We do not, however, express any opinion nor make any comment with respect to the sufficiency of the security for or the marketability of the Bonds.

IT IS FURTHER OUR OPINION that the Lease has been duly and lawfully authorized, executed, and delivered by, and is a legal, valid and binding obligation of, the Issuer, enforceable against the Issuer in accordance with its terms and conditions. We are relying upon the opinion, dated this date, of the City Attorney of the City to the effect that the Lease has been duly and lawfully authorized, executed and delivered by the City pursuant to applicable Texas law and is a legal, valid and binding obligation of the City, enforceable in accordance with its terms and conditions.

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS **under the Lease is a current expense, payable solely from funds annually appropriated for such use. The Lease may be terminated annually by the City without penalty, except as provided in the Lease, and there can be no assurance that the City will annually appropriate Lease Payments or renew the Lease. If the Lease is terminated, the City will have no further obligation to make Lease Payments regardless of whether any Bonds remain outstanding. The Lease and the obligations of the City thereunder do not constitute a pledge, a liability, or a charge upon the funds of the City and do not constitute a debt or general obligation of the Issuer, the State of Texas, the City, or any other political subdivision of the State of Texas. The Issuer has no taxing power.**

THE BONDS ARE SECURED by the Trust Agreement whereunder the Trustee is custodian of the funds established by the Trust Agreement and is obligated to enforce the rights of the Issuer and the owners of the Bonds and to perform other duties, in the manner and under the conditions stated in the Trust Agreement; and it is our further opinion that the Trust Agreement has been duly and lawfully authorized, executed, and delivered by the Issuer and that the Trust Agreement is a valid and binding agreement of the Issuer enforceable against the Issuer in accordance with its terms and conditions.

THE BONDS WILL BE ADDITIONALLY SECURED by a *Leasehold Deed of Trust and Assignment of Rents and Leases*, dated as of July 1, 2011, from the Issuer to the mortgage trustee named therein for use and benefit of the Trustee (the "***Mortgage***"), and by a *Security Agreement*, also dated as of July 1, 2011, by and between the Issuer and the Trustee (the "***Security Agreement***") upon the filing thereof with the County Clerk of Bexar County, Texas (with respect to the Mortgage) and the Secretary of State of Texas (with respect to the Security Agreement). We express no opinion with respect to the Mortgage and the Security Agreement.

NEITHER THE FAITH AND CREDIT nor the taxing power of the State of Texas, the City, the Issuer, or any other political subdivision of the State of Texas has been pledged to the payment of the principal of or interest on the Bonds. The Bonds do not constitute an indebtedness or obligation of the State of Texas, the City or any other political subdivision of the State of Texas, or a loan of the credit of any of them within the meaning of any constitutional or statutory provisions.

THE OWNERS OF THE BONDS shall never have the right to demand payment thereof out of any funds raised or to be raised by taxation, and the Bonds are payable solely from the sources described in the Trust Agreement.

THE TRUST AGREEMENT AND THE LEASE BOTH PERMIT, with certain exceptions as respectively therein provided, the amendment thereof at any time by the Issuer, and by mutual agreement between the Issuer and the City, respectively, with the consent of the registered owners of not less than a majority in aggregate principal amount of all Bonds then outstanding in certain circumstances.

THE OPINIONS EXPRESSED ABOVE ARE LIMITED with respect to the enforceability of the Bonds, the Bond Resolution, the Trust Agreement and the Lease in the following respects: (a) the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights or remedies generally; (b) the enforceability of any indemnification or equitable contribution provisions contained therein and provisions purporting to liquidate damages in the event of the condemnation of the Project by the City may be limited by applicable securities law and/or public policy; and (c) the enforceability of certain equitable remedies, including specific performance, may be unavailable.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "***Code***"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the Issuer or the City to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

WE EXPRESS NO OPINION as to insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, if any, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the Issuer or the City, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on Bonds executed by officials of the Issuer and the City as to the sufficiency of revenues to pay Lease Payments. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "***Service***"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer and the City as the taxpayer. We observe that the Issuer and the City have covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Respectfully submitted,