

## OFFICIAL STATEMENT

Dated November 10, 2010

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

### NEW ISSUE – Book-Entry-Only

Interest on the Bonds (defined below) is not excludable from gross income under section 103 of the Internal Revenue Code of 1986, as amended, for federal income tax purposes. (See "FEDERAL INCOME TAX TREATMENT OF THE BONDS" herein.)

**\$110,000,000**  
**CITY OF SAN ANTONIO, TEXAS**  
**(A political subdivision of the State of Texas located primarily in Bexar County)**  
**WATER SYSTEM REVENUE BONDS,**  
**TAXABLE SERIES 2010B**  
**(DIRECT SUBSIDY – BUILD AMERICA BONDS)**

**Dated Date: November 15, 2010**

**Due: May 15, as shown on inside cover**

**Interest to Accrue from Date of Delivery**

**GENERAL . . .** The City of San Antonio, Texas (the "City"), acting on behalf and for the benefit of the San Antonio Water System ("SAWS"), is issuing its \$110,000,000 Water System Revenue Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds) (the "Bonds") pursuant to the general laws of the State of Texas, including particularly Chapters 1371 and 1502, as amended, Texas Government Code, the City's Home Rule Charter, and an ordinance (the "Ordinance") adopted by the City Council of the City (the "City Council") on October 21, 2010. As permitted by Chapter 1371, as amended, Texas Government Code, the City Council, in the Ordinance, delegated to certain authorized officials of the City and SAWS the authority to establish final terms of sale of the Bonds, which final sales terms of the Bonds are evidenced in an Approval Certificate relating to the Bonds. This Approval Certificate was executed by an authorized City official on November 10, 2010.

**PAYMENT TERMS . . .** Interest on the Bonds will accrue from their date of initial delivery to the initial purchasers thereof named below (the "Underwriters"), and will be payable until stated maturity or prior redemption on May 15 and November 15 of each year, commencing May 15, 2011, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), acting as a securities depository (the "Securities Depository"), pursuant to the Book-Entry-Only System described herein. The City reserves the right to discontinue the use of the Securities Depository. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. (See "THE BONDS – Book-Entry-Only System" herein.) The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas. (See "THE BONDS – Paying Agent/Registrar" herein.)

**SECURITY . . .** The Bonds are special obligations of the City, payable, both as to principal and interest, solely from and secured by, together with the currently outstanding Previously Issued Senior Lien Obligations (as defined in the Ordinance), a first lien on and pledge of the Pledged Revenues (as defined herein), being (primarily) a first lien on and pledge of the net revenues of the City's combined water and wastewater system (the "System"). **The City has not covenanted or obligated itself to pay the Bonds from monies raised or to be raised from taxation.** (See "THE BONDS – Security and Source of Payment" herein.) In the Ordinance, the City has authorized the SAWS Board of Trustees (the "Board") to manage, operate, and maintain the System.

**PURPOSE . . .** Proceeds from the sale of the Bonds will be used to (1) provide funds for the purposes of acquiring, purchasing, constructing, improving, renovating, enlarging, and equipping the System, and (2) pay the costs of their issuance.

---

**CUSIP PREFIX: 79642B**  
**MATURITY SCHEDULE & 9 DIGIT CUSIP**  
**See Schedule on Inside Cover Page**

---

**LEGALITY . . .** The Bonds are offered for delivery when, as and if issued and received by the Underwriters, and subject to the approving opinion of the Attorney General of Texas and the approval of certain legal matters by Fulbright & Jaworski L.L.P., San Antonio, Texas and Escamilla, Poneck & Cruz, LLP, San Antonio, Texas, Co-Bond Counsel. (See "APPENDIX E, FORMS OF CO-BOND COUNSEL'S OPINIONS" herein.) Certain legal matters will be passed upon for the City by the City Attorney, for the Board by Bracewell & Giuliani LLP, San Antonio, Texas, and for the Underwriters by Shelton & Valadez, P.C., San Antonio, Texas, Counsel for the Underwriters.

**DELIVERY . . .** It is expected that the Bonds will be available for initial delivery through the services of DTC on or about Tuesday, November 23, 2010.

### **SIEBERT BRANDFORD SHANK & Co., L.L.C.**

**STIFEL, NICOLAUS & COMPANY, INCORPORATED**

**COASTAL SECURITIES, INC.**

**DUNCAN-WILLIAMS, INC.**

**SOUTHWESTERN CAPITAL MARKETS, INC.**

# MATURITY SCHEDULE

CUSIP NO. PREFIX<sup>(1)</sup>: 79642B

## \$25,825,000 Serial Bonds

Principal Amount	Stated Maturity (May 15)	Interest Rate	Initial Yield	CUSIP No. Suffix <sup>(1)</sup>	Principal Amount	Stated Maturity (May 15)	Interest Rate	Initial Yield	CUSIP No. Suffix <sup>(1)</sup>
\$ 1,635,000	2012	1.109%	1.109%	LM3	\$ 1,830,000	2019	3.820%	3.820%	LD3
1,645,000	2013	1.457%	1.457%	LN1	1,880,000	2020	3.970%	3.970%	LE1
1,665,000	2014	1.933%	1.933%	LP6	1,930,000	2021	4.170%	4.170%	LF8
1,685,000	2015	2.233%	2.233%	LQ4	1,985,000	2022	4.370%	4.370%	LG6
1,715,000	2016	2.756%	2.756%	LR2	2,040,000	2023	4.620%	4.620%	LH4
1,750,000	2017	3.106%	3.106%	LB7	2,105,000	2024	4.920%	4.920%	LJ0
1,785,000	2018	3.670%	3.670%	LC5	2,175,000	2025	5.120%	5.120%	LK7

## \$84,175,000 Term Bonds

**\$17,875,000 Term Bond Due May 15, 2032 @ 6.170% Priced to Yield 6.170% - CUSIP No. Suffix<sup>(1)</sup> LS0**

**\$36,550,000 Term Bond Due May 15, 2034 @ 6.220% Priced to Yield 6.220% - CUSIP No. Suffix<sup>(1)</sup> LT8**

**\$29,750,000 Term Bond Due May 15, 2040 @ 5.920% Priced to Yield 5.920% - CUSIP No. Suffix<sup>(1)</sup> LL5**

**(Interest accrues from the date of delivery)**

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

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

*[The remainder of this page intentionally left blank]*

## USE OF INFORMATION

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

*No dealer, broker, salesperson or other person has been authorized by the City, the Co-Financial Advisors, or the Underwriters to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.*

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

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

*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 FOR 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 FOR THE PURCHASE THEREOF.*

*THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.*

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

*NONE OF THE CITY, THE BOARD, THE UNDERWRITERS, NOR THE CO-FINANCIAL ADVISORS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING DTC OR ITS BOOK-ENTRY-ONLY SYSTEM.*

*THE AGREEMENTS OF THE CITY AND SAWS 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.*

*[The remainder of this page intentionally left blank]*

## TABLE OF CONTENTS

<b>CITY OFFICIALS, STAFF AND CONSULTANTS.....</b>	<b>5</b>	<b>STATISTICAL SECTION.....</b>	<b>47</b>
ELECTED OFFICIALS – CITY OF SAN ANTONIO.....	5	Schedule 1 - Fund Equity.....	47
APPOINTED OFFICIALS – SAN ANTONIO WATER SYSTEM.....	5	Schedule 2 - Change in Equity.....	48
SELECTED ADMINISTRATIVE STAFF – SAN ANTONIO WATER		Schedule 3 - Equity in System.....	49
SYSTEM.....	6	Schedule 4 - Water Production, Water Usage and Wastewater	
CONSULTANTS AND ADVISORS.....	6	Treated.....	49
SELECTED ADMINISTRATIVE STAFF – CITY OF SAN ANTONIO.....	7	Schedule 5 - Sales by Source.....	50
<b>INTRODUCTION.....</b>	<b>9</b>	Schedule 6 - Sales in Gallons.....	51
<b>THE BONDS.....</b>	<b>9</b>	Schedule 7 - Number of Customer Connections.....	51
<b>BONDHOLDERS' REMEDIES.....</b>	<b>17</b>	Schedule 8 - Residential Class Rates.....	52
<b>SOURCES AND USES OF BOND PROCEEDS.....</b>	<b>18</b>	Schedule 9 - General Class Rates.....	53
<b>SECURITY FOR THE BONDS.....</b>	<b>18</b>	Schedule 10 - Wholesale Class Rates.....	54
<b>THE SAN ANTONIO WATER SYSTEM.....</b>	<b>22</b>	Schedule 11 - Irrigation Class Rates.....	55
HISTORY AND MANAGEMENT.....	22	Schedule 12 - Other Fees.....	55
ADVISORY COMMITTEES.....	24	Schedule 13 - Recycled Water Rates.....	56
ADMINISTRATION AND OPERATING PERSONNEL.....	25	Schedule 14 - Impact Fees.....	57
SYSTEM STRUCTURE.....	26	Schedule 15 - Ten Largest Customers – Water.....	58
UTILITY SYSTEM.....	29	Schedule 16 - Ten Largest Customers - Wastewater.....	59
CITY AREA.....	30	Schedule 17 - Ten Largest Customers - Wholesale Wastewater.....	60
WATERWORKS SYSTEM.....	30	Schedule 18 - Ratios of Total Outstanding Debt by Type.....	61
WASTEWATER SYSTEM.....	30	Schedule 19 - Pledged Revenue Coverage.....	62
CHILLED WATER AND STEAM SYSTEM.....	31	Schedule 20 - Demographic and Economic Statistics.....	63
RECYCLING WATER SYSTEM.....	31	Schedule 21 - Principal Employers.....	64
STORMWATER SYSTEM.....	31	Schedule 22 - Number of Employees by Functional Group.....	65
WATER SUPPLY.....	31	Schedule 23 – Capital Assets.....	66
EDWARDS AQUIFER.....	32	Map 1 – Map of Water Service Area.....	67
EDWARDS AQUIFER RECHARGE INITIATIVES.....	34	Schedule 24 – Operating and Capital Indicators - Water.....	68
RECHARGE AND RECIRCULATION.....	34	Schedule 25 – Monthly Residential Service Charges for Ten	
TRINITY AQUIFER PROJECTS.....	34	Major Texas Cities - Water.....	69
LOWER COLORADO RIVER AUTHORITY PROJECT.....	34	Map 2 – Map of Wastewater Service Area.....	70
BEXAR COUNTY AQUIFER STORAGE AND RECOVERY.....	35	Schedule 26 – Operating and Capital Indicators - Wastewater.....	71
WESTERN CANYON PROJECT.....	36	Schedule 27 – Monthly Residential Service Charges for Ten	
BRACKISH GROUND WATER DESALINATION PROJECT.....	36	Major Texas Cities - Wastewater.....	72
CARRIZO AQUIFER PROJECTS.....	36	MONTHLY WATER, SEWER, AND WATER SUPPLY FEE RATES.....	73
LOCAL CARRIZO WATER PROJECT.....	37	WATER SERVICE INTERCONNECT RATE.....	84
OTHER POTENTIAL WATER SUPPLY PROJECTS.....	37	IMPACT FEES.....	84
OCEAN DESALINATION.....	38	<b>FEDERAL INCOME TAX TREATMENT OF THE BONDS.....</b>	<b>85</b>
WATER REUSE PROGRAM.....	38	<b>RATINGS.....</b>	<b>86</b>
INTEGRATION PIPELINE.....	38	<b>ENVIRONMENTAL MATTERS.....</b>	<b>87</b>
CONSERVATION.....	38	<b>LITIGATION AND REGULATORY MATTERS.....</b>	<b>89</b>
INDOOR RESIDENTIAL CONSERVATION.....	38	CITY OF SAN ANTONIO GENERAL LITIGATION AND CLAIMS.....	89
OUTDOOR RESIDENTIAL CONSERVATION.....	39	SAN ANTONIO WATER SYSTEM LITIGATION AND CLAIMS.....	93
COMMERCIAL AND INDUSTRIAL PROGRAMS.....	39	<b>CONTINUING DISCLOSURE OF INFORMATION.....</b>	<b>96</b>
WATER QUALITY.....	40	<b>OTHER INFORMATION.....</b>	<b>100</b>
BEXAR METROPOLITAN WATER DISTRICT.....	40	REGISTRATION AND QUALIFICATION OF BONDS FOR SALE.....	100
SALADO CREEK TREATMENT PLANT CLOSURE.....	40	LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC	
<b>DEBT INFORMATION.....</b>	<b>41</b>	FUNDS IN TEXAS.....	100
COMBINED SYSTEM REVENUE DEBT SERVICE REQUIREMENTS.....	41	LEGAL MATTERS.....	100
CAPITAL IMPROVEMENT PROGRAM.....	43	AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION.....	101
PROJECT FUNDING APPROACH.....	43	CO-FINANCIAL ADVISORS.....	101
FINANCIAL POLICIES.....	44	UNDERWRITING.....	101
INVESTMENT INFORMATION.....	44	FORWARD-LOOKING STATEMENTS.....	101
		MISCELLANEOUS.....	102
		<b>APPENDICES</b>	
		GENERAL INFORMATION REGARDING THE CITY.....	A
		EXCERPTS FROM THE ANNUAL FINANCIAL	
		REPORT.....	B
		INTERIM FINANCIAL REPORT 9-30-10.....	C
		SELECTED PROVISIONS OF THE PARITY LIEN ORDINANCE.....	D
		FORM OF CO-BOND COUNSEL'S OPINION.....	E

The cover page hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

## CITY OFFICIALS, STAFF AND CONSULTANTS

### ELECTED OFFICIALS – CITY OF SAN ANTONIO

<u>Name</u>	<u>Years on City Council</u>	<u>Term Expires</u>	<u>Occupation</u>
Julián Castro, Mayor	1 Year, 5 Months	May 31, 2011	Attorney
Mary Alice P. Cisneros, District 1 <sup>(1)</sup>	3 Years, 5 Months	May 31, 2011	Small Business Owner
Ivy R. Taylor, District 2	1 Year, 4 Months	May 31, 2011	Professor
Jennifer V. Ramos, District 3 <sup>(1)</sup>	2 Years, 9 Months	May 31, 2011	Grant Writer
Philip A. Cortez, District 4 <sup>(1)</sup>	3 Years, 5 Months	May 31, 2011	Community Resource Advocate
David Medina, Jr., District 5	1 Year, 4 Months	May 31, 2011	Project Manager
Ray Lopez, District 6	1 Year, 5 Months	May 31, 2011	Retired
Justin Rodriguez, District 7 <sup>(1)</sup>	3 Years, 5 Months	May 31, 2011	Attorney
W. Reed Williams, District 8	1 Year, 5 Months	May 31, 2011	Retired
Elisa Chan, District 9	1 Year, 5 Months	May 31, 2011	Business Owner/Engineer
John G. Clamp, District 10 <sup>(1)</sup>	3 Years, 5 Months	May 31, 2011	Business Owner/Broker

- (1) An amendment to the City's Home Rule Charter was approved at an election held on November 4, 2008, which increases the maximum number of two-year terms that can be served from two to four, does not apply to then-sitting Councilmembers, who remain subject to the Charter's prior term limits of two consecutive two-year terms.

### APPOINTED OFFICIALS – SAN ANTONIO WATER SYSTEM

<u>Board</u>	<u>Length Of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Alexander E. Briseño Chairman	4 Years, 5 Months	May 31, 2014	Retired City Manager Professor of Public Service at St. Mary's University
Willie A. Mitchell Vice Chairman	8 Years, 5 Months	May 31, 2010 <sup>(1)</sup>	Educational Consultant
Roberto Anguiano Secretary	6 Years, 5 Months	May 31, 2012	Retired SAWS Plant Superintendent
Samuel E. Luna Assistant Secretary	1 Year, 5 Months	May 31, 2013	Professor San Antonio College
Elizabeth M. Provencio Trustee	1 Year, 5 Months	May 31, 2013	Attorney Denton, Navarro, Rocha Bernal PC
Louis E. Rowe Trustee	1 Year, 5 Months	May 31, 2013	President and CEO Goetting & Associates
Julián Castro, Mayor and Ex-Officio Member	1 Year, 5 Months	May 31, 2011	Attorney Sole Practitioner

- (1) Position to remain occupied by current member until either reappointed or a new member is appointed by the San Antonio City Council.

# **SELECTED ADMINISTRATIVE STAFF – SAN ANTONIO WATER SYSTEM**

<u>Name</u>	<u>Position</u>	<u>Length of Service with System</u>	<u>Total Government Service</u>
Robert R. Puente	President/Chief Executive Officer	2 Years, 6 Months	19 Years, 10 Months
Steven M. Clouse	Senior Vice President/Chief Operating Officer	21 Years, 2 Months	23 Years
Kelley Neumann	Senior Vice President – Strategic Resources	18 Years, 1 Month	29 Years
Douglas P. Evanson	Senior Vice President/Chief Financial Officer	5 Years, 6 Months	5 Years, 6 Months
Frank Stenger-Castro	Vice President/General Counsel	9 Years, 6 Months	27 Years, 6 Months
Jerald W. Bailey	Vice President - Human Resources	5 Years	15 Years, 9 Months
Gregorio Flores, III	Vice President - Public Affairs	5 Years	5 Years
Stacey L. Isenberg	Vice President - Customer Service	17 Years, 7 Months	17 Years, 7 Months

## **CONSULTANTS AND ADVISORS**

Special Counsel to the Board.....	Bracewell & Giuliani, L.L.P. San Antonio, Texas
Auditors .....	Padgett, Stratemann & Co., L.L.P. San Antonio, Texas
Co-Bond Counsel.....	Fulbright & Jaworski L.L.P. San Antonio, Texas and Escamilla, Poneck & Cruz, LLP San Antonio, Texas
Co-Financial Advisors .....	First Southwest Company San Antonio, Texas and Estrada Hinojosa & Company, Inc. San Antonio, Texas

For additional information regarding the San Antonio Water System, please contact:

Mr. Douglas P. Evanson  
Senior Vice President/Chief Financial Officer  
San Antonio Water System  
2800 U.S. Highway 281 North  
P.O. Box 2449  
San Antonio, Texas 78298-2449  
Telephone: (210) 233-3803  
Fax: (210) 233-5255

or  
Mr. Raul Villaseñor  
Ms. Anne Burger Entrekin  
First Southwest Company  
70 Northeast Loop 410, Suite 710  
San Antonio, Texas 78216  
Telephone: (210) 308-2200  
Fax: (210) 349-7585

Ms. Phyllis Garcia  
Manager - Finance  
San Antonio Water System  
2800 U.S. Highway 281 North  
P.O. Box 2449  
San Antonio, Texas 78298-2449  
Telephone: (210) 233-3813  
Fax: (210) 233-4517

Mr. Donald J. Gonzales  
Estrada Hinojosa & Company, Inc.  
1400 Frost Bank Tower  
100 West Houston Street  
San Antonio, Texas 78205  
Telephone: (210) 223-4888  
Fax: (210) 223-4849

Mr. Paul Jack  
Estrada Hinojosa & Company, Inc.  
100 Congress Avenue, 20th Floor  
Austin, Texas 78701  
Telephone: (512) 469-3577  
Fax: (512) 469-3578

#### SELECTED ADMINISTRATIVE STAFF – CITY OF SAN ANTONIO

Name	Position	Years with City of San Antonio	Years in Current Position
Sheryl L. Sculley	City Manager	5 Years	5 Years
Pat DiGiovanni	Deputy City Manager	4 Years, 8 Months	4 Years, 8 Months
A.J. Rodriguez	Deputy City Manager	2 Years, 4 Months	2 Years, 4 Months
Erik J. Walsh	Assistant City Manager	16 Years, 5 Months	4 Years, 9 Months
T.C. Broadnax	Assistant City Manager	3 Years, 11 Months	3 Years, 11 Months
Sharon De La Garza	Assistant City Manager	6 Years, 6 Months	2 Years, 7 Months
Peter Zaroni	Assistant City Manager	13 Years, 7 Months	1 Year
Michael D. Bernard	City Attorney	5 Years	5 Years
Leticia M. Vacek	City Clerk	6 Years, 5 Months	6 Years, 5 Months
Ben Gorzell, Jr. <sup>(1)</sup>	Chief Financial Officer	20 Years	3 Months
Maria Villagomez	Director of Management and Budget	13 Years, 1 Month	1 Year

(1) Promoted to member of 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, a position to which he was appointed on June 12, 2006.

*[This page intentionally left blank]*



**OFFICIAL STATEMENT**  
**RELATING TO**  
**\$110,000,000**  
**CITY OF SAN ANTONIO, TEXAS**  
**(A political subdivision of the State of Texas located primarily in Bexar County)**  
**WATER SYSTEM REVENUE BONDS,**  
**TAXABLE SERIES 2010B**  
**(DIRECT SUBSIDY – BUILD AMERICA BONDS)**

**INTRODUCTION**

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the \$110,000,000 City of San Antonio, Texas Water System Revenue Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds) (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance (defined below) which will authorize the issuance of the Bonds, except as otherwise indicated herein (see “SELECTED PROVISIONS OF THE PARITY LIEN ORDINANCE” in APPENDIX D).

There follows in this Official Statement descriptions of the Bonds and certain information regarding the San Antonio Water System (“SAWS”) and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request from the Co-Financial Advisors, First Southwest Company, San Antonio, Texas, and Estrada Hinojosa & Company, Inc., San Antonio, Texas, by electronic mail or upon payment of reasonable copying, handling and delivery 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 through its Electronic Municipal Market Access (“EMMA”) system. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the City’s undertaking to provide certain information on a continuing basis.

On December 14, 2010, the City anticipates issuing its approximately \$17,930,000 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2010A as obligations secured by and payable from a junior lien on and pledge of the Net Revenues of the System on parity with the outstanding Junior Lien Obligations and any Additional Junior Lien Obligations thereafter issued, which lien on and pledge of Net Revenues is junior and inferior to the lien thereon and pledge thereof securing the Senior Lien Obligations (including the Bonds). These obligations are being sold directly to the Texas Water Development Board through its Clean Water State Revolving Fund (Tier 3) Program. This Official Statement describes only the Bonds and not these other series of bonds.

**DESCRIPTION OF THE CITY . . .** The City of San Antonio, Texas (the “City”) is a political subdivision and municipal corporation of the State of Texas (the “State”) duly organized and existing under the laws of the State, including the City’s Home Rule Charter. The City was incorporated in 1837, and first adopted its Home Rule Charter in 1951. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and ten Councilmembers. The terms of the Mayor and the Councilmembers are two years and subject to four term limitations imposed in the City’s Home Rule Charter. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, electric, gas, water and sanitary sewer utilities, health and social services, culture/recreation and parks, public transportation, public improvements, planning and zoning, and general administrative services. The 2000 Census population for the City was 1,144,646. The City’s Department of Planning and Community Development Services estimates the City’s population to be 1,383,072 and Bexar County’s population at 1,676,847 as of December 31, 2009. The U.S. Census Bureau ranks San Antonio as the second largest city in Texas and the seventh largest city in the United States. The City covers approximately 467 square miles within Bexar County.

**THE BONDS**

**DESCRIPTION OF THE BONDS . . . General...** The Bonds are dated November 15, 2010, and mature on May 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest will accrue from the Closing Date (anticipated to occur on or about November 23, 2010), will be computed on the basis of a 360-day year composed of twelve 30-day months, and will be payable until stated maturity or prior redemption on May 15 and November 15, commencing May 15, 2011. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS – Book-Entry-Only System” herein).

**Refundable Tax Credit Bonds**...Under and pursuant to recently-enacted federal legislation, being the American Recovery and Reinvestment Act of 2009, effective February 17, 2009 (the “Stimulus Act”), and in accordance with guidance released from time to time by the Internal Revenue Service (the “IRS”) concerning the same, the Bonds have been designated as “build America bonds” within the meaning of section 54AA of the Internal Revenue Code of 1986, as amended (the “Code”) and as “qualified bonds” under section 54AA(g) of the Code. Because of their qualification as “qualified bonds” under the Code, the City is entitled to receive directly from the United States Department of the Treasury (the “Treasury”) with respect to the Bonds a refundable tax credit in an amount equal to 35% of the taxable interest paid on the Bonds by the City to the holders thereof (the “Refundable Tax Credit”). **As a result of the City’s designation and election entitling it to the receipt of the Refundable Tax Credit, no owner of the Bonds will be entitled to a tax credit as a result of such ownership.** See “FEDERAL INCOME TAX TREATMENT OF THE BONDS” herein for a description of the effects upon the owners thereof resulting from the City’s issuance of the Bonds as obligations the interest on which is not excludable under section 103 of the Code for federal income tax purposes, permitting their designation as “build America bonds”.

The Refundable Tax Credits are not directly pledged to the payment of the Bonds; however, the City, in the appropriate form or forms to be filed with the IRS on the Delivery Date and from time to time thereafter notifying the Treasury of its elections with respect to the Bonds described above, and the request for receipt of the Refundable Tax Credits, the City will provide for the Refundable Tax Credits to be delivered from the Treasury directly to the Paying Agent/Registrar, for further deposit and allocation to a special interest and sinking subaccounts of the Debt Service Fund created on the books and records of the Paying Agent/Registrar relating solely to the Bonds. The agreement between the City and the Paying Agent/Registrar relating to the Bonds provides that the amount held in each such special interest and sinking subaccount shall be used to reduce the interest payment amount of the regularly scheduled debt service payments on the Bonds that the City is required to make under the Ordinance by remitting the same to the Paying Agent/Registrar.

The City has concluded in the Ordinance that the Refundable Tax Credit is not considered to be Gross Revenues of the System and, therefore, is not included in the definition of, and does not constitute, Net Revenues. Accordingly, under any ordinance authorizing the issuance of indebtedness of the System, the Refundable Tax Credit is not included in the calculation of Gross Revenues of the System and is not directly pledged to the payment of the Bonds, and (therefore) is not required to be deposited to the System Fund or to flow through the flow of funds described herein under “SECURITY FOR THE BONDS – Flow of Funds” and does not become Net Revenues pledged to the payment of the Bonds or the City’s other outstanding obligations secured by and payable from Net Revenues. Because of the foregoing, the City anticipates that the entirety of the Refundable Tax Credit will be available as an off-set to the scheduled debt service payment requirements attributable solely to the Bonds. As a result of this determination, the City will consider the Refundable Tax Credit, as well as other refundable tax credits received from the Treasury in connection with obligations secured by and payable from a lien on and pledge of Net Revenues of the System heretofore or hereafter issued and designated as “build America bonds” and elected to be treated as “qualified bonds” under the Code, as an off-set to debt service when evidencing covenant compliance under the Ordinance or other ordinances authorizing the issuance of System indebtedness (including, but not limited to, the issuance of additional indebtedness, satisfying required deposits to any debt service reserve fund, and imposing and collecting sufficient rates).

The City’s continued receipt of the Refundable Tax Credit is subject to various requirements. No assurances are provided that the City will receive each of the Refundable Tax Credits. Refundable Tax Credits will only be paid by the Treasury if the Bonds remain qualified in accordance with applicable Code provisions under which the original “build America bond” and “qualified bond” designations were made. For the Bonds to be, and remain, designated as “qualified bonds” for which the Refundable Tax Credits will be received, the City must comply with certain covenants with respect to the Bonds regarding the use and investment of proceeds thereof, the use of property financed therewith, making timely and proper filings with the IRS, and satisfying certain other requirements of the Code. Failure on the part of the City to comply with the conditions imposed by the Code and future guidance to be provided by the Treasury and the IRS, may cause the City to fail to receive the Refundable Tax Credits for the remaining term of the Bonds and it could subject the City to a claim for refund of previously received Refundable Tax Credits. Moreover, Refundable Tax Credits are subject to automatic offsets against certain amounts that may, for unrelated reasons, be owed by the City to the United States of America or an agency thereof. In addition, see “THE BONDS - Redemption” herein for information concerning optional redemption of the Bonds upon the occurrence of an extraordinary event (generally being the occurrence of an event that results in the loss of the right or opportunity of the City to receive all or part of the Refundable Tax Credit).

**AUTHORITY FOR ISSUANCE** . . . The Bonds are issued pursuant to the general laws of the State of Texas, particularly Chapters 1371 and 1502, as amended, Texas Government Code, the City’s Home Rule Charter, and an ordinance (the “Ordinance”) adopted on October 21, 2010 by the City Council. As permitted by Chapter 1371, as amended, Texas Government Code, the City Council, in the Ordinance, delegated to certain authorized officials of the City the authority to establish final terms of sale of the Bonds, which final sales terms are evidenced in an Approval Certificate relating to the Bonds. This Approval Certificate was executed by an authorized City official on November 10, 2010.

**PURPOSE** . . . Proceeds from the sale of the Bonds will be used to (1) provide funds for the purposes of acquiring, purchasing, constructing, improving, renovating, enlarging, and equipping the City’s combined water and wastewater systems (the “System”), and (2) pay the costs of their issuance.

**SECURITY AND SOURCE OF PAYMENT . . .** The Bonds are special obligations of the City payable, both as to principal and interest, solely from and, are payable from a first and prior lien on and pledge of the Pledged Revenues, together with certain outstanding senior lien revenue bonds of the City (the “Previously Issued Senior Lien Obligations”) and any Additional Senior Lien Obligations which may be issued in the future, secured by a first and prior lien on and pledge of the Pledged Revenues of the System, which in the Ordinance are defined as the Gross Revenues of the System after the payment of Maintenance and Operating Expenses, plus any additional revenues, income, receipts, or other resources which are pledged by the City to the payment of the Senior Lien Obligations (see “SECURITY FOR THE BONDS – Pledged Revenues”).

**OUTSTANDING DEBT . . .** After the issuance of the Bonds, the City will have outstanding Previously Issued Senior Lien Obligations secured by and payable on parity with the Bonds from Pledged Revenues, as follows:

<u>Dated</u> <u>Date</u>	<u>Outstanding</u> <u>Debt<sup>(1)</sup></u>	<u>Issue Description</u>
March 1, 2001	\$ 51,835,000	Water System Revenue and Refunding Bonds, Series 2001
February 1, 2002	300,510,000	Water System Revenue Refunding Bonds, Series 2002
February 15, 2002	89,100,000	Water System Revenue Bonds, Series 2002-A
May 15, 2004	78,590,000	Water System Revenue and Refunding Bonds, Series 2004
November 15, 2005	298,220,000	Water System Revenue Refunding Bonds, Series 2005
January 15, 2007	285,985,000	Water System Revenue Refunding Bonds, Series 2007
January 15, 2009	157,255,000	Water System Revenue and Refunding Bonds, Series 2009
November 1, 2009	9,735,000	Water System Revenue Bonds, Series 2009A
November 1, 2009	102,750,000	Water System Revenue Bonds, Taxable Series 2009B (Direct Subsidy – Build America Bonds)
November 15, 2010	110,000,000	Water System Revenue Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds)

(1) Unaudited as of September 30, 2010.

In addition to the outstanding Senior Lien Obligations presented above, the following Junior Lien Obligations are outstanding:

<u>Dated</u> <u>Date</u>	<u>Outstanding</u> <u>Debt<sup>(1)</sup></u>	<u>Issue Description</u>
March 1, 2001	\$ 7,740,000	Water System Junior Lien Revenue Bonds, Series 2001
March 1, 2001	12,215,000	Water System Junior Lien Revenue Bonds, Series 2001-A
March 1, 2002	12,315,000	Water System Junior Lien Revenue Bonds, Series 2002
March 1, 2002	9,675,000	Water System Junior Lien Revenue Bonds, Series 2002-A
March 1, 2003	30,085,000	Water System Junior Lien Revenue Bonds, Series 2003
July 1, 2004	10,015,000	Water System Junior Lien Revenue and Refunding Bonds, Series 2004
July 1, 2004	24,970,000	Water System Junior Lien Revenue and Refunding Bonds, Series 2004-A
December 15, 2006	7,045,000	Water System Junior Lien Revenue and Refunding Bonds, Series 2007
December 15, 2006	31,280,000	Water System Junior Lien Revenue and Refunding Bonds, Series 2007A
December 4, 2008	28,510,000	Water System Junior Lien Revenue Bonds, Series 2008
December 4, 2008	22,235,000	Water System Junior Lien Revenue and Refunding Bonds, Series 2008A
December 1, 2009	52,845,000	Water System Junior Lien Revenue Bonds, Series 2009
December 1, 2009	35,000,000	Water System Junior Lien Revenue and Refunding Bonds, Series 2009A
February 1, 2010	59,145,000	Water System Junior Lien Revenue Refunding Bonds, Series 2010
December 1, 2010	17,930,000 <sup>(2)</sup>	Water System Junior Lien Revenue and Refunding Bonds, Series 2010A

(1) Unaudited as of September 30, 2010.

(2) Preliminary, subject to change.

In addition to the outstanding Senior Lien Obligations and Junior Lien Obligations presented above, the following Subordinate Lien Obligations are outstanding:

<u>Authorized</u> <u>Amount</u>	<u>Amount</u> <u>Outstanding<sup>(1)</sup></u>	<u>Issue Description</u>
\$500,000,000	\$248,050,000 <sup>(2)(3)</sup>	Water System Commercial Paper Notes, Series A

(1) Unaudited as of November 17, 2010.

(2) \$106,530,000 of this outstanding balance of commercial paper notes is attributed to the redemption of the Series 2003A and Series 2003B Subordinate Lien Obligations. See “DEBT INFORMATION - Interest Rate Hedge Transaction” herein for additional information.

(3) Includes \$3-\$5 million of Commercial Paper Notes to be refunded with proceeds of Water System Junior Lien Revenue and Refunding Bonds, Series 2010A.

None of the above obligations, including the Bonds, are a charge upon any other income or revenues of the City and **will never constitute an indebtedness or pledge of the general credit or taxing powers of the City**. The Ordinance does not create a lien or mortgage on the System, except the Pledged Revenues with respect to the Bonds, and no judgment against the City may be enforced by levy and execution against any property owned by the City.

**PLEDGED REVENUES . . .** All of the Pledged Revenues of the System are irrevocably pledged for the payment of the Bonds, the Previously Issued Senior Lien Obligations, and Additional Senior Lien Obligations hereafter issued, and interest on all of the foregoing. The Bonds and the Previously Issued Senior Lien Obligations are equally and ratably secured by a first and prior lien upon the Pledged Revenues of the System. (See "SECURITY FOR THE BONDS – Pledged Revenues" and "BONDHOLDERS' REMEDIES" herein).

**PERFECTION OF SECURITY FOR THE BONDS . . .** Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds and the pledge of the Pledged Revenues, and such pledge is therefore, valid, effective and perfected. Should Texas law be amended while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Pledged Revenues is to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the City agrees to take such measures as it determines is reasonable and necessary to enable a filing of a security interest in said pledge to occur.

**FLOW OF FUNDS . . .** The flow of funds of the System requires that Gross Revenues of the System be applied in sequence to: (1) current Maintenance and Operating Expenses including maintenance of an operating reserve equal to two months of expenses for the current Fiscal Year; (2) Debt Service Fund requirements of Senior Lien Obligations (including the Bonds); (3) Reserve Fund requirements of the Senior Lien Obligations; (4) Interest and Sinking Fund and Reserve Fund requirements of the currently outstanding Junior Lien Obligations and any Additional Junior Lien Obligations hereafter issued; (5) Interest and Sinking Fund and Reserve Fund requirements of the currently outstanding Subordinate Lien Obligations and any Additional Subordinate Lien Obligations; (6) payment of amounts required on any Inferior Lien Obligations hereafter issued by the City, and (7) transfers to the City's General Fund and to the Renewal and Replacement Fund. The Commercial Paper Program is the City's currently outstanding Subordinate Lien Obligations. (See "SECURITY FOR THE BONDS – Flow of Funds" and "APPENDIX D, SELECTED PROVISIONS OF THE PARITY LIEN ORDINANCE" herein).

**RATES . . .** The City has covenanted in the Ordinance that it will at all times charge and collect rates for services rendered by the System sufficient to pay all Maintenance and Operating Expenses of the System, to produce Pledged Revenues for each Fiscal Year at least equal to 1.25 times the interest on and the principal of the Senior Lien Obligations, and to establish and maintain the funds provided for in the Ordinance. The City has further covenanted that, if the System should become legally liable for any other indebtedness, it will fix and maintain rates and collect charges for the services of the System sufficient to discharge such indebtedness. (See "THE BONDS - Refundable Tax Credit Bonds" herein).

**ADDITIONAL BONDS . . .** The City may issue Additional Senior Lien Obligations payable from the Pledged Revenues which together with the Previously Issued Senior Lien Obligations and the Bonds will be equally and ratably secured by a parity lien on and pledge of the Pledged Revenues of the System, subject, however, to complying with certain conditions in the Ordinance. In addition to certain other covenants, the Net Revenues, for the preceding Fiscal Year or for any 12 consecutive calendar month period out of the 18-month period ending not more than 90 days preceding the month the ordinance authorizing the issuance of the Additional Senior Lien Obligations is adopted, must be equal to at least 125% of the Maximum Annual Debt Service Requirements for all Senior Lien Obligations to be outstanding after giving effect to the issuance of the Additional Senior Lien Obligations then proposed. (See "SECURITY FOR THE BONDS – Issuance of Additional Obligations", "THE BONDS – Refundable Tax Credit Bonds", and "APPENDIX D, SELECTED PROVISIONS OF THE PARITY LIEN ORDINANCE" for terms and conditions to be satisfied for the issuance of Additional Senior Lien Obligations herein).

**REDEMPTION . . . *Optional Redemption* . . .** The Bonds having a Stated Maturity of May 15, 2040 shall be subject to redemption prior to Stated Maturity, at the option of the City, on any date from the Closing Date through their Stated Maturity at the Make-Whole Redemption Price or, upon the occurrence of an Extraordinary Event, at the Extraordinary Redemption Price. The Bonds having Stated Maturities of May 15 of each of the years 2012 through 2025, May 15, 2032, and May 15, 2034 shall be subject to redemption prior to Stated Maturity, at the option of the City, on any date from the Closing Date through May 14, 2020 at the Make-Whole Redemption Price or, upon the occurrence of an Extraordinary Event, at the Extraordinary Redemption Price. The Bonds having Stated Maturities of May 15 of each of the years 2021 through 2025, May 15, 2032, and May 15, 2034 shall be subject to redemption prior to Stated Maturity, at the option of the City, on May 15, 2020 or any date thereafter, at the price of par plus accrued interest to the date of redemption. Bonds redeemed at the City's option may be redeemed as a whole or in part, in principal amounts of \$5,000 or any integral multiple thereof (and if within a Stated Maturity, selected at random and by lot by the Paying Agent/Registrar).

**Mandatory Redemption...** The Bonds stated to mature on May 15, 2032, May 15, 2034, and May 15, 2040 are referred to herein as the “Term Bonds”. The Term Bonds are subject to mandatory sinking fund redemption prior to their stated maturities from money required to be deposited in the Bond Fund (but not the Reserve Fund) for such purpose and shall be redeemed in part, on a pro rata basis in accordance with the arrangements between the City and the securities depository (or, if such selection methodology is administratively impracticable or otherwise unavailable, at random and by lot), at the principal amount thereof plus accrued interest to the date of redemption in the following principal amounts on May 15 in each of the years as set forth below:

Term Bonds Stated to Mature on May 15, 2032		Term Bonds Stated to Mature on May 15, 2034		Term Bonds Stated to Mature on May 15, 2040	
Year	Principal Amount (\$)	Year	Principal Amount (\$)	Year	Principal Amount (\$)
2026	\$ 2,255,000	2033	\$ 2,990,000	2035	\$ 4,495,000
2027	2,350,000	2034	33,560,000 *	2036	4,670,000
2028	2,445,000			2037	4,855,000
2029	2,545,000			2038	5,045,000
2030	2,650,000			2039	5,240,000
2031	2,760,000			2040	5,445,000 *
2032	2,870,000 *				

\* Payable at stated maturity.

The principal amount of a Term Bond required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the City, by the principal amount of any Term Bonds of such stated maturity which, at least 50 days prior to the mandatory redemption date (1) shall have been defeased or acquired by the City and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City with money in the Bond Fund (but not the Reserve Fund), or (3) shall have been redeemed pursuant to the optional redemption provisions set forth below and not theretofore credited against a mandatory redemption requirement.

**Definition of Terms.** For purposes of this section, capitalized terms used herein have the following meanings:

“Extraordinary Event” means the occurrence of a change to sections 54AA or 6431 of the Code (as such sections were added by section 1531 of the Stimulus Act, pertaining to build America bonds) or if there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such Sections or any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of an act or omission by the City to satisfy the requirements to receive the 35% Refundable Tax Credit from the Treasury, pursuant to which the City’s 35% Refundable Tax Credit from the Treasury is reduced or eliminated.

“Extraordinary Redemption Price” means an amount, as determined by a Designated Financial Officer under the Ordinance, equal to the greater of: (1) the issue price of the Bonds set forth in the Ordinance (but not less than 100% of the principal amount of the Bonds) to be redeemed or (2) the sum of the present value of the remaining scheduled payments of principal and interest on the Bonds to be redeemed to the maturity date of such Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate plus 100 basis points, plus accrued interest on the Bonds to be redeemed to the redemption date.

“Make-Whole Redemption Price” means an amount, as determined by a Designated Financial Officer under the Ordinance, equal to the greater of: (1) the issue price of the Bonds set forth in the Ordinance (but not less than 100% of the principal amount of the Bonds) to be redeemed or (2) the sum of the present value of the remaining scheduled payments of principal and interest on the Bonds to be redeemed to the maturity date of such Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate plus 30 basis points, plus accrued interest on the Bonds to be redeemed to the redemption date.

“Treasury Rate” means, with respect to any redemption date for a particular Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (excluding inflation indexed securities) or, if such Statistical Release is no longer published, any publicly available source of similar market data most nearly equal to the period from the redemption date to the maturity date of the Bond to be redeemed or first date of optional call of such Bond at par (if applicable); provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

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

***Notice of Redemption...*** Not less than 30 days prior to a redemption date for the Bonds, the City must cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice and the City will provide notice as required by the Rule. ANY NOTICE SO MAILED WILL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION WILL 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 WILL CEASE TO ACCRUE.

***DTC Redemption Provision...*** The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance, or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised upon any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the applicable Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants, or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption. (See "THE BONDS – Book-Entry-Only System" herein).

**AMENDMENTS . . .** Subject to the provisions of the Ordinance, the City may amend the Ordinance without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein, or to ensure that the Bonds continue to qualify as "build America bonds" or "qualified bonds" under the Code, pursuant to the provisions of the Ordinance, the Code, and the tax credit and representations agreement authorized in the Ordinance. In addition, the City may, with the written consent of the registered owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, the rate of interest thereon, or the redemption price therefor (if any), change the place or places at or the coin or currency in which any Bond or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond of the same series, or (3) reduce the aggregate principal amount of Bonds of a series required for consent to any amendment, addition, or waiver.

**DEFEASANCE . . .** The Ordinance provides that any Bond will be deemed paid and will no longer be considered to be outstanding within the meaning of the Ordinance when payment of principal of and interest on such Bond to its stated maturity or date of prior redemption (with respect to the Bonds) has been made or provided for. Payment may be provided for by deposit of any combination of (1) money in an amount sufficient to make such payment and/or (2) Government Securities. Any such deposit must be certified by an independent public accountant to be of such maturities and interest payment dates and bear such interest as will, without reinvestment, be sufficient to make the payment to be provided for on the Bonds. The Ordinance provides that "Government Securities" means (A) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (B) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (C) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding obligations for any purpose, including the application of any limitation on indebtedness. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that, in addition to the City's continuing obligation to fund, from lawfully available funds, any shortfall in amounts held in trust for the defeasance of the Bonds as described above, which continuing obligation is memorialized in the Ordinance, the City's right to redeem Bonds defeased to stated maturity is not extinguished if the City has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their stated maturity date, if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

**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 accredited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City and the Board believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered certificate will be issued for each maturity of the Bonds in the aggregate principal amount of each such maturity and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument (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 of 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 United States Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

Redemption proceeds and principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar on payable dates 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 in 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 or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal of and interest on the Bonds to DTC is the responsibility of the City, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Board, the Co-Financial Advisors or the Underwriters.

***Effect of Termination of Book-Entry-Only System*** In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed certificates representing the Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

**PAYING AGENT/REGISTRAR** . . . The initial paying agent/registrar is U.S Bank National Association, Dallas, Texas (the "Paying Agent/Registrar"). In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar must be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice will also give the address of the new Paying Agent/Registrar.

Principal of the Bonds will be payable to the registered owner at maturity or prior redemption upon presentation at the designated payment office of the Paying Agent/Registrar in Dallas, Texas. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "THE BONDS - Record Date for Interest Payment" herein), or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal of or interest on the Bonds is a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment will be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date will have the same force and effect as if made on the original date payment was due.

Initially, the Bonds are issued utilizing the Book-Entry-Only System of the DTC. No physical delivery of the Bonds will be made to the Beneficial Owners of the Bonds and the registered owner of the Bonds appearing on the books of the Paying Agent/Registrar will be Cede & Co., the nominee of DTC. The use of the Book-Entry-Only System may affect the method and timing of payment to the Beneficial Owners of the Bonds. (See "THE BONDS - Book Entry Only System" above.)



**TRANSFER, EXCHANGE AND REGISTRATION . . .** In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange, and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the corporate trust office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer will be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See “THE BONDS – Book-Entry-Only System” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the City nor the Paying Agent/Registrar will be required to transfer or exchange any Bond (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the following principal or interest payment date, or (ii) with respect to any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

**RECORD DATE FOR INTEREST PAYMENT . . .** The record date (“Record Date”) for determining the person to whom the interest on the Bonds is payable on any interest payment date means the close of business on the last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a “Special Record Date”) will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (“Special Payment Date”, which must be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

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

#### **BONDHOLDERS’ REMEDIES**

If the City defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or Ordinance and the City’s obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Chapter 1371, as amended, Texas Government Code (“Chapter 1371”), which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. Notwithstanding its limited reliance upon this authority in connection with its issuance of the Bonds (see “THE BONDS- Authority for Issuance”), the City has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively waived the City’s sovereign immunity from a suit for money damages outside of Chapter 1371, bondholders may not be able to bring such a suit against the City for breach of the covenants included in the Bonds or the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City’s property. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues (such as the Pledged Revenues), such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Co-Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

## SOURCES AND USES OF BOND PROCEEDS

Proceeds from the sale of the Bonds are expected to be expended as follows:

### Sources of Funds

Par Amount of the Bonds	\$ 110,000,000.00
Total Sources of Funds	<u>\$ 110,000,000.00</u>

### Uses of Funds

Deposit to Project Construction Fund	\$ 108,881,110.44
Underwriters' Discount	628,889.56
Costs of Issuance	490,000.00
Total Uses of Funds	<u>\$ 110,000,000.00</u>

## SECURITY FOR THE BONDS

**COMBINED SYSTEM** . . . The City has previously authorized the creation of the System, a single, unified water system consisting of the City's then existing waterworks, wastewater, and water reuse systems, together with all future improvements and additions thereto, and all replacements thereof. In addition, the System Ordinance (hereinafter defined) permits the City to incorporate into the System a stormwater system (including all existing drainage facilities) and any other related system to the extent permitted by law. Currently, the City assumes the overall responsibility of the stormwater program. (See "THE SAN ANTONIO WATER SYSTEM - Stormwater System" herein.) The System will not include (i) any Special Projects which are declared by the City, upon the recommendation of the Board, not to be part of the System and which are financed with obligations payable from sources other than ad valorem taxes, Pledged Revenues, or Net Revenues or (ii) any water or water-related properties and facilities owned by the City as part of its electric and gas systems.

**PLEDGED REVENUES** . . . The Bonds are special obligations of the City which, together with the currently outstanding Previously Issued Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued (collectively, the "Senior Lien Obligations"), are payable solely from and equally and ratably secured by a first lien on the Pledged Revenues (see "BONDHOLDERS' REMEDIES" herein). The Pledged Revenues consist of the Net Revenues and any other additional revenues, income, receipts, or other resources that are pledged by the City to the payment of the Senior Lien Obligations, but exclude revenues excluded from Gross Revenues. (At this time, no such additional revenues, income, receipts, or other resources are so pledged.) The term "Net Revenues" means Gross Revenues less Maintenance and Operating Expenses. The term "Gross Revenues" means all revenue with respect to or on account of the operation and ownership of the System, excluding (i) payments received by the Board under the CPS Contract (as defined herein) together with earnings thereon, (ii) income derived from the investment or deposit of money in the Project Fund and, until the Reserve Fund contains the Required Reserve Amount, money in the Reserve Fund, and (iii) certain other amounts. Maintenance and Operating Expenses means all current expenses of operating and maintaining the System not paid from the proceeds of any Debt (as defined herein), including, for example, the cost of all salaries, labor, and materials; certain expenses of repairs and extensions; the costs of employee benefits; and the costs of purchasing water and wastewater treatment services from other entities, but excluding allowance for depreciation and other items not requiring an outlay of cash, and excluding interest on the Bonds or any other Debt. For a more detailed description of the defined terms referenced above, see "SELECTED PROVISIONS OF THE PARITY LIEN ORDINANCE" in APPENDIX D herein.

**The Bonds do not constitute an indebtedness or general obligation of the City, the State of Texas, or any other entity; the Bonds are not payable from any funds raised or to be raised by taxation; and owners of the Bonds shall never have the right to demand payment thereof from the levy of ad valorem taxes or from any other source not pledged to the payment of the Bonds. No lien has been created on the physical properties of the System to secure payment of the Bonds (see "BONDHOLDERS' REMEDIES" herein).**

**FLOW OF FUNDS** . . . The Ordinance provides that the Gross Revenues will be deposited by the Board, upon receipt, into the System Fund and will be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

FIRST: to the payment of all necessary and reasonable 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, which amount will be retained in the System Fund;

SECOND: to the payment, in equal monthly installments on or before the business day immediately preceding the 15<sup>th</sup> day of each month, into the Debt Service Fund of the amounts necessary to pay the principal of, premium, if any, and interest on the Senior Lien Obligations next coming due and payable;

THIRD: to the payment, in equal monthly installments on or before the business day preceding the 15<sup>th</sup> day of each month, into the Reserve Fund of the amounts necessary, if any, to accumulate and maintain the Required Reserve Amount pursuant to the ordinances relating to the issuance of the Senior Lien Obligations (see "Reserve Fund" below);

FOURTH: to the payment of the amounts required to be deposited into the interest and sinking, reserve, or contingency fund established for the payment, security and benefit of the currently outstanding Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the City;

FIFTH: to the payment of the amounts required to be deposited into the interest and sinking, reserve, or contingency fund established for the payment, security and benefit of the currently outstanding Subordinate Lien Obligations and any Additional Subordinate Lien Obligations issued by the City;

SIXTH: to the payment of the amounts required to be deposited into the funds or accounts established for the payment of any Inferior Lien Obligations hereafter issued by the City; and

SEVENTH: to the payment of the amounts to be transferred to the General Fund of the City (see "Payments to General Fund of the City" below) and to be deposited into the Renewal and Replacement Fund (see "Renewal and Replacement Fund" below).

For a more detailed description of the funds referenced above, and the Board's obligations with respect thereto, see "SELECTED PROVISIONS OF THE PARITY LIEN ORDINANCE" in APPENDIX D herein.

**RESERVE FUND . . .** The Ordinance requires the Board (as defined herein) to create and maintain the Reserve Fund and to accumulate and maintain therein for the payment of the Senior Lien Obligations an amount equal to 100% of the Maximum Annual Debt Service Requirements (calculated by the Board at the beginning of each Fiscal Year and as of the date of issuance of the Bonds and each series of Additional Senior Lien Obligations) for the Senior Lien Obligations (the "Required Reserve Amount").

In certain circumstances, the City may provide a Surety Policy or Policies issued in amounts equal to all or part of the Required Reserve Amount for the Senior Lien Obligations in lieu of depositing cash into the Reserve Fund. The City currently has various debt service reserve fund surety policies to meet the Required Reserve Amount under the Ordinance. Financial Guaranty Insurance Corporation ("FGIC") issued policies to provide for the Required Reserve Amount for the Series 2001 Bonds, the Series 2004 Bonds, and the Series 2007 Bonds, respectively. Financial Security Assurance Inc. ("FSA") issued policies to provide the Required Reserve Amount for the Series 2002 Bonds and the Series 2002-A Bonds, respectively. MBIA Insurance Corporation ("MBIA") issued a policy to provide the Required Reserve Amount for the Series 2005 Bonds. The City will meet the increase of the Required Reserve Amount resulting from the issuance of the Bonds with cash deposited to the Reserve Fund over a 60-month period; however, the City reserves its right to satisfy the Required Reserve Amount obligation with a Surety Policy, or a combination of Surety Policy and cash as permitted by law.

In accordance with the provisions of the City ordinance authorizing the issuance of the Series 2007 Bonds, in the event the Reserve Fund requirement is fulfilled by a deposit of a surety bond or insurance policy other than the provider of the Surety Policy issued in connection with the issuance of the aforementioned series of bonds, the claims paying ability of the issuer of the policy shall be rated "AAA" or Aaa" by S&P or Moody's, respectively. If the claims paying ability of the issuer of the insurance policy or surety bond falls below a S&P "AAA" or a Moody's "Aaa", the City shall either (i) deposit into the Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Fund to equal the Reserve Fund requirements on all outstanding Senior Lien Obligations (after taking into account any cash or other, unaffected policies then on deposit in the Reserve Fund), such amount to be paid over the ensuing five years in equal installments deposited at least semi-annually or (ii) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements stated in the ordinance within six months of such occurrence. In the event the rating of the claims paying ability of the issuer of the surety bond or insurance policy falls below "A", the City shall either (i) deposit into the Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Fund to equal the Reserve Fund requirement on all outstanding Senior Lien Obligations, such amount to be paid over the ensuing year or equal installments on at least a monthly basis or (ii) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirement stated in the ordinance within six months of such occurrence.

MBIA was downgraded by Moody's to B3 on June 25, 2009 and BB+ by S&P on September 28, 2009. Because of the ratings of MBIA, the City was required to take action with respect to the surety policies provided by MBIA in accordance with the hereinbefore-described ordinance provisions and make certain fund deposits to the Reserve Fund in the approximate amount of \$11.2 million. As of the Closing Date, the City has fully funded the Reserve Fund required of the MBIA policy.

See "THE BONDS – Security and Source of Payment", "THE BONDS – Refundable Tax Credit Bonds", and "SELECTED PROVISIONS OF THE PARITY LIEN ORDINANCE – Reserve Fund" in APPENDIX D herein.

**PAYMENTS TO GENERAL FUND OF THE CITY . . .** Pursuant to the Ordinance, the Board is required to transfer to the General Fund of the City, no later than the last business day of each month, an amount of money calculated not to exceed 5% (or such lesser amount as may be determined from time to time by the City Council) of the Gross Revenues (after payment of all Maintenance and Operating Expenses and debt service requirements on any outstanding Debt) for the preceding month to be utilized by the City in the manner permitted by the provisions of Chapter 1502, as amended, Texas Government Code. The amount so transferred shall be net of all amounts owed by the City to the Board for use of the System's services and facilities by the City and its instrumentalities. The amounts payable to the General Fund of the City are required to be paid *pari passu* with deposits to the Renewal and Replacement Fund. (See "Renewal and Replacement Fund" below.)

To the extent that the available Net Revenues in any month are insufficient for the Board to make all or part of the transfer otherwise required to be made to the General Fund of the City, the Board is required to make up such shortfall (i) in the next month in which available Net Revenues exceed the amounts otherwise required to be transferred to the General Fund of the City and the *pari passu* payment to the Renewal and Replacement Fund or (ii) to the extent such shortfall has not been made up by the last month of the Fiscal Year, solely from any surplus funds deposited into the Renewal and Replacement Fund during such Fiscal Year. The Board's obligation to make up any shortfall in a Fiscal Year does not carry over to a subsequent Fiscal Year.

See "SELECTED PROVISIONS OF THE PARITY LIEN ORDINANCE – Payments to City General Fund" in APPENDIX D herein.

**RENEWAL AND REPLACEMENT FUND . . .** The Renewal and Replacement Fund has been established under the Ordinance for the purpose of (i) paying the costs of improvements, enlargements, extensions, additions, replacements or other capital expenditures related to the System, (ii) paying the costs of unexpected or extraordinary repairs or replacements of the System for which System funds are not available, (iii) paying unexpected or extraordinary expenses of operation and maintenance of the System for which System funds are not otherwise available, (iv) depositing any funds received by the City pursuant to the CPS Contract, and such funds, including any interest or income thereon, are required to be maintained in a separate, segregated account of the Renewal and Replacement Fund and may only be used to pay Maintenance and Operating Expenses of the System's water reuse facilities or the debt service requirements on any obligations incurred as permitted by the CPS Contract and in no event may any such amount, including interest and income thereon, be transferred to the General Fund of the City, (v) paying bonds or other obligations of the System for which other System revenues are not available, (vi) in the last month of any Fiscal Year to make up any shortfall in the required payments to the General Fund of the City, or (vii) for any other lawful purpose in support of the System.

Deposits to the Renewal and Replacement Fund are required to be *pari passu* with the gross amount payable to the General Fund of the City (prior to the deduction of any charges for water utility services provided by the System to the City) until the full amount payable to the City has been paid. That is, such deposits to the Renewal and Replacement Fund are to be made equally and ratably, without preference, and on a dollar-for-dollar basis with the gross amount payable to the General Fund of the City, prior to the deduction of any charges for services, until the full amount to be paid to the General Fund of the City in a Fiscal Year has been paid. Thereafter all surplus Net Revenues are to be deposited to the Renewal and Replacement Fund.

See "SELECTED PROVISIONS OF THE PARITY LIEN ORDINANCE – Renewal and Replacement Fund" in APPENDIX D herein.

**RATE COVENANT . . .** The City has agreed, while any of the Senior Lien Obligations are outstanding, to establish and maintain rates and charges for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient:

- (a) to pay Maintenance and Operating Expenses;
- (b) to produce Pledged Revenues sufficient to pay (i) 1.25 times the Annual Debt Service Requirements for such Fiscal Year on the Senior Lien Obligations, and (ii) the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Senior Lien Obligations and any other obligations or evidences of indebtedness issued or incurred that are payable from and equally and ratably secured solely by a first lien on and pledge of the Pledged Revenues;
- (c) to produce Net Revenues, together with any other lawfully available funds (including the proceeds of Debt which the City expects will be utilized to pay all or part of the principal and interest on any obligations described in this subparagraph), sufficient to pay the principal of and interest on the currently outstanding Junior Lien Obligations and the Subordinate Lien Obligations or any Additional Junior Lien Obligations, Additional Subordinate Lien Obligations and Inferior Lien Obligations hereafter issued by the City and the amounts required to be deposited in any special fund created for the payment and security of any such obligations, and any other obligations payable from and secured by a junior, subordinate or inferior lien on and pledge of the Pledged Revenues;
- (d) to produce Net Revenues, together with any other lawfully available funds, to make the required transfers to the General Fund of the City as described in the Ordinance; and
- (e) to pay any other Debt payable from the Net Revenues or secured by a lien on the System.

See "Monthly, Water, Sewer, and Water Supply Fee Rates" and "SELECTED PROVISIONS OF THE PARITY LIEN ORDINANCE – Rates and Charges" in APPENDIX D herein.

**ISSUANCE OF ADDITIONAL OBLIGATIONS . . . *Additional Senior Lien Obligations.*** The City has reserved the right to issue Additional Senior Lien Obligations which, when issued in compliance with the terms and conditions of the Ordinance, will be payable from and equally and ratably secured by a first lien on and pledge of the Pledged Revenues in the same manner and to the same extent as the Bonds and other Senior Lien Obligations; provided, however, that the following conditions, as appropriate, have been met:

A. No Additional Senior Lien Obligations may be issued for any purpose unless and until:

(1) the Designated Financial Officer executes a certificate stating that (a) except for a refunding to cure a default, or the deposit of a portion of the proceeds of any Additional Senior Lien Obligations to satisfy the City's or the Board's obligations under the Ordinance, the City and the Board are not then in default as to any covenant, condition or obligation prescribed in the Ordinance or in the ordinances authorizing the issuance of any then outstanding Senior Lien Obligations, and (b) each of the special funds created for the payment, security and benefit of the Senior Lien Obligations then outstanding contains the amount of money then required to be on deposit therein;

(2) the laws of the State of Texas in force at such time provide for the issuance of the Additional Senior Lien Obligations;

(3) the ordinance authorizing the issuance of the Additional Senior Lien Obligations provides for deposits to be made to the Debt Service Fund in amounts sufficient to pay the principal of, premium, if any, and interest on such Additional Senior Lien Obligations as the same mature; and

(4) the ordinance authorizing the issuance of the Additional Senior Lien Obligations (a) provides that the amount to be accumulated and maintained in the Reserve Fund must be in an amount equal to not less than the Required Reserve Amount after giving effect to the issuance of the proposed Additional Senior Lien Obligations, and (b) provides that any additional amount required to be deposited in the Reserve Fund must be so accumulated by the deposit in the Reserve Fund of all or any part of such required additional amount in cash immediately after the delivery of such Additional Senior Lien Obligations, or, at the option of the Board, by (i) the deposit of such required additional amount (or any balance of such required additional amount not deposited in cash as permitted above) in approximately equal monthly installments, made on the day of the month disclosed in the ordinance authorizing the issuance of the Additional Senior Lien Obligations (or 1/60<sup>th</sup> of the balance of such required additional amount not deposited in cash as permitted above) or (ii) the acquisition of a Surety Policy which, in whole or in combination with deposits described in clause (i) above, is sufficient to satisfy the required additional amount to be on deposit in the Reserve Fund to accumulate and maintain the Required Reserve Amount.

B. No Additional Senior Lien Obligations may be issued for the purpose of financing Capital Improvements unless and until, in addition to the satisfaction of the conditions precedent set forth in paragraph A above, the Designated Financial Officer represents that, according to the books and records of the Board, the Net Revenues, for the preceding Fiscal Year or for any 12 consecutive calendar month period out of the 18-month period ending not more than 90 days preceding the month the ordinance authorizing the issuance of the Additional Senior Lien Obligations is adopted, are equal to at least 125% of the Maximum Annual Debt Service Requirements for all Senior Lien Obligations to be outstanding after giving effect to the issuance of the Additional Senior Lien Obligations then proposed. In making such a determination of the Net Revenues, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective not more than 90 days prior to adoption of the ordinance authorizing the issuance of the Additional Senior Lien Obligations and, for purposes of satisfying the Net Revenues test, make a pro forma determination of the Net Revenues for the period of time covered by such representation based on such change in rates and charges being in effect for the entire period covered by the Designated Financial Officer's representation.

C. No Additional Senior Lien Obligations may be issued for the purpose of financing Capital Additions, unless and until (i) the conditions precedent specified in paragraph A above have been satisfied and (ii) the conditions precedent specified in paragraph B above have been satisfied or, in the alternative, the City and the Board have obtained:

(1) a comprehensive report from an Engineer concerning the Capital Additions to be financed, which report shall (a) contain (i) detailed estimates of the cost of acquiring and constructing the Capital Additions, (ii) the estimated date the acquisition and construction of the Capital Additions will be completed and commercially operative, and (iii) a detailed analysis of the impact of the Capital Additions on the financial operations of the System during the construction thereof and for at least five Fiscal Years after the date the Capital Additions are anticipated to become commercially operative, and (b) conclude that (i) the Capital Additions are necessary and will substantially increase the capacity, or are needed to replace existing facilities, to meet current and projected demands for the service or product to be provided thereby, and (ii) the estimated cost of providing the service or product from the Capital Additions will be reasonable in comparison with projected costs for furnishing such service or product from other reasonably available sources; and

(2) a certificate of an Engineer to the effect that, based on the report described in subparagraph C(1) above, the projected Net Revenues for each of the five Fiscal Years subsequent to the date the Capital Additions are anticipated to become commercially operative, as estimated in the report, will be equal to at least 125% of the Maximum Annual Debt Service Requirements for all Senior Lien Obligations to be outstanding after giving effect to the issuance of the Additional Senior Lien Obligations.

D. Once a Capital Addition has been initiated by meeting the conditions precedent specified in paragraph C above and the initial issue or series of Additional Senior Lien Obligations have been delivered, the City has reserved the right to issue additional issues or series of Additional Senior Lien Obligations to finance the costs of completing the acquisition and construction of such projects and making the same commercially operative without satisfying any condition precedent under paragraph B or C above, but not until or unless:

(1) the Board makes a forecast of the operations of the System demonstrating the System's ability to pay all obligations payable from the Net Revenues to be outstanding after the issuance of the Additional Senior Lien Obligations then being issued for the period of each ensuing year through the fifth Fiscal Year subsequent to the latest estimated date such Capital Additions are anticipated to be commercially operative (in the event any obligation does not bear a fixed numerical rate of interest, the calculations as to the rate to be borne until the fifth Fiscal Year after the Capital Additions are estimated to become commercially operative shall be based upon an estimate by the Board of such interest rate); and

(2) the Engineer reviews such forecast and executes a certificate to the effect that (a) such forecast is reasonable and, based thereon (and such other factors deemed to be relevant), the Net Revenues shall be adequate to pay all Senior Lien Obligations to be outstanding after the issuance of the Additional Senior Lien Obligations then being issued for the period covered by the forecast and (b) the proceeds from the sale of such Additional Senior Lien Obligations are estimated to be sufficient to complete such acquisition and construction.

E. Additional Senior Lien Obligations for Capital Additions may be combined in a single issue with Additional Senior Lien Obligations for Capital Improvements provided the conditions precedent set forth in the applicable paragraphs B, C and D above are complied with as the same relate to the respective purposes.

***Additional Junior Lien Obligations, Additional Subordinate Lien Obligations, and Inferior Lien Obligations.*** The City has further reserved the right to issue, at any time, obligations including, but not limited to, Additional Junior Lien Obligations, Additional Subordinate Lien Obligations, and Inferior Lien Obligations payable from and equally and ratably secured, in whole or in part, by a lien on and pledge of the Net Revenues of the System, subordinate and inferior to the lien on and pledge of such Pledged Revenues securing the payment of the Senior Lien Obligations issued by the City, which includes the Bonds, as may be authorized by the laws of the State of Texas.

***Refunding Bonds.*** The City has reserved the right to issue refunding bonds to refund all or any part of the outstanding Senior Lien Obligations. If less than all such outstanding Senior Lien Obligations are refunded, the conditions precedent prescribed for the issuance of Additional Senior Lien Obligations set forth in the Ordinance must be satisfied, and the representations and certifications required thereunder must give effect to the Maximum Annual Debt Service Requirements of the proposed refunding bonds (but may not give effect to the Maximum Annual Debt Service Requirements of the obligations being refunded following their cancellation or provision being made for their payment); provided, however, if as a result of such refunding the Annual Debt Service Requirements are not increased in any Fiscal Year, the City will not be required to satisfy the coverage requirements set forth above as a requirement for the issuance of such refunding bonds.

***Special Project Obligations.*** In order to finance Special Projects, the City has reserved the right to issue obligations which are payable from sources other than ad valorem taxes, Pledged Revenues or Net Revenues; provided, however, the City may not issue Special Project obligations unless the City concludes, upon recommendation of the Board, that (i) the plan for developing the Special Project is consistent with sound planning, (ii) the Special Project would not materially and adversely interfere with the operation of the System, (iii) the Special Project can be economically and efficiently operated and maintained, and (iv) the Special Project can be economically and efficiently utilized by the Board to meet water, wastewater, water reuse or stormwater requirements.

## **THE SAN ANTONIO WATER SYSTEM**

### **HISTORY AND MANAGEMENT**

On February 13, 1992, the City Council determined that it was in the best interest of the citizens of the City and the customers served by the water and wastewater systems to consolidate all water related systems, 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 a singular voice of representation when promoting or defending the City's goals and objectives for water resource protection, planning and development when dealing 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"). The System Ordinance approved the creation of the System, a single unified system consisting of the City's existing waterworks (formerly the City Water Board), wastewater and water recycling systems (formerly departments of the City), together with all future improvements and additions thereto, and all replacements thereof. In addition, the System Ordinance authorizes the City to incorporate into the System a stormwater system and any other related system to the extent permitted by law.

Simultaneously with the creation of the System, the City sold its \$635,925,000 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 1992 for the purpose of (i) enabling the City to consolidate its waterworks, wastewater and water recycling systems, and (ii) refunding all outstanding obligations of the City issued to finance improvements to and extensions of its waterworks, wastewater and water recycling systems; and refunding certain other outstanding obligations relating to the City's waterworks, wastewater and water recycling systems; which are secured by and payable from a pledge of revenues derived from, the City's waterworks, wastewater and water recycling systems, respectively. The City believes that refunding the obligations and establishing the System in 1992 has helped to reduce the costs of operating, maintaining, and expanding these 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 a single agency.

The System provides water and wastewater service to the majority of the population within the corporate limits of the City and Bexar County which totals approximately 1.6 million residents. The System employs over 1,600 personnel and maintains approximately 10,000 miles of water and sewer mains.

The complete management and control of the System is vested in a board of trustees ("Board" or "Board of Trustees") which initially had five members. Subsequent legislation authorized expansion to a board consisting of seven members. The Board consists of the Mayor of San Antonio (as an ex-officio Board member) and six persons who are residents of the City or reside within the area serviced by the System. With the exception of the Mayor, all other 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 Board members must be appointed from four different quadrants in the City and two Board members are appointed from the north and south sides of the City. Notwithstanding the foregoing, the membership on the Board may be increased to an amount greater than seven, to include the Mayor of the City as an ex-officio member, as otherwise appointed by the City Council.

The present members of the Board are:

Board	Length Of Service	Term Expires	Occupation
Alexander E. Briseño Chairman	4 Years, 5 Months	May 31, 2014	Retired City Manager Professor of Public Service at St. Mary's University
Willie A. Mitchell Vice Chairman	8 Years, 5 Months	May 31, 2010 <sup>(1)</sup>	Educational Consultant
Roberto Anguiano Secretary	6 Years, 5 Months	May 31, 2012	Retired SAWS Plant Superintendent
Samuel E. Luna Assistant Secretary	1 Year, 5 Months	May 31, 2013	Professor San Antonio College
Elizabeth M. Provencio Trustee	1 Year, 5 Months	May 31, 2013	Attorney Denton, Navarro, Rocha Bernal PC
Louis E. Rowe Trustee	1 Year, 5 Months	May 31, 2013	President and CEO Goetting & Associates
Julián Castro, Mayor and Ex-Officio Member	1 Year, 5 Months	May 31, 2011	Attorney Sole Practitioner

(1) Position to remain occupied by current member until either reappointed or a new member is appointed by the San Antonio City Council.

Except as provided in the System Ordinance, the Board has absolute and complete authority and power to control, manage, and operate the System and controls the expenditure and application of the Gross Revenues of the System and in connection therewith is vested with all of the powers of the City with respect thereto, including all powers necessary or appropriate for the performance of all covenants, undertakings, and agreements of the City contained in the System Ordinance, and with the exception of fixing rates and charges for services rendered by the System and other matters hereinafter described, the Board has full power and authority to make rules and regulations governing the furnishing of services of the System to customers for the payment of the same, and for the discontinuance of such services upon the failure of customers to pay for the services.

The Board, to the extent authorized by law, has authority to make extensions, improvements, and additions to the System and to acquire by purchase or otherwise properties of every kind in connection therewith.

Exceptions:

As noted, under the System Ordinance, only the City Council can fix rates and charges for service rendered by the System. Similarly, State law provides that only the City Council can authorize the sale of revenue bonds or other securities, exercise the use of condemnation for the acquisition of real property, and select and appoint members of the Board. Additionally, Ordinance No. 74050 adopted on August 1, 1991, provides that the disposition of real property by the System requires some degree of oversight by the City.

The general operations of the System are under the supervision of the President/Chief Executive Officer who is employed by the Board. The Board shall appoint and employ all other officers, employees, and professional consultants, which it may deem desirable.

#### **ADVISORY COMMITTEES**

There are three ongoing advisory committees which provide comment and report to the Board and the System staff on System projects and activities, the Citizens Advisory Panel ("CAP"), the Community Conservation Committee ("CCC"), and the Capital Improvements Advisory Committee ("CIAC"). Members for each of these committees are sought to represent diverse interests from the System's service area.

##### **Citizen Advisory Panel ("CAP")**

The CAP was established in 1998 to provide staff and the Board of Trustees with indications of the acceptability of water resource projects, policies, and programs. The CAP's charge is to support the development of the System's 50-year water resource plan; review the application of evaluative criteria for the plan; identify concerns raised under these criteria; and to suggest ways for adjusting the System's proposals to meet these concerns.

CAP meetings are held monthly and open to the public. CAP members are actively engaged in the process to develop new water supplies for the City of San Antonio and Bexar County region.

##### **Community Conservation Committee ("CCC")**

The CCC was organized in 1996 to provide input to staff and the Board of Trustees on conservation issues. The CCC is the cornerstone of the System's public involvement in conservation and drought management efforts.

The CCC provides input on program development and program performance. It does much of its work through work groups that enlist community experts to address specific issues. During 2008, the CCC's major accomplishments included the development of a pilot program to evaluate and reduce water use among the System's top commercial and residential users. In addition, CCC members were involved in promoting water conservation as a core component of San Antonio's green building initiatives call Mission Verde. This resulted in the most comprehensive water conservation ordinance for new construction in the United States as determined by the Alliance for Water Efficiency.

##### **Capital Improvements Advisory Committee ("CIAC")**

The CIAC advises the City Council on impact fees and was first formed in 1987. The 11-member committee is appointed by City Council (one from each City Council district and one member appointed by the Mayor to represent the City's extra territorial jurisdiction), with representation from the real estate and development industry and the general community.

Impact fees are one-time fees charged to developers for new development to pay for general benefit facilities such as treatment plants, tanks, wells, water supply projects and large transmission mains and outfall mains. Collecting adequate impact fees helps fund construction of infrastructure needed to support growth with minimum impact on existing ratepayers. The impact fees are updated once every 5 years. Impact fees for the System were updated in 2006. The committee started meeting as of April 2010 with the goal of completing a review and update of the impact fees by the summer of 2011.

##### **Rates Advisory Committee ("RAC")**

The RAC has served as a special purpose advisory group established to provide input to staff and the Board of Trustees on a comprehensive review of rates, fees and charges which is conducted approximately once every five years. The most recent RAC was established in late 2008 and met a total of 16 times from August 2008 to December 2009. The committee worked to gain an understanding of the System's existing operations and methodologies for charging for its services, as well as to participate in the review of the current rate structures for water delivery, water resource development, recycled water, and wastewater operations.



The committee, working with System staff and a nationally recognized rate consultant, approved a Rate Study Report in December 2009 which made recommendations to the Board regarding revisions to the rate structure. The most significant revision resulted in the Water Supply Fee moving from a flat fee to a “tiered” fee in which the rate of the Water Supply Fee would increase as total water usage in a given month increases. The revised rate structure results in residential customers using less than 17,000 gallons of water per month seeing a reduction in their monthly bill, while residential customers using more than 17,000 gallons of water per month and irrigation class customers are likely to see increases in their monthly bills. While the revised rate structure does project for an increase in revenues being contributed from higher volume water users, any potential weather-related revenue risk has been mitigated by an increase in the projected percentage of revenue being generated through fixed charges, and increase to the seasonal period of two months, and by forecasting an anticipated reduction in demand due to price elasticity. Overall, the revised rate structure has been designed to be “revenue neutral” in that they will not result in either more or less total revenue being collected by the System. After a comprehensive public outreach period, the Board and the City Council approved the Rate Study Report in June 2010. The revised rate structure took effect November 1, 2010. With the approval of the Rate Study Report, the committee’s business is completed and the members’ terms have ended.

#### **ADMINISTRATION AND OPERATING PERSONNEL**

The President/Chief Executive Officer of the System is Robert R. Puente. Prior to joining the System in May 2008, Mr. Puente served in the Texas House of Representatives where he was chair of the House Natural Resources Committee and served on the House Local Ways and Means Committee. Mr. Puente was first elected to the Texas House of Representatives in 1991. Mr. Puente also received his Doctor of Jurisprudence from The University of Texas School of Law in 1982, and practiced law as a private attorney and managed his own firm from 1983 to 2008.

The Senior Vice President/Chief Operating Officer is Steven M. Clouse. During his tenure with the System, Mr. Clouse has worked in several departments and served in many capacities including three plus years as the Vice President – Production and Treatment Operations. Prior to the System's inception in 1992, he worked for the Environmental Management Department of the City of San Antonio.

The Senior Vice President - Strategic Resources is Kelley Neumann, P.E. During her tenure with the System, Ms. Neumann has also served as the Vice President – Facilities Engineering and Construction, Vice President of Programming, Planning and Quality Control and Director of Infrastructure Planning. Prior to joining the System in 1992, she spent three years as the Airport Engineer for the City of San Antonio and served as an officer in the US Army Corps of Engineers.

The Senior Vice President/Chief Financial Officer is Douglas P. Evanson. Mr. Evanson joined the System in April of 2005. Prior to joining the System, Mr. Evanson was the Assistant Treasurer at Black & Veatch. Before that, he was the Chief Financial Officer for United Energy and Multinet Gas, electricity and natural gas distribution companies located in Melbourne, Australia.

The Vice President/General Counsel is Frank Stenger-Castro. Mr. Stenger-Castro joined the System in 2001. Prior to joining the System, Mr. Stenger-Castro served as Deputy General Counsel at the U.S. Department of Agriculture in Washington D.C.

The Vice President of Human Resources is Jerald Bailey, P.H.R. Prior to joining the System in November 2005, Mr. Bailey served as the Employee Relations Director at American Water located in Voorhees, New Jersey.

The Vice President of Public Affairs is Gregorio (Greg) Flores, who joined the System in November 2005. Prior to joining the System, Mr. Flores served as the Director of Legislative Affairs for the HEB Grocery Company.

The Vice President of Customer Service is Stacey L. Isenberg, CPA. Ms. Isenberg joined the System in 1993 and has worked in various departments throughout the organization including three years as the Vice President – Corporate Initiatives where she oversaw the implementation of the new financial accounting system.

*[The remainder of this page intentionally left blank]*

<u>Name</u>	<u>Position</u>	<u>Length of Service with System</u>	<u>Total Government Service</u>
Robert R. Puente	President/Chief Executive Officer	2 Years, 6 Months	19 Years, 10 Months
Steven M. Clouse	Senior Vice President/Chief Operating Officer	21 Years, 2 Months	23 Years
Kelley Neumann	Senior Vice President – Strategic Resources	18 Years, 1 Month	29 Years
Douglas P. Evanson	Senior Vice President/Chief Financial Officer	5 Years, 6 Months	5 Years, 6 Months
Frank Stenger-Castro	Vice President/General Counsel	9 Years, 6 Months	27 Years, 6 Months
Jerald W. Bailey	Vice President - Human Resources	5 Years	15 Years, 9 Months
Gregorio Flores, III	Vice President - Public Affairs	5 Years	5 Years
Stacey L. Isenberg	Vice President - Customer Service	17 Years, 7 Months	17 Years, 7 Months

## **SYSTEM STRUCTURE**

On May 27, 2008 and further refined in May 2009, the System reorganized its business structure to strategically position functions to maximize efficiencies and responsiveness to System customers. The new structure consists of seven groups that will report to the President/CEO. The seven groups include the Senior Vice President/COO, Senior Vice President – Strategic Resources, Senior Vice President/CFO, Vice President - Human Resources, Vice President - Public Affairs, Vice President/General Counsel, and Vice President – Customer Service.

The Internal Audit Department, which is responsible for financial and operational audits of System departments, divisions, activities, and programs will report directly to the Board with consultation from the President/CEO.

### **President/Chief Executive Officer**

The President/CEO is responsible and accountable for overall leadership of the System. Following the guidance and direction of the Board and City Council, the President/CEO implements policy, directs and works alongside employees to achieve the System's mission and goals.

### **Senior Vice President/Chief Operating Officer**

The Senior Vice President/Chief Operating Officer is responsible for the day-to-day operations of the System. The following three groups report directly to the Chief Operating Officer.

#### **Production and Treatment Operations**

Production and Treatment Operations provides the essential function of delivering product to customers by operating, monitoring and maintaining the System. The group is responsible for the operation and maintenance of the Dos Rios, Leon Creek, Medio, and satellite water recycling centers. Each plant is a 24-hour-a-day operation for the mechanical and biological treatment and disinfection of wastewater, along with the processing of wastewater biosolids for ultimate disposal. This group is further broken down into the following departments:

- Production – Manages, controls and operates the production of potable water for System customers.
- Treatment Operations, Treatment Maintenance – Operate and maintain all of the utility's permanent and temporary water recycling facilities.
- Heating and Cooling – Responsible for the production of chilled water and steam to provide thermal services to federal, city and private facilities in San Antonio.
- Technical Services – Supports engineering services, handles regulatory permitting and manages external contracts and contractors. Also manages the Emergency Operations Center.
- Energy Management – Evaluates existing energy consumption and use, develops and maintains the energy database, and reviews new technologies for application to the System.

## **Distribution and Collection Operations**

Distribution and Collection Operations operates, maintains, and repairs the water distribution and wastewater collection systems ensuring the System's customers receive uninterrupted, quality potable water and associated wastewater services. This is accomplished by providing:

- Emergency Response – Provides critical support to the System's customers and crews 24/7.
- Preventative Maintenance Programs – Ensures the integrity of water and wastewater infrastructure.
- Construction Crews – Offers in-house construction expertise, including asphalt and concrete services, to improve service restoration and increase customer satisfaction.
- Sewer Televising Programs – Equips management to make informed decisions while helping protect the quality of the Edwards Aquifer. (See "Edwards Aquifer" below.)
- Sewer Line Cleaning – Reduces potential for back-ups due to debris and grease.
- Leak Detection Programs – Ensures water leaks are identified, reducing water loss.

## **Operations Services**

Operations Services focuses on providing a safe and functional work environment for employees and on helping obtain the tools necessary for them to effectively address their responsibilities. This objective is met through the following major functions:

- Corporate Real Estate - Responsible for property acquisitions, dispositions and lease management activities. This includes obtaining property easements for capital improvement projects.
- Facilities Management - Provides building management and maintenance services; also space planning, office reconfigurations, and oversight of all facility construction projects. Additionally, this area oversees collection and delivery of System mail.
- Fleet - Provides vehicles, equipment and maintenance service, and fuel for company employees. Maintains corporate vehicle pool program and ensures that vehicles and heavy equipment are properly maintained and in good working condition.
- Security - Coordinates and oversees the security program and associated activities for all System personnel and properties.
- Laboratory Services - Provides analytical services to internal business groups. Activities include sample testing, environmental and safety tests, regulatory reporting, analytical planning, training and quality assurance.
- Resource Protection & Compliance - Monitors and enforces the regulatory requirements established to protect regional water quality.

## **Senior Vice President – Strategic Resources**

The Senior Vice President – Strategic Resources is responsible for infrastructure master planning and engineering as well as the development of alternative water resources. The following two groups report directly to the Senior Vice President – Strategic Resources:

### **Engineering and Construction**

Engineering and Construction coordinates the development and execution of the annual Capital Improvements Program. The group performs engineering analysis of existing facilities and plans new infrastructure to meet the increasing water and wastewater demands of the growing community. The group also designs and manages the construction of new and replacement water and wastewater infrastructure. The Engineering and Construction Department is further broken down into the following departments:

- Infrastructure Planning – Manages the System's impact fee program, maintains infrastructure maps and GIS databases; tracks population growth; and develops the water and wastewater master plans.
- Production, Recycle, Treatment Engineering – Handles planning, design and construction management of water production facilities, recycled water infrastructure, and wastewater treatment facilities.
- Collection & Distribution Engineering – Plans and designs the water distribution and the wastewater collection systems.
- Governmental Engineering – Plans and designs water distribution and wastewater collection systems that support intergovernmental capital projects.
- Pipeline Inspections – Inspects pipeline construction projects and water supply projects, and manages the backflow prevention program.

## **Water Resources**

Water Resources facilitates responsible growth and development through conservation, as well as the development and management of alternative water supplies. This group consists of the following two departments:

- Water Resources – Develops and implements long-term, sustainable water supply projects.
- Conservation – Delivers nationally recognized indoor and outdoor conservation programs that achieve cost-effective water savings.

## **Senior Vice President/CFO**

The Senior Vice President/CFO is responsible for the overall financial management of the System. The following two groups report directly to the Chief Financial Officer:

### **Financial Services**

Financial Services ensures the System's efficient operation by effectively managing and reporting on the System's overall financial position, ensuring compliance with current legal and regulatory requirements, and providing timely financial support, services, and guidance to internal and external stakeholders. This group is further broken down into the following departments:

- Financial Planning – Responsible for the short and long range financial plan and developing and implementing the budget.
- Accounting - Manages payroll, general records, property records, and accounts payable.
- Treasury - Handles cash management, investment management, and bank relationship management.
- Finance - Responsible for the securitization and overall management of the System's debt.
- Purchasing - Manages the processing and contracting of all purchasing requests for material, supplies, and services.
- Supply - Responsible for inventory and distribution support of all materials for the System.
- Risk Management – Manages all facets of the System's comprehensive commercial insurance program as well as the conduct of premise risk assessments.
- Contract Administration - Responsible for the administration of construction and professional services contracts. This includes contract solicitation, negotiation, preparation, acceptance, monitoring, compliance, approval of payments and closeouts. Contract Administration also coordinates and administers the Texas Water Development Board program.

### **Information Services**

Information Services seamlessly delivers quality, cost effective information technology services, promoting innovation, sustaining growth and enabling the System to better serve our community. Information Services delivers a broad spectrum of applications and technology services and supports all area of the System. This group is further broken down into the following departments:

- Information Technology – Provides the following services: data center services, network engineering services, IP telephony services, computer operations services, print shop services, client services, and desktop support services.
- Application – Responsible for developing, implementing, maintaining and upgrading internal business applications and interfaces as well as business process analysis.
- Program Management and Administration – Provides the following services: program management, testing, change control and quality assurance, project management, and overall administrative support for Information Services and System programs.

## **Vice President - Human Resources**

The Vice President - Human Resources is responsible for all aspects of human resources as well as safety and environmental health. Human Resources engages in attracting, training, and retaining a workforce of qualified employees to help the System in reaching its organization goals and mission through a focus on excellence and continuous improvement. Human Resources consists of the following departments:

- Employment and Staffing - Provides staffing and recruiting for both internal and external candidates to obtain the most qualified candidate for a given open position.
- Compensation & Benefits - Plans, develops, and manages the employees' compensation and benefit programs to ensure competitive and cost-effective plans and programs are in place.
- Employee Development & Communications - Develops and administers a variety of employee development and communications programs including career development, orientations, education assistance, internship programs, mentoring and wellness programs.
- Corporate Training - Establishes training objectives and strategies that integrate with the System's strategic plan and implements both in-house and off-site employee training for career and self development.

- Claims - Operates as a small insurance office for the System. All Workers Compensation, casualty and subrogation claims handling originates within the Claims Department.
- Safety and Environmental Health - Responsible for revising policies to match accepted industry formats and ensuring that the System is compliant with all federal, state and local regulations and safety standards.

#### **Vice President – Public Affairs**

The Vice President – Public Affairs is responsible for providing communications that engages proactive strategic outreach and partnerships to inform and involve the System’s customers and stakeholders in the success of the organization. By building trust and understanding among ratepayers and decision makers, the System can more effectively administer San Antonio’s water and wastewater services and manage the city’s long-range water needs. This group consists of the following departments:

- Communications – Encompasses media relations dedicated to accuracy in news coverage concerning the System and advertising for building and maintaining awareness of corporate programs, projects and image.
- Communication Services – Handles internal and external publications, including newsletters, brochure development, Internet, intranet, marketing brochures, audio/video presentation support, and video production.
- External Relations – Covers all community outreach efforts such as community relations with neighborhood leaders; governmental relations with elected officials and agencies; and youth education in developing tomorrow's informed water customers.

#### **Vice President - Customer Service**

Customer Service is responsible for providing the highest level of service to System customers at all times and responding in the most expedient and professional manner possible. This group is also responsible for the maintenance of customer accounts as well as accurate and timely billing of System customers. This group consists of the following departments:

- Automatic Meter Reading – Responsible for deploying and maintaining a complete network of wireless meter reading devices, as well as meter data management for billing, account review, work order, meter shop, field investigations, and call center uses.
- Billing – Reviews the billing process for accuracy of all System bills; coordinates water utility acquisitions, city annexations, and recycled/reuse accounts; resolves customer service online billing issues.
- Customer Care – Promptly handles all inbound telephone customer inquiries regarding billing, account information, service problems, and payments.
- Field Services – Responsible for service turn-on/turn-off requests; collection of delinquent accounts; fire hydrant meter readings; and setting, removing, repairing and testing water meters.
- Meter Reading – Ensures that all System water meters are read on schedule, recorded and researched for accurate billing.
- Remittance Processing – Processes all payments received by mail and reconciles payments collected from pay stations throughout the System’s service area.
- Revenue Collections – Determines and ensures correct billing format for customer accounts; responds to high/low pressure issues; manages high bill concerns; provides leak detection and water-saving assistance; and handles inbound calls regarding collection of delinquent accounts.
- Service Centers – Three full service walk-in locations provide friendly, personal interaction with our residential and commercial customers.

#### **Vice President/General Counsel**

The Vice President/General Counsel provides legal advice and counsel to the Board and System management. This group is also responsible for the administration of construction and professional services contracts as well as maintaining the System’s records. This group consists of the following departments:

- Legal – Represents the System to customers, the regulating community, and business partners. The group researches legal issues, drafts legal documents and memorandums, and coordinates the activities of outside legal counsel.
- Records Management - Provides for efficient, economical, and effective controls over the creation, distribution, organization, maintenance, use, and disposition of all System records consistent with the requirements of the Texas Local Government Records Act and best records management practice.

#### **UTILITY SYSTEM**

The System 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, and chilled water and steam (collectively, the "Waterworks System"); collection and treatment of wastewater (the "Wastewater System"); and treatment and recycling of wastewater (the "Water Recycling System"). The System does not include any "Special Projects" which are declared by the City, upon the recommendation of the Board, not to be part of the System and are financed with obligations payable from sources other

than ad valorem taxes, "Pledged Revenues", or "Net Revenues" (each as defined in the System Ordinance) 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, which the Board has under its control, on May 13, 1993, the City Council approved Ordinance No. 77949 which established initial responsibilities over the stormwater quality program with the 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 deemed to not be a part of the System. See "THE SAN ANTONIO WATER SYSTEM - Stormwater System."

#### **CITY AREA**

The City, which is the county seat of Bexar County, is located in south central Texas, approximately 75 miles south of the State capital of Austin and 145 miles from the Mexican border. It is located primarily in Bexar County, Texas but its City limits now extend into Comal and Medina Counties, Texas. The City's Department of Planning and Community Development estimated the City's population to be 1,383,072 and Bexar County's population at 1,676,841 as of December 31, 2009. The U.S. Census Bureau ranks San Antonio as the second largest city in Texas and the seventh largest city in the United States.

#### **WATERWORKS SYSTEM**

The City 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 1992, when the System was created, management and operation of the Waterworks System was under the control of the City Water Board. The System's authority to provide potable water service within a defined area was established by Certificate of Public Convenience and Necessity No. 10640 ("CCN") originally issued by the Public Utility Commission of Texas on November 1, 1979, as amended and updated with substantial expansion as reflected in its certificate currently on file at the Texas Commission on Environmental Quality ("TCEQ"). The System's Waterworks System Service area currently extends over approximately 636 square miles, making it the largest water purveyor in Bexar County. The System serves more than 80% of the water utility customers in Bexar County. As of December 31, 2009, the System provides potable water service to approximately 352,000 customer connections. Potable water service is provided to residential, commercial, multifamily, industrial and wholesale accounts. The System monitors its Waterworks System on a constant basis to ensure compliance with the Safe Drinking Water Act. See "ENVIRONMENTAL MATTERS" herein.

The Waterworks System currently utilizes 30 elevated storage tanks and 30 ground storage reservoirs, of which seven act as both, with combined storage capacities of 168 million gallons. As of December 31, 2009, the waterworks system had installed 4,866 miles of distribution mains, ranging in size from 4 inches to 61 inches in diameter, the majority of which are between 6 inches and 12 inches in diameter. As of December 31, 2009, the Waterworks System was equipped with 26,599 fire hydrants in service. These hydrants are well-distributed throughout the System and are a major factor in the City enjoying one of the lowest fire insurance rates of any Texas municipality.

#### **WASTEWATER SYSTEM**

The City Council created the City Wastewater System in 1894. A major sewer system expansion program began in 1960 with bond proceeds for new treatment facilities and an enlargement of the wastewater system. In 1970, the City became the Regional Agent of the TCEQ. In 1992, the wastewater system was consolidated with the City's Waterworks and Recycling Systems to form the System.

The System 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, the System has certain prescribed boundaries that currently cover an area of approximately 424 square miles. The System also coordinates with the City of San Antonio for wastewater planning for the City's total planning area, its Extra-territorial Jurisdiction ("ETJ"), of approximately 1,107 square miles. The population for this planning area is approximately 1.2 million people. As of December 31, 2009, the System provides wastewater services to approximately 395,000 customer connections.

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

The Wastewater System is composed of approximately 5,085 miles of mains and three major treatment plants, Dos Rios, Leon Creek and Medio Creek. All three plants are conventional activated sludge facilities. The System holds Texas Pollutant Discharge Elimination System ("TPDES") wastewater discharge permits, issued by the TCEQ for 187 million gallons per day ("MGD") in treatment capacity and 46 MGD in reserve permit capacity. See "ENVIRONMENTAL MATTERS" herein. The permitted flows from the Wastewater System's three regional treatment plants represent approximately 98% of the municipal discharges within the City's ETJ.

The System has applied to the TCEQ to expand its 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 System standards and small, undersized systems can be avoided. The System's CCN applications for water consists of 12 separate applications that cover approximately 64,000 acres,

and the applications for sewer consists 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 the System's 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 are intended to insure the City that areas developed in the ETJ and then annexed by the City, will already have some City development regulations in place.

#### **CHILLED WATER AND STEAM SYSTEM**

The System 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 steam 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 City facilities, the two central plants also provide chilled water and/or steam service to a number of major hotels in the downtown area, including the Grand Hyatt, Marriott and Hilton Palacio Del Rio. The other four thermal facilities, owned and operated by the System, are located at the Port of San Antonio industrial area (formerly Kelly USA) and provide chilled water to large industrial customers that include Lockheed Martin and Boeing Areospace. The System's chilled water producing capacity places it as one of the largest producers of chilled water in south Texas. See "ENVIRONMENTAL MATTERS" herein. The chilled water and steam system had gross revenues of \$12.8 million in Fiscal 2009.

#### **RECYCLING WATER SYSTEM**

The System is permitted to sell Type I (higher quality) recycled water from its wastewater treatment plants, and has been doing so since 2000. The water recycling program is designed to provide 35,000 acre-feet per year of recycled water to commercial and industrial businesses in San Antonio. This system 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. This 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.

#### **STORMWATER SYSTEM**

The System is a co-permittee with the City and Texas Department of Transportation ("TxDOT") under TPDES Permit No. WQ0004284000. The TPDES program is administered by the TCEQ. The TCEQ issued a renewal of this permit on September 28, 2007. The permit identifies the joint and individual requirements of the City, TxDOT, and the System with respect to the Stormwater Management Plan. See "ENVIRONMENTAL MATTERS" herein. An agreement between the System and the City for stormwater services has been in place since October 8, 1996.

In September of 1997, the City established a Stormwater Utility by ordinance. The System is contractually obligated to perform certain program requirements as described in the permit. The City has the overall responsibility for the program. The approved annual budget for the System's share of program responsibilities for Fiscal Year 2010 is \$4,809,147, for which the System anticipates being reimbursed approximately \$3,758,241 from the stormwater utility fee imposed by the City.

#### **WATER SUPPLY**

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 Update (the "2009 Plan"). The 2009 Plan is a continuation of the process that began in 1996 to develop a 50-year plan. In 1996, the City Council appointed a 34-member citizens committee to develop strategic policies and goals for water resource management. The Citizens Committee on Water Policy report, entitled "A Framework for Progress: Recommended Water Policy Strategy for the San Antonio Area," was unanimously accepted by City Council, becoming the foundation for the System's "Water Resources Plan." On November 5, 1998, the City Council accepted the Water Resources Plan "Securing Our Water Future Together" (the "1998 Plan") as the first comprehensive widely supported water resource plan for San Antonio. The 1998 Plan established programs for immediate implementation, as well as a process for developing long-term water resources. In October 2000, the City Council created a permanent funding mechanism (known as the Water Supply Fee) for water supply development and water quality protection through Ordinance No. 92753. The Water Supply Fee provides a specific fund for the development of water resources.

In August 2005, the System's Board of Trustees unanimously approved a Water Resource Plan 2005 Update (the "2005 Update"). The 2005 Update was a comprehensive review of the assumptions governing population and per capita consumption projections in Bexar County through 2050. The 2005 Update included an analysis of each water supply alternative available for meeting future needs and demonstrated the System's commitment to obtain additional water supplies. The projected capital cost of the water supply projects approved in the 2005 Update originally totaled more than \$2 billion; however, cost re-estimates increased this amount to more than \$3 billion. As a result of some of the identified cost increases, other potential changes in projects, and changes in SAWS personnel, a new Water Supply Task Force was assembled in June 2008 to review, evaluate, and update the System's Water Resource plan. This task force, completed its review in early 2009. After a comprehensive public outreach period, the Board and the City Council approved the 2009 Plan in May 2009.

The 2009 Plan outlines a diversified foundation of San Antonio's water supply. While the Edwards Aquifer will always be the cornerstone of San Antonio's water supply, the System has already successfully developed several alternative water sources, such as Canyon Lake, the Trinity Aquifer, and the Carrizo Aquifer. The System's recycled water program provides highly treated wastewater to CPS Energy and other industrial customers who would otherwise use potable water. The System's underground Aquifer Storage and Recovery reservoir allows SAWS to collect unused Edwards Aquifer water during wet years and use it in times of drought.

As of December 31, 2009, the System utilizes the following water supplies, Edwards Aquifer, 251,411 acre-feet which represents 59% of the System's total supply, Aquifer Storage and Recovery underground storage, 67,000 acre-feet, or 16% of total supply, Recycle Water to CPS Energy, 50,000 acre-feet, or 12% of total supply, Recycle Water to other customers, 35,000 acre-feet or 8% of total supply, Canyon Lake, 9,300 acre-feet or 2% of total supply, Carrizo Aquifer, 6,400 acre-feet, or 2% of total supply, and Trinity Aquifer, 3,500 acre-feet or 1% of total supply.

## **EDWARDS AQUIFER**

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

Much of the Edwards Aquifer region consists of agricultural land, but it also includes areas of population ranging from communities with only a few hundred residents to the City, which serves as a home for well over one million residents. In 2009, the Edwards Aquifer directly supplied over 90% of the potable water for municipal, domestic, industrial, and commercial needs for the System's 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.

The Edwards Aquifer is recharged by seepage from streams and by precipitation infiltrating directly into the cavernous, honeycombed, limestone outcroppings in its north and northwestern area. Practically continuous recharge is furnished by springfed streams, with storm water runoff adding additional recharge. The historical annual recharge, from 1934 to the present, to the reservoir is approximately 684,700 acre-feet. The average annual recharge over the last four decades is approximately 797,900 acre-feet. The lowest recorded recharge was 43,000 acre-feet in 1956, while the highest was 2,485,000 acre-feet in 1992. Recharge has been increased by the construction of recharge dams over an area of the Edwards Aquifer exposed to the surface known as the recharge zone. The recharge dams, or flood-retarding structures, slow floodwaters and allow much of the water that would have otherwise bypassed the recharge zone to infiltrate the Edwards Aquifer.

In 1993, the Texas Legislature adopted the Edwards Aquifer Authority Act. This act created the Edwards Aquifer Authority ("EAA") as a conservation and reclamation district under Article XVI, Section 59, of the Texas Constitution. The EAA is governed by a fifteen member Board of Directors elected from single member districts roughly drawn by the legislature to reflect regional interests rather than traditional voting rights concerns. The EAA has broad powers to manage, conserve, preserve, and protect the Edwards Aquifer and to increase the recharge of, and prevent the waste or pollution of water in, the aquifer. Among other charges, the EAA was directed to limit groundwater withdrawals from the Edwards Aquifer through a permitting system. The EAA was also directed by the Texas Legislature to ensure that, not later than December 31, 2012, the continuous minimum springflows of the Comal Springs (in New Braunfels) and the San Marcos Springs (in San Marcos) are maintained to protect endangered and threatened species to the extent required by federal law and to achieve other purposes of the Act. To date, the EAA's exercise of power has been primarily limited to managing Edwards Aquifer withdrawals. No rules concerning protection of water quality have been implemented to date.

As a consequence of the EAA's permitting regime, the System's access to Edwards Aquifer supplies is now limited to its highest, pre-1991 annual historic use plus any additional permitted withdrawal rights that the System can acquire by lease or purchase. All Edwards Aquifer permitted withdrawal rights are subject to on-going regulation by the EAA, with more stringent use limitations applied during periods of drought.



In 2007, the Texas Legislature adopted legislation commonly known as Senate Bill 3 ("SB 3") to address various water-related environmental issues confronting the state. Among other provisions, the legislation established a new, higher pumping cap of 572,000 acre-feet for the Edwards Aquifer, thus making more water available for pumping when aquifer levels are high. However, it also incorporated into state statute certain existing regulatory restrictions on water availability during periods of drought. As of December 31, 2009, through permitting, purchases, and leases, the System has access to 251,411 acre-feet of Edwards Aquifer groundwater withdrawal rights, which is approximately 44% of the regional pumping cap. When aquifer levels at certain gauges and springflows at Comal Springs and San Marcos Springs fall to identified trigger points, pumping allocations are reduced by the EAA by 20% to 40% depending on the severity of the drought. In February 2009, the City's Code of Ordinance was updated to ensure that restrictions on water usage by City residents commence in close proximity to the occurrence of these restrictions on pumping by SAWS and other water purveyors in the City.

SB 3 also directed the EAA to develop a recovery implementation program for federally listed threatened or endangered species associated with the Edwards Aquifer. The program is to be developed through a facilitated, consensus-based process that involves input from the United States Fish and Wildlife Service, other appropriate federal agencies, and all interested stakeholders. The EAA and certain state agencies are specifically charged to develop and execute a program document that may be in the form of a habitat conservation plan used in issuance of an incidental take permit. The document is to be executed not later than September 1, 2012, and an implementing agreement is to take effect on December 31, 2012.

In response to this directive, the EAA and various regional stakeholders initiated the Edwards Aquifer Recovery Implementation Program ("EARIP") in 2007 pursuant to a Memorandum of Agreement and various program documents. The EARIP is managed by a steering committee of 26 voting members representing a wide cross-section of regional interests. The System is represented with one vote on this Steering Committee. Multiple other stakeholders are also participating in the program. The EARIP engaged Dr. Robert Gulley as its program manager and Texas A&M University for program administrative support. Dr. Gulley is a scientist and attorney with extensive experience in Endangered Species Act issues. The EARIP also engaged a professional facilitation team and appointed an expert science committee to guide the program's work.

Acting through work groups, committees, and meetings of the whole, the EARIP has actively pursued its legislative mandates since 2007. The System has participated at all levels through its steering committee representative and a team of staff professionals. The EARIP elected to develop a habitat conservation plan as the program document required by the legislature. If completed and acceptable to the U.S. Fish and Wildlife Service, the habitat conservation plan will support issuance of an incidental take permit for future groundwater withdrawals from the Edwards Aquifer.

In light of the deadlines imposed in SB 3, the EARIP has reached a critical juncture in its deliberations. With one important exception, the members of the steering committee have reached broad consensus on the fundamental elements of a multi-year adaptive management plan which will form the foundation of a Habitat Conservation Plan seeking an incidental take permit with a duration of 15 to 20 years. The exception to consensus is the representative of the Guadalupe Blanco River Authority ("GBRA"). GBRA is the largest single holder of surface water pumping rights from a river system that benefits from springflow at Comal and San Marcos Springs. The GBRA was a plaintiff in federal litigation leading to the creation of the EAA in 1993. The stakeholders have not yet reached consensus on the level of springflow to be achieved by the adaptive management plan, but are continuing study and deliberation on this issue.

The level of springflow to be achieved by the adaptive management plan will in turn dictate the scope, magnitude and cost of the plan's adaptive management elements. Current plans suggest a minimum annual cost beginning as early as 2013 of \$27.6 million for management measures pursued in the first ten years of the plan. These measures include management requirements for the use of the System's Twin Oaks Aquifer Storage and Recovery ("ASR") Facility. An estimated \$15 million of the initial \$27.6 million annualized program cost is attributed to the ASR facility operations. Depending on the springflow requirements ultimately adopted in the HCP and incidental take permit, additional future aquifer management tools may be required. These include further pumping restrictions in periods of drought, and/or construction of a large-scale engineered solution such as a new regional aquifer storage and recovery facility, or a new recharge enhancement structure. The cost of further pumping restrictions to the System has not been measured. However, the System's current water management plan anticipates future pumping reductions attributable to EARIP at the level now being discussed by the stakeholders. If necessary, the cost of a major engineered structure could exceed \$500 million and may exceed \$1 billion. Allocation of any of these costs among program participants has not yet been addressed by the stakeholders. However, the System anticipates that a significant share of any potential costs will be allocated to the System and other municipal and industrial pumpers.

As part of the 2009 Plan, the System will continue its effort to maintain the extent of its leased water (37,000 acre-feet) through lease renewal or purchase during the entirety of the plan. In addition, the System will seek to add 2,000 acre-feet per year through purchases beginning in 2009 and continuing through 2014.

The 2009 Plan also identifies the potential lease or purchase of an up to 19,500 acre-feet of Edwards Aquifer water in the period between 2014 and 2034 if alternate water sources such as the Regional Carrizo or additional Brackish Groundwater are not available as expected.

Throughout 2009 and 2010, SAWS was very active in acquiring additional Edwards Aquifer water rights through either lease or purchase with a total of more than 26,000 acre-feet of Edwards Aquifer permits added to SAWS' inventory over the last year and a half. As of August 31, 2010, SAWS' total inventory of Edwards Aquifer permitted rights stands at 260,960 acre-feet, with approximately 226,000 acre-feet of this inventory owned and the remainder leased. As a result of the increased amount of Edwards permits, SAWS was able to add more than 30,000 acre-feet of water to the ASR since the approval of the 2009 plan bringing the total amassed storage to more than 82,000 acre-feet as of August 31, 2010.

### **EDWARDS AQUIFER RECHARGE INITIATIVES**

Recharge dams are structures that retain rainfall runoff water for short periods of time over the Edwards Aquifer Recharge Zone. Recharge dams retain storm runoff and retain it long enough to allow for a larger volume of water to enter into the Edwards Aquifer. During storm events storm runoff flows at a faster rate than what can be taken by the recharge features located in the stream channels. The recharge dam allows for a longer retention for more water to filter into the Edwards Aquifer, thus increasing recharge amounts.

The System is evaluating the feasibility of recharge structures development in the Cibolo Creek Watershed and the Nueces River Basin in concert with a host of local agencies, including the Guadalupe-Blanco River Authority, San Antonio River Authority, and the U.S. Army Corps of Engineers. Feasibility analyses continued to refine sites for potential dams, evaluate surface water storage potential, and prepare for environmental permitting.

The 2009 Plan calls for the System to continue to cooperate with other regional entities to complete the studies and construct a Recharge Project to produce over 13,400 acre-feet of water by 2020.

### **RECHARGE AND RECIRCULATION**

The System partnered with EAA to fund the Recharge and Recirculation: Edwards Aquifer Optimization Program, Phase III and IV Report. This report indicates that considerable potential exists to extend the concept of recharge of the Edwards Aquifer to the idea of applying recharge at specific places in the Aquifer where, because of the geologic characteristics of these locations, this recharge will provide long-term enhancement of Edwards Aquifer water levels and springflow.

Increased Edwards Aquifer levels and springflow during drought periods could decrease the necessity of declaring drought restrictions by the Edwards Aquifer Authority through increased (higher) aquifer levels and provide minimum springflow to help protect endangered species. The System could be rewarded for building a Recharge and Recirculation Project by receiving access to increased Edwards Aquifer water during drought periods.

Costs and extent of the water resources that will be available from the Recharge and Recirculation Project are undetermined at this time, but the potential is high enough that the Recharge and Recirculation Project is included as a project for consideration in the 2014 – 2034 mid-term period in the 2009 Plan.

### **TRINITY AQUIFER PROJECTS**

The System reached a milestone in February 2002 with the introduction of the first non-Edwards drinking water supply from the Lower Glen Rose/Cow Creek formation of the Trinity Aquifer in northern Bexar County. The System has wholesale contracts with Massah Corporation ("Oliver Ranch") and Sneckner Partners, Ltd. ("BSR Water Company") for delivery of up to 5,000 acre feet per year of non-Edwards groundwater from the Trinity Aquifer from two properties located in north-central Bexar County. The construction cost to produce and deliver this water supply is approximately \$15.8 million. Initial delivery of water from the Oliver Ranch project began in February 25, 2002 with BSR Water Company wells 1 and 2 production commencing in July 2003. The BSR Water Company project was fully operational in June 2004 with the connection of BSR Water Company wells 3 and 4 to the System's distribution system.

In 2007, production from Oliver Ranch and BSR Water Company projects was 3,126 acre-feet; in 2008, production from these combined projects totaled 3,422 acre-feet; and in 2009, production from these combined projects totaled 1,736 acre-feet. The low production in 2009 was the result of the severe drought conditions experienced across the region during the first eight months of 2009. The 2009 Plan identifies that 3,500 acre-feet of water will be obtained from Trinity Aquifer sources in normal rainfall years. In severe drought, the 2009 Plan acknowledges that the Trinity Aquifer water may not be available.

### **LOWER COLORADO RIVER AUTHORITY PROJECT**

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 2001, legislation was passed to authorize LCRA to sell water outside its statutory boundary to the System. The System and LCRA executed a definitive agreement (in 2002) outlining LCRA's and the System's obligations. The agreement called for a multi-year study period, at the end of which both the System and LCRA will determine whether or not to proceed with implementation of the project. Finalization of studies and obtaining appropriate permits for the project is expected to be completed between 2013 and 2015.

Throughout the study-period, the System and LCRA evaluated the project's viability on an ongoing basis. Specific legislative criteria (Texas Water Code § 222.030) must be met before any water is transferred from the Colorado River basin. Among other requirements, the project must provide for beneficial inflows sufficient to maintain the ecologic health and productivity of the Matagorda Bay System; protect and benefit the Lower Colorado River Basin; raise the highland lake levels; and provide for a broad, public and scientific review process. In 2008, research activities focused on development of bay health species and inflow criteria; water quality; instream flow criteria; agricultural conservation; groundwater development; socioeconomic considerations; waterfowl; surface water availability modeling; the identification of a preferred alternative site for the location of an off-channel storage facility and river intake facility; the transportation system, treatment, and integration system from the LCRA basin boundary to San Antonio; and project permitting.

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 for San Antonio from the planned project. In a series of meetings and letters over the next four months, the System conveyed to LCRA the System's belief that this action by the LCRA Board was inconsistent with the Definitive Agreement between the parties. On May 5, 2009, the Board declared LCRA in breach of the 2002 Definitive Agreement and directed the System staff to pursue all available remedies for the breach. The parties conducted formal mediation on August 5, 2009, but the mediation was unsuccessful. The System filed suit against LCRA on August 24, 2009, in the 200th Judicial District Court of Travis County, Texas (cause number D-6N-09-002760, styled *City of San Antonio, Acting by and Through the San Antonio Water System vs. Lower Colorado River Authority, et al*). LCRA filed a Plea to the Jurisdiction and Original Answer on September 25, 2009, asserting full or partial governmental immunity from suit and generally denying that it has breached the Definitive Agreement. On February 1, 2010, the district judge ruled in favor of LCRA by granting LCRA's Plea to the Jurisdiction in agreement with LCRA's contention that its sovereign status immunized it from suit by the System, dismissing the System's lawsuit. On February 17, 2010, the System filed an appeal to the Court of Appeals for the Third Appellate District of Texas in Austin, Texas. Following a decision by the Court of Appeals, either party may further appeal to the Supreme Court of Texas. However, consideration by the Supreme Court is discretionary with that Court and may be refused. Resolution of the appeal on the issue of governmental immunity is expected to take from two to five years, although the time is very difficult to predict.

During the course of the study and planning periods since 2002, the System incurred certain costs with respect to the design of the pipeline which was to be utilized to transport water from the LCRA basin boundary to San Antonio. These costs totaling \$2.7 million were recorded as an asset on the System's balance sheet. Given the uncertain nature of this project at the current time, the System is currently in the process of evaluating any potential impairment to this asset. Should it ultimately be determined that this asset has suffered a permanent, unrecoverable impairment it will be written down to its fair market value, which is likely to be \$0.

See "LITIGATION AND REGULATORY MATTERS – San Antonio Water System Litigation and Claims" herein.

The 2009 Plan calls for one or more of several Water Resources Projects to provide at least 75,600 acre-feet of water to meet the System's long-term water needs in approximately 2060. In addition to this LCRA-SAWS water project, Ocean Desalination, an additional Aquifer Storage and Recover project, and other potential water supplies were identified as options.

#### **BEXAR COUNTY AQUIFER STORAGE AND RECOVERY**

An ASR project involves injecting ground or surface water into an aquifer, storing it and later retrieving it for use. Essentially, it accomplishes storage that is traditionally provided through surface water reservoirs without the concern of evaporation. The ASR is primarily designed to optimize use of water from the Edwards Aquifer and may be expanded to inject water from currently planned future water supply projects. In December 2002, the Evergreen Underground Water Conservation District and the System approved an Aquifer Protection and Management Agreement. This agreement ensures operation of the ASR site if the property is annexed into the district, manages groundwater production, and commits the System to monitoring water levels and mitigation of potential negative impacts.

The System began study of an ASR project in 1996, acquired 3,200 acres in southern Bexar County and has completed construction of Phase I of the \$125 million ASR project and the approximately \$60 million "integration facilities" to transport this water into the System's distribution system. Phase I of the project was dedicated on June 18, 2004 and gave the System the ability to inject or recover up to 30,000 acre-feet of Edwards Aquifer water per year.

In 2006, the ASR was an integral component of the System's drought management strategy. Approximately 5,800 acre-feet of supplies were withdrawn during the hot, dry summer months in order to reduce peak demand during the drought period. Effective scheduling and use of this additional inventory enables the System to ensure its compliance with the EAA's rules for groundwater withdrawals.

In 2008, the System continued capital improvements to complete Phase II of the project, which involves well field expansion and treatment plant improvements through the completion of thirteen additional wells, the addition of a 7.5 million gallon storage tank, and the addition of various pumping facilities. The \$55 million Phase II expansion completed in January 2010 effectively doubled the System's ability to inject or recover Edwards Aquifer groundwater to approximately 60,000 acre-feet per year. The System has continued to store water in the ASR. During July 2008 and again in August 2009, ASR water was recovered and

returned to the System's distribution system when the Edwards Aquifer Authority implemented water restrictions. The System's ASR facility was recognized in 2007 by the National Groundwater Association as the "2007 Outstanding Groundwater Project."

In the 2009 Plan, ASR's role has been expanded with the decision to transition this facility to a long-term storage reserve. In addition, the 2009 Plan refers to expansion of ASR storage capability as a long-term strategy to optimize available water resources. To achieve the planned expansion, a study commenced in 2009 to determine the total storage capability of the current ASR site and options for additional ASR sites. As of December 31, 2009, the System had amassed net storage of more than 67,000 acre-feet of water that will be used in long-term drought situations to help meet the System water needs. The System will continue to store water when it is available and recover water when required during drought.

#### **WESTERN CANYON PROJECT**

The System, Comal and Kendall County participants, and GBRA are working together on the Western Canyon Project for the delivery of water from Canyon Lake Reservoir. GBRA is required through the contract to divert, treat and deliver the water to a certain point into the System's delivery system. The System initially received over 8,900 acre-feet per year when the system was fully operational, for service to northern Bexar County. Over time, this amount will decline to 4,000 acre-feet, as GBRA's in-district participants in the project complete infrastructure necessary to enable them to obtain supplies and growth allows the participants to utilize their full allotment of reserved water.

The System began receiving water from this project in April 2006. In 2006, the System received 4,957 acre-feet of supplies from this project. In 2007, the System produced approximately 7,597 acre-feet of supplies from this project, in addition to completing the addition of a storage tank and integration pipeline to facilitate delivery of this supply into the System's distribution system. In 2008, 8,943 acre-feet was delivered from this project. In 2009, 8,729 acre-feet was delivered from this project. Pursuant to the terms of the contract with GBRA, this contract will terminate in December 2037, with an option to extend until 2077 under new payment terms.

#### **BRACKISH GROUND WATER DESALINATION PROJECT**

Such a project is well suited for the south central Texas region, which contains more than 300,000,000 acre-feet of brackish groundwater. Hydrologic research on the sustainability of supply and water quality parameters began in December 2005. The 2009 Plan calls for completion of a brackish water desalination plan to annually produce 11,800 acre-feet of potable water per year by 2014. The plan will rely on brackish water pumped from Bexar County. The plan also makes provision for the project to include other water from Wilson and Atascosa Counties to provide at least an additional 11,700 acre-feet by 2034, depending on how other mid-range projects develop.

The majority of feasibility work for the brackish groundwater desalination project was completed in 2008. Raw water quality is favorable for development of a desalination facility and there is sufficient raw water to support a plant for greater than 50 years. Successful pilot testing of the membranes used in the full scale treatment plant was conducted during 2009 and 2010 and indicates that a recovery rate of 90% is sustainable. The pilot testing report was submitted to the TCEQ in June 2010 for review and approval. The reverse osmosis treatment plant will be located in southern Bexar County on property owned by the City. Water from the desalination plant will be integrated by pipeline into the northwest portion of San Antonio. Deep well injection is proposed for the concentrate disposal. The System is preparing to drill a test injection well on City owned property in south Bexar County. It is anticipated that injection testing will be completed in mid-2011 in order to finalize concentrate disposal plans. The initial eight production required for the first phase of the project are under design.

In December 2009, the City sold to the TWDB its "Water System Junior Lien Revenue and Refunding Bonds, Series 2009A" pursuant to the TWDB's Water Infrastructure Fund ("WIF") program to provide funds (and to refund outstanding commercial paper notes initially issued) for the desalination project. SAWS submitted another application to the TWDB on August 1, 2010 concerning its purchase of another series of bonds issued in support of the desalination project under the WIF program.

#### **CARRIZO AQUIFER PROJECTS**

The 2009 Plan includes a project to obtain 11,687 acre-feet of water from the Carrizo Aquifer in Gonzales County. The 2009 Plan calls for the water to be available for SAWS use by 2015.

Developing and sustaining the Carrizo Aquifer project requires permits for groundwater drilling, production, and transport from the Gonzales County Underground Water Conservation District (the "District"). The District is a local governmental entity with a locally elected Board of Directors. The District operates pursuant to statutory authority set forth in Chapter 36 of the Texas Water Code. The System submitted an initial, consolidated permit application to the District in June 2006 for production and transportation of 11,687 acre-feet of Carrizo Aquifer groundwater. Pursuant to the District's current rules, production permits have a term of five years, after which they may be reissued by the District's Board of Directors. Transportation permits have a term of thirty years, subject to periodic five-year review.

The System's application was declared administratively complete on July 12, 2006, and contested by several parties on October 10, 2006. Throughout 2007, 2008 and 2009, the System participated in several public hearings, multiple mediation sessions, and extensive pre-hearing discovery as part of the contested case hearing process. The contested case hearing took place October 5-13, 2009, and December 4, 2009, in Gonzales, Texas. Additional mediation sessions were held on December 18, 2009, and February 3, 2010, ultimately resulting in four entities dropping their protests of the System's applications. Two entities continued to oppose the applications. On July 13, 2010, the District approved the System's permit application to drill, produce, and transport 11,688 acre-feet of Carrizo Aquifer water from Gonzales County. The permit was formally issued on September 22, 2010.

The remaining contesting parties filed a motion for rehearing with the District on July 30, 2010. The District's Board of Directors took no action on the motion. Consequently, pursuant to the rules of the District, the Motion for Rehearing was deemed denied on October 29, 2010. The opponents have until December 27, 2010, to file an appeal from the District's decision in the Judicial District Court of Gonzales County if they so desire. Public statements by the contesting parties have suggested that an appeal is likely. If an appeal is filed, it will be considered by the court under a limited review standard as authorized in Chapter 36. Resolution of the appeal could take from one to four years.

In order to minimize the cost of the project by foregoing the need for a major new pipeline, the System is currently negotiating with another public entity known as the Schertz Seguin Local Government Corporation ("SSLGC") for shared use of that entity's existing water treatment facility and other infrastructure in Gonzales County and Guadalupe County in the vicinity of the System's project well field. The SSLGC is a statutory quasi-governmental corporation created by the Cities of Schertz, Texas, and Seguin, Texas, to develop and operate a ground water supply for those municipalities. It also provides services to certain other small municipalities in the area. If negotiations are successful, the contract between the System and SSLGC would, among other things, secure contract revenue bonds issued by the SSLGC to fund an expansion of the SSLGC's existing treatment facility. The cost of the expansion is currently estimated to be between \$15 million and \$20 million; however, the exact cost will be determined by bid at some point in the next four years at the discretion of the System. When the exact price is known, the System will have the option of directing SSLGC to proceed or not proceed with the expansion. If the contract revenue bonds are issued by the SSLGC, the obligation of the System to make payments to SSLGC under the contract will be unconditional. In addition to funding the expansion of the facilities, the System would pay the SSLGC for water treatment services and may also purchase certain surplus water available from the SSLGC's inventory. Current plans call for the contract to be finalized and effective in early 2011.

Prior to entering into the negotiations with SSLGC, SAWS expended approximately \$12 million with respect to the design of a stand alone pipeline which would have delivered the water from this project to the System water treatment plant in southern Bexar County. These costs have been recorded as an asset on the System's balance sheet. Once the System finalizes the agreement with SSLGC, it will need to evaluate any potential impairment to this asset. Should it ultimately be determined that this asset has suffered a permanent, unrecoverable impairment (being that it is no longer needed by the System), it will be written down to its fair market value, which is likely to be \$0.

#### **LOCAL CARRIZO WATER PROJECT**

A provision of the 2002 Water Resource Protection and Management Agreement with the Evergreen Underground Water Conservation District gives the System the ability to withdraw up to 2 acre-feet of Carrizo Aquifer water per surface acre of land owned or leased. This equates to approximately 6,400 acre-feet of Carrizo Aquifer production per year. Thus, in 2006, the System initiated the Local Carrizo Program at the ASR site with dual goals in mind. The first was to provide the System with access to approximately 6,400 acre-feet of Carrizo Aquifer water, while the second was to counter the natural south-southeast drift of the stored Edwards Aquifer water away from the ASR wellfield with water wells drilled north-northwest of the stored Edwards Aquifer water.

The approximately \$17 million Local Carrizo Water Supply program is comprised of two phases: an ASR onsite phase and an ASR offsite phase. The onsite began production in August 2008, with production of 383 acre-feet in 2008. Total production during 2009 was 5,934 acre-feet.

The offsite phase was completed in August 2010. While this additional phase will reduce the effects of this naturally occurring movement of water and provide increased operational flexibility of recovering the stored water, no additional production capacity accompanies the offsite phase.

#### **OTHER POTENTIAL WATER SUPPLY PROJECTS**

The System periodically receives unsolicited proposals for new water supply projects. Recent proposals have included large groundwater projects in Val Verde, Kinney, and Uvalde Counties to the west of San Antonio, Comal County north of San Antonio, and Brazos, Burleson, Lee, Leon, Milam, and Robertson Counties northeast of San Antonio among others. Each of these projects would include a requirement for construction of both production facilities and transmission infrastructure. Each project would have to be undertaken within the regulatory constraints of local groundwater conservation district rules. The proposals generally vary in terms of ownership, permitting, construction, financing and operational responsibilities.

The 2009 Plan indicates the System may need over 75,000 acre-feet of water in the long-term projection to meet long-term demand. One of the possible ways the 2009 Plan provides to meet this demand is to issue a request for qualification ("RFQ") solicitation. This would allow water purveyors to submit their water projects to the System in a logical manner that can then be evaluated equally using the same evaluation criteria. The System decided to issue a two-step request process. Initially, a Request for Information ("RFI") was issued in September 2010 requesting the responder provide the System with information about the water projects and provide the water purveyors with the type of information SAWS will be relying on in the subsequent issuance of a Request for Competitive Sealed Proposals. The Request for Competitive Sealed Proposals is scheduled to be issued in January 2011 with a six month return date in July 2011. The System will then evaluate the proposals to determine if any meet the requirements of the System for future water. SAWS received thirteen responses of interest through the initial phase of this process by the October 22, 2010 deadline, and expects to commence the second phase as described above.

#### **OCEAN DESALINATION**

The 2009 Plan includes the development of an ocean desalination project as one of the options to meet the System's long-term water needs. Communications and outreach activities were undertaken in 2009 and will continue through 2010. Partnering opportunities will be explored during the outreach phase and will continue to be explored in the future. Ocean desalination appears to be the most expensive source of new water resources. A feasibility study will be commissioned at some time in the future to provide some certainty to cost estimates for informed consideration in the future.

#### **WATER REUSE PROGRAM**

The System owns the treated effluent from its wastewater treatment plants and has the authority to contract to acquire and to sell non-potable water inside and outside the System's water and wastewater service area. The System has developed a water reuse program utilizing the wastewater stream. Currently, approximately 23,000 acre feet per year are under contractual commitment and 12,600 acre feet per year are on-line. The System will deliver up to 35,000 acre feet per year of reuse water for non-potable water uses including golf courses and industrial uses that are currently being supplied from the Edwards Aquifer. This represents approximately 20% of the System's current usage. Reuse water will be delivered for industrial processes, cooling towers, and irrigation, which would otherwise rely on potable quality water. Combined with the 50,000 acre feet per year used by CPS, this is the largest reuse water project in the country. The System has a contract with CPS through 2030 for provision of such reused water. The revenues derived from the CPS Contract have been excluded from the calculation of Gross Revenues, and are not included in any transfers to the City.

#### **INTEGRATION PIPELINE**

The 2009 Plan addresses the operating challenge of co-locating the Brackish Groundwater Project, Local Carrizo and Aquifer Storage and Recovery Projects at a single site (Twin Oaks in Southern Bexar County) by expediting the Integration Pipeline Project. It will bring water to the Western part of the City to match the System's current capability to bring water to the eastern part of the City. The project is scheduled for completion by 2016.

#### **CONSERVATION**

Beginning in 1994, the System progressively implemented aggressive water conservation programs, which reduced total per capita water production and use by 43.2%, going from 213 gallons per person per day ("gpcd") in 1994 to approximately 121 gpcd in 2004. Given these accomplishments, the 2005 Update to the System's fifty-year Water Resource Plan set a new goal for conservation that includes the provision to reduce per capita consumption to 116 gpcd during normal-year conditions and 122 gpcd during dry year conditions by 2016. An evaluation of these per capita usage goals for both normal and dry year conditions was performed as part of the Water Supply Task Force review of the System's Water Resources Plan. The goal for normal conditions remains 116 gpcd by 2016, with 126 gpcd in dry years and 106 gpcd in wet years.

In 2006, the System's efforts in the area of conservation earned the System the 2006 City Water Conservation Achievement Award. This award, sponsored by the U.S. Conference of Mayors, recognizes a city's ability to significantly reduce water use. In 2007, the System's conservation activities were recognized by Harvard University and the Ash Institute as one of eighteen (18) finalists for the 2007 Innovations in American Government Awards.

#### **INDOOR RESIDENTIAL CONSERVATION**

Indoor residential conservation programs encourage customers to save water inside their homes. A variety of education and rebate incentive programs assist ratepayers in achieving conservation. Customers learn about these programs through the System's website, public events, direct mail inserts in bills, paid advertisements and educational materials in popular local periodicals. The System's most effective programs for indoor water use reduction include the following:

*Toilet Retrofits*, which involve the distribution of high-efficiency toilets, provide a substantial water savings for San Antonio. The System sponsors activities like the "Season to Save Community Challenge," which tests the idea that non-profit organizations are effective at motivating ratepayers to participate in resource management programs. In 2007, the System distributed 27,000 high-efficiency toilets ("HET")/low flow toilets ("LFT"). In 2008, 25,000 HET/LFT were distributed and in 2009, 19,000 HET/LFT were distributed.

*Plumbers to People* provides leak repairs and retrofits to qualified low-income homeowner customers. The System, in cooperation with the City of San Antonio's Community Action Division ("CAD"), qualifies applicants based on the current Federal Assistance Guidelines. Only leaks that result in a loss of potable water are eligible for repair under the program. Water Conservation is achieved by quickly repairing leaks that would otherwise continue due to the cost of repairs. Analysis of program costs and water savings indicate that this affordability program is also one of the System's most effective at conserving water at a reasonable cost per unit.

## **OUTDOOR RESIDENTIAL CONSERVATION**

Residential outdoor programs address landscape and irrigation practices of homeowners. Outdoor use can account for up to 50% of total residential water use in the summers and average 20% of the water used annually. Education programs help ratepayers understand how following best practices can save water and money. The System's most effective programs for outdoor water use reduction include the following:

*Conservation Consultations* provide the System's ratepayers with a free analysis of their in-ground irrigation system and landscape care needs. Trained Conservation Consultants visit homes to review each component of irrigation systems to determine maintenance needs to make suggestions for improving efficiency. Customers are invited to participate in the review process to get the maximum benefit from the site visit. A report that outlines any necessary maintenance repairs, suggestions for design improvements and how much water the system uses is provided to customers. The consultation visit includes suggestions on rebate incentive amounts available for making suggested design improvements. Customers are advised of ways to further reduce outdoor consumption by adjusting irrigation scheduling and by considering other landscape options. These visits result in an average 9% drop in consumption for residential customers.

*WaterSaver E-Newsletter* is a free information service provided to customers who want expert advice on how to take care of their Texas landscape. It includes timely lawn irrigation advice that is based on current weather conditions. Local horticulture experts provide weekly articles on seasonal landscape care. Plants that thrive in San Antonio are featured. A gardening expert responds to regularly submitted questions. In addition, gardening related events are highlighted in an events calendar. This weekly communication is currently going to 9,000 customers. Master Gardener volunteers help to promote the free service and subscriptions are regularly growing.

## **COMMERCIAL AND INDUSTRIAL PROGRAMS**

The System has been working closely with commercial customers to help them conserve water for several years. In 1998, the commercial and industrial programs were expanded to include the toilet retrofit rebates previously offered only to residential customers. Water audits and case-by-case rebates for large-scale retrofits are also available. Since 1996, car wash businesses that meet certain conservation criteria are certified and provided a sign to be posted on their place of business. Every year, the System presents Conservation Awards to recognize businesses, organizations and/or individuals that voluntarily initiated water conservation practices. Among the System's most effective programs for commercial and industrial water use reduction include the following:

*Commercial Retrofit Program* allows businesses with older, high-flow fixtures to replace them by receiving free fixtures from SAWS. The facility needing a retrofit is analyzed to determine which fixtures should be changed and what new product will best meet the needs of the site. Fixtures targeted for change include toilet, showerheads, faucet aerators, urinals, ice machines and restaurant spray valves. Plumbing services to install the fixtures may be provided by SAWS if it is determined that the amount of water saved is high enough to offset the additional expense. Four-star hotels around San Antonio have completed these retrofits and had high customer ratings for their quality. All schools in the SAWS service area have been retrofitted and many office buildings are currently in the program. The indoor water consumption at facilities that are retrofitted reduces by 20% or more after retrofits are completed.

*Restaurant Certification* program is the result of the System working with the San Antonio Restaurant Association. Participating restaurants receive replacement spray valves for their kitchen, have older toilets replaced, and learn about other ways they can reduce their water bills. The program has been very popular with restaurants. To date, 1,268 restaurants have been certified, with the replacement of 2,322 high-flow pre-rinse spray valves and 726 high-flow toilets. Total water savings associated with this program equates to approximately 610 acre-feet per year. A list of the Certified WaterSaver Restaurants is available on the System's website.

*Large-scale Retrofits Program* allows commercial water users of all sizes to apply on a case-by-case basis for a rebate for installation of water conserving equipment. The rebate may be for up to one-half of the cost of the retrofit, depending on the amount of water to be saved and other factors. The program requires a pre-audit, a pre-inspection and on-going verification of water savings. Examples of retrofit projects are diverse and include reclaim of air conditioning condensate, a change in process water usage, or retrofit to a non-water use technology.

*Cooling Tower Consultations* help businesses manage their cooling towers as efficiently as possible. This program provides for free consultations on all cooling towers within the System's service area. A cooling tower review provides the customer with detailed advice on their specific operation, as well as recommendations for achieving water and energy savings through increased cycles of concentration, capture of blowdown water for reuse in other applications, or installation of other water conserving equipment.

*Landscape & Irrigation Consultations:* Businesses are finding that irrigation consumption can account for a significant amount of their total water usage. Conservation staff seek to work with irrigation and landscape professionals and with building managers to put best management practices in place. These visits include a review of the overall site plan, the landscape maintenance plan, irrigation system quality and irrigation scheduling. Customers are left with information on retrofits to improve efficiencies and irrigation scheduling advice. As part of the site analysis, custom rebates may be approved to encourage irrigation upgrades.

*WaterSaver Contractor:* A free training program called the "WaterSaver Contractor" program enhances the expertise of landscape and irrigation professionals to add an increase vigilance on water conservation. Irrigation and landscape maintenance companies use the program to improve the knowledge of their staff at all levels. SAWS customers can then hire companies with this training and request a higher level of oversight over their property for landscape water savings.

## **WATER QUALITY**

The System's Resource Protection and Compliance Department is responsible for protecting the quality of the Edwards Aquifer and conducting technical evaluations of how to increase its yield. The TCEQ has adopted rules relating to the activities of landowners in the recharge and drainage zones of the Edwards Aquifer. The City has adopted ordinances applicable within its city limits that limit or regulate activities, which could be harmful to water quality and has, through its Unified Development Code, regulated certain development within the City's ETJ (five miles from city limits).

Research on the Edwards Aquifer is conducted as part of the Edwards Aquifer Optimization program. This is a comprehensive program that identifies and evaluates technical options to increase available yield from the Edwards Aquifer and to attempt to use the aquifer's storage capacity more efficiently. In 2007, the System continued its investigation studies concerning the freshwater/saline-water interface of the Edwards Aquifer. The goal of these studies is to gain a better understanding of the hydrogeologic framework, chemical and hydraulic characteristics, and ground water flowpaths of the freshwater-saline water interface of the Edwards Aquifer. The USGS study of the San Marcos springs hydrogeology and water balance is currently in Year 3 of a 4 Year Study. The San Marcos Springs Recharge – Investigative Study effort encompasses scientific investigative work to refine the hydrogeologic setting, determine the hydraulic properties and groundwater flow gradient, and perhaps define local sources and flowpaths providing flow from San Marcos Springs. This study would provide data for evaluation of the local versus regional sourcing of springflow, the effectiveness of current management strategies, and the need for revised management policies to maintain San Marcos Spring flow. The data collection phase of the study is winding down, with the final report due to SAWS by December 31, 2011.

## **BEXAR METROPOLITAN WATER DISTRICT**

The Bexar Metropolitan Water District ("BexarMet") provides water service to approximately 90,000 customers in, and around, San Antonio in a 273 square-mile service area that includes Bexar and Atascosa counties. During the last legislative session which ended June 1, 2009, legislation was filed that would have allowed BexarMet's customers to vote on the potential abolishment of BexarMet. No such legislation passed at that time. On September 27, 2010, the BexarMet Legislative Oversight Committee stated it would consider the endorsement of a conservator and a referendum to dissolve the BexarMet Board. On October 19, 2010, the Bexar County Commissioners Court passed a resolution supporting this recommendation. The BexarMet Legislative Oversight Committee will continue to meet through the end of this year. This Committee will then make official recommendations to the Texas Legislature for its consideration during the 2011 legislative session. The Texas Legislature is not required to follow the Committee's recommendations.

## **SALADO CREEK TREATMENT PLANT CLOSURE**

In 2006, SAWS diverted all effluent flow from its Salado Creek Treatment Plant to its Dos Rios Treatment Plant in order to take advantage of the additional capacity and more efficient treatment process available at Dos Rios. In 2010, the dismantling and closure of the Salado Creek Treatment Plant was complete. In connection with this closure, it is anticipated that \$13.6 million of the remaining book value of assets eliminated as a result of the closure will be charged off to depreciation expense during the fourth quarter of 2010. This non-cash transaction will have no impact on the financial condition or operations of SAWS.



## DEBT INFORMATION

### COMBINED SYSTEM REVENUE DEBT SERVICE REQUIREMENTS

Fiscal Year Ended	Existing Debt <sup>(1)</sup>				The Bonds				Total Debt Service Requirements <sup>(3)</sup>	Percent of Principal Retired
12/31	Principal	Interest	Less Tax Credit	Total	Principal	Interest	Less Tax Credit <sup>(2)</sup>	Total		
2010	\$ 38,590,000	\$ 78,103,395	\$ (1,771,848)	\$ 114,921,548	\$ -	\$ -	\$ -	\$ -	\$ 114,921,548	
2011	39,220,000	78,052,251	(1,904,075)	115,368,176	-	5,903,313	(2,066,160)	3,837,153	119,205,330	
2012	40,625,000	76,647,733	(1,904,075)	115,368,658	1,635,000	6,028,413	(2,109,945)	5,553,469	120,922,127	
2013	42,200,000	75,065,929	(1,904,075)	115,361,854	1,645,000	6,007,363	(2,102,577)	5,549,786	120,911,640	
2014	43,960,000	73,298,149	(1,904,075)	115,354,074	1,665,000	5,979,287	(2,092,751)	5,551,537	120,905,611	11.23%
2015	45,815,000	71,761,819	(1,888,451)	115,688,368	1,685,000	5,944,382	(2,080,534)	5,548,848	121,237,216	
2016	50,015,000	70,110,496	(1,854,385)	118,271,111	1,715,000	5,901,936	(2,065,678)	5,551,259	123,822,369	
2017	54,765,000	67,894,947	(1,814,720)	120,845,227	1,750,000	5,851,126	(2,047,894)	5,553,232	126,398,459	
2018	57,160,000	65,450,256	(1,770,871)	120,839,385	1,785,000	5,791,194	(2,026,918)	5,549,276	126,388,661	
2019	57,335,000	62,938,174	(1,724,434)	118,548,740	1,830,000	5,723,486	(2,003,220)	5,550,266	124,099,006	25.91%
2020	60,610,000	60,300,723	(1,675,017)	119,235,706	1,880,000	5,651,215	(1,977,925)	5,553,290	124,788,996	
2021	64,310,000	57,464,403	(1,621,804)	120,152,599	1,930,000	5,573,657	(1,950,780)	5,552,877	125,705,476	
2022	66,810,000	54,493,289	(1,564,586)	119,738,703	1,985,000	5,490,044	(1,921,515)	5,553,528	125,292,231	
2023	68,455,000	51,362,766	(1,503,793)	118,313,972	2,040,000	5,399,548	(1,889,842)	5,549,706	123,863,678	
2024	69,055,000	48,135,055	(1,439,466)	115,750,589	2,105,000	5,300,641	(1,855,224)	5,550,416	121,301,005	44.09%
2025	69,110,000	44,843,730	(1,371,178)	112,582,552	2,175,000	5,193,178	(1,817,612)	5,550,565	118,133,117	
2026	73,660,000	41,416,292	(1,287,939)	113,788,353	2,255,000	5,067,931	(1,773,776)	5,549,155	119,337,508	
2027	76,860,000	37,788,583	(1,201,668)	113,446,915	2,350,000	4,925,867	(1,724,053)	5,551,813	118,998,728	
2028	78,095,000	34,012,437	(1,131,717)	110,975,720	2,445,000	4,777,941	(1,672,279)	5,550,661	116,526,381	
2029	45,235,000	31,052,003	(1,059,214)	75,227,789	2,545,000	4,623,999	(1,618,400)	5,550,600	80,778,388	63.10%
2030	44,315,000	28,933,530	(975,497)	72,273,033	2,650,000	4,463,734	(1,562,307)	5,551,427	77,824,460	
2031	46,405,000	26,738,642	(887,903)	72,255,739	2,760,000	4,296,835	(1,503,892)	5,552,943	77,808,682	
2032	48,600,000	24,438,149	(797,074)	72,241,076	2,870,000	4,123,150	(1,443,102)	5,550,047	77,791,123	
2033	50,880,000	22,050,600	(702,911)	72,227,689	2,990,000	3,941,621	(1,379,567)	5,552,054	77,779,743	
2034	60,820,000	19,402,959	(605,219)	79,617,740	33,560,000	2,804,916	(981,721)	35,383,195	115,000,935	78.96%
2035	63,730,000	16,389,096	(503,900)	79,615,196	4,495,000	1,628,148	(569,852)	5,553,296	85,168,492	
2036	66,860,000	13,158,871	(398,855)	79,620,015	4,670,000	1,356,864	(474,902)	5,551,962	85,171,977	
2037	70,090,000	9,816,955	(289,889)	79,617,066	4,855,000	1,074,924	(376,223)	5,553,701	85,170,766	
2038	59,830,000	6,647,969	(176,855)	66,301,114	5,045,000	781,884	(273,659)	5,553,225	71,854,339	
2039	59,690,000	3,647,008	(59,654)	63,277,353	5,240,000	477,448	(167,107)	5,550,341	68,827,695	97.43%
2040	42,540,000	1,063,500	-	43,603,500	5,445,000	161,172	(56,410)	5,549,762	49,153,262	100.00%
	<u>\$ 1,755,645,000</u>	<u>\$ 1,352,479,708</u>	<u>\$ (37,695,148)</u>	<u>\$ 3,070,429,559</u>	<u>\$ 110,000,000</u>	<u>\$ 130,245,213</u>	<u>\$ (45,585,825)</u>	<u>\$ 194,659,389</u>	<u>\$ 3,265,088,948</u>	

- (1) Excludes tax-exempt commercial paper program; as well as that portion of interest on outstanding Senior Lien Obligations that is off-set by the City's receipt from the Treasury of a refundable tax credit with respect thereto as a result of such obligation's designation as "build America bonds" and "qualified bonds" under the Code. See "THE BONDS – Refundable Tax Credit Bonds" herein.
- (2) See "THE BONDS – Refundable Tax Credit Bonds".
- (3) Total debt service excludes tax-exempt commercial paper.

**INTEREST RATE HEDGE TRANSACTION . . .** To hedge against changes in interest expense associated with the Subordinate Lien Obligations designated as the "City of San Antonio, Texas Water System Subordinate Lien Revenue and Refunding Bonds, Series 2003-A and 2003-B" (the "Subordinate Lien Obligations"), which were issued in a weekly interest reset mode, the City has entered into an agreement with JPMorgan Chase Bank, N.A., as the successor in interest to Bear Stearns Financial Products Inc. Under the agreement, the City must pay any excess monthly (and the counterparty must pay any deficit monthly) of 4.18% per annum over the Municipal Swap Index published by The Securities Industry and Financial Markets Association applied to a specified notional amount that reduces annually through the date of stated termination. The City's obligations under the agreement (up to stated policy limits upon termination) are insured by MBIA Insurance Corporation ("MBIA"); the counterparty's obligations are not insured or guaranteed. The City and the counterparty may each terminate the agreement if the other party (or in some cases, its insurer) commits an event of default (including under other specified transactions and indebtedness) or certain acts of insolvency, or may not legally perform its obligations under the agreement, or merges or otherwise combines with or transfers substantially all of its assets to a materially less creditworthy entity. In that case, neither party may terminate the agreement without the consent of MBIA. The counterparty may also terminate the agreement if (a) MBIA defaults on the hedge insurance policy, (b) MBIA fails to maintain an "A3" rating from Moody's and an "A-" rating from S&P (the counterparty's ability to exercise the right to terminate upon the occurrence of either of (a) or (b) requires also that an event of default occurs and is continuing with respect to the City or a termination event occurs and is continuing with respect to the City), or (c) the ratings assigned to the Senior Lien Obligations are reduced below "A1" by Moody's or "A+" by S&P and the claims paying ability of MBIA are reduced below "A2" by Moody's or below "A" by S&P. Under certain circumstances, MBIA may exercise the parties' termination rights. If either party terminates the agreement, the City must pay to the counterparty (or the counterparty must pay to the City) the mean or median average of amounts quoted by leading dealers to be paid to or by the counterparty to enter into an economically equivalent agreement with the counterparty, regardless of whether the City or the counterparty was the defaulting party.

The City's obligations under the agreement will be secured by a lien on the Net Revenues of the System on a parity with the lien securing the Subordinate Lien Obligations and other Additional Subordinate Lien Obligations, except that the lien securing any uninsured portion of the City's termination obligations is subordinate to that lien. Any amounts received by the City under the agreement will be revenues of the System. They will not be available to pay the Subordinate Lien Obligations unless Net Revenues remain after paying debt service due on the Senior Lien Obligations and the Junior Lien Obligations. The counterparty's indexed obligations under the agreement are expected to correlate closely to the City's interest obligations on the Subordinate Lien Obligations and Commercial Paper Notes so long as the credit of the credit enhancer and liquidity bank and the tax-exempt status on the Subordinate Lien Obligations and Commercial Paper Notes are maintained. If the counterparty's obligations do not correlate closely, or if the counterparty defaults in payment under the agreement, the City would be exposed to possible increases in the rate of interest on the Subordinate Lien Obligations and Commercial Paper Notes.

The System still considers the swap agreement to be a valuable variable rate management tool within its debt portfolio. Accordingly, the System negotiated amendments to the swap agreement, effective June 16, 2009, with JPMorgan Chase Bank, N.A. and MBIA to amend the swap agreement to allow the remaining Subordinate Lien Obligations outstanding to be redeemed with Commercial Paper Notes, while maintaining the swap agreement as an existing obligation to all parities. These amendments provide for the conditional release of MBIA's swap insurance policy upon the occurrence of certain future events. The System redeemed the remaining Subordinate Lien Obligations on June 24, 2009 with Commercial Paper Notes. See "Commercial Paper Note Program" below. No such obligations are currently outstanding; \$106,530,000 in Commercial Paper Notes used to redeem Subordinate Lien Obligations is currently outstanding.

System management does not expect the recent transaction to redeem the Subordinate Lien Obligations and amend the associated interest rate hedge agreement to have a materially adverse impact on the System's financial position or results of operations.

If the swap agreement is terminated, the City could be obligated to make a substantial payment to the counterparty, depending on market conditions. The City may also enter into other interest rate hedging transactions payable from System revenues in the future, with comparable risks.

**COMMERCIAL PAPER NOTE PROGRAM . . .** The City Council has authorized a Tax-Exempt Commercial Paper Program for the System (the "TECP") in the amount of \$500,000,000. The purpose of the TECP is to provide funds for the interim financing of a portion of the costs of capital improvements to the System. Scheduled maturities of the short-term borrowing under the TECP may not extend past June 28, 2041. The TECP is supported by a revolving credit agreement with Bank of America, N.A., State Street Bank and Trust Company and U.S. Bank National Association Bank, dated July 6, 2010, which currently extends to July 9, 2013 (the "Agreement"). Pursuant to the Agreement, the capacity of the Agreement is \$350,000,000. Currently \$248,050,000 in Commercial Paper Notes are outstanding. Any advances for payment of Commercial Paper Notes under the Agreement are secured by a lien and pledge of the Net Revenues of the System subordinate to the Senior Lien Obligations, including the Bonds, and the Junior Lien Obligations and on a parity with the Commercial Paper Notes (which are the only Subordinate Lien Obligations currently outstanding).

**PENSION FUND . . .** The System's retirement program includes benefits provided by Texas Municipal Retirement System ("TMRS"), a State-wide administered pension plan, and a contract with Principal Mutual Life Insurance Company. The City makes annual contributions to TMRS equal to the amounts accrued for pension expense. The contract with Principal Mutual Life Insurance is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 75686, which serves

as a supplement to the TMRS. (For more detailed information concerning the retirement plan, see APPENDIX B, "Excerpts from the Annual Financial Report" – Note I.)

**OTHER POSTEMPLOYMENT BENEFITS ("OPEB").** . . The System provides certain postretirement medical and life insurance benefits to qualified retired employees, their spouses, and their dependents through a single-employer defined benefit plan administered by the System. The authority to establish and amend the OPEB provisions is vested in the System's Board. Historically, OPEB's have been funded on a pay-as-you-go basis with net premiums for medical and life insurance for retirees totaling \$5.9 million for 2009.

In 2007, the System implemented Governmental Accounting Standards Board ("GASB") Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In connection with the adoption of GASB Statement No. 45, the System implemented certain changes to its OPEB plan. To date, the System has funded all obligations arising under these plans on a pay-as-you-go basis. Going forward, the System's required contribution will be based on a projected pay-as-you-go financing requirement, with additional amount to prefund benefits as determined annually by the System's Board. The System is currently evaluating ways to phase-in full funding of the actuarially determined annual required contribution. Based on the actuarial valuation as of January 1, 2009, the unfunded actuarial accrued liability for this plan was \$297.3 million and the annual required contribution was \$25.8 million. For further information with respect to the System's OPEB liabilities and the actuarial valuation of these liabilities, please refer to Note J of the System's 2009 Comprehensive Annual Financial Report. (See "APPENDIX B, Excerpts from the Annual Financial Report".)

#### CAPITAL IMPROVEMENT PROGRAM

The following is a proposed five-year Capital Improvement Program for the System. It is the intention of the System to fund the program with long-term bonds, tax-exempt commercial paper, impact fees, and excess System revenues. The System contemplates the following capital improvement projects during calendar year 2011:

- \$17.5 Million is budgeted for the wastewater treatment program to repair/replace/upgrade treatment facilities and provide capacity for future growth;
- \$67.7 Million is budgeted for the wastewater collection program to fix deteriorated components of the collection system, and provide capacity for future growth;
- \$29.5 Million is budgeted to replace sewer and water mains;
- \$34.6 Million is budgeted for the governmental replacement and relocation program;
- \$1.8 Million is budgeted to construct new or fix deteriorated components of the production facilities;
- \$6.0 Million is budgeted for the water distribution program to fix deteriorated components of the distribution system, and provide capacity for future growth; and
- \$77.3 Million is budgeted for water supply development, water treatment, and water transmission projects for new sources of water.

The capital improvement projections in the following table were prepared by the System staff.

	Capital Improvement Projections					
	Fiscal Year Ended December 31,					
	2011	2012	2013	2014	2015	Total
Water Supply	\$ 78,975,957	\$ 143,716,903	\$ 115,066,545	\$ 98,499,775	\$ 77,920,891	\$ 514,180,071
Water Delivery	48,791,640	46,484,656	45,360,256	55,045,543	48,767,184	244,449,279
Wastewater	126,851,226	162,000,975	137,840,174	160,402,211	152,039,529	739,134,115
Heating and Cooling	275,000	110,000	1,760,000	110,000	110,000	2,365,000
Total Annual Requirements	\$ 254,893,823	\$ 352,312,534	\$ 300,026,975	\$ 314,057,529	\$ 278,837,604	\$ 1,500,128,465

#### PROJECT FUNDING APPROACH

The following table was prepared by the System staff based upon information and assumptions it deems reasonable, and shows the projected financing sources to meet the projected capital needs.

	Projectd Funding Sources					
	Fiscal Year Ended December 31,					
	2011	2012	2013	2014	2015	Total
Revenues	\$ 62,722,863	\$ 26,514,221	\$ 32,462,163	\$ 60,283,615	\$ 51,978,591	\$ 233,961,453
Impact Fees	45,276,414	32,000,000	34,000,000	34,170,000	34,340,850	179,787,264
Debt Proceeds	146,894,546	293,798,313	233,564,812	219,603,914	192,518,163	1,086,379,748
Total	\$ 254,893,823	\$ 352,312,534	\$ 300,026,975	\$ 314,057,529	\$ 278,837,604	\$ 1,500,128,465

## FINANCIAL POLICIES

*Basis of Accounting* . . . The financial statements are prepared using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

*Debt Service Fund Balance* . . . The System maintains the Debt Service Fund and the Reserve Fund in accordance with the ordinances authorizing the currently outstanding Senior Lien Obligations.

*Budgetary Procedures* . . . The System prepares and presents, sixty days prior to the beginning of each fiscal year, an annual budget prepared on an accrual basis to serve as a tool in controlling and administering the management and operation of the System. The annual budget reflects an estimate of Gross Revenues and an estimate of the disposition of these revenues in accordance with the flow of funds required by Ordinance No. 75686. The annual budget is submitted to City Council for review and consultation. Encumbrances are not formally recorded in the accounting system but are monitored and disclosed if significant amounts are outstanding at year end. Outstanding encumbrances lapse at year end and must be reappropriated in the following year.

## INVESTMENT INFORMATION

Available investable funds of the System, acting on behalf of the City, are invested as authorized and required by the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "Investment Act") and in accordance with an Investment Policy approved by the Board of the System. The Investment Act requires that the System establish an investment policy to ensure that City funds are invested only in accordance with State law. The most recent update to the investment policy was adopted December 1, 2009. The System's investments are managed by its Senior Vice President/Chief Financial Officer and the Manager-Finance, who, in accordance with the Investment Policy, reports investment activity to the Board.

**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 and interest of 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) (a) certificates of deposit and share certificates issued by a depository institution that has its main office or branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or are secured as to principal by obligations described in clauses (1) through (5) and clause (13) or in any other manner and amount provided by law for System deposits, and in addition (b) the System is authorized, subject to certain conditions, to invest in certificates of deposit with a depository institution that has its main office or branch office in the State of Texas and that participates in the Certificate of Deposit Account Registry Service® network ("CDARS®") and as further provided by Texas law, (7) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1) and require the security being purchased by the City to be pledged to the City, held in the City's name and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (8) bankers' acceptances with the remaining term of 270 days or less from the date of issuance, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (9) commercial paper with the remaining term of 270 days or less from the date of issuance that is rated at least "A-1" or "P-1" or the equivalent by at least (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. or state bank, (10) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (11) no-load mutual fund registered with the United States Securities and Exchange Commission that: have an average weighted maturity of less than two years; invest exclusively in obligations described in the preceding clauses and clause (12), 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, (13) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days, and (14) bonds issued, assumed or guaranteed by the State of Israel. Texas law also permits the City to invest bond proceeds in a guaranteed investment contract subject to the limitations set forth in the Investment Act.

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

The System may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pool are rated no lower than "AAA" or "AAA-m" or an equivalent by at least one nationally recognized rating service. The System 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 System is required to invest its funds in accordance with written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; that includes a list of authorized investments for System funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pool fund groups, and the methods to monitor the market price of investments acquired with public funds and the requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis. All System funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type; (2) preservation and safety of principal; (3) liquidity; (4) marketability of each investment; (5) diversification of the portfolio; and (6) yield.

Under Texas law, System 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 System must submit to the Board an investment report detailing (1) the investment position of the System; (2) that all investment officers jointly prepared and signed the report; (3) the beginning market value, any additions and changes to market value, the fully accrued interest, and the ending value of each pooled fund group; (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period; (5) the maturity date of each separately invested asset; (6) the account or fund or pooled fund group for which each individual investment was acquired; and (7) the compliance of the investment portfolio as it relates to (a) adopted investment strategy statements and (b) State law. No person may invest System funds without express written authority from the Board.

**ADDITIONAL PROVISIONS . . .** Under Texas law, the System is additionally required to (1) annually review its adopted policies and strategies; (2) adopt an order or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the said order or resolution; (3) require any investment officers with personal business relationships or relative with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (4) require the registered principal of firms seeking to sell securities to the System to (a) receive and review the System'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; (5) perform an annual audit of the management controls on investments and adherence to the System's investment policy; (6) provide specific investment training for the Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investments of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in mutual funds in the aggregate to no more than 80% of the System's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; and (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in the investment transactions with the System.

**CURRENT INVESTMENTS<sup>(1)</sup>** . . . At August 31, 2010, investable System Funds were 76.57% invested in obligations of the United States, or its agencies and instrumentalities, 8.59% invested in Certificates of Deposit, and 10.11% are invested in money market funds. The investments and maturity terms are consistent with State law, and the City's investment policy, which objectives are to preserve principal, limit risk, maintain diversification and liquidity, and to maximize interest earnings.

The market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 100.06% of their book value and approximately 100.00% at its purchase price; with 98.00% of the System's investments maturing in less than one year. 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.

As of August 31, 2010, the System funds were invested in the following categories:

	Percentages	Carrying Amounts <sup>(2)</sup>	Market Value
Money Market Deposits	10.11%	\$ 51,790,749	\$ 51,790,749
Certificates of Deposit	8.59%	44,000,000	44,000,000
U.S. Agency Notes	76.57%	392,234,558	392,527,144
Demand and Savings	4.73%	24,221,251	24,221,251
Cash on Hand	0.01%	29,970	29,970
Total	100.00%	\$ 512,276,528	\$ 512,569,114

(1) Unaudited.

(2) At Amortized Cost.

*[The remainder of this page intentionally left blank]*

The following Statistical Section is derived from the System's Comprehensive Annual Financial Report for the Year Ended December 31, 2009:

## STATISTICAL SECTION

### San Antonio Water System Schedule 1 - Fund Equity Since Inception of GASB 34 (accrual basis of accounting) (amounts in thousands)

	Fiscal Year							
	2009	2008	2007	2006	2005	2004	2003	2002
System Fund:								
Invested in capital assets, net of related debt	\$ 1,262,840	\$ 1,297,893	\$ 1,104,726	\$ 971,355	\$ 887,192	\$ 792,641	\$ 703,854	\$ 632,565
Restricted	34,649	32,257	29,567	28,380	32,870	27,844	25,621	24,620
Unrestricted	19,407	17,937	19,475	27,649	30,849	81,920	48,963	5,828
Total equity - System Fund	1,316,896	1,348,087	1,153,768	1,027,384	950,911	902,405	778,438	663,013
Internal Service Fund (a):								
Invested in capital assets, net of related debt	-	-	-	496	822	1,043	1,802	12,312
Unrestricted	-	-	-	9,371	9,475	10,232	10,421	3,843
Total equity - Internal Service Fund	-	-	-	9,867	10,297	11,275	12,223	16,155
Debt Service Fund:								
Restricted	27,511	25,790	21,324	18,350	15,978	11,706	5,156	3,677
Total equity - Debt Service Fund	27,511	25,790	21,324	18,350	15,978	11,706	5,156	3,677
Reserve Fund:								
Restricted	41,479	11,222	-	-	-	-	-	-
Total equity - Reserve Fund	41,479	11,222	-	-	-	-	-	-
Renewal & Replacement Fund:								
Invested in capital assets, net of related debt	89,888	85,191	116,344	114,701	73,733	77,767	47,552	37,056
Unrestricted	134,096	171,992	185,220	171,037	105,273	23,484	75,326	83,849
Total equity - Renewal & Replacement Fund	223,984	257,183	301,564	285,738	179,006	101,251	122,878	120,905
Project Fund:								
Invested in capital assets, net of related debt	168,738	83,567	93,273	75,673	78,910	91,430	134,781	193,950
Total equity - Project Fund	168,738	83,567	93,273	75,673	78,910	91,430	134,781	193,950
Total - All Funds:								
Invested in capital assets, net of related debt	1,521,466	1,466,651	1,314,343	1,162,225	1,040,657	962,881	887,989	875,883
Restricted	103,639	69,269	50,891	46,730	48,848	39,550	30,777	28,297
Unrestricted	153,503	189,929	204,695	208,057	145,597	115,636	134,710	93,520
Total Equity	\$ 1,778,608	\$ 1,725,849	\$ 1,569,929	\$ 1,417,012	\$ 1,235,102	\$ 1,118,067	\$ 1,053,476	\$ 997,700

(a) Internal Service Fund was eliminated in 2007. Fund balances were transferred to the System Fund.

**San Antonio Water System**  
**Schedule 2 - Change in Equity**  
**Since Inception of GASB 34**  
**(accrual basis of accounting)**  
**(amounts in thousands)**

	Fiscal Year							
	2009	2008	2007	2006	2005	2004	2003	2002
Operating revenues:								
Water delivery	\$ 106,305	\$ 112,813	\$ 90,710	\$ 104,870	\$ 93,420	\$ 72,888	\$ 65,164	\$ 58,873
Water supply	115,208	123,821	102,362	118,491	108,045	78,546	76,044	76,167
Wastewater	134,826	128,517	124,164	124,690	113,334	99,225	87,684	89,312
Chilled water & steam	12,714	12,758	13,101	13,243	13,371	12,028	12,194	10,857
	369,053	377,909	330,337	361,294	328,170	262,687	241,086	235,209
Operating expenses before depreciation:								
Salaries and fringe benefits	110,075	98,539	90,611	84,210	77,441	74,417	70,792	66,167
Contractual services	89,112	89,894	83,243	82,121	87,272	69,127	71,085	64,568
Materials and supplies	22,768	22,438	17,947	16,330	15,035	14,144	13,753	12,554
Other charges	33,211	29,040	25,713	20,486	15,752	15,475	14,870	9,933
Less: Costs capitalized to								
Construction in Progress	(35,643)	(31,137)	(29,334)	(23,244)	(22,714)	(19,053)	(19,312)	(15,638)
Internal Service Fund - net (gain)/loss	-	-	-	-	704	(249)	1,555	(2,607)
Operating expense before depreciation	219,523	208,774	188,180	179,903	173,490	153,861	152,743	134,977
Depreciation	86,535	83,494	78,307	71,312	67,958	60,646	57,005	55,467
Total operating expenses	306,058	292,268	266,487	251,215	241,448	214,507	209,748	190,444
Operating Income	62,995	85,641	63,850	110,079	86,722	48,180	31,338	44,765
Non-operating revenues:								
Interest and miscellaneous	4,511	14,382	24,442	20,716	10,120	6,703	7,188	7,547
Gain/(Loss) from fair value of investments	-	-	-	-	(113)	357	121	1,948
	4,511	14,382	24,442	20,716	10,007	7,060	7,309	9,495
Non-operating expenses:								
Amortization of debt issuance costs	1,465	1,521	1,015	645	537	500	430	380
Other finance charges	2,508	1,418	880	1,081	931	1,144	1,031	-
Interest expense:								
Revenue bonds and commercial paper	67,685	63,213	62,495	58,907	45,179	39,933	39,219	38,851
Amortized discount/premium/loss	(13)	302	1,104	1,615	1,480	1,485	1,488	2,062
Other	14	41	73	90	129	174	188	231
(Gain)/Loss on sale of capital assets	104	(4,014)	4	(2,266)	1,227	(131)	199	2,388
Payments to City of San Antonio	9,740	10,448	9,376	10,026	8,983	7,102	6,608	6,227
Payments to other entities	119	119	192	211	213	184	-	-
Total non-operating expense	81,622	73,048	75,139	70,309	58,679	50,391	49,163	50,139
Special Items	-	-	-	(4,999)	(3,584)	(9,786)	-	-
Increases (decreases) in equity, before capital contributions	(14,116)	26,975	13,153	55,487	34,466	(4,937)	(10,516)	4,121
Capital contributions								
Plant Contributions	42,190	91,827	104,795	81,208	48,238	45,302	52,055	53,764
Capital Recovery Fees	23,636	36,842	32,926	45,112	33,171	24,226	14,236	23,164
Grant Revenue	1,049	276	2,043	103	1,160	-	-	-
Total contributions	66,875	128,945	139,764	126,423	82,569	69,528	66,291	76,928
Change in net assets	\$ 52,759	\$ 155,920	\$ 152,917	\$ 181,910	\$ 117,035	\$ 64,591	\$ 55,775	\$ 81,049



**San Antonio Water System**  
**Schedule 3 - Equity in System**  
**Since Inception of GASB 34**  
**(accrual basis of accounting)**  
**(amounts in thousands)**

	Fiscal Year							
	2009	2008	2007	2006	2005	2004	2003	2002
Assets:								
Capital Assets, net of accumulated depreciation	\$ 3,174,264	\$ 2,967,190	\$ 2,697,592	\$ 2,471,129	\$ 2,338,280	\$ 2,180,021	\$ 2,016,140	\$ 1,771,556
Cash and Investments	576,652	478,919	480,240	435,543	337,322	307,769	331,657	354,756
Other Assets	70,415	71,110	72,796	65,482	64,828	59,691	45,896	36,883
Total Assets	3,821,331	3,517,219	3,250,628	2,972,154	2,740,430	2,547,481	2,393,693	2,163,195
Liabilities:								
Revenue Bonds Payable (net)	1,743,689	1,408,182	1,492,865	1,257,642	1,348,054	1,134,379	1,018,643	866,714
Commercial Paper Notes	173,650	261,115	100,000	237,360	98,000	238,400	269,000	255,000
Other Liabilities	125,384	122,073	87,834	60,140	59,274	56,635	52,574	43,781
Total Liabilities	2,042,723	1,791,370	1,680,699	1,555,142	1,505,328	1,429,414	1,340,217	1,165,495
Equity in System								
	\$ 1,778,608	\$ 1,725,849	\$ 1,569,929	\$ 1,417,012	\$ 1,235,102	\$ 1,118,067	\$ 1,053,476	\$ 997,700
Percentage Equity in System								
	46.5%	49.1%	48.3%	47.7%	45.1%	43.9%	44.0%	46.1%

**San Antonio Water System**  
**Schedule 4 - Water Production, Water Usage and Wastewater Treated**  
**(gallons in millions)**

Fiscal Year	Gallons of Water Production (b)	Gallons of Water Usage	Gallons of Water Unbilled	Average Percent Unbilled	Gallons of Wastewater Treated	Total Direct Rate			
						Water		Sewer	
						Base Rate (c)	Usage Rate (d)	Base Rate (e)	Usage Rate (f)
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 (a)	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

- (a) Seven months ended December 31, 2001. In 2001, the System's Board of Trustees approved a change in the fiscal year-end from May 31<sup>st</sup> to December 31<sup>st</sup>.
- (b) Pumpage is total potable water production less Aquifer Storage and Recovery recharge.
- (c) Rate shown is for 5/8" meters. See Schedule 7 for the rates of other meter sizes.
- (d) Represents standard (non-seasonal) usage charge for monthly residential water usage of 7,788 gallons per month. Includes water supply and EAA fees.
- (e) Minimum service availability charge (includes charge for first 1,496 gallons).
- (f) Represents usage charge for a residential customer based on winter average water consumption of 6,178 gallons per month.

**San Antonio Water System**  
**Schedule 5 - Sales by Source**  
**(accrual basis of accounting)**  
**(amounts in thousands)**

	Fiscal Year									
	2009	2008	2007	2006	2005	2004	2003	2002	2001(a)	2001
Water Sales:										
Residential Class	\$65,333	\$68,516	\$56,096	\$65,927	\$58,351	\$44,829	\$45,147	\$45,414	\$30,258	\$43,622
General Class	32,943	32,330	29,313	31,606	28,613	24,006	23,219	23,682	15,839	21,936
Wholesale Class	204	179	120	145	182	114	143	173	312	497
Irrigation Class (b)	12,176	16,124	10,659	12,541	11,723	8,210	8,666	8,535	4,108	1,145
Total Water	110,656	117,149	96,188	110,219	98,869	77,159	77,175	77,804	50,517	67,200
Wastewater Sales:										
Residential Class	81,202	75,752	72,212	72,901	63,605	55,763	48,649	48,877	27,279	48,731
General Class	41,220	39,892	38,372	38,166	37,181	31,495	28,293	30,422	17,262	30,397
Wholesale Class	5,348	5,423	6,651	6,863	6,596	5,822	4,810	4,870	2,991	6,155
Surcharge	4,648	4,614	4,409	4,271	4,081	4,019	4,075	3,526	2,989	4,197
Total Wastewater	132,418	125,681	121,644	122,201	111,463	97,099	85,827	87,695	50,521	89,480
Conservation Fees:										
Residential Class	2,962	3,663	1,986	4,112	3,291	2,411	2,411	2,507	2,644	3,266
General Class	4,008	3,938	3,957	3,637	3,968	3,558	3,519	3,599	1,843	2,701
	6,970	7,601	5,943	7,749	7,259	5,969	5,930	6,106	4,487	5,967
Water Supply Fees (c)	82,778	87,358	72,603	84,254	75,225	52,231	42,640	37,227	12,225	7,363
EAA Fees	6,500	10,497	6,614	8,573	8,571	6,030	5,945	4,926	3,010	3,788
Recycled Water Sales	4,393	4,287	3,244	3,795	3,100	2,669	2,455	2,444	1,412	2,176
Stormwater Fees	3,358	3,037	3,056	3,056	2,938	2,746	2,400	2,133	2,146	2,461
Chilled Water & Steam	12,714	12,758	13,101	13,243	13,371	12,028	12,193	10,857	6,822	9,801
Miscellaneous Fees and Charges	9,266	9,541	7,944	8,204	7,374	6,756	6,521	6,018	3,565	2,060
Total Operating Revenue	\$369,053	\$377,909	\$330,337	\$361,294	\$328,170	\$262,687	\$241,086	\$235,210	\$134,705	\$190,296

- (a) Seven months ended December 31, 2001. In 2001, the System's Board of Trustees approved a change in the fiscal year end from May 31st to December 31st.
- (b) Effective December 1, 2000, an irrigation rate class was approved for water service provided through separate irrigation meters.
- (c) Effective December 1, 2000, a water supply fee was approved on all potable water service.

**San Antonio Water System**  
**Schedule 6 - Sales in Gallons**  
**(gallons billed, in millions)**

	Fiscal Year									
	2009	2008	2007	2006	2005	2004	2003	2002	2001(a)	2001
Water Sales (b):										
Residential Class	30,667	33,025	26,651	33,162	30,917	27,054	27,624	28,227	19,398	28,621
General Class	20,309	20,297	19,166	20,232	19,769	18,851	19,464	20,155	13,444	23,042
Wholesale Class	119	108	90	114	121	98	137	173	347	535
Irrigation Class	4,200	5,398	3,604	4,216	4,198	3,364	3,350	3,295	1,527	848
Total Water	55,295	58,828	49,511	57,724	55,005	49,366	50,576	51,850	34,716	53,047
Wastewater Sales:										
Residential Class	29,825	28,148	27,384	28,857	25,293	25,421	24,860	25,564	13,594	26,472
General Class	19,714	19,609	18,670	21,152	21,414	20,952	21,418	22,319	13,209	21,516
Wholesale Class	2,448	2,590	3,164	3,259	2,580	3,220	3,391	4,297	2,758	4,356
Total Wastewater	51,986	50,347	49,218	53,268	49,287	49,593	49,669	52,180	29,561	52,344
Conservation - Residential Class (c)	3,469	3,948	2,432	4,276	3,613	2,634	2,636	2,742	2,757	3,629
Recycled Water Sales	16,321	16,559	14,148	14,836	14,048	13,626	13,643	13,762	4,654	13,292

- (a) Seven months ended December 31, 2001. In 2001, the System's 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.

**San Antonio Water System**  
**Schedule 7 - Number of Customer Connections**  
**(average number billed)**

	Fiscal Year									
	2009	2008	2007	2006	2005	2004	2003	2002	2001(a)	2001
Water Sales (b):										
Residential Class	327,610	323,754	318,270	308,807	298,271	289,458	282,016	276,340	271,597	267,945
General Class	23,242	23,104	22,943	22,662	22,384	22,092	21,894	21,869	21,695	22,947
Wholesale Class	7	7	7	7	6	6	7	7	7	7
Total Water	350,859	346,865	341,220	331,476	320,661	311,556	303,917	298,216	293,299	290,899
Irrigation Class (c)	8,202	7,940	7,602	7,232	6,883	6,522	6,283	6,125	3,329	3,136
Wastewater Sales:										
Residential Class	368,948	361,966	352,038	338,693	326,516	316,498	313,042	310,842	301,845	313,985
General Class	24,279	23,993	23,598	23,402	23,010	22,584	22,379	22,541	22,753	23,164
Wholesale Class	18	19	17	18	18	18	18	20	26	20
Total Wastewater	393,245	385,978	375,653	362,113	349,544	339,100	335,439	333,403	324,624	337,169
Conservation - Residential Class (d)	26,665	29,973	15,548	31,716	27,963	18,754	22,177	24,137	39,307	11,671
Recycled Water Sales	86	76	71	69	56	51	33	26	19	22

- (a) Seven months ended December 31, 2001. In 2001, the System's 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 to water customers with water usage.
- (c) Represents the number of customers included in Residential, General and Wholesale Classes which also have irrigation meters.
- (d) The residential class rate applied to monthly residential usage in excess of 17,205 gallons is designated as Conservation Fees. These customers are included in the residential class for water sales.

**San Antonio Water System**  
**Schedule 8 - Residential Class Rates**

	Fiscal Year									
	2009	2008	2007	2006	2005	2004	2003	2002	2001(a)	2001
<b>Water - Inside City Limits</b>										
Service Availability Charge by meter size:										
5/8"	\$6.77	\$6.56	\$6.56	\$6.56	\$6.11	\$5.61	\$5.61	\$5.61	\$5.61	\$5.61
3/4"	8.59	8.32	8.32	8.32	7.75	7.12	6.85	6.85	6.85	6.85
1"	12.49	12.10	12.10	12.10	11.28	10.36	8.22	8.22	8.22	8.22
1-1/2"	22.25	21.56	21.56	21.56	20.09	18.46	11.45	11.45	11.45	11.45
2"	33.95	32.90	32.90	32.90	30.66	28.18	16.68	16.68	16.68	16.68
3"	61.27	59.37	59.37	59.37	55.33	50.85	47.94	47.94	47.94	47.94
4"	100.30	97.19	97.19	97.19	90.58	83.25	64.75	64.75	64.75	64.75
6"	197.89	191.75	191.75	191.75	178.70	164.24	117.90	117.90	117.90	117.90
8"	314.96	305.19	305.19	305.19	284.43	261.42	167.34	167.34	167.34	167.34
10"	451.57	437.57	437.57	437.57	407.80	374.81	251.76	251.76	251.76	251.76
12"	841.86	815.76	815.76	815.76	760.26	698.76	554.30	554.30	554.30	554.30
Usage (per 100 gallons)										
Standard:										
First 7,481 gallons	0.0906	0.0878	0.0878	0.0878	0.0818	0.0751	0.0722	0.0722	0.0722	0.0722
Next 5,236 gallons	0.1309	0.1268	0.1268	0.1268	0.1182	0.1086	0.1038	0.1038	0.1038	0.1038
Next 4,488 gallons	0.2058	0.1994	0.1994	0.1994	0.1858	0.1707	0.1288	0.1288	0.1288	0.1288
Over 17,205 gallons (b)	0.3288	0.3186	0.3186	0.3186	0.2969	0.2728	0.2703	0.2703	0.2703	0.2703
Seasonal (c):										
First 7,481 gallons	0.0906	0.0878	0.0878	0.0878	0.0818	0.0751	0.0722	0.0722	0.0722	0.0722
Next 5,236 gallons	0.1423	0.1379	0.1379	0.1379	0.1285	0.1181	0.1128	0.1128	0.1128	0.1128
Next 4,488 gallons	0.2217	0.2148	0.2148	0.2148	0.2002	0.1840	0.1388	0.1388	0.1388	0.1388
Over 17,205 gallons (b)	0.4246	0.4114	0.4114	0.4114	0.3834	0.3523	0.3490	0.3490	0.3490	0.3490
<b>Water - Outside City Limits</b>										
Service Availability Charge by meter size:										
5/8"	8.78	8.51	8.51	8.51	7.93	7.28	7.28	7.28	7.28	7.28
3/4"	11.16	10.81	10.81	10.81	10.07	9.25	8.92	8.92	8.92	8.92
1"	16.23	15.73	15.73	15.73	14.66	13.47	10.68	10.68	10.68	10.68
1-1/2"	28.92	28.02	28.02	28.02	26.11	23.99	14.89	14.89	14.89	14.89
2"	44.14	42.77	42.77	42.77	39.86	36.63	21.70	21.70	21.70	21.70
3"	79.65	77.18	77.18	77.18	71.93	66.11	62.31	62.31	62.31	62.31
4"	130.39	126.35	126.35	126.35	117.75	108.22	84.16	84.16	84.16	84.16
6"	257.24	249.26	249.26	249.26	232.30	213.51	153.27	153.27	153.27	153.27
8"	409.45	396.75	396.75	396.75	369.76	339.85	217.54	217.54	217.54	217.54
10"	587.03	568.83	568.83	568.83	530.13	487.25	327.29	327.29	327.29	327.29
12"	1,094.42	1,060.48	1,060.48	1,060.48	988.33	908.39	720.59	720.59	720.59	720.59
Usage (per 100 gallons)										
Standard:										
First 7,481 gallons	0.1176	0.1140	0.1140	0.1140	0.1062	0.0976	0.0940	0.0940	0.0940	0.0940
Next 5,236 gallons	0.1702	0.1649	0.1649	0.1649	0.1537	0.1412	0.1350	0.1350	0.1350	0.1350
Next 4,488 gallons	0.2674	0.2591	0.2591	0.2591	0.2415	0.2219	0.1673	0.1673	0.1673	0.1673
Over 17,205 gallons (b)	0.4274	0.4141	0.4141	0.4141	0.3859	0.3546	0.3463	0.3463	0.3463	0.3463
Seasonal (c):										
First 7,481 gallons	0.1176	0.1140	0.1140	0.1140	0.1062	0.0976	0.0940	0.0940	0.0940	0.0940
Next 5,236 gallons	0.1850	0.1793	0.1793	0.1793	0.1671	0.1535	0.1466	0.1466	0.1466	0.1466
Next 4,488 gallons	0.2882	0.2793	0.2793	0.2793	0.2603	0.2392	0.1840	0.1840	0.1840	0.1840
Over 17,205 gallons (b)	0.5519	0.5348	0.5348	0.5348	0.4984	0.4580	0.4487	0.4487	0.4487	0.4487
<b>Sewer - Inside City Limits (d):</b>										
Service Availability Charge (e)	7.76	7.37	7.37	7.37	7.33	6.60	5.70	5.70	5.70	5.70
Usage (per 100 gallons)	0.2057	0.1953	0.1953	0.1953	0.1943	0.1750	0.1526	0.1526	0.1526	0.1526
<b>Sewer - Outside City Limits (d):</b>										
Service Availability Charge (e)	9.32	8.85	8.85	8.85	8.80	7.92	6.84	6.84	6.84	6.84
Usage (per 100 gallons)	0.2468	0.2343	0.2343	0.2343	0.2331	0.2100	0.1831	0.1831	0.1831	0.1831

- (a) Seven months ended December 31, 2001.
- (b) Includes \$0.09 per 100 gallons billed as conservation fees.
- (c) Rate is applied to all billings beginning July 1 and ending on or about October 31 of each year. At all other times the Standard rate is utilized.
- (d) Residential sewer charges are computed on the basis of average winter usage for 90 days during three consecutive billings periods beginning after November 15 and ending on or before March 15 of each year.
- (e) Includes the first 1,496 gallons.

**San Antonio Water System**  
**Schedule 9 - General Class Rates**

	Fiscal Year									
	2009	2008	2007	2006	2005	2004	2003	2002	2001(a)	2001
<b>Water - Inside City Limits</b>										
Service Availability Charge by meter size:										
5/8"	\$9.81	\$9.51	\$9.51	\$9.51	\$8.86	\$8.14	\$8.74	\$8.74	\$8.74	\$8.74
3/4"	13.16	12.75	12.75	12.75	11.88	10.91	11.37	11.37	11.37	11.37
1"	19.21	18.61	18.61	18.61	17.34	15.93	14.81	14.81	14.81	14.81
1-1/2"	35.03	33.94	33.94	33.94	31.63	29.07	23.55	23.55	23.55	23.55
2"	52.83	51.19	51.19	51.19	47.71	46.85	34.44	34.44	34.44	34.44
3"	106.92	103.60	103.60	103.60	96.55	88.74	91.60	91.60	91.60	91.60
4"	176.40	170.93	170.93	170.93	159.30	146.41	136.14	136.14	136.14	136.14
6"	350.03	339.18	339.18	339.18	316.10	290.53	259.71	259.71	259.71	259.71
8"	543.20	526.36	526.36	526.36	490.55	450.87	391.47	391.47	391.47	391.47
10"	755.89	732.45	732.45	732.45	682.62	627.40	536.79	536.79	536.79	536.79
12"	1,191.85	1,154.89	1,154.89	1,154.89	1,076.32	989.26	662.31	662.31	662.31	662.31
Usage (per 100 gallons)										
Below base (b)	0.1086	0.1052	0.1052	0.1052	0.0980	0.0900	0.0900	0.0900	0.0900	0.0900
100-125% of base	0.1257	0.1218	0.1218	0.1218	0.1135	0.1043	0.0975	0.0975	0.0975	0.0975
125-150% of base	0.1633	0.1582	0.1582	0.1582	0.1474	0.1354	0.1050	0.1050	0.1050	0.1050
150-200% of base	0.2138	0.2072	0.2072	0.2072	0.1931	0.1774	0.1150	0.1150	0.1150	0.1150
Over 200% of base	0.3160	0.3062	0.3062	0.3062	0.2854	0.2623	0.2590	0.2590	0.2590	0.2590
<b>Water - Outside City Limits</b>										
Service Availability Charge by meter size:										
5/8"	11.83	11.46	11.46	11.46	10.68	9.81	10.57	10.57	10.57	10.57
3/4"	15.72	15.23	15.23	15.23	14.19	13.04	13.60	13.60	13.60	13.60
1"	22.94	22.23	22.23	22.23	20.72	19.04	17.53	17.53	17.53	17.53
1-1/2"	41.69	40.40	40.40	40.40	37.65	34.60	27.43	27.43	27.43	27.43
2"	63.01	61.06	61.06	61.06	56.71	52.30	39.92	39.92	39.92	39.92
3"	125.31	121.42	121.42	121.42	113.16	104.00	107.34	107.34	107.34	107.34
4"	206.48	200.08	200.08	200.08	186.47	171.38	157.40	157.40	157.40	157.40
6"	409.39	396.70	396.70	396.70	369.71	339.80	298.12	298.12	298.12	298.12
8"	637.69	617.92	617.92	617.92	575.88	529.30	450.40	450.40	450.40	450.40
10"	891.35	863.71	863.71	863.71	804.95	739.84	619.47	619.47	619.47	619.47
12"	1,444.41	1,399.62	1,399.62	1,399.62	1,304.40	1,198.89	770.88	770.88	770.88	770.88
Usage (per 100 gallons)										
Below base (b)	0.1410	0.1366	0.1366	0.1366	0.1273	0.1170	0.1170	0.1170	0.1170	0.1170
100-125% of base	0.1635	0.1584	0.1584	0.1584	0.1476	0.1356	0.1268	0.1268	0.1268	0.1268
125-150% of base	0.2121	0.2055	0.2055	0.2055	0.1915	0.1760	0.1365	0.1365	0.1365	0.1365
150-200% of base	0.2778	0.2692	0.2692	0.2692	0.2509	0.2306	0.1495	0.1495	0.1495	0.1495
Over 200% of base	0.4109	0.3982	0.3982	0.3982	0.3711	0.3410	0.3367	0.3367	0.3367	0.3367
<b>Sewer - Inside City Limits:</b>										
Service Availability Charge (c)	7.76	7.37	7.37	7.37	7.33	6.60	6.40	6.40	6.40	6.40
Usage (per 100 gallons)	0.2057	0.1953	0.1953	0.1953	0.1943	0.1750	0.1489	0.1489	0.1489	0.1489
<b>Sewer - Outside City Limits:</b>										
Service Availability Charge (c)	9.32	8.85	8.85	8.85	8.80	7.92	7.68	7.68	7.68	7.68
Usage (per 100 gallons)	0.2468	0.2343	0.2343	0.2343	0.2331	0.2100	0.1787	0.1787	0.1787	0.1787

- (a) Seven months ended December 31, 2001.  
(b) Base is defined as 90% of the previous average annual usage.  
(c) Includes the first 1,496 gallons.

**San Antonio Water System**  
**Schedule 10 - Wholesale Class Rates**

	Fiscal Year									
	2009	2008	2007	2006	2005	2004	2003	2002	2001(a)	2001
<b>Water - Inside City Limits</b>										
Service Availability Charge by meter size:										
6"	\$197.89	\$191.75	\$191.75	\$191.75	\$178.70	\$164.24	\$247.60	\$247.60	\$247.60	\$247.60
8"	314.96	305.19	305.19	305.19	284.43	261.42	371.40	371.40	371.40	371.40
10"	451.57	437.57	437.57	437.57	407.80	374.81	495.22	495.22	495.22	495.22
12"	841.86	815.76	815.76	815.76	760.26	698.76	705.65	705.65	705.65	705.65
Usage ( <i>per 100 gallons</i> )										
Below base (b)	0.0788	0.0764	0.0764	0.0764	0.0712	0.0654	0.0615	0.0615	0.0615	0.0615
100-125% of base	0.0983	0.0953	0.0953	0.0953	0.0888	0.0816	0.0710	0.0710	0.0710	0.0710
125-150% of base	0.1353	0.1310	0.1310	0.1310	0.1222	0.1123	0.0769	0.0769	0.0769	0.0769
150-200% of base	0.1804	0.1748	0.1748	0.1748	0.1629	0.1497	0.0828	0.0828	0.0828	0.0828
Over 200% of base	0.2365	0.2292	0.2292	0.2292	0.2136	0.1963	0.0888	0.0888	0.0888	0.0888
<b>Water - Outside City Limits</b>										
Service Availability Charge by meter size:										
6"	257.24	249.26	249.26	249.26	232.30	213.51	321.88	321.88	321.88	321.88
8"	409.45	396.75	396.75	396.75	369.76	339.85	482.82	482.82	482.82	482.82
10"	587.03	568.83	568.83	568.83	530.13	487.25	643.77	643.77	643.77	643.77
12"	1,094.42	1,060.48	1,060.48	1,060.48	988.33	908.39	917.34	917.34	917.34	917.34
Usage ( <i>per 100 gallons</i> )										
Below base (b)	0.1025	0.0993	0.0993	0.0993	0.0925	0.0850	0.0800	0.0800	0.0800	0.0800
100-125% of base	0.1279	0.1239	0.1239	0.1239	0.1155	0.1061	0.0923	0.0923	0.0923	0.0923
125-150% of base	0.1760	0.1705	0.1705	0.1705	0.1589	0.1460	0.1000	0.1000	0.1000	0.1000
150-200% of base	0.2346	0.2273	0.2273	0.2273	0.2118	0.1946	0.1077	0.1077	0.1077	0.1077
Over 200% of base	0.3075	0.2980	0.2980	0.2980	0.2777	0.2552	0.1154	0.1154	0.1154	0.1154
<b>Sewer - Inside City Limits:</b>										
Usage ( <i>per 100 gallons</i> )	0.1854	0.1760	0.1760	0.1760	0.1751	0.1577	0.1362	0.1362	0.1362	0.1362
<b>Sewer - Outside City Limits:</b>										
Service Availability Charge	91.11	86.50	86.50	86.50	86.07	77.54	67.00	67.00	67.00	67.00
Usage ( <i>per 100 gallons</i> )	0.2226	0.2113	0.2113	0.2113	0.2102	0.1893	0.1467	0.1467	0.1467	0.1467

(a) Seven months ended December 31, 2001.

(b) Base is defined as 90% of the previous average annual usage.

**San Antonio Water System**  
**Schedule 11 - Irrigation Class Rates**

	Fiscal Year									
	2009	2008	2007	2006	2005	2004	2003	2002	2001(a)	2001
<b>Water - Inside City Limits</b>										
Service Availability Charge by meter size:										
5/8"	\$9.81	\$9.51	\$9.51	\$9.51	\$8.86	\$8.14	\$8.74	\$8.74	\$8.74	\$8.74
3/4"	13.16	12.75	12.75	12.75	11.88	10.91	11.37	11.37	11.37	11.37
1"	19.21	18.61	18.61	18.61	17.34	15.93	14.81	14.81	14.81	14.81
1-1/2"	35.03	33.94	33.94	33.94	31.63	29.07	23.55	23.55	23.55	23.55
2"	52.83	51.19	51.19	51.19	47.71	43.85	34.44	34.44	34.44	34.44
3"	106.92	103.60	103.60	103.60	96.55	88.74	91.60	91.60	91.60	91.60
4"	176.40	170.93	170.93	170.93	159.30	146.41	136.14	136.14	136.14	136.14
6"	350.03	339.18	339.18	339.18	316.10	290.53	259.71	259.71	259.71	259.71
8"	543.20	526.36	526.36	526.36	490.55	450.87	391.47	391.47	391.47	391.47
10"	755.89	732.45	732.45	732.45	682.62	627.40	536.79	536.79	536.79	536.79
12"	1,191.85	1,154.89	1,154.89	1,154.89	1,076.32	989.26	662.31	662.31	662.31	662.31
Usage (per 100 gallons)										
First 12,717 gallons	0.1526	0.1479	0.1479	0.1479	0.1378	0.1266	0.1200	0.1200	0.1200	0.1200
Next 4,488 gallons	0.2290	0.2219	0.2219	0.2219	0.2068	0.1900	0.1900	0.1900	0.1900	0.1900
Over 17,205 gallons	0.3160	0.3062	0.3062	0.3062	0.2854	0.2623	0.2590	0.2590	0.2590	0.2590
<b>Water - Outside City Limits</b>										
Service Availability Charge by meter size:										
5/8"	11.83	11.46	11.46	11.46	10.68	9.81	10.57	10.57	10.57	10.57
3/4"	15.72	15.23	15.23	15.23	14.19	13.04	13.60	13.60	13.60	13.60
1"	22.94	22.23	22.23	22.23	20.72	19.04	17.53	17.53	17.53	17.53
1-1/2"	41.69	40.40	40.40	40.40	37.65	34.60	27.43	27.43	27.43	27.43
2"	63.01	61.06	61.06	61.06	56.91	52.30	39.92	39.92	39.92	39.92
3"	125.31	121.42	121.42	121.42	113.16	104.00	107.34	107.34	107.34	107.34
4"	206.48	200.08	200.08	200.08	186.47	171.38	157.40	157.40	157.40	157.40
6"	409.39	396.70	396.70	396.70	369.71	339.80	298.12	298.12	298.12	298.12
8"	637.69	617.92	617.92	617.92	575.88	529.30	450.40	450.40	450.40	450.40
10"	891.35	863.71	863.71	863.71	804.95	739.84	619.47	619.47	619.47	619.47
12"	1,444.41	1,399.62	1,399.62	1,399.62	1,304.40	1,198.89	770.88	770.88	770.88	770.88
Usage (per 100 gallons)										
First 12,717 gallons	0.1982	0.1921	0.1921	0.1921	0.1790	0.1645	0.1560	0.1560	0.1560	0.1560
Next 4,488 gallons	0.2976	0.2884	0.2884	0.2884	0.2688	0.2470	0.2470	0.2470	0.2470	0.2470
Over 17,205 gallons	0.4109	0.3982	0.3982	0.3982	0.3711	0.3410	0.3400	0.3400	0.3400	0.3400

Effective December 1, 2000, an irrigation rate class was approved for water service provided through separate irrigation meters.

- (a) Seven months ended December 31, 2001.  
(b) Base is defined as 90% of the previous average annual usage.

**San Antonio Water System**  
**Schedule 12 - Other Fees**

	Fiscal Year									
	2009	2008	2007	2006	2005	2004	2003	2002	2001(a)	2001
Water Supply Fee (b)	\$0.1529	\$0.1487	\$0.1487	\$0.1487	\$0.1378	\$0.1100	\$0.0844	\$0.0708	\$0.0358	\$0.0358
EAA Fee (c)	\$0.01222	\$0.01769	\$0.01352	\$0.01482	\$0.01549	\$0.01226	\$0.01167	\$0.00946	\$0.00872	\$0.00872

- (a) Seven months ended December 31, 2001.  
(b) Per 100 gallons. Applies to all billed water.  
(c) Per 100 gallons. Applies to all billed water. Purpose of fee is to recover fees paid to Edwards Aquifer Authority for permitted water rights. Annual rate takes into account any cumulative deficit or surplus in the recovery, number of EAA water rights, and projected water sales (in gallons) for the year.

## Schedule 13 - Recycled Water Rates

	Fiscal Year									
	2009	2008	2007	2006	2005	2004	2003	2002	2001(a)	2001
<b>Edwards Exchange Customers (b)</b>										
Service Availability Charge by meter size:										
5/8"	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74
3/4"	11.37	11.37	11.37	11.37	11.37	11.37	11.37	11.37	11.37	11.37
1"	14.81	14.81	14.81	14.81	14.81	14.81	14.81	14.81	14.81	14.81
1-1/2"	23.55	23.55	23.55	23.55	23.55	23.55	23.55	23.55	23.55	23.55
2"	34.44	34.44	34.44	34.44	34.44	34.44	34.44	34.44	34.44	34.44
3"	91.60	91.60	91.60	91.60	91.60	91.60	91.60	91.60	91.60	91.60
4"	136.14	136.14	136.14	136.14	136.14	136.14	136.14	136.14	136.14	136.14
6"	259.71	259.71	259.71	259.71	259.71	259.71	259.71	259.71	259.71	259.71
8"	391.47	391.47	391.47	391.47	391.47	391.47	391.47	391.47	391.47	391.47
10"	536.79	536.79	536.79	536.79	536.79	536.79	536.79	536.79	536.79	536.79
12"	662.31	662.31	662.31	662.31	662.31	662.31	662.31	662.31	662.31	662.31
Usage (per 100 gallons)										
Standard:										
Transferred amount	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230
In excess of transferred amount	0.0863	0.0863	0.0863	0.0863	0.0863	0.0863	0.0863	0.0863	0.0863	0.0863
Seasonal (c):										
Transferred amount	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230
In excess of transferred amount	0.0917	0.0917	0.0917	0.0917	0.0917	0.0917	0.0917	0.0917	0.0917	0.0917
<b>Non-exchange Customers</b>										
Service Availability Charge by meter size:										
5/8"	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74
3/4"	11.37	11.37	11.37	11.37	11.37	11.37	11.37	11.37	11.37	11.37
1"	14.81	14.81	14.81	14.81	14.81	14.81	14.81	14.81	14.81	14.81
1-1/2"	23.55	23.55	23.55	23.55	23.55	23.55	23.55	23.55	23.55	23.55
2"	34.44	34.44	34.44	34.44	34.44	34.44	34.44	34.44	34.44	34.44
3"	91.60	91.60	91.60	91.60	91.60	91.60	91.60	91.60	91.60	91.60
4"	136.14	136.14	136.14	136.14	136.14	136.14	136.14	136.14	136.14	136.14
6"	259.71	259.71	259.71	259.71	259.71	259.71	259.71	259.71	259.71	259.71
8"	391.47	391.47	391.47	391.47	391.47	391.47	391.47	391.47	391.47	391.47
10"	536.79	536.79	536.79	536.79	536.79	536.79	536.79	536.79	536.79	536.79
12"	662.31	662.31	662.31	662.31	662.31	662.31	662.31	662.31	662.31	662.31
Usage (per 100 gallons)										
Standard:										
First 748,000 gallons	0.0924	0.0924	0.0924	0.0924	0.0924	0.0924	0.0924	0.0924	0.0924	0.0924
Over 748,000 gallons	0.0943	0.0943	0.0943	0.0943	0.0943	0.0943	0.0943	0.0943	0.0943	0.0943
Seasonal (c):										
First 748,000 gallons	0.0992	0.0992	0.0992	0.0992	0.0992	0.0992	0.0992	0.0992	0.0992	0.0992
Over 748,000 gallons	0.1002	0.1002	0.1002	0.1002	0.1002	0.1002	0.1002	0.1002	0.1002	0.1002

(a) Seven months ended December 31, 2001.

(b) Customers that have exchanged Edwards Aquifer water rights to the System.

(c) Rate is applied to all billings beginning July 1 and ending on or about October 31 of each year. At all other times the Standard rate is utilized.



**San Antonio Water System**  
**Schedule 14 - Impact Fees**

		Fiscal Year									
		2009	2008	2007	2006	2005	2004	2003	2002	2001 (a)	2001
Water											
Flow - All Areas		\$1,098.00	\$1,098.00	\$1,098.00	\$1,098.00	\$362.00	\$362.00	\$362.00	\$362.00	\$362.00	\$362.00
System Development:											
Low Elevation Service Area		668.00	668.00	668.00	668.00						
Middle Elevation Service Area		591.00	591.00	591.00	591.00						
High Elevation Service Area		1,356.00	1,356.00	1,356.00	1,356.00						
Service Level:											
	2					125.00	125.00	125.00	125.00	125.00	125.00
	3					107.00	107.00	107.00	107.00	107.00	107.00
	4					172.00	172.00	172.00	172.00	172.00	172.00
	5					104.00	104.00	104.00	104.00	104.00	104.00
	5A					100.00	100.00	100.00	100.00	100.00	100.00
	6					149.00	149.00	149.00	149.00	149.00	149.00
	7					249.00	249.00	249.00	249.00	249.00	249.00
	8					411.00	411.00	411.00	411.00	411.00	411.00
	9					490.00	490.00	490.00	490.00	490.00	490.00
	10					428.00	428.00	428.00	428.00	428.00	428.00
	11					569.00	569.00	569.00	569.00	569.00	569.00
	11A					945.00	945.00	945.00	945.00	945.00	945.00
	11B					1,094.00	1,094.00	1,094.00	1,094.00	1,094.00	1,094
	11E					1,163.00	1,163.00	1,163.00	1,163.00	1,163.00	1,163
	11F					523.00	523.00	523.00	523.00	523.00	523
	12					743.00	743.00	743.00	743.00	743.00	743
	14					791.00	791.00	791.00	791.00	791.00	791.00
Wastewater											
Treatment:											
Upper and Lower Service Areas		453.00	453.00	453.00	\$453.00						
Far West-Medio Service Areas		901.00	901.00	901.00	901.00						
Inner Service Area						142.00	142.00	142.00	142.00	142.00	142.00
Outer Service Area						750.00	750.00	750.00	750.00	750.00	750.00
Far West - Medio Creek Service Area						1,200.00	750.00	750.00	750.00	750.00	750.00
Far West - Potranca Creek Service Area						1,200.00	750.00	750.00	750.00	750.00	750.00
Far West - Lucas Creek & Big Sous Service Area						1,200.00	750.00	750.00	750.00	750.00	750.00
Collection:											
Lower Service Area		413.00	413.00	413.00	413.00						
Upper Service Area		691.00	691.00	691.00	691.00						
Far West-Medio Service Areas		394.00	394.00	394.00	394.00						
Far West-Potranco, Big Sous, & Lucas Service Area		772.00	772.00	772.00	772.00						
Inner Service Area						366.00	366.00	366.00	366.00	366.00	366.00
Outer Service Area						366.00	366.00	366.00	366.00	366.00	366.00
Far West - Medio Creek Service Area						538.00	366.00	366.00	366.00	366.00	366.00
Far West - Potranca Creek Service Area						409.00	366.00	366.00	366.00	366.00	366.00
Far West - Lucas Creek & Big Sous Service Area						366.00	366.00	366.00	366.00	366.00	366.00
Lift Station:											
Far West - Potranca Creek Service Area						363.00					
Far West - Lucas Creek & Big Sous Service Area						363.00					
Water Supply - All Areas		1,242.00	1,242.00	1,242.00	1,242.00	852.00	352.00	352.00	352.00	352.00	352

Impact fees are assessed per equivalent dwelling unit.

Meter Size	EQUIVALENT DWELLING UNITS									
5/8"	1	1	1	1	1	1	1	1	1	1
3/4"	1.5	1.5	1.5	1	1	1	1	1	1	1
1"	2	2	2	2	2	2	2	2	2	2
1-1/2"	5	5	5	5	5	5	5	5	5	5
2"	14	14	14	14	14	14	14	14	14	14
3"	30	30	30	30	30	30	30	30	30	30
4"	50	50	50	50	50	50	50	50	50	50
6"	105	105	105	105	105	105	105	105	105	105
8"	135	135	135	135	135	135	135	135	135	135
10"	190	190	190	190	190	190	190	190	190	190
12"	360	360	360	360	360	360	360	360	360	360

(a) Seven months ended December 31, 2001.

**San Antonio Water System**  
**Schedule 15 - Ten Largest Customers – Water**  
**Current Year and Nine Years Ago**

Customer	Principal Business	Usage (million gallons)	%	Total Revenue (a) (in thousands)	%
<b>Fiscal Year Ended December 31, 2009:</b>					
CITY OF SAN ANTONIO	Municipal Entity	655	1.18	\$ 2,647	1.28
ARCHON GROUP, L.P.	Commercial Real Estate	477	0.86	2,259	1.09
SAN ANTONIO HOUSING AUTHORITY	Public Housing	540	0.98	1,759	0.85
BAPTIST HEALTH SYSTEM	Hospitals	288	0.52	1,663	0.80
HEB GROCERY	Grocery	463	0.84	1,492	0.72
NORTHSIDE INDEPENDENT SCHOOL DISTRICT	School System	287	0.52	1,096	0.53
BEXAR COUNTY	County Government	315	0.57	973	0.47
CPS ENERGY	Public Power Utility	274	0.50	813	0.39
SAN ANTONIO INDEPENDENT SCHOOL DISTRICT	School System	181	0.33	789	0.38
NORTH EAST INDEPENDENT SCHOOL DISTRICT	School System	181	0.33	678	0.33
Subtotal (10 largest)		3,661	6.62	14,169	6.85
Balance from Other Customers		51,634	93.38	192,735	93.15
<b>Total</b>		<b>55,295</b>	<b>100.00</b>	<b>\$206,904</b>	<b>100.00</b>
<b>Fiscal Year Ended May 31, 2001:</b>					
EAST CENTRAL WATER	Water Purveyor	443	0.84	\$ 410	0.49
SONY MICRO ELECTRONICS	Electronics	420	0.79	403	0.48
VLSI TECHNOLOGY, INC.	Computer Technology	376	0.71	365	0.43
CITY PUBLIC SERVICE	Public Power Utility	250	0.47	251	0.30
LEVI STRAUSS	Clothing Manufacturer	184	0.35	178	0.21
LA CANTERA DEVELOPMENT	Resort	256	0.48	161	0.19
BAPTIST MEMORIAL HOSPITAL	Hospital	200	0.38	154	0.18
MARRIOTT CORPORATION	Hotel	139	0.26	153	0.18
BROOKS AFB	Military Installation	145	0.27	143	0.17
TRINITY UNIVERSITY	University	162	0.31	126	0.15
Subtotal (10 largest)		2,575	4.85	2,344	2.78
Balance from Other Customers		50,471	95.15	81,974	97.22
<b>Total</b>		<b>53,046</b>	<b>100.00</b>	<b>\$ 84,318</b>	<b>100.00</b>

(a) Includes Conservation, Water Supply and EAA fees.

**San Antonio Water System**  
**Schedule 16 - Ten Largest Customers - Wastewater**  
**Current Year and Nine Years Ago**

Customer	Principal Business	Usage (million gallons)	%	Total Revenue (in thousands)	%
<b>Fiscal Year Ended December 31, 2009:</b>					
HEB GROCERY	Grocery	415	0.84	\$ 1,761	1.39
SAN ANTONIO HOUSING AUTHORITY	Public Housing	548	1.11	1,129	0.89
ARCHON GROUP, L.P.	Commercial Real Estate	468	0.95	951	0.75
BEXAR COUNTY	County Government	248	0.50	593	0.47
CITY OF SAN ANTONIO	Municipal Entity	254	0.51	546	0.43
OAK FARMS DAIRY	Dairy Producer	61	0.12	411	0.32
FRITO LAY, INC.	Food Manufacturer	57	0.12	396	0.31
MAXIM INTEGRATED PRODUCT, INC.	Electronics	175	0.35	356	0.28
L & H PACKING COMPANY	Beef Processor	120	0.24	348	0.27
AMERICAN OPPORTUNITY FOR HOUSING	Housing Services	167	0.34	341	0.27
Subtotal (10 largest)		2,514	5.08	6,833	5.38
Balance from Other Customers		47,025	94.92	120,237	94.62
<b>Total</b>		<b>49,539</b>	<b>100.00</b>	<b>\$ 127,070</b>	<b>100.00</b>
<b>Fiscal Year Ended May 31, 2001:</b>					
SONY MICRO ELECTRONICS	Electronics	374	0.78	\$ 557	0.67
VLSI TECHNOLOGY	Computer Technology	376	0.78	548	0.66
LEVI STRAUSS	Clothing Manufacturer	157	0.33	275	0.33
MARRIOTT CORPORATION	Hotel	139	0.29	191	0.23
COUNTY OF BEXAR	Jail	118	0.25	168	0.20
FRITO-LAY INC.	Food Manufacturer	101	0.21	150	0.18
TRINITY UNIVERSITY	University	158	0.33	149	0.18
BAPTIST MEMORIAL HOSPITAL	Hospital	153	0.32	142	0.17
VETERANS ADMINISTRATION	Hospital	75	0.16	112	0.13
SOUTHWEST METHODIST HOSPITAL	Hospital	75	0.16	108	0.13
Subtotal (10 largest)		1,726	3.60	2,400	2.88
Balance from Other Customers		46,262	96.40	80,925	97.12
<b>Total</b>		<b>47,988</b>	<b>100.00</b>	<b>\$ 83,325</b>	<b>100.00</b>

Excludes Wholesale Wastewater usage and revenues.

**San Antonio Water System**  
**Schedule 17 - Ten Largest Customers - Wholesale Wastewater**  
**Current Year and Nine Years Ago**

<b>Customer</b>	<b>Principal Business</b>	<b>Total Revenue (in thousands)</b>	<b>%</b>
<b>Fiscal Year Ended December 31, 2009:</b>			
Hollywood Park	Municipal Government	\$ 77	1.44
Lackland A.F.B./Annex @ Medina	Military	266	4.97
Kirby	Municipal Government	328	6.13
Balcones Heights	Municipal Government	336	6.28
Olmos Park	Municipal Government	340	6.36
Bexar County WCID #10	County Government	595	11.13
Lackland Air Force Base	Military	648	12.12
Ft. Sam Houston	Military	707	13.22
Leon Valley	Municipal Government	923	17.26
Alamo Heights	Municipal Government	970	18.14
Subtotal (10 largest)		5,190	97.05
Balance from Other Customers		158	2.95
<b>Total</b>		<b>\$ 5,348</b>	<b>100.00</b>
<b>Fiscal Year Ended May 31, 2001:</b>			
Kirby	Municipal Government	\$ 281	4.57
Balcones Heights	Municipal Government	285	4.63
Castle Hills	Municipal Government	369	6.00
Bexar County WCID #10	County Government	403	6.55
Terrell Hills	Municipal Government	429	6.97
Kelly Air Force Base	Military	510	8.29
Alamo Heights	Municipal Government	593	9.63
Leon Valley	Municipal Government	615	9.99
Ft. Sam Houston	Military	656	10.66
Lackland Air Force Base	Military	1,157	18.80
Subtotal (10 largest)		5,298	86.08
Balance from Other Customers		857	13.92
<b>Total</b>		<b>\$ 6,155</b>	<b>100.00</b>

**San Antonio Water System**  
**Schedule 18 - Ratios of Total Outstanding Debt by Type**  
*(\$ in thousands, except debt per customer)*

Year	Total Principal Balance Outstanding Debt by Type							Gross Revenues (c)	Ratio of Total Debt to Gross Revenue	Customers (d)	Debt Per Customer
	Revenue Bonds (b)			Commercial Paper Notes (b)	Notes Payable	Capital Leases Payable	Total				
	Senior Lien Bonds	Junior Lien Bonds	Subordinate Lien Bonds								
2009	\$1,395,665	\$ 364,035	\$ -	\$ 173,650	\$ -	\$ -	\$1,933,350	\$ 373,564	5.18	747,220	\$ 2,587
2008	1,138,430	288,095	1,000	261,115	119	-	1,688,759	392,291	4.30	738,728	2,286
2007	1,153,935	244,585	113,990	100,000	571	-	1,613,081	354,779	4.55	724,130	2,228
2006	958,255	208,990	116,265	237,360	991	36	1,521,897	382,010	3.98	704,835	2,159
2005	1,041,400	214,090	118,435	98,000	1,381	71	1,473,377	339,338	4.34	680,822	2,164
2004	822,860	219,035	120,515	238,400	1,697	319	1,402,826	269,748	5.20	657,813	2,133
2003	739,115	186,830	122,500	269,000	2,078	581	1,320,104	248,395	5.31	636,435	2,074
2002	739,980	157,480	-	255,000	2,389	412	1,155,261	247,958	4.66	635,176	1,819
2001 (a)	594,200	134,255	-	185,000	2,678	768	916,901	140,005	6.55	619,581	1,480
2001	594,200	134,255	-	165,000	2,837	910	897,202	207,225	4.33	619,440	1,448

- (a) Seven months ended December 31, 2001. In 2001, the System's Board of Trustees approved a change in the fiscal year end from May 31<sup>st</sup> to December 31<sup>st</sup>.
- (b) Details regarding outstanding revenue bonds and commercial paper notes can be found in the notes to the financial statements. For presentation purposes, capital leases have been treated as debt.
- (c) Gross Revenues are defined as operating revenues plus nonoperating revenues.
- (d) Customers represent the combined number of billed accounts for water and wastewater services at fiscal year-end.

**San Antonio Water System**  
**Schedule 19 - Pledged Revenue Coverage**  
*(\$ in thousands)*

Year	Gross Revenues (c)	Operating Expenses (d)	Net Available Revenue	Revenue Bond Debt Service (b)			Coverage	Maximum Annual Debt Service Requirements			
				Principal	Interest	Total		Total		Senior Lien	
								Debt (e)	Coverage	Debt (e)	Coverage (f)
2009	\$ 370,464	\$ 219,523	\$ 150,941	\$ 34,900	\$ 75,398	\$ 110,298	1.37	\$ 123,182	1.23	\$ 103,205	1.46
2008	387,516	208,774	178,742	27,360	69,860	97,220	1.84	98,840	1.81	86,140	2.08
2007	347,391	188,180	159,211	24,880	67,785	92,665	1.72	102,880	1.55	86,138	1.85
2006	374,831	179,903	194,928	22,415	62,947	85,362	2.28	91,175	2.14	78,373	2.49
2005	332,669	173,490	159,179	16,505	54,987	71,492	2.23	94,992	1.68	78,373	2.03
2004	264,782	153,860	110,922	7,735	52,205	59,940	1.85	84,941	1.31	67,203	1.65
2003	242,488	152,743	89,745	5,515	44,614	50,129	1.79	76,075	1.18	61,511	1.46
2002	240,375	134,977	105,398	25,045	39,589	64,634	1.63	66,268	1.59	61,511	1.71
2001 (a)	136,235	78,448	57,787	-	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

(a) Seven months ended December 31, 2001. In 2001, the System's 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 2009B revenue bonds.

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

n/a Not applicable due to short period.

**Schedule 20 - Demographic and Economic Statistics**  
**Last Ten Calendar Years**

<b>Year</b>	<b>Population (a)</b>	<b>Median Age (a)</b>	<b>Personal Income (a) (thousands of dollars)</b>	<b>Per Capita Personal Income (a)</b>	<b>School Enrollment (b)</b>	<b>Single Family Housing Permits (c)</b>	<b>Employment (d)</b>	<b>Unemployment Rate (d)</b>
2009	1,340,549	32.6	\$ 28,750,754	\$ 21,447	296,328	5,249	904,714	6.8%
2008	1,328,984	32.8	27,653,499	20,808	295,673	5,761	902,102	4.7%
2007	1,312,286	32.6	26,093,495	19,884	291,873	8,707	887,840	4.1%
2006	1,322,900	33.2	26,603,519	20,110	283,393	13,142	874,941	4.6%
2005	1,299,200	32.2	25,386,368	19,540	279,756	14,047	853,528	5.0%
2004	1,278,300	32.2	24,248,073	18,969	273,560	11,920	834,039	5.6%
2003	1,262,800	32.0	25,205,488	19,960	275,796	10,407	820,022	6.1%
2002	1,241,100	31.8	23,953,230	19,300	270,025	10,063	810,917	5.7%
2001	1,226,250	32.5	24,770,250	20,200	267,184	9,138	793,489	4.6%
2000	1,207,500	32.2	24,089,625	19,950	262,567	8,407	785,220	4.0%

(a) Source: Planning Department, City of San Antonio, Texas.

(b) Source: Finance Department, City of San Antonio, Texas. Based on enrollment data provided by Alamo Heights ISD, East Central ISD, Edgewood ISD, Harlandale ISD, Judson ISD, Northeast ISD, Northside ISD, San Antonio ISD, South San Antonio ISD, Somerset ISD, Southwest ISD, and Southside ISD.

(c) Source: US Bureau of Census and Real Estate Center at Texas A&M University, San Antonio Metropolitan Statistical Area.

(d) Source: Texas Workforce Commission, San Antonio Metropolitan Statistical Area, non-seasonally adjusted. 2009 data is for December only, annual data is presented for prior years.

Note: Population and median age information are based on surveys conducted during the last quarter of the calendar year. Personal income information is a total for the year. Unemployment rate information is an adjusted yearly average. School enrollment is based on the census at the start of the school year.

**San Antonio Water System**  
**Schedule 21 - Principal Employers**  
**Current Year and Nine Years Ago**

Employer	2009			2000		
	Employees	Rank	Percentage of Total City Employment <sup>1</sup>	Employees	Rank	Percentage of Total City Employment <sup>2</sup>
Lackland Air Force Base	34,380	1	4.11%			
Fort Sam Houston	25,391	2	3.03%			
H.E.B. Food Stores	14,588	3	1.74%	14,360	2	1.97%
United Services Automobile Association	14,000	4	1.67%	14,413	1	1.98%
City of San Antonio	13,862	5	1.66%			
Northside Independent School District	12,597	6	1.50%	5,259	8	0.72%
Randolph Air Force Base	11,790	7	1.41%			
North East Independent School District	8,900	8	1.06%	6,604	5	0.91%
Methodist Health Care System	7,800	9	0.93%	6,172	6	0.85%
San Antonio Independent School District	7,616	10	0.91%	7,332	4	1.01%
SBC Communications				8,871	3	1.22%
Baptist Health Systems				5,527	7	0.76%
Christus Santa Rosa				3,208	9	0.44%
Fiesta Texas Six Flags				2,913	10	0.40%
Total	150,924		18.03%	74,659		10.26%

Source: Economic Development Division, City of San Antonio, Texas, Greater San Antonio Chamber of Commerce, Economic Development Foundation, and San Antonio Business Journal Book of Lists as of January 2009.

<sup>1</sup> Percent based on an Employment Estimate of 837,300 of Non-Farm jobs in the San Antonio Metropolitan Statistical Area as of January 2009. Figure provided by the Texas Workforce Commission.

<sup>2</sup> Percent based on an Employment Estimate of 727,400 of Non-Farm jobs in the San Antonio Metropolitan Statistical Area as of January 2000. Figure provided by the Texas Workforce Commission.

*Table provided courtesy of City of San Antonio Finance Department.*



**San Antonio Water System**  
**Schedule 22 - Number of Employees by Functional Group**

Functional Group	Fiscal Year				
	2009	2008	2007	2006	2005
President/CEO	13	12	10	11	14
Production & Treatment Operations	368	341	337	337	347
Distribution & Collection Operations (a)	435	403	422	414	419
Operation Services (a)	180	177			
Administrative Services (a)			117	115	119
External Relations	32	19	21	19	20
Customer Service	210	212	208	201	205
Strategic Resources (a)	201	193	116	108	102
Facilities Engineering & Construction (a)			188	197	199
Water Resources (a)	63	55			
Financial Services	58	56	55	54	57
Information Services (a)	58	56			
Corporate Initiatives (a)			64	64	61
Human Resources	48	46	44	28	29
Legal	30	25	26	27	29
	1,696	1,595	1,608	1,575	1,601

In 2005, SAWS was reorganized into the functional groups listed above. Employee information prior to the reorganization is not available to report in a comparable structure.

Total employees in the previous seven periods are shown below.

	Total Employees
2004	1,650
2003	1,610
2002	1,582
2001 (b)	1,662
2001	1,679

(a) In 2008, certain functional groups were restructured.

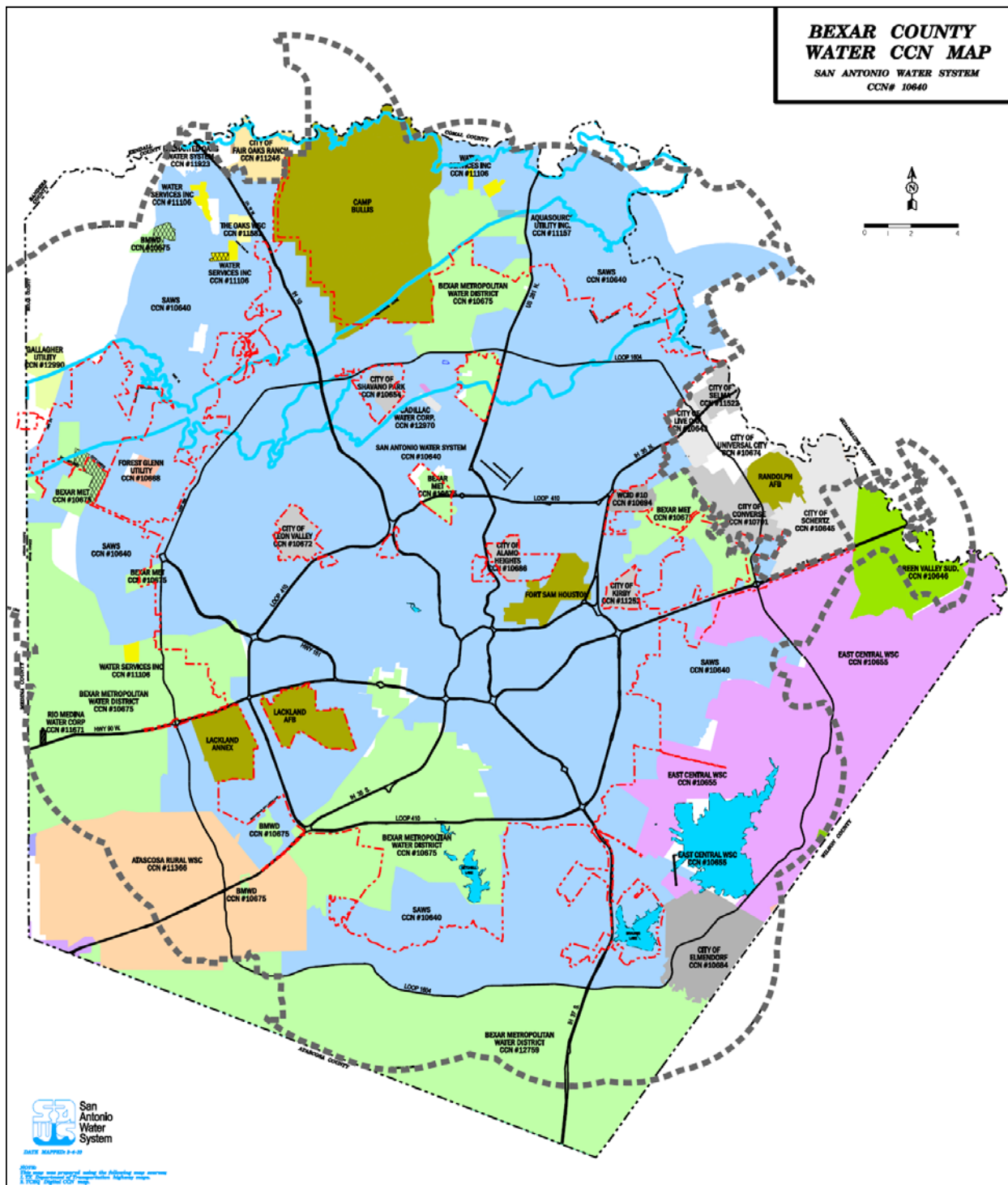
(b) Seven months ended December 31, 2001. In 2001, the System's Board of Trustees approved a change in the fiscal year-end from May 31st to December 31st.

**San Antonio Water System**  
**Schedule 23 – Capital Assets**  
*(amounts in thousands)*

	Fiscal Year									
	2009	2008	2007	2006	2005	2004	2003	2002	2001(a)	2001
Water Delivery	\$ 1,548,754	\$ 1,472,040	\$ 1,349,664	\$ 1,212,843	\$ 1,077,840	\$ 1,042,342	\$ 1,000,991	\$ 935,145	\$ 854,554	\$ 832,260
Water Supply:										
Water Resources	429,129	353,988	249,278	211,586	166,168	46,048	34,332	26,456	14,281	14,578
Recycle	151,184	149,308	164,414	137,009	126,905	120,114	100,175	65,496	34,616	34,605
Conservation	335	221	262	264	262	259	262	85	14	11
Stormwater	183	161	147	147	147	-	-	-	-	-
Wastewater	1,704,933	1,639,280	1,524,730	1,409,514	1,293,194	1,219,086	1,142,941	1,061,298	982,981	972,339
Chilled Water and Steam	52,007	50,303	50,169	50,109	47,865	47,137	46,046	32,706	27,694	27,448
Working Capital				3,310	3,861	3,907	6,858	33,217	39,325	38,982
Construction in Progress	427,971	372,607	361,192	372,598	483,201	499,585	428,226	305,235	339,399	319,251
Total assets before										
accumulated depreciation	4,314,496	4,037,908	3,699,856	3,397,380	3,199,443	2,978,478	2,759,831	2,459,638	2,292,864	2,239,474
Accumulated Depreciation	1,140,232	1,070,718	1,002,264	926,251	861,163	798,457	743,691	688,082	643,936	616,135
Net Capital Assets	\$ 3,174,264	\$ 2,967,190	\$ 2,697,592	\$ 2,471,129	\$ 2,338,280	\$ 2,180,021	\$ 2,016,140	\$ 1,771,556	\$ 1,648,928	\$ 1,623,339

(a) Seven months ended December 31, 2001. In 2001, the System's Board of Trustees approved a change in the fiscal year-end from May 31st to December 31st.

San Antonio Water System  
Map 1 – Map of Water Service Area



**San Antonio Water System**  
**Schedule 24 – Operating and Capital Indicators - Water**

	Fiscal Year									
	2009	2008	2007	2006	2005	2004	2003	2002	2001(a)	2001
Rainfall (Inches)	30.69	13.76	47.25	21.34	16.45	45.34	28.45	46.27	25	37
Customers/Connections (b)	352,059	348,834	344,168	336,434	325,944	315,000	306,363	300,742	297,661	294,286
Water Pumpage (Million Gallons)										
Annual Water Pumped (c)	66,195	71,328	61,744	66,350	63,357	53,040	55,039	52,691	36,883	57,243
ASR Recharge (c) (e)	5,549	3,805	6,701	2,962	4,367	1,809	n/a	n/a	n/a	n/a
ASR Net Production (c) (e)	466	125	143	2,095	302	207	n/a	n/a	n/a	n/a
Annual Pumped for Usage (c)	60,646	67,523	55,043	63,388	58,990	51,231	55,039	52,691	36,883	57,243
Average Daily (c)	181.4	194.9	169.2	181.8	172.6	145.3	150.8	144.4	172.2	148.5
Maximum Daily (c)	243.5	299.1	224.0	269.0	278.1	197.9	304.8	229.5	274.0	270.4
Maximum Hour (Daily Rate) (c)	388.0	399.1	296.0	410.7	395.5	295.2	390.9	369.0	423.1	423.7
Metered Usage (Million Gallons)	55,295	58,828	49,511	57,724	55,005	49,366	50,576	51,850	34,716	53,047
Available Water Supply (Million Gallons)										
Permitted Edwards Aquifer rights (f)	81,923	71,738	69,505	69,505	65,007	67,799	n/a	n/a	n/a	n/a
Non-Edwards supply (g)	6,256	6,256	4,171	4,171	1,140	1,140	n/a	n/a	n/a	n/a
Stored in ASR (h)	21,832	16,772	13,092	6,534	5,667	1,602	n/a	n/a	n/a	n/a
Total water available for production	110,011	94,766	86,768	80,210	71,814	70,541	n/a	n/a	n/a	n/a
Number of Wells in Service	140	136	126	113	102	94	95	83	90	90
Overhead Storage Capacity (Million Gallons)	66.5	65.2	64.2	69.0	60.0	64.8	53.5	53.5	53.5	53.5
Total Storage Capacity (Million Gallons)	166.2	165.0	164.0	166.0	142.0	161.5	145.0	121.2	149.7	144.7
Miles of Water Main Installed	97	160.80	167	143	103	90	109	104	63	65
Miles of Water Main Replaced and Abandoned	34	32	19	22	23	17	20	17	20	26
Miles of Water Main in Place	4,866	4,802	4,673	4,525	4,404	4,324	4,251	4,162	4,076	4,032
Water Main Breaks (d)	3,212	2,594	1,392	3,073	2,577	1,305	1,480	1,395	n/a	1,665
New Services Installed	3,590	7,565	17,274	13,903	12,730	10,759	10,626	7,933	3,978	6,560
Fire Hydrants Installed (Net of Hydrants removed)	644	971	1,040	752	521	574	654	648	375	401
Fire Hydrants in Place	26,599	25,955	25,004	23,964	23,212	22,691	22,117	21,463	20,815	20,440
Number of Manholes Installed	1,514	2,922	2,775	2,661	1,538	1,504	1,686	1,625	996	2,091
Number of Manholes in Place	95,541	94,027	91,105	88,330	85,669	84,131	67,277	65,591	63,966	62,970

- (a) Seven months ended December 31, 2001. In 2001, the System's Board of Trustees approved a change in the fiscal year-end from May 31st to December 31st.
- (b) Number of customers at end of fiscal year.
- (c) SAWS opened its Aquifer Storage & Recovery (ASR) facility in 2004. Prior to this time, all water pumped was pumped for usage.
- (d) Amount reported is for the calendar year.
- (e) Amounts have been revised from previously published data.
- (f) Based on permitted rights authorized by the Edwards Aquifer Authority (EAA) as of December 31st. Authorized amounts prior to 2004 are not presented as they reflect a high level of variability related to EAA's permitting process. Under current EAA rules, authorized amounts are subject to reductions of 20% to 40% during drought conditions.
- (g) Includes water from the Trinity Aquifer and Canyon Lake available under water purchase agreements and water from the Carrizo Aquifer based on groundwater rights associated with land owned by SAWS.
- (h) Represents net amount stored in ASR (Recharge - Net production).

**San Antonio Water System**  
**Schedule 25 – Monthly Residential Service Charges for Ten Major Texas Cities - Water**

<b>CITY</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Arlington							
6000 Gallons	\$18.99	\$18.91	\$17.44	\$16.43	\$15.76	\$15.03	\$15.03
9000 Gallons	\$24.84	\$24.70	\$22.48	\$21.11	\$21.13	\$20.52	\$20.52
Austin							
6000 Gallons	\$19.18	\$17.93	\$16.93	\$16.21	\$14.88	\$13.50	\$13.50
9000 Gallons	\$27.04	\$25.22	\$24.22	\$23.11	\$21.75	\$19.80	\$19.80
Corpus Christi <sup>1</sup>							
6000 Gallons	\$25.54	\$25.34	\$23.44	\$22.46	\$20.67	\$19.95	\$19.95
9000 Gallons	\$39.10	\$38.62	\$33.98	\$32.58	\$30.01	\$28.98	\$28.98
Dallas							
6000 Gallons	\$16.16	\$15.50	\$14.68	\$13.87	\$12.15	\$11.60	\$11.60
9000 Gallons	\$25.16	\$23.90	\$22.39	\$20.80	\$18.00	\$17.21	\$17.21
El Paso <sup>2, 3</sup>							
6000 Gallons	\$16.53	\$16.53	\$15.27	\$14.67	\$14.69	\$13.90	\$13.90
9000 Gallons	\$22.34	\$22.34	\$20.15	\$19.35	\$19.39	\$16.01	\$16.01
Ft. Worth							
6000 Gallons	\$21.75	\$20.45	\$19.71	\$19.71	\$19.70	\$18.32	\$18.32
9000 Gallons	\$32.42	\$30.52	\$29.51	\$29.51	\$27.69	\$25.62	\$25.62
Houston							
6000 Gallons	\$21.91	\$20.85	\$20.49	\$19.94	\$18.60	\$18.11	\$18.11
9000 Gallons	\$30.67	\$29.19	\$28.71	\$27.95	\$26.10	\$25.19	\$25.19
Lubbock							
6000 Gallons	\$34.02	\$23.41	\$20.20	\$20.99	\$20.39	\$19.81	\$19.81
9000 Gallons	\$43.99	\$30.67	\$26.47	\$26.48	\$25.73	\$25.00	\$25.00
Plano							
6000 Gallons	\$19.35	\$16.71	\$16.41	\$15.29	\$14.57	\$13.58	\$13.58
9000 Gallons	\$25.05	\$21.63	\$21.15	\$19.79	\$18.86	\$17.51	\$17.51
San Antonio (Standard) <sup>2</sup>							
6000 Gallons	\$22.11	\$21.81	\$21.56	\$21.64	\$20.22	\$17.46	\$15.70
9000 Gallons	\$30.40	\$30.03	\$29.66	\$29.77	\$27.82	\$23.88	\$21.24

Source: Based on rates posted on each respective city's website.

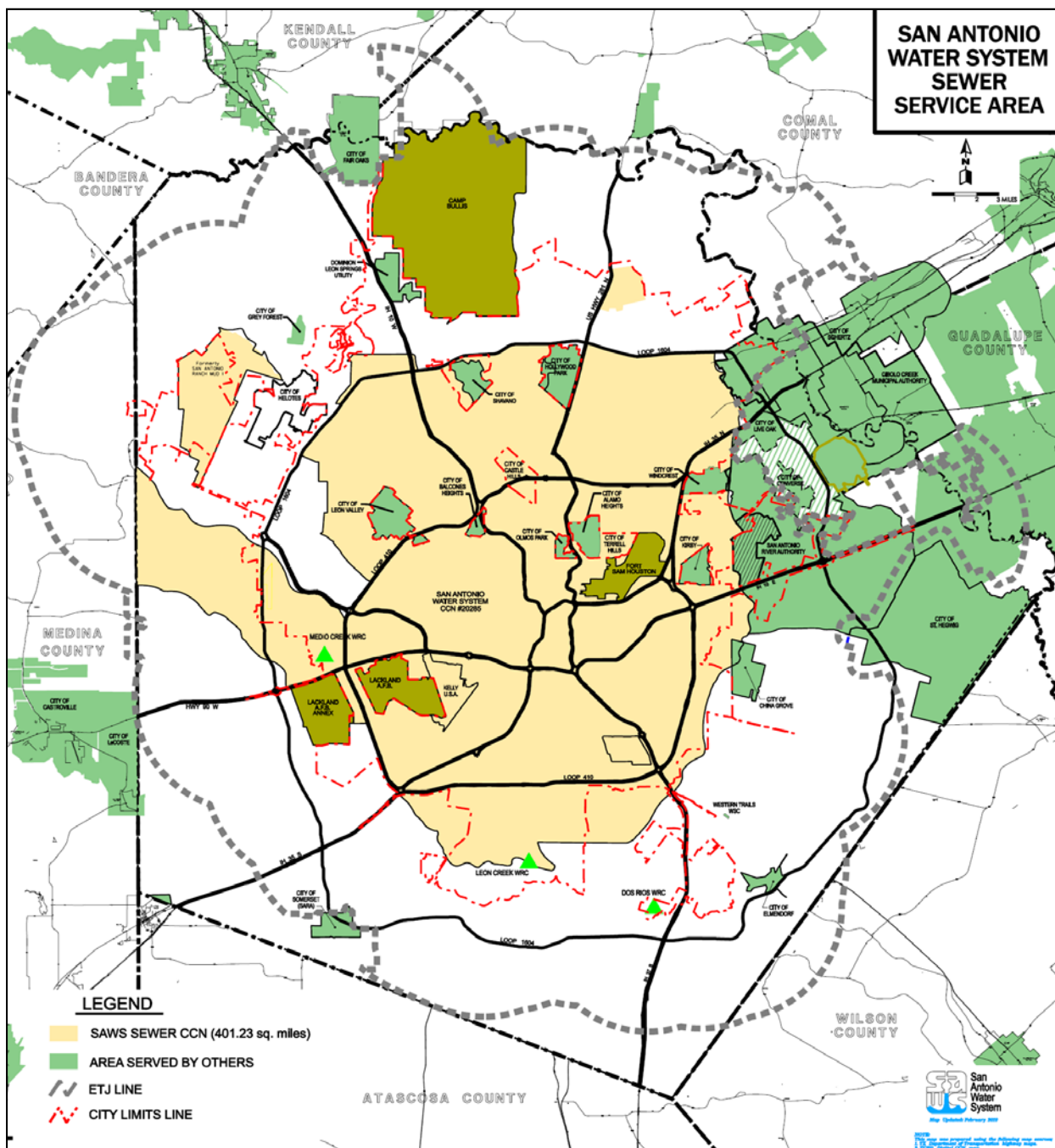
Note – Most charges are for a 5/8" meter; Arlington and Lubbock charges are for a 3/4" meter.

<sup>1</sup> Includes Raw Water Pass Through Charge of \$0.899 per 1,000 gallons.

<sup>2</sup> Assumes Standard rates and includes Water Supply Fee.

<sup>3</sup> El Paso charges are based on the nearest lowest hundred cubic feet (CCF) of consumption.

## San Antonio Water System Map 2 – Map of Wastewater Service Area



**San Antonio Water System**  
**Schedule 26 – Operating and Capital Indicators - Wastewater**

	Fiscal Year									
	2009	2008	2007	2006	2005	2004	2003	2002	2001(a)	2001
Customers/Connections (b)	395,161	389,894	379,962	368,401	354,878	342,813	330,072	334,434	297,661	325,154
Effluent Volumes For Major Facilities (million gallons per day)										
Dos Rios										
Permit Flow	125	125	125	125	125	125	125	125	125	125
Average Annual Flow	74.37	76.53	93.34	64.00	59.58	61.16	56.53	60.08	53.12	55.08
Maximum Monthly Average Flow	89.36	81.43	131.98	74.37	73.98	78.74	65.65	82.52	57.92	64.98
Leon Creek										
Permit Flow	46	46	46	46	46	46	46	46	46	46
Average Annual Flow (two outfalls)	34.99	34.71	40.26	32.63	34.48	35.34	33.81	37.56	35.58	36.89
Maximum Monthly Average Flow (two outfalls)	64.74	38.62	55.49	34.28	41.79	42.40	36.18	49.16	39.83	41.62
Medio Creek										
Permit Flow	16.0	16.0	8.5	8.5	8.5	8.5	8.5	8.5	6.5	6.5
Average Annual Flow	6.32	5.87	6.94	5.13	5.21	5.60	5.53	6.44	5.60	6.27
Maximum Monthly Average Flow	7.45	6.57	10.51	5.63	6.58	6.63	7.09	8.33	5.88	7.66
Salado (c)										
Permit Flow	n/a	n/a	n/a	46	46	46	46	46	46	46
Average Annual Flow	n/a	n/a	n/a	11.38	33.80	35.86	33.24	34.26	32.97	33.07
Maximum Monthly Average Flow	n/a	n/a	n/a	21.11	40.40	44.00	36.39	41.21	35.52	38.57
Total										
Permit Flow	187.0	187.0	179.5	225.5	225.5	225.5	225.5	225.5	223.5	223.5
Average Annual Flow	115.68	117.11	140.54	113.14	133.07	137.96	129.11	138.34	127.39	131.31
Maximum Monthly Average Flow	161.55	126.62	197.98	135.39	162.75	171.77	145.31	181.22	139.15	152.83
Amount Treated Annually (millions of gallons)	51,987	50,347	49,218	53,268	49,287	49,593	49,669	52,180	29,561	52,344
Amount Treated Peak Day (millions of gallons)	194	174	294	169	212	297	201	390	175	264
Miles of Sewer Main Installed	84	124.55	137	132	74	76	122	75	47	104
Miles of Sewer Main In Place (d)	5,085	5,001	4,877	4,739	4,607	4,533	5,088	4,967	4,892	4,845
Number of Lift Stations	164	162	167	164	150	150	150	150	150	147

- (a) Seven months ended December 31, 2001. In 2001, the System's Board of Trustees approved a change in the fiscal year-end from May 31st to December 31st.
- (b) Number of customers at end of fiscal year.
- (c) The Salado treatment plant was closed during August 2006 and all wastewater flows diverted to the Dos Rios treatment facility.
- (d) Prior to 2004, the miles of sewer main in place were estimated. Utilizing GPS tracking, more accurate data was obtained and maintained starting in 2004.

**San Antonio Water System**  
**Schedule 27 – Monthly Residential Service Charges for Ten Major Texas Cities - Wastewater**

<b>CITY</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Arlington							
6000 Gallons	\$25.97	\$25.29	\$23.10	\$22.41	\$19.52	\$18.88	\$18.88
9000 Gallons	\$35.03	\$34.05	\$31.05	\$30.15	\$26.78	\$26.32	\$26.32
Austin							
6000 Gallons	\$46.28	\$44.34	\$42.18	\$37.19	\$31.72	\$27.62	\$27.62
9000 Gallons	\$69.47	\$66.66	\$63.72	\$56.18	\$48.79	\$42.41	\$42.41
Corpus Christi							
6000 Gallons	\$35.95	\$34.15	\$28.91	\$27.35	\$26.77	\$25.99	\$25.99
9000 Gallons	\$48.01	\$45.60	\$38.61	\$36.52	\$35.75	\$34.70	\$34.70
Dallas							
6000 Gallons	\$29.33	\$28.63	\$27.07	\$25.55	\$22.19	\$21.01	\$21.01
9000 Gallons	\$42.11	\$41.20	\$38.86	\$36.71	\$31.67	\$30.19	\$30.19
El Paso							
6000 Gallons	\$15.22	\$15.22	\$14.21	\$13.65	\$12.76	\$11.83	\$11.83
9000 Gallons	\$20.31	\$20.31	\$18.97	\$18.21	\$16.87	\$15.66	\$15.66
Ft. Worth							
6000 Gallons	\$25.67	\$25.67	\$24.63	\$24.63	\$24.63	\$22.39	\$22.39
9000 Gallons	\$36.26	\$36.26	\$34.70	\$34.70	\$34.70	\$31.33	\$31.33
Houston							
6000 Gallons	\$24.84	\$22.67	\$22.29	\$21.70	\$21.22	\$18.42	\$18.42
9000 Gallons	\$36.69	\$33.95	\$33.39	\$32.50	\$31.33	\$27.63	\$27.63
Lubbock							
6000 Gallons	\$22.10	\$15.97	\$14.76	\$13.96	\$13.96	\$12.53	\$12.53
9000 Gallons	\$28.25	\$21.46	\$19.83	\$18.97	\$18.97	\$17.03	\$17.03
Plano							
6000 Gallons	\$33.54	\$27.95	\$27.10	\$25.30	\$24.11	\$23.57	\$23.57
9000 Gallons	\$46.32	\$38.60	\$37.24	\$34.96	\$33.32	\$32.57	\$32.57
San Antonio							
6000 Gallons	\$17.02	\$16.17	\$16.17	\$16.17	\$16.08	\$14.48	\$12.57
9000 Gallons	\$23.20	\$22.03	\$22.03	\$22.03	\$21.91	\$19.73	\$17.15

Source: Based on rates posted on each respective city's website.



## MONTHLY WATER, SEWER, AND WATER SUPPLY FEE RATES

In June 2010, the Board and the City Council approved revisions to the System's rate structure. The revised rate structure is designed to encourage water conservation. The revised rate structure reduces rates for lower water use while raising rates for higher water use. The most significant change in the revised rates structure is moving the Water Supply Fee from a flat fee to a tiered fee, in which the rate for the Water Supply Fee would increase as total water usage increases. The new rate structure went into effect on November 1, 2010. The tables below reflect the current water and wastewater rates as well as the revised rates and rate structure.

### **Residential Water Service** **(Effective for Consumption on or about January 13, 2009 through on or about November 1, 2010)**

The Service Availability Charge (minimum bill) for all residential water service **INSIDE THE CITY LIMITS** of San Antonio furnished through meters of the following sizes together with the Monthly Volume Charge measured per 100 gallons for water usage in every instance of service for each month or fraction thereof shall be as follows:

#### MONTHLY SERVICE AVAILABILITY CHARGE

<u>Meter Size</u>	<u>Service Availability Charge</u>
5/8"	\$ 6.77
3/4"	8.59
1"	12.49
1-1/2"	22.25
2"	33.95
3"	61.27
4"	100.30
6"	197.89
8"	314.96
10"	451.57
12"	841.86

#### MONTHLY VOLUME CHARGE

<u>Usage Blocks</u>	<u>Rate Per 100 Gallons</u>	
	<u>Standard*</u>	<u>Seasonal*</u>
First 7,481	\$ 0.0906	\$ 0.0906
Next 5,236	0.1309	0.1423
Next 4,488	0.2058	0.2217
Over 17,205	0.3288	0.4246

\* The Volume Charge "Seasonal" Rate Per 100 Gallons shall be applied to all billings beginning July 1 and ending on or about October 31 of each year. At all other times the Volume Charge "Standard" Rate Per 100 Gallons shall be utilized.

The Service Availability Charge (minimum bill) for all residential water service **OUTSIDE THE CITY LIMITS** of San Antonio furnished through meters of the following sizes together with the Monthly Volume Charge measured per 100 gallons for water usage in every instance of service for each month or fraction thereof shall be as follows:

#### MONTHLY SERVICE AVAILABILITY CHARGE

<u>Meter Size</u>	<u>Service Availability Charge</u>
5/8"	\$ 8.78
3/4"	11.16
1"	16.23
1-1/2"	28.92
2"	44.14
3"	79.65
4"	130.39
6"	257.24
8"	409.45
10"	587.03
12"	1,094.42

#### MONTHLY VOLUME CHARGE

<u>Usage Blocks</u>	<u>Rate Per 100 Gallons</u>	
	<u>Standard*</u>	<u>Seasonal*</u>
First 7,481	\$ 0.1176	\$ 0.1176
Next 5,236	0.1702	0.1850
Next 4,488	0.2674	0.2885
Over 17,205	0.4274	0.5519

\* The Volume Charge "Seasonal" Rate Per 100 Gallons shall be applied to all billings beginning July 1 and ending on or about October 31 of each year. At all other times the Volume Charge "Standard" Rate Per 100 Gallons shall be utilized.

**Residential Water Service**  
**(Effective for Consumption on or about November 1, 2010)**

The Service Availability Charge (minimum bill) for all residential water service **INSIDE THE CITY LIMITS** of San Antonio furnished through meters of the following sizes together with the Monthly Volume Charge measured per 100 gallons for water usage in every instance of service for each month or fraction thereof shall be as follows:

**MONTHLY SERVICE AVAILABILITY CHARGE**

<u>Meter Size</u>	<u>Service Availability Charge</u>
5/8"	\$ 6.91
3/4"	9.68
1"	15.23
1-1/2"	29.10
2"	45.73
3"	84.56
4"	140.02
6"	278.69
8"	445.09
10"	639.22
12"	1,193.88

**MONTHLY VOLUME CHARGE**

<u>Usage Blocks</u>	<u>Rate Per 100 Gallons</u>	
	<u>Standard*</u>	<u>Seasonal*</u>
First 5,985	\$ 0.0917	\$ 0.0917
Next 6,732	0.1327	0.1443
Next 4,488	0.1871	0.2146
Over 17,205	0.3277	0.4446

\* The Volume Charge "Seasonal" Rate Per 100 Gallons shall be applied to all billings beginning on or about May 1 and ending after five complete billing months on or about September 30 of each year. At all other times the Volume Charge "Standard" Rate Per 100 Gallons shall be utilized.

The Service Availability Charge (minimum bill) for all residential water service **OUTSIDE THE CITY LIMITS** of San Antonio furnished through meters of the following sizes together with the Monthly Volume Charge measured per 100 gallons for water usage in every instance of service for each month or fraction thereof shall be as follows:

**MONTHLY SERVICE AVAILABILITY CHARGE**

<u>Meter Size</u>	<u>Service Availability Charge</u>
5/8"	\$ 8.98
3/4"	12.59
1"	19.80
1-1/2"	37.83
2"	59.46
3"	109.94
4"	182.04
6"	362.30
8"	578.63
10"	830.99
12"	1,552.05

**MONTHLY VOLUME CHARGE**

<u>Usage Blocks</u>	<u>Rate Per 100 Gallons</u>	
	<u>Standard*</u>	<u>Seasonal*</u>
First 5,985	\$ 0.1193	\$ 0.1193
Next 6,732	0.1725	0.1876
Next 4,488	0.2433	0.2790
Over 17,205	0.4260	0.5779

\* The Volume Charge "Seasonal" Rate Per 100 Gallons shall be applied to all billings beginning on or about May 1 and ending after five complete billing months on or about September 30 of each year. At all other times the Volume Charge "Standard" Rate Per 100 Gallons shall be utilized.

**General Water Service**  
**(Effective for Consumption on or about January 13, 2009 through on or about November 1, 2010)**

The Service Availability Charge (minimum bill) for all general water service **INSIDE THE CITY LIMITS** of San Antonio furnished through meters of the following sizes together with the Monthly Volume Charge measured per 100 gallons for water usage in every instance of service for each month or fraction thereof shall be as follows:

**MONTHLY SERVICE AVAILABILITY CHARGE**

<u>Meter Size</u>	<u>Service Availability Charge</u>
5/8"	\$ 9.81
3/4"	13.16
1"	19.21
1-1/2"	35.03
2"	52.83
3"	106.92
4"	176.40
6"	350.03
8"	543.20
10"	755.89
12"	1,191.85

**MONTHLY VOLUME CHARGE**

<u>Usage Blocks</u>	<u>Rate Per 100 Gallons</u>
Below Base*	\$0.1086
100-125% of Base	0.1257
125-150% of Base	0.1633
150-200% of Base	0.2138
Over 200% of Base	0.3160

\* The Base Use is defined as 90% of the Annual Average Consumption.

The Service Availability Charge (minimum bill) for all general water service **OUTSIDE THE CITY LIMITS** of San Antonio furnished through meters of the following sizes together with the Monthly Volume Charge measured per 100 gallons for water usage in every instance of service for each month or fraction thereof shall be as follows:

**MONTHLY SERVICE AVAILABILITY CHARGE**

<u>Meter Size</u>	<u>Service Availability Charge</u>
5/8"	\$ 11.83
3/4"	15.72
1"	22.94
1-1/2"	41.69
2"	63.01
3"	125.31
4"	206.48
6"	409.39
8"	637.69
10"	891.35
12"	1,444.41

**MONTHLY VOLUME CHARGE**

<u>Usage Blocks</u>	<u>Rate Per 100 Gallons</u>
Below Base*	\$0.1410
100-125% of Base	0.1635
125-150% of Base	0.2121
150-200% of Base	0.2778
Over 200% of Base	0.4109

\* The Base Use is defined as 90% of the Annual Average Consumption.

**General Water Service**  
**(Effective for Consumption on or about November 1, 2010)**

The Service Availability Charge (minimum bill) for all general water service **INSIDE THE CITY LIMITS** of San Antonio furnished through meters of the following sizes together with the Monthly Volume Charge measured per 100 gallons for water usage in every instance of service for each month or fraction thereof shall be as follows:

**MONTHLY SERVICE AVAILABILITY CHARGE**

<u>Meter Size</u>	<u>Service Availability Charge</u>
5/8"	\$ 9.59
3/4"	13.71
1"	21.93
1-1/2"	42.50
2"	67.20
3"	124.80
4"	207.09
6"	412.82
8"	659.69
10"	947.71
12"	1,770.63

**MONTHLY VOLUME CHARGE**

<u>Usage Blocks, Gallons</u>	<u>Rate Per 100 Gallons</u>
Base*	\$0.1110
>100-125% of Base	0.1327
>125-175% of Base	0.1861
>175% of Base	0.2725

\* The Base Use is defined as 100% of the Annual Average Consumption.

The Service Availability Charge (minimum bill) for all general water service **OUTSIDE THE CITY LIMITS** of San Antonio furnished through meters of the following sizes together with the Monthly Volume Charge measured per 100 gallons for water usage in every instance of service for each month or fraction thereof shall be as follows:

**MONTHLY SERVICE AVAILABILITY CHARGE**

<u>Meter Size</u>	<u>Service Availability Charge</u>
5/8"	\$ 12.47
3/4"	17.82
1"	28.51
1-1/2"	55.26
2"	87.36
3"	162.24
4"	269.22
6"	536.66
8"	857.60
10"	1,232.03
12"	2,301.82

**MONTHLY VOLUME CHARGE**

<u>Usage Blocks, Gallons</u>	<u>Rate Per 100 Gallons</u>
Base*	\$0.1443
>100-125% of Base	0.1724
>125-175% of Base	0.2419
>175% of Base	0.3542

\* The Base Use is defined as 100% of the Annual Average Consumption.

**Wholesale Water Service**  
**(Effective for Consumption on or about January 13, 2009 through on or about November 1, 2010)**

The Service Availability Charge (minimum bill) for all wholesale water service **INSIDE THE CITY LIMITS** of San Antonio furnished through meters of the following sizes together with the Monthly Volume Charge measured per 100 gallons for water usage in every instance of service for each month or fraction thereof shall be as follows:

MONTHLY SERVICE AVAILABILITY CHARGE		MONTHLY VOLUME CHARGE	
<u>Meter Size<sup>(1)</sup></u>	<u>Service Availability Charge</u>	<u>Usage Blocks</u>	<u>Rate Per 100 Gallons</u>
6"	\$197.89	Below Base*	\$0.0788
8"	314.96	100-125% of Base	0.0983
10"	451.57	125-150% of Base	0.1353
12"	841.86	150-200% of Base	0.1804
		Over 200% of Base	0.2365

\* The Base Use is defined as 90% of the Annual Average Consumption.

- 
- (1) Wholesale water service will not be provided through a meter smaller than 6" in order to comply with fire flow requirements and the "Criteria for Water Supply and Distribution in the City of San Antonio and its Extraterritorial Jurisdiction".

The Service Availability Charge (minimum bill) for all wholesale water service **OUTSIDE THE CITY LIMITS** of San Antonio furnished through meters of the following sizes together with the Monthly Volume Charge measured per 100 gallons for water usage in every instance of service for each month or fraction thereof shall be as follows:

MONTHLY SERVICE AVAILABILITY CHARGE		MONTHLY VOLUME CHARGE	
<u>Meter Size<sup>(1)</sup></u>	<u>Service Availability Charge</u>	<u>Usage Blocks</u>	<u>Rate Per 100 Gallons</u>
6"	\$ 257.24	Below Base*	\$0.1025
8"	409.45	100-125% of Base	0.1279
10"	587.03	125-150% of Base	0.1760
12"	1,094.12	150-200% of Base	0.2346
		Over 200% of Base	0.3075

\* The Base Use is defined as 90% of the Annual Average Consumption.

- 
- (1) Wholesale water service will not be provided through a meter smaller than 6" in order to comply with fire flow requirements and the "Criteria for Water Supply and Distribution in the City of San Antonio and its Extraterritorial Jurisdiction".

**Wholesale Water Service**  
**(Effective for Consumption on or about November 1, 2010)**

The Service Availability Charge (minimum bill) for all wholesale water service **INSIDE THE CITY LIMITS** of San Antonio furnished through meters of the following sizes together with the Monthly Volume Charge measured per 100 gallons for water usage in every instance of service for each month or fraction thereof shall be as follows:

MONTHLY SERVICE AVAILABILITY CHARGE		MONTHLY VOLUME CHARGE	
<u>Meter Size<sup>(1)</sup></u>	<u>Service Availability Charge</u>	<u>Usage Blocks, Gallons</u>	<u>Rate Per 100 Gallons</u>
6"	\$ 278.69	Base*	\$0.0770
8"	445.09	>100-125% of Base	0.1157
10"	639.22	>125-175% of Base	0.1670
12"	1,193.88	>175% of Base	0.2362

\* The Base Use is defined as 100% of the Annual Average Consumption.

- 
- (1) Wholesale water service will not be provided through a meter smaller than 6" in order to comply with fire flow requirements and the "Criteria for Water Supply and Distribution in the City of San Antonio and its Extraterritorial Jurisdiction".

The Service Availability Charge (minimum bill) for all wholesale water service **OUTSIDE THE CITY LIMITS** of San Antonio furnished through meters of the following sizes together with the Monthly Volume Charge measured per 100 gallons for water usage in every instance of service for each month or fraction thereof shall be as follows:

MONTHLY SERVICE AVAILABILITY CHARGE		MONTHLY VOLUME CHARGE	
<u>Meter Size<sup>(1)</sup></u>	<u>Service Availability Charge</u>	<u>Usage Blocks, Gallons</u>	<u>Rate Per 100 Gallons</u>
6"	\$ 362.30	Base*	\$0.1001
8"	578.63	>100-125% of Base	0.1504
10"	830.99	>125-175% of Base	0.2171
12"	1,552.05	>175% of Base	0.3070

\* The Base Use is defined as 100% of the Annual Average Consumption.

- 
- (1) Wholesale water service will not be provided through a meter smaller than 6" in order to comply with fire flow requirements and the "Criteria for Water Supply and Distribution in the City of San Antonio and its Extraterritorial Jurisdiction".

**Irrigation Service Fee**  
**(Effective for Consumption on or about January 13, 2009 through on or about November 1, 2010)**

The Service Availability Charge (minimum bill) for all irrigation water service **INSIDE THE CITY LIMITS** of San Antonio furnished through meters of the following sizes together with the Monthly Volume Charge measured per 100 gallons for water usage in every instance of service for each month or fraction thereof shall be as follows:

MONTHLY SERVICE AVAILABILITY CHARGE		MONTHLY VOLUME CHARGE	
<u>Meter Size</u>	<u>Service Availability Charge</u>	<u>Usage Blocks</u>	<u>Rate Per 100 Gallons</u>
5/8"	\$ 9.81	First 12,717	\$0.1526
3/4"	13.16	Next 4,488	0.2290
1"	19.21	Over 17,205	0.3160
1-1/2"	35.03		
2"	52.83		
3"	106.92		
4"	176.40		
6"	350.03		
8"	543.20		
10"	755.89		
12"	1,191.85		

The Service Availability Charge (minimum bill) for all irrigation water service **OUTSIDE THE CITY LIMITS** of San Antonio furnished through meters of the following sizes together with the Monthly Volume Charge measured per 100 gallons for water usage in every instance of service for each month or fraction thereof shall be as follows:

MONTHLY SERVICE AVAILABILITY CHARGE		MONTHLY VOLUME CHARGE	
<u>Meter Size</u>	<u>Service Availability Charge</u>	<u>Usage Blocks</u>	<u>Rate Per 100 Gallons</u>
5/8"	\$ 11.83	First 12,717	\$0.1982
3/4"	15.72	Next 4,488	0.2976
1"	22.94	Over 17,205	0.4109
1-1/2"	41.69		
2"	63.01		
3"	125.31		
4"	206.48		
6"	409.39		
8"	637.69		
10"	891.35		
12"	1,444.41		

**Irrigation Service Fee**  
**(Effective for Consumption on or about November 1, 2010)**

The Service Availability Charge (minimum bill) for all irrigation water service **INSIDE THE CITY LIMITS** of San Antonio furnished through meters of the following sizes together with the Monthly Volume Charge measured per 100 gallons for water usage in every instance of service for each month or fraction thereof shall be as follows:

**MONTHLY SERVICE AVAILABILITY CHARGE**

<u>Meter Size</u>	<u>Service Availability Charge</u>
5/8"	\$ 9.59
3/4"	13.71
1"	21.93
1-1/2"	42.50
2"	67.20
3"	124.80
4"	207.09
6"	412.82
8"	659.69
10"	947.71
12"	1,770.63

**MONTHLY VOLUME CHARGE**

<u>Usage Blocks, Gallons</u>	<u>Rate Per 100 Gallons</u>	
	<u>Standard</u>	<u>Seasonal</u>
0 Gallons	\$0.0000	\$0.0000
Next 6,732	0.1560	0.1560
Next 10,473	0.1871	0.2172
Over 17,205	0.3277	0.4497

The Volume Charge "Seasonal" Rate Per 100 Gallons shall be applied to all billings beginning on or about May 1 and ending after five complete billing months on or about September 30 of each year. At all other times the Volume Charge "Standard" Rate Per 100 Gallons shall be utilized.

The Service Availability Charge (minimum bill) for all irrigation water service **OUTSIDE THE CITY LIMITS** of San Antonio furnished through meters of the following sizes together with the Monthly Volume Charge measured per 100 gallons for water usage in every instance of service for each month or fraction thereof shall be as follows:

**MONTHLY SERVICE AVAILABILITY CHARGE**

<u>Meter Size</u>	<u>Service Availability Charge</u>
5/8"	\$ 12.47
3/4"	17.82
1"	28.51
1-1/2"	55.26
2"	87.36
3"	162.24
4"	269.22
6"	536.66
8"	857.60
10"	1,232.03
12"	2,301.82

**MONTHLY VOLUME CHARGE**

<u>Usage Blocks, Gallons</u>	<u>Rate Per 100 Gallons</u>	
	<u>Standard</u>	<u>Seasonal</u>
0 Gallons	\$0.0000	\$0.0000
Next 6,732	0.2028	0.2028
Next 10,473	0.2432	0.2824
Over 17,205	0.4260	0.5846

The Volume Charge "Seasonal" Rate Per 100 Gallons shall be applied to all billings beginning on or about May 1 and ending after five complete billing months on or about September 30 of each year. At all other times the Volume Charge "Standard" Rate Per 100 Gallons shall be utilized.



**Recycled Water Service – Edwards Exchange Customers**  
**(Effective for Consumption on or about January 13, 2009)**

The Service Availability Charge (minimum bill) for all recycled water service furnished through meters of the following sizes together with the Monthly Volume Charge measured per 100 gallons for water usage in every instance of service for each month or fraction thereof shall be as follows:

MONTHLY SERVICE AVAILABILITY CHARGE		MONTHLY VOLUME CHARGE		
<u>Meter Size</u>	<u>Net Meter Charge</u>	<u>Usage Blocks</u>	<u>Rate Per 100 Gallons</u>	
			<u>Standard</u>	<u>Seasonal</u>
5/8"	\$ 8.74	Transferred Amount	\$ 0.0230	\$ 0.0230
3/4"	11.37			
1"	14.81	All in Excess of Transferred		
1-1/2"	23.55	Amount	0.0863	0.0917
2"	34.44			
3"	91.60	The Volume Charge "Seasonal" Rate Per 100 Gallons shall be		
4"	136.14	applied to all billings beginning on or about May 1 and ending		
6"	259.71	after five complete billing months on or about September 30 of		
8"	391.47	each year. At all other times the Volume Charge "Standard" Rate		
10"	536.79	Per 100 Gallons shall be utilized.		
12"	662.31			

**Recycled Water Service – Non-Edwards Exchange Customers**  
**(Effective for Consumption on or about January 13, 2009)**

The Monthly Service Availability Charge (minimum bill) for all recycled water service furnished through meters of the following sizes together with the Monthly Volume Charge measured per 100 gallons for water usage in every instance of service for each month or fraction thereof shall be as follows:

MONTHLY SERVICE AVAILABILITY CHARGE		MONTHLY VOLUME CHARGE		
<u>Meter Size</u>	<u>Net Meter Charge</u>	<u>Usage Blocks</u>	<u>Rate Per 100 Gallons</u>	
			<u>Standard</u>	<u>Seasonal</u>
5/8"	\$ 8.74	Transferred Amount	\$ 0.0924	\$ 0.0992
3/4"	11.37			
1"	14.81	All in Excess of		
1-1/2"	23.55	Transferred Amount	0.0943	0.1002
2"	34.44			
3"	91.60	The Volume Charge "Seasonal" Rate Per 100 Gallons shall be		
4"	136.14	applied to all billings beginning on or about May 1 and ending after		
6"	259.71	five complete billing months on or about September 30 of each		
8"	391.47	year. At all other times the Volume Charge "Standard" Rate Per		
10"	536.79	100 Gallons shall be utilized.		
12"	662.31			

**Water Supply Fee**  
**(Effective for Consumption on or about January 13, 2009 through on or about November 1, 2010)**

The Water Supply Fee assessed on all potable water service for water usage in every instance of service for each month or fraction thereof shall be as follows:

<u>Year</u>	<u>Fee to be Assessed (per 100 gallons)</u>
2009	\$0.1529

**Water Supply Fee**  
**(Effective for Consumption on or about November 1, 2010)**

The Water Supply Fee assessed on all potable water service for water usage in every instance of service for each month or fraction thereof shall be as follows:

<u>Rate Class</u>	<u>Usage Blocks, Gallons</u>	<u>Fee to be Assessed</u> (per 100 gallons)
Residential	First 5,985	\$0.1023
	Next 6,732	0.1480
	Next 4,488	0.2087
	Over 17,205	0.3653
General	Base*	\$0.1573
	>100-125% of Base	0.1573
	>125-175% of Base	0.1573
	>175% of Base	0.1573
Wholesale	Base*	\$0.1573
	>100-125% of Base	0.1573
	>125-175% of Base	0.1573
	>175% of Base	0.1573
Irrigation	0 Gallons	\$0.0000
	Next 6,732	0.1573
	Next 10,473	0.2087
	Over 17,205	0.3962

\*The Base Use is defined as 100% of the Annual Average Consumption.

**Residential Sewer Service**  
**(Effective for Consumption on or about January 13, 2009 through on or about November 1, 2010)**

Sewer service charges for all metered residential connections are computed on the basis of average water usage for 90 days during three consecutive billing periods beginning after November 15 and ending on or about March 15 of each year and are billed according to the rate schedules below.

**INSIDE CITY LIMITS ("ICL")**

Monthly Service Availability Charge  
(includes first 1,496 gallons) - \$7.76. Over  
1,496 gallons, \$0.2057 per 100 gallons.

Customers who do not have a record of winter  
water usage or an interim average will be  
billed an Unaveraged or Unmetered  
Residential Charge of \$21.61 per month.

**OUTSIDE CITY LIMITS ("OCL")**

Monthly Service Availability Charge  
(includes first 1,496 gallons) - \$9.32. Over  
1,496 gallons, \$0.2468 per 100 gallons.

Customers who do not have a record of winter  
water usage or an interim average will be  
billed an Unaveraged or Unmetered  
Residential Charge of \$25.93 per month.

**Residential Sewer Service**  
**(Effective for Consumption on or about November 1, 2010)**

Sewer service charges for all metered residential connections are computed on the basis of average water usage for 90 days during three consecutive billing periods beginning after November 15 and ending on or about March 15 of each year and are billed according to the rate schedules below.

**INSIDE CITY LIMITS ("ICL")**

Monthly Service Availability Charge  
(includes first 1,496 gallons) - \$8.68. Over  
1,496 gallons, \$0.2057 per 100 gallons.

Customers who do not have a record of winter water usage or an interim average will be billed an Unaveraged or Unmetered Residential Charge of \$24.18 per month.

**OUTSIDE CITY LIMITS ("OCL")**

Monthly Service Availability Charge  
(includes first 1,496 gallons) - \$10.43. Over  
1,496 gallons, \$0.2762 per 100 gallons.

Customers who do not have a record of winter water usage or an interim average will be billed an Unaveraged or Unmetered Residential Charge of \$29.02 per month.

**General Sewer Service**  
**(Effective for Consumption on or about January 13, 2009 through on or about November 1, 2010)**

Sewer service charges are computed from the water usage schedules below for all metered connections.

**INSIDE CITY LIMITS ("ICL")**

Monthly Service Availability Charge  
(includes first 1,496 gallons) - \$7.76. Over  
1,496 gallons, \$0.2057 per 100 gallons.

**OUTSIDE CITY LIMITS ("OCL")**

Monthly Service Availability Charge  
(includes first 1,496 gallons) - \$9.32. Over  
1,496 gallons, \$0.2468 per 100 gallons.

**General Sewer Service**  
**(Effective for Consumption on or about November 1, 2010)**

Sewer service charges are computed from the water usage schedules below for all metered connections.

**INSIDE CITY LIMITS ("ICL")**

Monthly Service Availability Charge  
(includes first 1,496 gallons) - \$8.68. Over  
1,496 gallons, \$0.2302 per 100 gallons.

**OUTSIDE CITY LIMITS ("OCL")**

Monthly Service Availability Charge  
(includes first 1,496 gallons) - \$10.43. Over  
1,496 gallons, \$0.2762 per 100 gallons.

**Wholesale Sewer Service**  
**(Effective for Consumption on or about January 13, 2009 through on or about November 1, 2010)**

**INSIDE CITY LIMITS ("ICL")**

Wholesale: \$0.1854 Monthly Volume Charge per 100 gallons of contributed wastewater. (\$1.39 per 100 cubic feet)

**OUTSIDE CITY LIMITS ("OCL")**

Wholesale: \$91.11 Monthly Service Availability Charge plus \$0.2226 Monthly Volume Charge per 100 gallons of contributed wastewater. (\$1.67 per 100 cubic feet)

**Wholesale Sewer Service**  
**(Effective for Consumption on or about November 1, 2010)**

**INSIDE CITY LIMITS ("ICL")**

Wholesale: \$0.2075 Monthly Volume Charge per 100 gallons of contributed wastewater. (\$1.56 per 100 cubic feet)

**OUTSIDE CITY LIMITS ("OCL")**

Wholesale: \$101.95 Monthly Service Availability Charge plus \$0.2491 Monthly Volume Charge per 100 gallons of contributed wastewater. (\$1.87 per 100 cubic feet)

#### **WATER SERVICE INTERCONNECT RATE (EFFECTIVE JANUARY 1, 2006)**

On November 17, 2005, the City Council approved the establishment of a Water Service Interconnect Rate. Water purveyors and entities outside the System have and are anticipated to continue to request connections to the System to receive potable water services on a short-term, unscheduled basis. Through these connections, these purveyors then resell the water provided by the System to their customers.

In order to ensure equitable recovery of costs and mitigate usage of these interconnections on more than a short-term basis, a Water Service Interconnect Rate was established. The rate is structured to provide short-term temporary water service while encouraging long-term water service agreements. In addition, the rate ensures that water purveyors utilizing potable water through the interconnection with the System do not profit when reselling this water to their own customers. Water purveyors who connect to the System under the Interconnect Water Service Rate shall pay for all services related to connecting to the infrastructure of the System to include applicable capital and operating costs.

Under the Water Service Interconnect Rate, water purveyors are charged all of the following:

1. The highest bill calculated based on metered usage using the System's or the water purveyors current residential rate schedules; and
2. The System's meter fee for standby service; and
3. Additional standby charges of ten times the meter fee for each month of usage, if usage occurs two consecutive months or more than three months during a calendar year; and
4. Time and material charges incurred to service the interconnect infrastructure.

#### **IMPACT FEES (EFFECTIVE JUNE 30, 2006)**

On June 15, 2006, the City Council approved amendments to the System's Impact Fees Land Use Assumption Plan ("LUAP") and Impact Fees Capital Improvements Plan ("CIP") based on projections for the ten-year period of 2006-2015. Using these amended plans, at the same time the City Council approved amendments to the water supply, water flow, water system development, wastewater collection and wastewater treatment impact fees for all areas served by the System. Chapter 395, as amended, of the Texas Local Government Code ("Chapter 395") requires that the LVAP and CIP must be updated at least every five (5) years. The previous impact fees for water delivery and wastewater were approved by the City Council in 2001. The wastewater impact fees for the Far West/Medio service areas were previously approved in 2004. The water supply impact fee was previously established in September 2005.

Chapter 395 requires that impact fees be calculated for an equivalent dwelling unit ("EDU") based upon a LUAP that projects new demand for a period not to exceed ten (10) years and CIP costs associated with providing service to that new demand. The amended LUAP for 2006-2015 projects 102,821 new water EDUs and 115,995 new wastewater EDUs. The pro-rata cost of existing and future capital improvements projects to serve the 2006-2015 growth is estimated to be \$504 million as set forth in the amended CIP.

Based on the ten-year LUAP and CIP numbers above, the maximum impact fees were calculated for each major category of fees; i.e. water supply, water flow, water system development, wastewater collection and wastewater treatment for each related service area and approved as follows:

#### **SUMMARY OF MAXIMUM IMPACT FEES (Impact Fees are shown as per EDU)**

Water Supply Impact Fee	\$ 1,242
Water Delivery	
Flow	\$ 1,098
System Development	
Low	668
Middle	591
High	1,356
Wastewater	
Treatment	
Upper/Lower	\$ 453
Far West-Medio	901
Collection	
Lower	413
Upper	691
Far West-Medio	394
Far West-Potranca, Big Sous, Lucas	772

## FEDERAL INCOME TAX TREATMENT OF THE BONDS

**GENERAL . . .** The following is a general summary of certain United States federal income tax consequences of the purchase and ownership of the Bonds. The discussion is based upon laws, Treasury Regulations, rulings and decisions now in effect, all of which are subject to change (possibly, with retroactive effect) or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached herein. The discussion below does not purport to deal with United States federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a particular investor in the Bonds in light of the investor's particular personal investment circumstances or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax exempt organizations, financial institutions, broker-dealers, and persons who have hedged the risk of owning the Bonds). The summary is therefore limited to certain issues relating to initial investors who will hold the Bonds as "capital assets" within the meaning of section 1221 of the Code, and acquire such Bonds for investment and not as a dealer or for resale. This summary addresses certain federal income tax consequences applicable to beneficial owners of the Bonds who are United States persons within the meaning of section 7701(a)(3) of the Code ("United States persons") and, except as discussed below, does not address any consequences to persons other than United States persons.

Prospective investors should note that no rulings have been or will be sought from the IRS with respect to any of the United States federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions.

**INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS.**

**INTERNAL REVENUE SERVICE CIRCULAR 230 NOTICE . . .** You should be aware that:

- (i) the discussion with respect to United States federal tax matters in this Official Statement was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer;
- (ii) such discussion was written to support the promotion or marketing (within the meaning of IRS Circular 230) of the transactions or matters addressed by such discussion; and
- (iii) each taxpayer should seek advice based on his or her particular circumstances from an independent tax advisor.

This notice is given solely for purposes of ensuring compliance with IRS Circular 230.

**STATED INTEREST ON THE BONDS . . .** The stated interest on the Bonds will be included in the gross income, as defined in section 61 of the Code, of the beneficial owners thereof and be subject to U.S. federal income taxation when paid or accrued, depending on the tax accounting method applicable to the beneficial owners thereof.

**ORIGINAL ISSUE DISCOUNT . . .** If a substantial amount of the Bonds of any stated maturity is purchased at original issuance for a purchase price (the "Issue Price") that is less than their face amount by more than one quarter of one percent times the number of complete years to maturity, the Bonds of any stated maturity will be treated as being issued with "original issue discount." The amount of the original issue discount will equal the excess of the principal amount payable on such Bonds at maturity over their Issue Price, and the amount of the original issue discount on such Bonds will be amortized over the life of Bonds using the "constant yield method" provided in the Treasury Regulations. As the original issue discount accrues under the constant yield method, the beneficial owners of such Bonds, regardless of their regular method of accounting, will be required to include such accrued amount in their gross income as interest. This can result in taxable income to the beneficial owners of the Bonds that exceeds actual cash distributions to the beneficial owners in a taxable year.

The amount of any original issue discount that accrues on the Bonds each year will be reported annually to the IRS and to the beneficial owners. The portion of the original issue discount included in each beneficial owner's gross income while the beneficial owner holds the Bonds will increase the adjusted tax basis of the Bonds in the hands of such beneficial owner.

**DISPOSITION OF THE BONDS AND MARKET DISCOUNT . . .** A beneficial owner of Bonds will generally recognize gain or loss on the redemption, sale or exchange of the Bonds equal to the difference between the redemption or sales price (exclusive of the amount paid for accrued interest) and the beneficial owner's adjusted tax basis in the Bonds. Generally, the beneficial owner's adjusted tax basis in the Bonds will be the beneficial owner's initial cost, increased by any original issue discount previously included in the beneficial owner's income to the date of disposition. Any gain or loss generally will be capital gain or loss and will be long-term or short-term, depending on the beneficial owner's holding period for the Bonds.

Under current law, a purchaser of Bonds who did not purchase the Bonds in the initial public offering (a “subsequent purchaser”) generally will be required, on the disposition of the Bonds, to recognize as ordinary income a portion of the gain, if any, to the extent of the accrued “market discount.” In general, market discount is the amount by which the price paid for the Bonds by a subsequent purchaser is less than the principal amount payable at maturity (or, in the case of Bonds issued with original issue discount, the sum of the Issue Price and the amount of original issue discount previously accrued on the Bonds), except that market discount is considered to be zero if it is less than one quarter of one percent of the principal amount times the number of complete remaining years to maturity. The Code also limits the deductibility of interest incurred by a subsequent purchaser on funds borrowed to acquire Bonds with market discount. As an alternative to the inclusion of market discount in income upon disposition, a subsequent purchaser may elect to include market discount in income currently as it accrues on all market discount instruments acquired by the subsequent purchaser in that taxable year or thereafter, in which case the interest deferral rule will not apply. The recharacterization of gain as ordinary income on a subsequent disposition of Bonds could have a material effect on the market value of the Bonds.

**BACKUP WITHHOLDING . . .** Under section 3406 of the Code, a beneficial owner of the Bonds who is a United States person may, under certain circumstances, be subject to “backup withholding” of current or accrued interest on the Bonds or with respect to proceeds received from a disposition of the Bonds. This withholding applies if such beneficial owner of Bonds: (i) fails to furnish to the payor such beneficial owner’s social security number or other taxpayer identification number (“TIN”); (ii) furnishes the payor an incorrect TIN; (iii) fails to report properly interest, dividends, or other “reportable payments” as defined in the Code; or (iv) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such beneficial owner is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain beneficial owners of the Bonds. Beneficial owners of the Bonds should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

**WITHHOLDING ON PAYMENTS TO NONRESIDENT ALIEN INDIVIDUALS AND FOREIGN CORPORATIONS . . .** Under sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the current rate of 30% (subject to change) on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business. Assuming the interest income of such a beneficial owner of the Bonds is not treated as effectively connected income within the meaning of section 864 of the Code, such interest will be subject to 30% withholding, or any lower rate specified in an income tax treaty, unless such income is treated as portfolio interest. Interest will be treated as portfolio interest if: (i) the beneficial owner provides a statement to the payor certifying, under penalties of perjury, that such beneficial owner is not a United States person and providing the name and address of such beneficial owner; (ii) such interest is treated as not effectively connected with the beneficial owner’s United States trade or business; (iii) interest payments are not made to a person within a foreign country which the IRS has included on a list of countries having provisions inadequate to prevent United States tax evasion; (iv) interest payable with respect to the Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; (v) such beneficial owner is not a controlled foreign corporation, within the meaning of section 957 of the Code; and (vi) such beneficial owner is not a bank receiving interest on the Bonds pursuant to a loan agreement entered into in the ordinary course of the bank’s trade or business.

Assuming payments on the Bonds are treated as portfolio interest within the meaning of sections 871 and 881 of the Code, then no withholding under section 1441 and 1442 of the Code and no backup withholding under section 3406 of the Code is required with respect to beneficial owners or intermediaries who have furnished Form W-8 BEN, Form W-8 EXP or Form W-8 IMY, as applicable, provided the payor does not have actual knowledge or reason to know that such person is a United States person.

**REPORTING OF INTEREST PAYMENTS . . .** Subject to certain exceptions, interest payments made to beneficial owners with respect to the Bonds will be reported to the IRS. Such information will be filed each year with the IRS on Form 1099 which will reflect the name, address, and TIN of the beneficial owner. A copy of Form 1099 will be sent to each beneficial owner of a Bond for U.S. federal income tax purposes.

## **RATINGS**

The Senior Lien Obligations, including the Bonds, are currently rated “Aa1” by Moody’s Investors Service, Inc. (“Moody’s”), “AA” by Standard & Poor’s Rating Services, a Standard & Poor’s Financial Services LLC business (“S&P”), and “AA+” by Fitch Ratings (“Fitch”). The Junior Lien Obligations are currently rated “Aa2” by Moody’s, “AA-” by S&P, and “AA” by Fitch. On April 23, 2010, Moody’s released its recalibration ratings for all Texas local municipalities from US Municipal Ratings to the Global Scale Ratings. As a result, the System’s rating were recalibrated to “Aa1” from “Aa2” on its Senior Lien Obligations and to “Aa2” from “Aa3” on its Junior Lien Obligations. On April 30, 2010, Fitch released its recalibrated ratings for all Texas local municipalities from US Municipal Rating to the Global Scale Ratings. As a result, the System’s ratings were recalibrated to “AA+” from “AA” on its Senior Lien Obligations and to “AA” from “AA-” on its Junior lien Obligations. The System filed a Material Events Notice with the Municipal Securities Rulemaking Board on May 11, 2010 to reflect the ratings recalibration. See “CONTINUING DISCLOSURE OF INFORMATION - Compliance with Prior Undertakings.” The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating companies, if in the judgment of any or all companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or any of them, may have an adverse effect on the market price of the Bonds.

Moody's, S&P, and Fitch (collectively referred to as the "Rating Agencies") have each released statements on the health of the financial guaranty industry that cite financial guarantors' exposure to subprime mortgage risk, among other things, as an area of stress for the financial guaranty industry. In various releases, the Ratings Agencies have each outlined the processes they are implementing in evaluating the effect of this risk on their respective ratings of financial guarantors, and have issued reports stating the results of the evaluations. For some financial guarantors, the result of evaluations could be a rating affirmation, a change in rating outlook, a review for downgrade, or a downgrade.

## ENVIRONMENTAL MATTERS

The City and the System are subject to the environmental regulations of the State and the United States in the operation of the System's water, wastewater, stormwater, and chilled water systems. These regulations are subject to change, and the City and the System may be required to expend substantial funds to meet the requirements of such regulatory authorities.

**SAFE DRINKING WATER ACT . . .** In August 1996, amendments to the Federal Safe Drinking Water Act were signed into law. These amendments require the United States Environmental Protection Agency ("EPA") to regulate a wide variety of contaminants that may be present in drinking water, including volatile organic chemicals, other synthetic organic chemicals, inorganic chemicals, microbiological contaminants, and radionuclide contaminants. The list of contaminants to be regulated is so lengthy that the amendments require EPA to establish a schedule for developing regulations regarding the contaminants. There are several phases in EPA's regulatory timetables that are to be undertaken over the next few years. The initial impacts of the amendments to the System have not been significant, as the System has been able to materially comply with these regulations that have been promulgated to date. The full impact is difficult to project at this time, and would be dependent upon what maximum contaminant levels may be set for some future parameters and enhanced water treatment rules. Many of these parameters, such as waterborne pathogens, radionuclides and infection by-products contaminants, may require treatment changes that have not as yet been established by the EPA.

The System is in material compliance with the several new EPA drinking water rules adopted over the past decade including the Disinfectant/Disinfection Byproduct Rule, the Enhanced Surface Water Treatment Rule, the Long Term 2 Enhanced Surface Water Treatment Rule, the Stage 2 Disinfectant and Disinfection Byproduct Rule, and the Unregulated Contaminant Monitoring Rule. No increased capital expenditures have been required or are anticipated to be required. In October 2006, EPA also finalized its Groundwater Rule, a regulation designed to identify and address systems including ground water supplies that are at a high risk of contamination with fecal coliforms. The EPA's Groundwater Rule may have an impact on the System if it is determined that any individual production well may need additional treatment. Estimated cost for compliance with the Groundwater Rule may be up to \$2.00 per gallon at any well that may be affected.

Continued changes in rules and regulations may continue to cause process modifications, which may increase the cost of the maintenance and operation of the City's drinking water treatment and distribution facilities. These modifications and upgrades may require increased capital expenditures, which may be financed by the issuance of additional revenue bonds.

**FEDERAL AND STATE REGULATION OF THE WASTEWATER FACILITIES . . .** The Federal Clean Water Act and the Texas Water Code regulate the Wastewater System's operations, including the collection system and the wastewater treatment plants. All discharges of pollutants into the nation's navigable waters must comply with the Clean Water Act. The Clean Water Act allows municipal wastewater treatment plants to discharge treated effluent to the extent allowed in permits issued by the EPA pursuant to the National Pollutant Discharge Elimination System (the "NPDES") program, a national program established by the Clean Water Act for issuing, revoking, monitoring, and enforcing wastewater discharge permits. The Clean Water Act authorized the EPA to delegate the EPA's NPDES permit responsibility to State or interstate agencies after certain prerequisites have been met by the relevant agencies. The EPA has delegated NPDES permit authority to the TCEQ, which means that the TCEQ is the lead agency for issuing CWA permits to the System. The System has current TPDES permits for its facilities, issued by the TCEQ, which are also issued under authority granted to the TCEQ by the Texas Water Code. Both EPA and TCEQ have authority to enforce the TPDES permits.

TPDES permits set limits on the type and quantity of wastewater discharge, in accordance with State and Federal laws and regulations. The Clean Water Act requires municipal wastewater treatment plants to meet secondary treatment effluent limitations (as defined in EPA regulations). The Clean Water Act also requires that municipal plants meet any effluent limitations established by State or federal laws or regulations, which are more stringent than secondary treatment.

On June 1, 2010 the EPA published a notice in the Federal Register seeking stakeholder input to help the EPA determine whether to modify the NPDES regulations as they apply to municipal sanitary sewer collection systems and sanitary sewer overflows. Four public listening sessions were conducted in June and July 2010 in which stakeholder and public comment was received by the EPA. The EPA represented that it has not yet determined whether new rules or policies will be proposed. Should the EPA propose new requirements in NPDES permits, SAWS may incur additional costs associated with the operation and maintenance of the sanitary sewer system.

**STATUS OF DISCHARGE PERMITS FOR CITY'S WASTEWATER TREATMENT PLANTS . . .** All of the System's wastewater treatment plants have been issued TPDES discharge permits by the TCEQ. An occasional upset may cause permit violations, but generally all of these plants are in compliance with their respective discharge limitations. EPA notified the System during 2007 of concerns regarding reported sewer overflows under the TPDES permits. EPA's concerns and the System's response are discussed under "LITIGATION AND REGULATORY MATTERS – San Antonio Water System Litigation and Claims - Potential Litigation", below.

**POTENTIAL PENALTIES FOR THE CITY'S WASTEWATER SYSTEM'S VIOLATIONS . . .** The failure by the System to achieve compliance with the Clean Water Act could result in either a private plaintiff or the EPA instituting a civil action for injunctive relief and civil penalties of up to \$37,500 per day per violation. In addition, the EPA has the power to issue administrative orders compelling compliance with its regulations and the applicable permits. The EPA can also bring criminal actions for recovery of penalties of up to \$50,000 per day for willful or negligent violations of permit conditions or discharge without a permit. Violations of permits or administrative orders may result in the disqualification of a municipality from eligibility for federal assistance to finance capital improvements pursuant to the Clean Water Act. Even though the System will be operating under TPDES permits, it still may be liable for penalties from the EPA under the Clean Water Act.

Under State law, penalties for violation of State wastewater discharge permits or orders of the TCEQ can be a maximum of \$25,000 per day per violation. The Executive Director of the TCEQ also has authority to levy administrative penalties of up to \$10,000 per day for violations of rules, orders or permits. Orders resulting from a civil action could require the imposition of additional user or service charges or the issuance of additional bonds to finance the improvements required to ameliorate a condition that may have caused the violation of a TCEQ permit.

**AIR PERMITS . . .** The System has a TCEQ air permit, for the Central Heating and Cooling plant, and is in material compliance with this permit.

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

The EPA's March 2008 revision changed the NAAQS such that an area's eight-hour ozone standard must not exceed 0.075 ppm rather than the previous 0.084. Thus in 2007, under the new standard, the City would not have complied with the federal requirements regarding ground-level ozone. Since 2007, however, San Antonio's unofficial eight-hour ozone average has been falling. According to the TCEQ, the three year average in 2008 was 0.078 ppm and as of November 14, 2010 it is 0.075 ppm.

The Clean Air Act requires the EPA to designate areas as "attainment" (meeting the standards), "nonattainment" (not meeting the standards), or "unclassifiable" (insufficient data to classify). As a result of the revisions to the NAAQS, states were required to make recommendations to the EPA no later than March 12, 2009 for areas to be classified attainment, nonattainment, or unclassifiable. Texas Governor Rick Perry submitted a list of twenty-seven counties in Texas, including Bexar, that should be designated as nonattainment. Even if the 2008 data, as recorded above, is certified by the EPA, San Antonio would still be classified as an area of nonattainment under the revised NAAQS.

EPA announced on September 16, 2009 that it would reconsider primary and secondary NAAQS for ozone to ensure that the standards are scientifically defensible and protective of public health and the environment. On January 6, 2010, the EPA announced that it was proposing to set the primary standard for ground-level ozone to a level between 0.060 ppm and 0.070 ppm. On January 19, 2010, the proposed rules were published in the Federal Register. The EPA held three public hearings on the proposed rules in February 2010, and received public comment through March 22, 2010. EPA intended to publish a final rule by August 31, 2010. The EPA has extended that deadline to October 31, 2010. If a standard is adopted in the range proposed by the EPA, and the data previously described is certified by the EPA, San Antonio would be classified as an area of nonattainment under the revised NAAQS. Under the Clean Air Act, the EPA has two years from the time it revises the NAAQS to complete the designation process. EPA has proposed an accelerated schedule to implement the revised standard. By January 2011, states are to make recommendations for areas to be designated attainment, nonattainment or unclassifiable. By July 2011, EPA will make final area designations. Following the issuance of final designations, states are required to submit State Implementation Plans ("SIPs") outlining how they will reduce pollution to meet the new standards. Under the accelerated schedule proposed by EPA, these SIPs will be due to the EPA by December 2013. In conjunction with the revised NAAQS, EPA has proposed separate rules to address monitoring the new standard. Generally, the proposal from the EPA would require a greater number of EPA-approved monitors in both urban and non-urban areas and longer ozone monitoring seasons in many states. For Texas specifically, the proposal calls for year-round monitoring throughout the state. On July 16, 2009, the EPA proposed to revise its monitoring network design requirements for ozone to assist in implementation of the 2008 ozone NAAQS. The comment period closed on September 14, 2009. The EPA is considering comments received on the proposed monitoring requirements and has stated that it expects to issue a final rule in 2010.



Any State plan formulated to reduce ground-level ozone may curtail new industrial, commercial and residential development in San Antonio and adjacent areas (the "San Antonio Area"). Examples of past efforts by the EPA and the TCEQ to provide for annual reductions in ozone concentrations in areas of nonattainment under the former NAAQS include imposition of stringent limitations on emissions of volatile organic compounds ("VOCs") and nitrogen oxides ("NOx") from existing stationary sources of air emissions, as well as specifying that any new source of significant air emissions, such as a new industrial plant, must provide for a net reduction of air emissions by arranging for other industries to reduce their emissions by 1.3 times the amount of pollutants proposed to be emitted by the new source. Studies have shown that standards significantly more stringent than those currently in place in the San Antonio Area and across the State are required to meaningfully impact an area's ground-level ozone reading, which will be necessary to achieve compliance with the new eight-hour ozone standard. Due to the magnitude of air emissions reductions required as well as the limited availability of economically reasonable control options, the development of a successful air quality compliance plan for areas of nonattainment within the State has proven to be extremely challenging and will inevitably impact a wide cross-section of the business and residential community.

Failure by an area to comply with the eight-hour ozone standards by the requisite time could result in the EPA's imposing a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of emissions for which construction has not already commenced. Other constraints on economic growth and development include lawsuits filed under the Clean Air Act by plaintiffs seeking to require emission reduction measures that are even more stringent than those approved by the EPA. From time to time, various plaintiff environmental organizations have filed lawsuits against TCEQ and EPA seeking to compel the early adoption of additional emission reduction measures, many of which could make it more difficult for businesses to construct or expand industrial facilities or which could result in travel restrictions or other limitations on the actions of businesses, governmental entities and private citizens. Any successful court challenge to the currently effective air emissions control plan could result in the imposition of even more stringent air emission controls that could threaten continued growth and development in the San Antonio Area.

It remains to be seen exactly what steps will ultimately be required to meet federal air quality standards, how the EPA may respond to developments as they occur, and what impact such steps and any EPA action have upon the economy and the business and residential communities in the San Antonio Area.

## **LITIGATION AND REGULATORY MATTERS**

### **CITY OF SAN ANTONIO GENERAL LITIGATION AND CLAIMS**

This section describes the litigation involving the City that does not directly involve SAWS or claims payable out of the System's revenues. Please see "LITIGATION AND REGULATORY MATTERS – San Antonio Water System Litigation and Claims" herein for a description of litigation involving SAWS.

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, 2009, the amount of \$18.497 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 CAFR for the year ended September 30, 2009, attached hereto as Appendix C. The City provides the following updated information related to the lawsuits:

**Brooks Hardee, et al. v. City of San Antonio; Reed Lehman Grain, Ltd. v. City of San Antonio; Farmco Trust et al. v. City of San Antonio, et al.** These are similar cases brought by the same developer/landowner under different entities. These cases raise complex issues of fact and law and, collectively, challenge the City's authority to regulate land development, including challenging the City's vested rights determinations for the landowner's projects. The City's legal team is confident that many of the allegations are without merit and the number of resolved cases illustrates the City's strong positions. The City has coordinated its defense with SAWS.

**CKW, Inc., et al. v. City of San Antonio, et al.** In this case, multiple Plaintiffs claim damages for alleged inverse condemnation, takings, and "constitutional damages" due to a road-widening project. This case is related to several other cases arising out of the same project. The claims aggregate well over \$100,000. This case is not yet set for trial.

**Erin McCutcheon v. Sheryl Sculley, et. al.** Plaintiff was arrested by a San Antonio Police Department ("SAPD") officer for a public disturbance at a night club. Plaintiff has filed suit against the officers, the City and the night club, alleging use of excessive force by the officers. The City has been dismissed from the suit. Damages could exceed \$200,000. The case is stayed by the judge pending Plaintiff's criminal case.

**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, resulting in a judgment against the City of approximately \$2 million and an adverse ruling to the City on Plaintiff's claim of vested development rights. The City's motion for new trial was granted. After a retrial, the Court ruled that Plaintiff does not have vested rights with respect to flood plain development, and the jury awarded approximately \$600,000 to Plaintiff for the inverse condemnation and statutory condemnation. The City and Plaintiff have appealed. The Fourth Court of Appeals issued its opinion affirming the Trial Court's ruling awarding Kopplow \$4,600 as compensation for the land taken, but reversed the other portion of the judgment for the remainder of the damages.

**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. This case is recently filed and discovery is on-going. Damages in this matter are capped by the Texas Tort Claims Act at \$250,000.

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

**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 challenge 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. Plaintiffs seek damages in excess of \$4 million.

**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. Briefing and oral argument has been completed. A second lawsuit was filed by different family members of the decedent, in State district court.

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

**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 could be in excess of \$250,000. This case is set for trial on May 2, 2011.

**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 \$250,000.00. The City filed a plea to the jurisdiction, which was denied by the Court. The City has appealed to the Fourth Court of Appeals.

**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 could be in excess of \$250,000. This case has not been set for trial.

**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 \$190,000. This case is currently on appeal. This case is covered by the Texas Torts Claims Act. If liability is determined, damages could be in excess of \$250,000.

**Paez, et al v. City of San Antonio.** Plaintiffs sued under the Texas Torts Claims Act for negligence, gross negligence, and wrongful death alleging that Sergeant Gabriel Trevino negligently struck and killed Rosita Davila in a motor vehicle accident on Loop 1604 on March 7, 2010. Many depositions have been taken as discovery is still in progress. This case is covered by the Texas Torts Claims Act. If liability is determined, damages could be in excess of \$250,000. This case is set for trial on February 7, 2011.

***Yvonne Sanchez and Timothy Sampleton vs. City of San Antonio.*** Plaintiffs claim they were struck by a City garbage truck driven by a City Employee, who allegedly changed lanes causing the Plaintiff driver to lose control of her vehicle. Plaintiffs claim an unidentified amount in monetary damages for past and future medical expenses, physical pain, mental anguish, physical impairment, lost wages, and loss of wage earning capacity. Currently medical expenses for Plaintiffs are approximately \$140,000. This case is covered by the Texas Torts Claims Act. If liability is determined, damages could be in excess of \$250,000.

#### **SAN ANTONIO WATER SYSTEM LITIGATION AND CLAIMS**

SAWS 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 SAWS caused personal injuries; claims from contractors for additional amounts under construction contracts; employment discrimination claims, 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. The status of such litigation ranges from early discovery stage to various levels of appeal of judgments both for and against SAWS. SAWS 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 SAWS for such claims or the outcome of such lawsuits.

#### **Cause No. 2010-CI-09531, *Cajun Constructors, Inc. vs. San Antonio Water System, HDR Engineering, Inc., Ferguson Waterworks, Inc., Advance Products & Systems, Inc. and CH2M Hill, Inc.***

The San Antonio Water System entered into a construction contract with Cajun Constructors, Inc. dated July 18, 2006 in the amount of \$20,299,000.00 to upgrade operational capacity at the treatment plant for the SAWS Carrizo Aquifer Storage and Recovery Program. Final completion of the contract work was around 2 years beyond the contractual completion date. The contractor submitted two change orders totaling \$3,071,965 and an extension of the contract time by a total of 465 days. SAWS rejected the change orders, and the parties completed the contractually required dispute resolution processes without agreement. On June 8, 2010, Cajun Constructors, Inc. filed suit against SAWS, CH2MHill, Inc. (SAWS' program manager), and HDR Engineering, Inc. (SAWS' design engineer), alleging, among other things owner interference, errors in the design, tortious interference with contract and damage for delays. SAWS and the other defendants have denied these claims and SAWS contends the claims are the result of contractor error and failure to comply with the contract documents. In addition, SAWS has filed a counterclaim against Cajun Constructors, Inc. for liquidated damages in the amount of \$2,320,000.00. The parties have just started discovery; no trial date has been set.

#### **Cause No. 2010-ED-0008; *City of San Antonio, acting by and through the San Antonio Water System vs. Hanford-Southport, LLC, et al., In the Probate Court No. 2, Bexar County, Texas.***

This is a condemnation case involving a 100' wide permanent sewer easement containing 14.42 acres of land located along the northern bank of the Medina River in southwestern Bexar County, Texas owned by Hanford Southport LLC for construction of a large diameter sewer line and related appurtenances for the thirty-two mile long Medina River Sewer Outfall Project. SAWS appraised value of the property is \$419,600.00. While the landowner has not obtained an appraisal, the landowner has proffered an opinion of value for the easement in the amount of \$8,494,000.00. This case was tried before the Special Commissioners on September 22, 2010 and they awarded a value of \$502,222.00. Either party can appeal this decision to the Probate Court.

#### **Cause No. 2004-ED-0013; *City of San Antonio, acting by and through the San Antonio Water System vs. SWLN/Delaware, Inc., et al., Probate Court No. 1, Bexar County, Texas.***

This case has been tried before the Special Commissioners, who awarded \$285,000. The landowner objects to the award. The landowner withdrew the amount of the Commissioner's award from the Court's Registry. This means it has waived any jurisdictional challenges to the condemnation. The landowner is seeking \$676,000. No trial date has been set, and discovery has not begun. The landowner has ignored attempts to settle the case, and SAWS is presently filing a Motion to Dismiss and/or Motion for Summary Judgment in order to move the case towards a resolution.

#### **Cause No. 2009-CI-06461, *Classic Protective Coatings, Inc. vs. San Antonio Water System Board of Trustees.***

Classic Protective Coatings, Inc. is a contractor that performed work to rehabilitate the Highland Hills water tanks for SAWS. Classic was awarded an approximately \$1.4 million dollar job and in accordance with the instructions to bidders, was provided ample opportunity during the bid process to inspect and determine the conditions at this site. Upon commencing the work, Classic determined that there was lead on the tank, and asked for a change order due to differing site conditions in the amount of \$306,000. Classic claimed that they had relied on SAWS' test results that Classic had asked to review during the pre-bid process (which showed low lead levels), as the basis for determining that the site conditions were a "non-lead" job. The request for a change order was reviewed by the engineering consultant and was denied. Classic performed the work and asked for an Article X hearing, as required under the general conditions, to protest the findings. An Article X hearing was held and their request was again denied. Classic is now attempting to recover their extra cost by filing a lawsuit for damages in the amount of \$306,000.

Cause No. D-6N-09-002760, *City of San Antonio, Acting by and Through the San Antonio Water System vs Lower Colorado River Authority, et al.*

SAWS entered into an agreement with the Lower Colorado River Authority (LCRA) in March 2002 to study and develop a water supply project. That agreement and project are more fully described in the water supply section of this Official Statement at page 34. In December 2008, the LCRA Board of Directors adopted several resolutions which significantly diminish the availability of a firm water supply from the project and suggest that no water will be available for San Antonio. The Board has declared LCRA to be in breach of the agreement and has directed staff to pursue all available remedies for the breach. The parties attempted to mediate the dispute in early August 2009 without success. The System filed suit against LCRA on August 24, 2009, in the 200<sup>th</sup> Judicial District Court of Travis County, Texas. The cause number is D-6N-09-002760, styled City of San Antonio, Acting by and Through the San Antonio Water System vs. Lower Colorado River Authority, et al. LCRA filed a Plea to the Jurisdiction and Original Answer on September 25, 2009, asserting full or partial governmental immunity from suit and generally denying that it has breached the Definitive Agreement. The hearing on the immunity issue was held on February 1, 2010. The Court found that LCRA was immune from SAWS' suit to enforce the agreement, and dismissed the case. SAWS filed an appeal of the trial court's decision on February 17, 2010. The style of the appeal is City of San Antonio Acting by and Through San Antonio Water System v. Lower Colorado River Authority. Case No. 03-10-00085-CV in the Court of Appeals for the Third District of Texas at Austin. Briefs have been exchanged by the parties. The court has set oral argument on December 1, 2010.

Cause No. 2010-CI-10630, *Harwell Holding Company, Ltd., Westwood Center Apartments, Ltd., Westwood Center Apartments Phase II, Ltd., and Culebra 1604 Joint Venture v. Fisher Engineering, Inc., W. F. Castella & Associates, Inc., n/k/a AECOM USA, Inc., KB Home Lone Star, Inc., CMH Parks, Inc. City of San Antonio and San Antonio Water System, in the 37<sup>th</sup> Judicial District Court, Bexar County, Texas.*

The Plaintiffs allege that storm water run-off originating from adjacent property owned by SAWS, and from property owned by other defendants caused Plaintiffs \$15 million in damages that were allegedly suffered during a flood event that purportedly occurred in April 2010. Plaintiffs have sued the other property owners that are alleged to have generated storm water flow, the engineering firm that designed Plaintiffs' projects, the engineering firm that designed certain storm water control facilities and the City of San Antonio that constructed a regional storm water facility. SAWS filed its Original Answer on September 3, 2010, and has denied all liability. SAWS intends to vigorously defend the lawsuit. Discovery has not yet commenced and it is premature to evaluate the Plaintiff's claims or the potential outcome of this litigation.

Cause No. D-1-GV-08-001195, *State of Texas, Bexar County, Texas, and Edwards Aquifer Authority v. Henry L. Zumwalt and H.L. Zumwalt Construction, Inc. v. Oil Mop, L.L.C., Williams Fire and Hazard Control, Inc., and The San Antonio Water System, in the 345<sup>th</sup> Judicial District Court, Travis County, Texas.*

The State of Texas filed suit against Henry L. Zumwalt and H.L. Zumwalt Construction, Inc. (the "Defendants") in 2008. The State of Texas alleges that the Defendants are liable under the Texas Solid Waste Disposal Act for \$5.7 million in costs incurred by the Texas Commission on Environmental Quality in responding to a large fire in a mulch/debris pile that occurred between December 2006 and March 2007 on property owned and operated by Defendants. On October 14, 2010, the Defendants filed a Third-Party Petition against SAWS and two other third-party defendants alleging that SAWS and the other third-party defendants should be apportioned some of the response costs claimed by the State of Texas under provisions of the Texas Solid Waste Disposal Act. SAWS will vigorously defend this lawsuit. SAWS will file its Original Answer and Plea to the Jurisdiction on November 22, 2010. SAWS denies all liability and will affirmatively assert that the court has no jurisdiction over the causes of action asserted against SAWS. Discovery has not yet commenced and it is premature to evaluate the Third -Party Plaintiffs' claims or the potential outcome of this litigation.

**Potential Litigation:**

***EPA Clean Water Act Matter:***

In March 2007, SAWS was orally notified by Region 6 of the EPA of alleged failures to comply with the Clean Water Act (33 U.S.C. 1251, et seq.) due to the occurrence of sanitary sewer overflows. SAWS and EPA engaged in settlement negotiations to resolve these claims. The EPA subsequently referred the matter to the United States Department of Justice (the "DOJ") for an enforcement action. SAWS continued settlement negotiations with the EPA and the DOJ to resolve the allegations. These negotiations are ongoing. SAWS expects that any settlement or enforcement action will result in required capital improvements and increased annual maintenance and operating expenses to the System that are phased in over the term of the settlement agreement. SAWS currently expects to finalize negotiations with the EPA and DOJ some time during calendar year 2011.

### ***Miscellaneous Litigation Involving Water Rights:***

Two opinions issued in 2008 by the San Antonio Court of Appeals reaffirmed that a property owner in Texas has a constitutionally protected ownership interest in the groundwater beneath his or her property. This principle underlies groundwater conveyance transactions being pursued by the System, other municipalities, and private interests throughout Texas. It also underlies constitutional limits on the regulatory actions of groundwater conservation districts, which have been given responsibility by the Texas Legislature to manage the state's groundwater resources. The opinions were issued in the cases of *City of Del Rio v Hamilton Trust*, Cause No. 04-06-00782-CV, 2008 WL 508682 (Tex. App. – San Antonio Feb. 27, 2008, pet. filed) and *Edwards Aquifer Authority v Day*, Cause No. 04-07-00103-CV, 2008 WL 4056321 (Tex. App. – San Antonio Aug. 29, 2008). Petitions for review to the Texas Supreme Court were filed in both cases. Both petitions called upon the Texas Supreme Court to determine that a property owner in Texas does not have a constitutionally protected ownership interest in the groundwater beneath his or her property. The Texas Supreme Court denied the petition in the Del Rio case on September 25, 2009. The petition in the Edwards Aquifer case was granted, and the court heard oral argument on February 17, 2010. No opinion has yet been issued.

### **Cause No. 2:10-cv-00075 in the United States District Court for the Southern District of Texas, Corpus Christi Division: The Aransas Project v Shaw, et al**

This lawsuit was filed on March 10, 2010, by The Aransas Project, a public interest group. Defendants are officials of the TCEQ, the state agency charged with administration of the state's surface water use permits, including permits issued in the Guadalupe River and San Antonio River. The plaintiff seeks broad injunctive relief under the federal Endangered Species Act for the benefit of the Whooping Crane and its habitat in and around San Antonio Bay at the confluence of these two rivers. The relief sought would include reduction of existing water uses, the imposition of special conditions on existing permits and the appointment of a Special Master to administer any activity ordered by the Court. This relief could have broad implications for the availability of surface water rights and water usage in the San Antonio and Guadalupe River basins. The exposure of SAWS to this requested relief is not yet fully known, but may include impact on surface water rights held by SAWS, SAWS contractual relationship with the Guadalupe Blanco River authority for water from Canyon Lake, the contractual relationship between SAWS and CPS Energy for recycled water, as well as other elements of the System's recycled water program and wastewater discharge activities. On a larger scale, the relief sought by Plaintiff would further constrain the availability of water in the region for development to meet municipal, industrial and agricultural needs, placing additional market and regulatory pressure on other water supplies which SAWS might pursue in the future. On June 7, 2010, SAWS filed a motion to intervene as a party in this lawsuit in order to protect its interests in surface water in these river basins. Motions to intervene were also been filed by the Guadalupe Blanco River Authority, Union Carbide, the Texas Chemical Council, the Texas Farm Bureau, CPS Energy, and the San Antonio River Authority. On April 23, 2010, the court granted the Motion to Intervene filed by the Guadalupe Blanco River Authority. On June 17, 2010, the court entered an order granting the motion by the Texas Chemical Council and denying the motions by Union Carbide, the Texas Farm Bureau, SAWS, and CPS Energy. On June 21, 2010, the court denied the Motion to Intervene of the San Antonio River Authority. On June 29, 2010, SAWS appealed the trial court's decision to the Fifth Circuit Court of Appeals. The SAWS appeal was consolidated with the appeals of other parties who had been denied intervention. The parties jointly requested that the Fifth Circuit stay the proceedings in the trial court while it considered the appeals. That request for stay was granted by the Fifth Circuit on August 12, 2010. SAWS and the other appealing parties are now waiting for a decision by the Fifth Circuit on the intervention issue.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system, where it will be available free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

**ANNUAL REPORTS . . .** The City and the Board will provide certain updated financial information and operating data to the MSRB. 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 under the sections DEBT INFORMATION and STATISTICAL SECTION, and in APPENDIX B. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2010.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's current fiscal year end is December 31. Accordingly, it must provide updated information by June 30 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

**MATERIAL EVENT NOTICES . . .** The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the federal income tax treatment of the interest on the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. (Neither the Bonds nor the Ordinance make any provision for credit enhancement, or liquidity enhancement.) In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

**AVAILABILITY OF INFORMATION . . .** Effective July 1, 2009 ("EMMA Effective Date"), the SEC implemented amendments to the Rule approving 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 Board in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

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

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

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the SEC Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

**COMPLIANCE WITH PRIOR UNDERTAKINGS . . .** During the past five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

On May 11, 2010, the City filed notice of changes in ratings to its evidences of indebtedness secured by System revenues resulting from the recalibration by certain rating agencies of their rating systems. See "RATINGS."

## **OTHER INFORMATION**

### **REGISTRATION AND QUALIFICATION OF BONDS FOR SALE**

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

### **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) 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 City has made no investigation of other laws, rules, regulations, or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

### **LEGAL MATTERS**

The City will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State 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 Co-Bond Counsel to the effect that the Bonds are valid and legally binding special obligations of the City. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. In their capacity as Co-Bond Counsel, Fulbright & Jaworski L.L.P., San Antonio, Texas and Escamilla, Poneck & Cruz, LLP, San Antonio, Texas have reviewed the information appearing in this Official Statement under the captions "SECURITY FOR THE BONDS," "THE BONDS" (except for the information under the captions "Outstanding Debt", "Perfection of Security for the Bonds", "Book-Entry-Only System," and "Payment Record", as to which no opinion is expressed), "FEDERAL INCOME TAX TREATMENT OF THE BONDS", "OTHER INFORMATION - Registration and Qualification of Bonds for Sale," "Legal Investments and Eligibility to Secure Public Funds in Texas," and "Legal Matters," (except for the last sentence of such section, as to which no opinion is expressed), and "CONTINUING DISCLOSURE OF INFORMATION" (except under the caption "Compliance with Prior Undertakings", as to which no opinion is expressed), "APPENDIX D, SELECTED PROVISIONS OF THE PARITY LIEN ORDINANCE", and "APPENDIX E, FORM OF CO-BOND COUNSEL'S OPINION" to determine whether such information accurately and fairly describes and summarizes the information, material and documents and legal issues referred to therein and is correct as to matters of law and such firms are of the opinion that the information relating to the Bonds, the Ordinance and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and the legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. Co-Bond Counsel have not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy and completeness of this Official Statement. No person is entitled to rely upon Co-Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinions of any kind with regard to the accuracy or completeness of any of the information contained herein. Though they represent the Co-Financial Advisors and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Co-Bond Counsel have been engaged by and only represent the System and the City in connection with the issuance of the Bonds. The legal fees to be paid Co-Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on issuance and delivery of the Bonds. The legal opinion of Co-Bond Counsel will accompany the obligations deposited with DTC or will be printed on the definitive obligations in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the City by the City Attorney, for the Board of the System by Bracewell & Giuliani LLP, San Antonio, Texas and for the Underwriters by Shelton & Valadez, P.C., San Antonio, Counsel for the Underwriters (whose legal fee is contingent upon the issuance 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.

#### **AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION**

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

#### **CO-FINANCIAL ADVISORS**

First Southwest Company and Estrada Hinojosa & Company, Inc. are employed as Co-Financial Advisors to the System in connection with the issuance of the Bonds. The Co-Financial Advisors' fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. First Southwest Company and Estrada Hinojosa & Company, Inc., in their capacity as Co-Financial Advisors, have relied on the opinion of Co-Bond Counsel and have not verified and do not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax treatment of the interest on the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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 their responsibilities to the System, and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Co-Financial Advisors do not guarantee the accuracy or completeness of such information.

#### **UNDERWRITING**

Siebert Brandford Shank & Co., L.L.C., as representative of the Underwriters, has agreed, subject to certain conditions, to purchase the Bonds from the City at the prices indicated on the inside front cover of this Official Statement, less an underwriting discount of \$628,889.56, and no accrued interest. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with their responsibilities to investors under 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.

#### **FORWARD-LOOKING STATEMENTS**

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

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



**MISCELLANEOUS**

The Ordinance authorizing the respective issuances of each series of the Bonds will also approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorize its further use in the reoffering of the Bonds by the Underwriters. This Official Statement has been approved by the City Council for distribution in accordance with the provisions of the SEC's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

/s/ Julián Castro

Mayor  
City of San Antonio, Texas

ATTEST:

/s/ Leticia M. Vacek

City Clerk  
City of San Antonio, Texas

**(THIS PAGE LEFT BLANK INTENTIONALLY)**

**APPENDIX A**

**GENERAL INFORMATION REGARDING THE CITY**

**(THIS PAGE LEFT BLANK INTENTIONALLY)**

## APPENDIX A

### CITY OF SAN ANTONIO GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

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

#### Population and Location

The Census 2000, prepared by the United States Census Bureau (“U.S. Census Bureau”), found a City population of 1,144,646. The City’s Department of Planning and Community Development estimated the City’s population to be 1,383,072 at December 31, 2009. The U.S. Census Bureau ranks the City as the second largest in the State of Texas and the seventh largest in the United States.

The City is the county seat of Bexar County, which had a population of 1,392,931 according to the Census 2000. The City’s Department of Planning and Development Services estimated Bexar County’s population to be 1,676,847 at December 31, 2009. 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”)<sup>1</sup> 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 <sup>1</sup>

<sup>1</sup> 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.)

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 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 prepare an annexation plan specifically identifying annexations that may occur beginning on the third anniversary of the date such plan was adopted. The City is required to maintain the annexation plan on the City’s web site and notify property owners and public entities.

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 have a three-year annexation plan in place, but plans to start drafting a plan 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, 2011. The City Council also appoints a City Manager who executes the laws and administers the government of the City, and serves as the City’s chief administrative officer. The City Manager serves at the pleasure of City Council.

## **City Charter**

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 1 and 2. These nuclear units supplied 34.6% of the electric system native load for the fiscal year ending January 31, 2010. 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, 2009 were \$265,459,226. (See "San Antonio Electric and Gas Systems" herein.)

Water services are provided by the San Antonio Water System ("SAWS"), San Antonio's municipally-owned water supply, water delivery, and wastewater treatment utility. SAWS is in its 18<sup>th</sup> 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, 2009 were \$10,146,195. (See "San Antonio Water System" herein.)

## **Economic Factors**

The City supports a favorable business environment and economic diversification which is represented by various industries, including domestic and international trade, convention and tourism, medicine and health care, government employment, manufacturing, information security, financial services, telecommunications, telemarketing, insurance, and oil and gas refining. Support for these economic activities is demonstrated by the City's commitment to its ongoing infrastructure improvements and development, and its dedicated work force. With continuously resilient employment growth, San Antonio fares well when compared to the State and nation. San Antonio's unemployment rate decreased to 7.2% in September 2010, down from 7.6% reported in August 2010. The Texas unadjusted (actual) unemployment rate decreased to 7.9% in September 2010, down from 8.4% reported in August 2010. The nation's unadjusted (actual) unemployment rate decreased to 9.2% in September 2010, down from 9.5% reported in August 2010. Total employment in the San Antonio MSA for September 2010 was 915,000. Education and health services, trade, transportation and utilities, and professional and business services represent the largest employment "super" sectors in the San Antonio MSA. Healthcare, retail trade, leisure and hospitality, and education represent the largest industries in San Antonio.

## ***Finance Industry***

The Finance Industry is San Antonio's largest economic generator with an annual economic impact of over \$20.5 billion and 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 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, Nationwide, Caremark, United Health, and PacifiCare.

On October 29, 2009, Nationwide selected San Antonio for its \$92 million consolidation and expansion involving two project phases of their new corporate campus. San Antonio competed with several other communities across the U.S. for a potential consolidation and expansion of Nationwide operations. The City, in partnership with the State and Bexar County, offered a competitive package of business incentives to retain the existing 932 jobs and compete for 838 new jobs. Nationwide selected San Antonio over Raleigh, North Carolina, Little Rock, Arkansas, and Tulsa, Oklahoma for its consolidation and expansion.

On February 9, 2010, Allstate Insurance Corporation ("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 the customer operations center will support direct sales through calls to 1-800-ALLSTATE and sell 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 number 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. Allstate began operations in its new customer information center with over 200 employees in June 2010 in San Antonio. It eventually expects the center will employ 600 employees, who will sell Allstate products and provide service to the company's customers.

On April 20, 2010, Kohl's Corporation 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 is a Fortune 500 company (No. 155) with \$16.4 billion in revenue in 2009. Kohl's will open its operations center in SA on September 29, 2010. At this center, Kohl's will handle credit card operations, e-commerce servicing functions, customer services, collections, underwriting, administrative support in technology, finance, training, and HR. By January 2011, the company will invest 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 plans to renovate 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 Energy. 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 in personal property improvements (furnishings and equipment).

The second largest sector in this industry is banking. Like insurance, San Antonio is also the home of many banking headquarters and regional operation centers such as Frost 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 diversified, with related industries such as research, pharmaceuticals, and manufacturing contributing approximately the same economic impact as health services. According to the *San Antonio's 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 \$16.3 billion in 2007. The industry provided 116,417 jobs, or approximately 14.2% of the City's total employment. The healthcare and bioscience industry's annual payroll in 2007 approached \$4.8 billion. The 2007 average annual wage of San Antonio workers was \$38,251, compared to \$40,784 for healthcare and bioscience employees. These 2007 economic impact figures represent growth of 6.5% over the previous year, or approximately \$1 billion. The Greater San Antonio Chamber of Commerce updates economic impact figures at the request of industry leaders and expects an update completed in the coming year.

*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 "UTHSC") is located on more than 100 acres in the heart of the South Texas 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 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 UTHSC oversees the federally funded Regional Academic Health Center in the Rio Grande Valley with facilities in Harlingen, McAllen, Brownsville, and Edinburg. Another UTHSC South Texas campus is located in Laredo.

There are numerous other medical facilities outside the boundaries of the Medical Center, including 25 short-term general hospitals, two children's psychiatric hospitals, and two state hospitals. The U.S. Department of Defense ("DoD") has operated two major regional hospitals in San Antonio for several years at Wilford Hall Medical Center ("WHMC") 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 WHMC. BAMC also participates with UTHSC and University Hospital in operating two Level I trauma centers in the community.

The University of Texas Health Science Center at San Antonio, one of the country's leading health sciences universities, ranks in the top 2 percent of all U.S. institutions receiving federal funding. Research and other



sponsored program activity totaled a record \$259 million in FY 2009. The university's schools of medicine, nursing, dentistry, health professions, and graduate biomedical sciences have produced 27,000 graduates. The \$753 million operating budget supports six campuses in San Antonio, Laredo, Harlingen, and Edinburg.

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

The Texas Research Park (the "Park") is the site for the University of Texas Institute of Biotechnology/Department of Molecular Medicine, the Cancer Therapy and Research Center ("CTRC"), CTCRC's Institute for Drug Development, The Southwest Oncology Group, and dozens of new biotechnology-related companies, whose work involves various stages of the very complicated drug development process. The Park has over \$140 million invested in its facilities. The Park is owned and operated by the Texas Research and Technology Foundation, whose mission includes building a world-class center for life-science research and medical education and promoting economic development through job creation.

The Southwest Foundation for Biomedical Research (the "Foundation"), which conducts fundamental and applied research in the medical sciences, is one of the largest independent, non-profit, biomedical research institutions in the U.S. and is internationally renowned. Its staff of more than 400 employees includes a multidisciplinary team of approximately 85 doctoral-level scientists who lead more than 200 major research projects in the Foundation's Department of Genetics; Department of Virology and Immunology; and Southwest National Primate Research Center.

The Foundation is also home to the nation's only privately owned biosafety level 4 (BSL-4) laboratory. This maximum containment lab allows for safe research on lethal pathogens for which there are no treatments or vaccines, including potential bio-terror agents and emerging diseases. Another resource that puts the Foundation 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 UTHSC has been a major bioscience research engine since its inception, with strong research groups in cancer, cancer prevention, diabetes, drug development, geriatrics, growth factor and molecular genetics, heart disease, stroke prevention, and many other fields. 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 University of Texas Health Science Center at San Antonio. One of its latest achievements is the establishment of the Children's Cancer Research Center, endowed with \$200 million from the State of Texas's tobacco settlement. The UTHSC, along with the CTCRC, form the San Antonio Cancer Institute, a National Cancer Institute-designated Comprehensive Cancer Center.

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

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

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 plans to hire 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 each year.

Texas House Speaker Joe Straus and the South Texas Regional Center of Innovation and Commercialization ([www.strcic.com](http://www.strcic.com)) announced on May 13, 2010, an investment of \$3 million in Palmaz Scientific, Inc. through the Texas Emerging Technology Fund (ETF). 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 SATAI), 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 Science Center at San Antonio, where Dr. Julio Palmaz was a longtime radiology faculty member and conducted research.

On June 10, 2010, InCube Labs Chairman and CEO Mir Imran announced that InCube Labs plans to establish a branch of its operations in San Antonio. In addition, InCube Labs plans to launch five life science companies in San Antonio over the next five years. InCube Labs is a San Jose, California life sciences research laboratory focused on developing medical breakthroughs that dramatically improve patient outcomes. The organization is led by Mir Imran who has founded more than 20 companies and holds more than 200 patents. Imran has created many innovations that have resulted in new standards of care, including the first FDA-approved Automatic Implantable Cardioverter Defibrillator. Mir 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. The City expects that 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 which will relocate to San Antonio from San Jose, California by January 31, 2011. InCube will begin operations in San Antonio before the end of 2010.

*Military Health Care.* San Antonio currently has two major military hospitals, each of which has positively impacted the City for decades. Brooke Army Medical Center ("BAMC") conducts treatment and research in a 1.5 million square foot facility at Fort Sam Houston 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 Medical Center ("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 I 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 2011. Currently, all U.S. Army combat medic training is conducted at Fort Sam Houston Army. As a result of BRAC 2005, all military 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 U.S. Army Institute for Surgical Research 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 2009, the City's overall level of hotel occupancy decreased by 11.5%. However, this is considering room supply increased by 6.0%. Total room nights sold in the destination decreased by 6.2%. The average daily room rate decreased 10.6%, revenue per available room decreased 20.9%, and overall revenue decreased 16.2%.

*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 2008. 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 Ranch 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.

(The remainder of this page is intentionally left blank.)

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 <sup>1</sup>	Revenue per Available Room (RevPAR) <sup>1</sup>	Room Nights Sold <sup>1</sup>	Convention Attendance <sup>2</sup>	Convention Room Nights <sup>2</sup>	Convention Delegate Expenditures (Millions) <sup>2, 3</sup>
2000	64.7%	\$55.34	6,549,812	389,448	696,215	\$350.8
2001	62.7	54.10	6,486,944	419,970	712,189	378.3
2002	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	64.9	70.93	7,756,481	563,164	691,525	607.5
2009	57.4	56.08	7,249,737	399,408	660,736	474.5

<sup>1</sup> Data obtained from Smith Travel Research based on hotels in the San Antonio selected zip code reports dated March 2007, February 2009, and January 2010.

<sup>2</sup> Reflects only those conventions hosted by the San Antonio Convention and Visitors Bureau.

<sup>3</sup> 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, 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 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 will establish a Joint Base San Antonio, which will consolidate 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 the land and facilities were transferred to the Greater Kelly Development Authority ("GKDA"), a City-created Local Redevelopment Authority responsible for overseeing the redevelopment of the base into a business and industrial park. The business park is now known as Port San Antonio (the "Port"). The Port has developed a rail port for

direct international rail operations, including inland port distribution with the Port of Corpus Christi, and continues to work on establishing international air cargo operations and the expansion and addition of new tenants.

With a stable tenant base of over 70 companies and seven remaining Air Force agencies, the Port has over 8,500 workers generating a payroll of over \$520 million a year. Two new announcements at the Port include the Boeing Company's decision to bring a portion of their 787 Dreamliner workload to the Port for follow-on refurbishment and testing following manufacturing. This new investment will create up to another 400 aerospace jobs in FY 2011.

BRAC 2005 will bring an additional 2,900 military and DoD civilian personnel to the Port. Additionally, the Air Force is investing \$60 million in the remodeling of the 450,000 square foot building it is preparing to occupy. By September 2011, there will be over 6,000 DoD personnel at the Port. Another announcement in 2009 was the expansion of Affiliated Computer Services, a Fortune 500 Company, which is adding an additional 300 employees.

Other major commercial employers at the Port include Boeing, Lockheed Martin, General Dynamics, Standard Aero, Pratt & Whitney, Chromalloy, Gore Design Completions, and EG&G. By the end of 2010, the tenant employee base will have grown to over 12,000 as a result of these expansions.

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.

With over 11 million square feet of industrial/commercial space, the Port is the largest commercial property leasing firm in San Antonio. In April 2007, the East Kelly Railport opened with a 360,000 square foot speculative building offered by a private developer that today is 100% occupied. Already proving to be a busy passageway, the East Kelly Railport saw a 30% increase in rail activity from 2007 to 2008, with revenues exceeding \$149,600 during the same period. The developer, Santa Barbara Development, has recently completed construction on a second 265,000 square foot speculative building.

*Brooks City-Base.* Brooks City-Base continues to draw private business investment. However, the Air Force missions will be relocating over the next three to five years as a result of the BRAC 2005 recommendations. Of the approximately 21 missions currently located at Brooks City-Base, four will relocate to Fort Sam Houston, seven to Lackland AFB, and two to Randolph AFB. This will account for approximately 950 personnel. While many of the military missions are relocating from Brooks City-Base, private development is increasing. In addition, Brooks City-Base is continuing its goal of sustainability by creating a Tax Increment Reinvestment Zone ("TIRZ"). The TIRZ has been established and the City is planning to utilize the tax increments generated to assist in funding street infrastructure projects.

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

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

In July 2008, Vanguard Health Systems, Inc. and its affiliate Baptist Health System purchased 28 acres at Brooks City-Base and have an option for an additional 20 acres under contract. Crews began site work on January 18, 2010 for the new Mission Trail Baptist Hospital at Brooks City-Base. This new hospital will replace the current Southeast Baptist Hospital. The new hospital will be completed in June 2011 and will have 81 beds but could be expanded up to 300 beds. Initially, the new hospital will employ 300 staff but will expand to 800 staff. This represents a significant economic investment in the community. Ultimately, the hospital will be part of a medical campus with one medical office building being constructed concurrently with the hospital and six additional buildings constructed under a phased timeline.

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

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

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

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

*Fort Sam 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, the increase in personnel and missions at Fort Sam Houston could support the employment of over 15,000 in the community.

Lackland Air Force Base is home to the 37<sup>th</sup> 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.

In addition, the Air Force still maintains a significant presence at Port San Antonio (the former Kelly Air Force Base) which is adjacent and contiguous with Lackland. The Air Force and the Port jointly utilize the Kelly Field runway for military and commercial airfield operations. The Air Force continues to lease over 54 facilities comprising two, 800,000 sq/ft of space and over 270 acres of property. 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 PSA 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” 24<sup>th</sup> 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 recently received funding for two large projects that serve all of the military branches. On September 11, 2007, it was announced that the Veterans Administration will build a new \$67 million Level 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 April 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 UTHSC, and the U.S. Army Institute of Surgical Research. The NTI coordinates resources from the institutions to most effectively treat the trauma victims and their families. The NTI received \$3.8 million in grants in FY 2008.

Congressional legislation for FY 2009 has been passed by the U.S. House of Representatives and by the U.S. Senate and provides \$610 million for 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.

### ***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 is 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 Airport, Stinson Municipal Airport, Port San Antonio, 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. The Greater San Antonio Chamber of Commerce updates economic impact figures at the request of industry leaders and expects an update completed in the coming year.

San Antonio Aerospace LP ("SAA") is a subsidiary of ST Aerospace, a global company headquartered in Singapore with over 7,000 employees worldwide, providing aircraft maintenance support services for commercial and military aircraft. SAA began operations in April 2002, after acquiring Dee Howard aircraft maintenance facilities through the bankruptcy court. SAA decided to expand its MRO operations by investing \$16 million to construct an 80,000 sq. ft. maintenance hangar, an

adjacent 61,500 sq. ft. warehouse, and a 21,000 sq. ft. office building at the Airport. SAA will retain 570 existing jobs and is expected to hire 100 new employees. SAA currently leases 2,106,107 square feet of ground space/hanger space at the San Antonio Airport, and specializes in commercial MRO work on large aircraft, including Northwest Airlines, Delta, and United Parcel Service.

In early 2011, Boeing will begin bringing some of the 787 Dreamliner aircraft to its facilities at Port San Antonio for follow-on analysis and refurbishment over a three to five year period. This additional commercial aircraft maintenance, repair and overhaul workload will create an additional 400-600 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, FAA certified aerospace workforce in San Antonio. Boeing is also investing an additional \$10 million in its San Antonio operations to accommodate this workload.

*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. Southwest Research Institute has contracts with the Federal Aviation Administration, General Electric, Pratt & Whitney, and other organizations to conduct research on many aspects of aviation, including testing synthetic jet fuel, developing software to assist with jet engine design, and testing turbine safety and materials stability. Southwest Research Institute occupies 1,200 acres and provides nearly two million square feet of laboratories, test facilities, workshops, and offices for more than 3,200 scientists, engineers, and support personnel. SwRI's total revenue for FY 2009 was \$564 million.

*Telecommunications Industry.* On September 3, 2009, Dallas-based AT&T formed a partnership with the City of San Antonio and Alamo Colleges to develop a customized training program to support a new AT&T U-verse Technical Support Center in San Antonio. AT&T and Alamo Colleges worked to design and develop a core curriculum for a six-week course to train workers. The first students enrolled in these courses in November 2009. The City of San Antonio committed over \$100,000 in funding toward this training program. The Center opened in June 2010, hiring 200 employees. AT&T U-verse is the company's broadband, voice and digital television service. The service is delivered on a fiber-optic network. AT&T U-verse TV debuted in San Antonio in 2006. AT&T with over 270,000 employees world-wide, is a national leader in the delivery of broadband services, with 16.3 million wireless and wired broadband connections, including high-speed Internet access, AT&T U-verse service, satellite broadband services and 3G LaptopConnect cards. The company is the largest Wi-Fi provider in the country with nearly 20,000 hotspots.

*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. The Greater San Antonio Chamber of Commerce updates economic impact figures at the request of industry leaders and expects an update completed in the coming year. 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 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 Air Force Base was selected as the best location for the 24<sup>th</sup> 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. The Greater SA Chamber updates economic impact figures at the request of industry leaders and expects an update completed in the coming year.

Toyota Motor Corp., 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. Toyota and its 18 on-site suppliers are located at the San Antonio's south side. Toyota suppliers will also add about 1,000 jobs over the next one to two years 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.

*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 and is planning an update in the coming year.

*Green Technology.* In response to an April 2009 Request for Proposal (RFP), CPS Energy 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. When completed, Blue Wing will be the largest solar generation facility in Texas. 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 will also create about 100 green jobs during the construction and operation phases with a capital investment of approximately \$41,590,000 in real and personal property. Site is located southwest of the City near the intersection of IH-37 and U.S. Highway 181. Majority of the property site (80%) lies within Bexar County and approximately 20% is within the City limits.

In June, CPS Energy 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 Energy will invest \$50 million over 10 years in the UTSA institute. The first year, CPS Energy expects to invest \$1 million followed by \$2.5 million the following year. The annual investment expects to increase thereafter.

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

## **Growth Indices**

### ***San Antonio Electric and Gas Customers***

For the Month of December	Electric Customers	Gas Customers
2000	575,461	305,181
2001	589,426	305,702
2002	594,945	306,503
2003	602,185	306,591
2004	617,261	308,681
2005	638,344	310,699
2006	662,029	314,409
2007	681,312	319,122
2008	693,815	320,407
2009	706,235	321,984

---

*Source: CPS.*

*San Antonio Water System Average Customers per Fiscal Year*

<u>Fiscal Year</u> <u>Ended May 31</u> <sup>1, 2</sup>	<u>Water Customers</u> <sup>3</sup>
2000	285,887
2001	293,299
2002	298,215
2003	303,917
2004	311,556
2005	320,661
2006	331,476
2007	341,220
2008	346,864
2009	350,860

---

<sup>1</sup> 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.

<sup>2</sup> Beginning in year 2001, for the 12 months ending December 31.

<sup>3</sup> Excluding SAWS irrigation customers.

Source: SAWS.

(The remainder of this page is intentionally left blank.)

## Construction Activity

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

Calendar Year	Residential Single Family		Residential Multi-Family <sup>1</sup>		Other <sup>2</sup>	
	Permits	Valuation	Permits	Valuation	Permits	Valuation
1999	5,771	\$398,432,375	404	\$157,702,704	9,870	\$ 911,543,958
2000	5,494	383,084,509	201	81,682,787	10,781	957,808,435
2001	6,132	426,766,091	449	142,506,920	12,732	1,217,217,803
2002	6,347	435,090,131	246	101,680,895	14,326	833,144,271
2003	6,771	521,090,684	141	2,738,551	13,813	1,041,363,980
2004	7,434	825,787,434	206	7,044,283	14,695	1,389,950,935
2005	8,207	943,804,795	347	5,221,672	20,126	1,772,959,286
2006	7,301	890,864,655	560	13,028,440	19,447	1,985,686,296
2007	4,053	617,592,057	29	4,715,380	13,268	2,343,382,743
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

<sup>1</sup> Includes two-family duplex projects.

<sup>2</sup> 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:

	2010 <sup>1</sup>	2009	2008	2007	2006
Amarillo	\$47,190,720	\$56,514,269	N/A	N/A	N/A
Arlington	68,342,181	80,170,009	\$81,851,457	\$80,701,278	\$77,179,657
Austin	114,232,958	131,403,989	147,051,782	147,310,525	133,503,393
Corpus Christi	N/A	57,311,248	62,076,566	58,502,801	55,663,395
Dallas	169,633,953	205,447,327	227,067,964	223,708,825	217,223,165
El Paso	56,991,093	64,480,623	67,821,673	64,508,591	60,737,389
Fort Worth	82,704,765	97,877,323	106,259,648	98,863,541	92,739,620
Houston	392,831,234	489,009,133	504,416,610	471,684,021	440,687,609
Plano	48,506,253	N/A	64,180,104	63,267,699	62,015,005
Round Rock	52,062,332	58,694,318	67,029,667	69,435,651	66,891,894
SAN ANTONIO	173,444,376	202,966,327	215,808,945	209,599,573	195,966,662

<sup>1</sup> Includes actual collections through October 2010.

Source: State of Texas, Comptroller's Office.

## Education

There are 15 independent school districts within Bexar County with a combined enrollment of 309,930 encompassing 55 high schools, 73 middle/junior high schools, 255 early education/elementary schools, 15 all grade level schools, 10 magnet schools, and 34 alternative schools as of October 2009. There are an additional 28 charter school districts with 68 open enrollment charter schools at all grade levels. In addition, Bexar County has 96 accredited private and parochial schools at all education levels. Generally, students attend school in the districts in which they reside. There is currently no busing between school districts in effect. The six largest accredited and degree-granting universities, which include a medical school, a dental school, a law school, and five public community colleges, had combined enrollments of 109,134 for Fall 2009.

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 September 2010, as compared to the prior periods of August 2010, and September 2009.

### *Employment by Industry*

<u>San Antonio MSA<sup>1</sup></u>	<u>September 2010</u>	<u>August 2010</u>	<u>September 2009</u>
Mining and Logging	3,700	3,600	3,300
Construction	45,900	46,500	46,700
Manufacturing	41,900	41,900	42,200
Trade, Transportation, and Utilities	144,400	144,400	143,300
Information	18,000	18,200	19,000
Financial Activities	65,700	65,900	64,900
Professional and Business Services	99,700	99,400	98,100
Education and Health Services	123,700	122,400	123,000
Leisure and Hospitality	100,200	103,500	100,400
Other Services	30,600	30,200	30,900
Government	<u>161,000</u>	<u>154,700</u>	<u>157,200</u>
Total Nonagricultural Employment	834,800	830,700	829,000

<sup>1</sup> 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 September 2010, as compared to the prior periods of August 2010, and September 2009.

### *Unemployment Information (all estimates are in thousands)*

<u>San Antonio MSA<sup>1</sup></u>	<u>September 2010</u>	<u>August 2010</u>	<u>September 2009</u>
Civilian Labor Force	985.6	986.7	971.0
Number of Employed	915.0	911.6	901.7
Number of Unemployed	70.6	75.1	69.3
Unemployment Rate %	7.2	7.6	7.1
<u>Texas (Actual)<sup>1</sup></u>	<u>September 2010</u>	<u>August 2010</u>	<u>September 2009</u>
Civilian Labor Force	12,165.7	12,190.4	12,004.5
Number of Employed	11,209.1	11,169.0	11,031.5
Number of Unemployed	956.6	1,021.4	973.0
Unemployment Rate %	7.9	8.4	8.1
<u>United States (Actual)<sup>1</sup></u>	<u>September 2010</u>	<u>August 2010</u>	<u>September 2009</u>
Civilian Labor Force	153,854.0	154,678.0	153,617.0
Number of Employed	139,715.0	139,919.0	139,079.0
Number of Unemployed	14,140.0	14,759.0	14,538.0
Unemployment Rate %	9.2	9.5	9.5

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

(The remainder of this page is intentionally left blank.)

## **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, known as the "CPS Board of Trustees, San Antonio, Texas" (referred to herein as the "CPS Board" or "CPS"). The Mayor of the City is a voting member of the CPS Board, represents the City Council, and is charged with the duty and responsibility of keeping the City Council fully advised and informed at all times of any actions, deliberations, and decisions of the CPS Board and its conduct of the management of the EG Systems.

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

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

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

### ***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 the primary goal of the CAC is to provide recommendations from the community on the operations of CPS for use by the CPS Board and CPS staff. Representing the various sectors of CPS' service area, the CAC encompasses a broad range of customer groups in order to identify their concerns and understand their issues.

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

### ***Service Area***

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

CPS is currently the exclusive provider of retail electric service within this service area, including the provision of electric service to some Federal military installations located within the service area that own their own

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

In addition to the area served at retail rates, CPS sells wholesale electricity to the Floresville Electric Light & Power System, the City of Hondo, and the City of Castroville. As of July 31, 2010, these three wholesale supply agreements have remaining terms ranging from one to five years until expiration. Additionally, CPS has agreements to provide partial supply to various other municipalities and cooperatives through June 2011. CPS will seek additional opportunities to enter into long-term wholesale electric power agreements in the future. The requirements under the existing wholesale agreements are firm energy obligations of CPS. CPS continues to pursue additional opportunities to enter into long-term wholesale electric power agreements when there is excess capacity available.

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

CPS also has 20-year Franchise Agreements with 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. Of these 30 agreements, 24 expire in 2010. Of those 24, 17 have passed renewal ordinances as of July 31, 2010, and two others are scheduled for City Council agenda for approval. The others expire in 2011, 2017, 2023, 2024, and 2029. 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 to operate and maintain the Lytle natural gas system commencing January 1, 2010.

### ***Retail Service Rates***

Under the Texas Public Utility Regulatory Act (“PURA”), significant original jurisdiction over the rates, services, and operations of “electric utilities” is vested in the PUCT. In this context, “electric utility” means an electric investor-owned utility. Since the electric deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT’s jurisdiction over electric investor-owned utility (“IOU”) companies primarily encompasses only the transmission and distribution functions. PURA generally excludes municipally-owned utilities (“Municipal Utilities”), such as CPS, from PUCT jurisdiction, although the PUCT has jurisdiction over electric wholesale transmission rates. Under the PURA, a municipal governing body or the body vested with the power to manage and operate a Municipal Utility such as CPS has exclusive jurisdiction to set rates applicable to all services provided by the Municipal Utility with the exception of electric wholesale transmission activities and rates. Unless and until the City Council and CPS Board choose to opt-in to electric retail competition, CPS retail service electric rates are

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

The City has covenanted and is obligated under the Bond Ordinances, as provided under the rate covenant, to establish and maintain rates and collect charges in an amount sufficient to pay all maintenance and operating expenses of the EG Systems and to pay the debt service requirements on all revenue debt of the EG Systems, including the outstanding Previously Issued Parity Bonds, the Bonds, any Additional Senior Lien Obligations, the currently outstanding Junior Lien Obligations, Liquidity Facility Obligations, any Additional Junior Lien Obligations, the Notes and Inferior Lien Obligations, and to make all other payments prescribed in the Bond Ordinances.

Base rate changes over the past 18 years have consisted of a 4% combined electric and gas base rate increase effective January 31, 1991; a 3.5% electric base rate adjustment effective May 19, 2005 that was more than offset by a reduction in fuel costs, resulting from the purchase of an increased interest in STP 1 and 2 (defined herein); a 12.1% gas base rate adjustment effective June 26, 2006; and a 3.5% system average electric and gas base rate increase that became effective on September 1, 2008. The City Council approved the 3.5% base rate increase on May 15, 2008.

On February 18, 2010, the City Council unanimously approved CPS Energy’s request for a 7.5% electric base rate increase and an 8.5% gas base rate increase, which is expected to result in a 4.2% bill impact per customer. The electric base rate increase was requested primarily as a result of increases in debt service resulting from CPS Energy’s capital plan that includes a new coal generation plant, J.K. Spruce 2 (“JKS 2”), LM6000 Gas Combustion Turbine Peakers, and environmental upgrades to CPS Energy’s coal plants, which include fuel gas desulfurization (“FGD”) scrubbers and selective catalytic reduction (“SCR”) equipment. The 4.2% bill impact includes a reduction in fuel costs resulting from the JKS 2 plant that began commercial operation on May 28, 2010. 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.

The 2005 electric rate adjustment was intended to cover the incremental costs to be incurred due to acquiring an additional 12% share in the STP. While base rates increased because of the acquisition of additional nuclear generation (the ownership interest in Units 1 and 2 was raised from 28% to 40%), the benefit from lower price nuclear power reduced customer bills overall. This acquisition was completed in May 2005. CPS also offers a monthly contract for renewable energy service (currently this is wind-generated electricity) under Rider E15. The rate for Rider E15 was reduced to its current level effective on September 30, 2002. A rider to the SLP rate, the Economic Incentive Rider E16, became effective March 10, 2003, and offers discounts off the SLP demand charge for a period up to four years for new or added load of at least 10 megawatts (“MW”). Under certain conditions, the discount may be extended an additional three years. Customers that choose Economic Incentive Rider E16 must also meet City employment targets and targets for purchases of goods or services from local businesses in order to qualify. CPS also has rates that permit recovery of certain miscellaneous customer charges and for extending lines to provide gas and electric service to its customers. In May 2005, the CPS Board adopted a change to its policies for both miscellaneous customer charges and line extensions, which became effective January 1, 2006, increasing charges that had not been raised since 1986. The City Council approved certain price changes in the CPS Board-approved policy; however, the City ordinances prevented recovery of increased line extension charges from developers of affordable housing and the City delayed implementation of certain miscellaneous customer charges until April 1, 2006 (fees for disconnection, reconnection, and field notification).

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

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 adjustment or gas cost adjustment clause, which provides for current recovery of fuel costs. The fuel cost recovery adjustments are set at the beginning of each CPS billing cycle month.

### ***Transmission Access and Rate Regulation***

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

The 1999 Texas Legislature amended the PURA95 to expressly authorize rate authority over Municipal Utilities for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method which sets the price for transmission at the system average for ERCOT. CPS' wholesale open access transmission charges are set out in tariffs filed at the PUCT, and are based on its transmission cost of service approved by the PUCT, representing CPS' input to the calculation of the statewide postage stamp pricing method. The PUCT's rule, consistent with provisions in PURA §35.005(b), also provides that the PUCT may require construction or enlargement of transmission facilities in order to facilitate wholesale transmission service. Additional information with respect to the transition to the nodal market is discussed in "Post Senate Bill 7 Wholesale Market Design Developments" herein.

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

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

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



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

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

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

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

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

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

Among other provisions, SB 7 provides that nothing in that act or in any rule adopted under it may impair any contracts, covenants, or obligations between municipalities and bondholders of revenue bonds issued by municipalities and that nothing in that act may impair the tax-exempt status of municipalities or compel them to use facilities in a manner that violates any bond covenants or other exemption of interest or tax-exempt status. SB 7 also improves the competitive position of Municipal Utilities by allowing local governing bodies, whether or not they implement retail choice, to adopt alternative procurement processes under which less restrictive competitive bidding requirements can apply and to implement more liberal policies for the sale and exchange of real estate. Also, matters affecting the competitiveness of Municipal Utilities are made exempt from disclosure under the open meetings and open records acts and the right of municipal utilities to enter into risk management and hedging contracts for fuel and energy is clarified.

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

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

*Post SB 7 Wholesale Market Design Developments.* In the summer of 2003, the PUCT adopted rules requiring that ERCOT transition from a zonal to a nodal wholesale market and requiring that new protocols to accomplish this transition be submitted to the PUCT for review. Implementation of the nodal market will include, among other elements: direct assignment of the costs of local transmission congestion to market participants that cause the congestion; implementation of an integrated, financially binding day-ahead market; and nodal energy prices for resources and zonal energy prices for loads. Consistent with the rule, ERCOT and industry stakeholders have developed and submitted to the PUCT protocols and proposed energy load zones to implement these market design elements, together with an independent cost-benefit analysis (which indicated that the conversion would cost approximately \$260 million, while yielding approximately \$6 billion in benefits). The PUCT in 2005 reaffirmed its intent to implement the nodal market in ERCOT. In December 2005, the PUCT conducted a hearing on the nodal protocols submitted by ERCOT, and in April 2006 issued an order approving the implementation of the nodal market. ERCOT has completed its process of design specification and is currently still in the implementation phase of its nodal systems. Market participants, including CPS, are also in the implementation phase for the upgrade of their systems necessary to operate in accordance with the nodal market protocols. Three municipalities have appealed approval of the protocols to the Travis County District Court, but the appeal has been abated because of the hereinafter-described delay of the launch of the nodal market.

Since the PUCT’s action requiring the conversion, the transition by ERCOT from a zonal to a nodal wholesale market has experienced delays and increased cost projections. The original effective date of conversion (October 1, 2006) has twice been delayed (first to the end of 2008/beginning of 2009 and, most recently (as announced on November 26, 2008), to December 1, 2010), and the anticipated cost has increased from approximately \$260 million to \$660 million. To accommodate this projected cost increase, ERCOT petitioned the PUCT on March 31, 2009 for an increase in the nodal surcharge assessed to energy generators from \$0.169 to \$0.226 per megawatt-hour for the remainder of calendar year 2009 and a nodal surcharge, effective January 1, 2010, with the rate dependent upon the implementation date for the interim surcharge, effective until all nodal market program costs are recovered, currently expected to be in 2014.

On September 24, 2009, the PUCT approved a Non-Unanimous Stipulation that requires the \$0.169 interim nodal surcharge approved by the Commission to continue through December 31, 2009, and imposes a revised nodal surcharge of \$0.375 per megawatt-hour beginning January 1, 2010. Signatories to the Stipulation Agreement also agreed not to contest the allocation of the nodal surcharge to generators as previously approved by the Commission. (See “Transmission Access and Rate Regulation” herein.)

These delays and cost increases have drawn criticism from certain Texas legislators, as well as from energy generators that will fund this conversion through payment of the increased nodal surcharge described above. The new cost/benefit analysis for this conversion, delivered in mid-December 2008, found the benefits of the nodal market still outweighed not completing the conversion.

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

Although SB 7 instituted many of the changes to environmental emission controls which affect grandfathered electric generating plants, another TCEQ regulation, Chapter 117, is directed at all units in the state, including CPS' coal plants. These regulations required a 50% reduction in NOx emissions statewide beginning May 1, 2005 and system-wide on an annual basis. The first reporting period for CPS' power plants subject to the Chapter 117 cap was for the compliance period May 1, 2005 to April 2006. CPS has met the Chapter 117 cap for each compliance period since that time. As a result of the JKS 2 air permitting process, CPS has committed to tighter NOx emission limitations than what is required under Chapter 117 at the Calaveras Lake site once the JKS 2 unit comes on line. The final Clean Air Interstate Rule has imposed even more NOx restrictions on CPS power plants. Changes to environmental emission controls may have the greatest effect on coal plants. Further statutory changes and additional regulations may change existing cost assumptions for electric utilities. Such changes could have a material impact on the cost of power generated at affected electric generating units.

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

According to ERCOT, about 5.1% of the electricity generated in Texas during 2008 came from renewable energy resources, up from 3.3% for all of 2007. Within the ERCOT power region, renewable resources provided 3.5% of peak-period generation during 2008 (up from 2.8% in 2007), and 6.3% of off-peak generation (up from 3.7% in 2007). Significant amounts of wind energy have created challenges for those who manage the ERCOT system. On February 26, 2008, ERCOT implemented the second stage of its emergency grid procedures (out of four stages) following a sudden drop in the system frequency. The drop in system frequency was attributed to a combination of events including a drop in wind energy production at the same time the evening electricity load was increasing, accompanied by multiple power providers, other than CPS, falling below their scheduled energy production. The loss of wind energy also resulted in congestion in certain parts of the ERCOT transmission system. Implementing the stage two emergency procedures stabilized ERCOT system frequency. Other than interruptible loads, no other customers in the ERCOT region lost power due to the event. Because of the challenges associated with scheduling wind energy, ERCOT has chosen to count only 8.6% of nameplate wind capacity toward ERCOT's reserve margin requirements.

The Legislature increased the State's renewable energy goal in 2005 with the enactment of SB 20. As amended by SB 20, PURA directs that the cumulative installed renewable capacity in the State must total 2,280 MW by January 1, 2007; 3,272 MW by January 1, 2009; 4,264 MW by January 1, 2011; 5,256 MW by January 1, 2013; and 5,880 MW by January 1, 2015. Further, the PUCT is directed to establish a target of 10,000 MW by January 1, 2025. The legislation includes a target of 500 MW from renewable resources other than wind power. In addition, SB 20 requires the PUCT to designate CREZs to expedite transmission planning. In addition, on April 2, 2008, ERCOT filed a report with the PUCT concerning wind power and the transmission facilities that may be necessary to transfer the electric power across the State. No actions taken during the 81<sup>st</sup> Session of the Texas Legislature, which adjourned on June 1, 2009, in this regard impact CPS.

## ***Response to Competition***

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

Major initiatives and key action plans necessary to accomplish the objectives and meet or exceed the targets are also included in each plan. Status reports on strategies, risks and market changes are provided to the CPS Board and senior management on a regular basis. An oversight team, appointed by senior management, ensures consistency with the corporate vision and directs the resolution of cross-business unit issues. Vision 2020 was completed in 2008, outlining CPS' long-term view, focused on the key business drivers for the coming decade: customer relationships, employee relationships, external relationships, carbon constraints and the environment, technology and innovation, and financial integrity. In furtherance of Vision 2020, CPS and the City hosted a Sustainability Workshop in April 2009 and CPS continues to work with City and community leaders in the development of sustainability initiatives to improve the overall quality of life in San Antonio. 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 34.6% of the electric system native load for the fiscal year ending January 31, 2010.

*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.

The rapid cost escalation during the 2006 to 2008 timeframe of all physically constructed infrastructure projects eased somewhat in 2009. CPS continues to monitor proposed regulatory charges that could raise the costs of operating plants, such as those that have been proposed for units that use carbon-based fuels.

To mitigate the pressure on new generation construction requirements, CPS management is expanding its efforts towards community-wide energy efficiency and conservation. These mitigation efforts are referred to as the "5<sup>th</sup> Fuel" and are very important to CPS' strategic energy plans and specifically to its new generation needs. CPS

currently plans to implement 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 several objectives. These objectives include the pursuit of additional public input; expanded community education about the long-term energy and conservation needs of the San Antonio community; continued option analyses and evaluations, including CPS' own formalized cost estimates; additional CPS Board approval to move forward; and expanded presentations to the City Council, which governs the related rate increases and bond issuances required to support any generation construction project.

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

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

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

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

During the twelve-months ended July 31, 2010, the STP Units 1 and 2 operated at approximately 89.2% and 93.0% of net capacities, respectively. Unit 1 completed a refueling outage in the fall of 2009 that also involved the replacement of the reactor vessel head. On January 6, 2010, Unit 1 encountered a control rod misalignment during Control Rod Operability testing. To comply with the Technical Specification action for this condition, reactor power was reduced to less than 75%. The unit was stabilized at 73% power. Grid conditions contributed to a delay in troubleshooting of approximately 3½ days. Unit 1 was returned to 100% power on January 19, 2010. On February 3, 2010, a similar condition on a second control rod resulted in a shutdown of Unit 1. Unit 1 was returned to full power operation on February 10, 2010. On May 26, 2010, Unit 1 experienced a tube leak in one of the main condenser waterboxes that required a reduction in power to approximately 90%. Following repair of the tube leak, the unit resumed full power operation on May 29, 2010. On August 20, 2010, a human performance error during performance of a surveillance on critical protective equipment resulted in an automatic trip of Unit 1. Unit 1 returned to full power operation on August 23, 2010.

Unit 2 completed a normal refueling outage in the fall of 2008. Unit 2 was taken offline September 16, 2009, for maintenance of the plant's extraction steam system and successfully returned to full power operation on September 29, 2009. Unit 2 completed a refueling outage in the spring of 2010 that also included the replacement of the reactor vessel head.

*Used Nuclear Fuel Management.* Under the Nuclear Waste Policy Act, 42 U.S.C. 10101, et seq. ("NWPAA"), 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. That date came and went and no high-level waste repository has been licensed to accept used fuel.

According to the filings in one recent suit brought against DOE, at least 66 cases have been filed in the Court of Federal Claims against DOE related to its failure to meet its obligations under the NWPAA by the existing owners or operators of nuclear facilities seeking damages related to ongoing used nuclear fuel storage costs. On August 31, 2000, in *Maine Yankee Atomic Power Company, et al. v. US*, the United States Court of Appeals for the Federal Circuit affirmed that DOE has breached its obligations to commercial nuclear power plant owners for failing to live up to its obligations to dispose of used nuclear fuel. Subsequent to that decision, DOE has settled with certain commercial nuclear power plant owners and agreed to provide funds to pay for storage costs while DOE continues to develop a permanent high-level waste repository. STP has recently received a voluntary dismissal of litigation to cover its long-term storage costs and is negotiating to obtain a reasonable settlement that would provide for those costs in light of a decision in related litigation by another utility that had not yet been forced to incur significant damages because of DOE's breach. STP owners will work with STP to develop a strategy to recover any additional spent fuel storage costs from DOE at the appropriate time.

Until DOE is able to fulfill its responsibilities under the NWPAA, the NWPAA has provisions directing the NRC to create procedures to provide for interim storage of used nuclear fuel at the site of a commercial nuclear reactor. Currently, STP has adequate space in its on-site spent fuel storage pools to provide for storage of all of its used fuel. If DOE is unable to take the used fuel from STP, sometime late in the next decade STP management expects to start the process of planning, licensing, and building an on-site independent spent fuel storage facility. That facility is expected to have sufficient capacity to provide safe interim storage for used nuclear fuel from the current and future reactors at the STP site.

*Additional Nuclear Generation Opportunities.* This section describes some of the initial investigation, study and analysis that CPS management undertook to explore one type of possible generation infrastructure, additional nuclear capacity. CPS received CPS Board approval to participate in the early development phase of two nuclear projects, with third-party co-owners; however, recent events hereinafter described have superseded this initial approval.

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

In June 2009, CPS management provided the CPS Board its formal assessment and recommendations concerning these options compared to other possible new generation types. Management also provided its first public estimate of the cost of the first possible project at \$13 billion, inclusive of financing costs. Reports of higher cost estimates, however, resulted in reconsideration of the advisability of participating in the Project and, ultimately, in CPS' decision to limit participation in further development of the Project. In a settlement negotiated with NRG and the other participants in the development of the Project, CPS will receive a 7.625% ownership interest in combined the Project without making any additional contribution to the cost of development. CPS will also receive two \$40 million payments, conditioned upon a loan guarantee award to NRG/NINA, as well as a contribution of \$10 million to its residential emergency assistance program trust, which provides emergency bill payment assistance to low-income customers. A detailed timeline of events concerning this matter and the recent settlement of the Project lawsuit are provided in the following pages:

- Regarding the first project, in June 2007, STPNOC signed a technical services agreement with Toshiba Corporation (“Toshiba”), a major Japanese manufacturer of heavy electrical equipment and developer of advanced boiling water reactors (“ABWR”) in Japan. Under this agreement, Toshiba agreed to perform early engineering and procurement work for the “Project”. STPNOC is in the process of reserving the major, long-lead components for the Project. STPNOC has already made a reservation for the Unit 3 reactor pressure vessel forgings. Rights and obligations in the agreements with GE-Hitachi Nuclear Company (“GE-H”), Toshiba and other vendors for long-lead equipment and services are now shared with CPS under the terms of the NRG-CPS Supplemental Agreement.
- On September 20, 2007, NRG and CPS signed the South Texas Project Supplemental Agreement (“Supplemental Agreement”) under which CPS elected to participate in the preliminary development of two new nuclear units at the STP nuclear power station site, the Project, pursuant to the terms of the current participation agreement among the STP owners. CPS could own up to 50% of the Project. The Supplemental Agreement provides for CPS to reimburse NRG for its pro rata share, based on its ownership percentage, of initial project costs incurred and to pay its pro rata share of future development costs. The Supplemental Agreement also provides CPS and NRG with preferred rights of first refusal in the event of certain types of transfers of either NRG’s or CPS’ interests in STP.
- On September 24, 2007, CPS, subsidiaries of NRG, and the STPNOC filed a combined construction and operating license application (“COLA”) with the NRC to build and operate the Project. The COLA for the Project was the first complete application for new commercial reactors to be filed with the NRC in nearly thirty years. In the COLA, the owners propose to use ABWR technology, which has been proven in four operating units in Japan. The total projected rated capacity of the Project is expected to be about 2,600 MW. On November 29, 2007, the NRC announced that it had accepted the COLA for review.
- In order to develop the COLA and to provide on-going licensing support, STPNOC had entered into an interim services agreement with General Electric Company (“GE”). Subsequent to entering into that agreement, GE entered into a joint venture in which it transferred its nuclear business to GE-H. GE assigned its responsibilities under the interim services agreement to GE-H. Despite its obligations in the interim services agreement, GE-H suspended licensing support for the COLA soon after it was filed with the NRC.
- Subsequently, CPS and NRG determined that they would continue the Project with Toshiba Corporation, an experienced developer of ABWR units in Japan. Project development continued under a technical services agreement with Toshiba Corporation’s United States subsidiary Toshiba International Corporation while the parties negotiated a definitive engineering, procurement and construction (“EPC”) contract.
- On September 24, 2008, STPNOC submitted a revised COLA to the NRC reflecting CPS and NRG’s intention to develop the Project with Toshiba. The COLA revision also reflected the establishment of a new NRG-Toshiba Corporation partnership, called NINA, which is 88% owned by NRG and 12% owned by Toshiba Corporation. In addition to the Project, NINA has proposed to develop up to two additional two-unit ABWR projects in the United States. NINA has placed its ownership interest in STP Unit 3 into a wholly-owned subsidiary, NINA STP 3, LLC, and its interest in STP Unit 4 into a wholly-owned subsidiary, NINA STP 4, LLC. In addition, Toshiba Corporation has established a United States subsidiary to develop ABWRs, called Toshiba America Nuclear Energy (“TANE”). The updated COLA reflects the relationships among the developers, CPS and NINA and the new NINA, TANE, NINA STP 3, LLC and NINA STP 4, LLC entities. On February 10, 2009, the NRC issued a schedule for completing its review of the COLA. The NRC projects to issue the final Safety Evaluation Report in September 2011. Currently, CPS staff projects that the COLA will be received early in calendar year 2012. Receipt of the NRC-approved COLA is a condition precedent to starting significant project construction.
- On September 29, 2008, CPS filed with the United States Department of Energy (“DOE”) a Phase I application for a loan guarantee related to the development of the Project. Following DOE’s evaluation of all Phase I applications DOE ranked the Project third out of 14 nuclear loan guarantee project applications that were submitted. On December 19, 2008, CPS filed with DOE a Phase II loan guarantee application. In a letter dated February 9, 2009, DOE informed CPS that the Project is one of five nuclear projects for which DOE is conducting due diligence as part of its process for potentially offering loan guarantees. Subsequently, DOE narrowed the list of nuclear project candidates for DOE loan guarantees to four projects, including the Project. Under current legislation, should the DOE ultimately approve an

applicant's filing, such a loan guarantee could be used to guarantee financing up to 80% of the debt for the applicable project. DOE's ability to issue guarantees is limited by appropriations. Currently, there is \$18.5 billion set aside for loan guarantees associated with new nuclear project development in the United States through federal FY 2011. As part of the settlement with NINA, CPS Energy has withdrawn its DOE loan guarantee application.

- On November 5, 2008, STPNOC and DOE executed a Standard Contract in which DOE undertook the obligation to provide for permanent disposal of the used nuclear fuel from the proposed Project.
- On January 21, 2009, the CPS Board approved increasing the project development budget for the Project to \$276 million (from \$206 million). On February 24, 2009, CPS and its project co-owner authorized STPNOC, as their agent, to enter in to an EPC contract with Toshiba Corporations United States subsidiary, TANE.
- On February 24, 2009, STPNOC, as agent for CPS and NINA, executed an Engineering, Procurement and Construction (EPC) Agreement with TANE that provides terms and conditions under which the Project will be designed and constructed. The EPC Agreement has terms and conditions comparable to those for fossil-fired generating plants and has limits of liability and other provisions that are scaled to a project of this size. Toshiba has provided parent company guarantees for TANE's performance.
- Following notice published on February 21, 2009, three individuals and three groups joined to file one Petition to Intervene against the Project COLA on April 21, 2009. This initial petition contained 28 contentions. Interveners subsequently filed seven additional contentions. As a result of NRC Licensing Board decisions, most of the contentions were dismissed. The remaining contentions have been combined into a single contention which has been admitted for further consideration. STPNOC, as agent for owners, plans to file supporting information as required to address any open issues and STPNOC staff believes these contentions can be resolved without hearings. The project schedule already has time built into it for hearings as part of the COLA process; however, it is unclear whether contentions may result in hearings and whether hearings will affect the timing for issuance of the COLA.
- On August 31, 2009, the CPS Board approved increasing the Project development budget for the Project to \$376 million (from \$276 million).
- On October 13, 2009, the CPS Board approved selection of the Project as the next baseload generation resource and, in support thereof, approved a request to ask the City to approve \$400 million in bonds to support the Project at the City Council's October 29, 2009 meeting.
- On October 27, 2009, amid reports that CPS had knowledge that costs of the Project might be significantly higher than previously reported, the City Council's vote on the bonds was postponed.
- While the Project's cost issue was being investigated, CPS explored all its options regarding participation in or withdrawal from the Project. On December 6, 2009, CPS filed a petition in Bexar County district court to clarify the roles and obligations of CPS and NINA to define the rights of both parties should either decide to withdraw from the project.
- On May 10, 2010, NRG announced that NINA had reached an agreement with The Tokyo Electric Power Company (TEPCO) to partner in the Project. TEPCO will invest \$155 million for a 10% share of NINA Investments Holdings' interest in the Project. This investment will give TEPCO a 9.2375% interest in the Project. TEPCO's initial investment is conditional upon receipt of a conditional commitment for a DOE loan guarantee for the project. The investment also includes a \$30 million option payment that enables TEPCO to purchase an additional 10% share of NINA Investment Holdings for approximately \$125 million within one year. If TEPCO were to exercise their option, their interest in STP Units 3 and 4 would be approximately 18%. TEPCO would also be responsible for up to 20% (if the option were exercised) of the capital cost of the project going forward. The agreement has been approved by the Boards of both companies and is expected to close once NINA secures a conditional commitment for a DOE loan guarantee.
- During the presentation of second quarter earnings results held on August 2, 2010, NRG announced a severe reduction in spending on the project. NRG announced that accrued project costs would be reduced



from the current level of approximately \$30 million per month to approximately \$20 million per month. NRG also announced that its commitment to project spending would be reduced to \$1.5 million per month. NRG reported that Toshiba had agreed to provide interim funding to cover the NRG gap. The parties are working together to adjust the near-term project activities to maintain the overall project schedule. NRG stated that they are confident the Project will be awarded a DOE loan guarantee. However, they are not certain of the timing for the loan guarantee.

In addition to the Project, CPS has also explored another nuclear project with Exelon. In December 2007, CPS and Exelon signed an agreement granting CPS an option to participate in a possible joint investment in a nuclear-powered electric generation facility in southeast Texas ("Exelon Project"). Preliminary plans indicated that the Exelon Project would be located in Victoria County and would involve the development of two GE-H Economic Simplified Boiling Water Reactors ("ESBWR"), nominally rated at 1,520 megawatts each. Under this agreement, CPS Energy has the option to acquire between a 25% and a 40% ownership in the Exelon Project. On September 3, 2008, Exelon filed a COLA with the NRC to build and operate Victoria County Station Units 1 and 2. On October 30, 2008, the NRC docketed the COLA for a detailed review. Subsequently Exelon determined that it was unable to reach commercial terms with GE-H. Exelon announced on November 24, 2008, that they intended to select another technology, other than the ESBWR, for the Exelon Project. On December 18, 2008, the NRC placed on hold the review of Exelon's COLA. On March 27, 2009, Exelon announced that it selected Hitachi's ABWR design for the Exelon Project and that it planned to revise the COLA and its DOE Loan Guarantee application accordingly. The Exelon Project failed to qualify for the initial round of DOE loan guarantees. Exelon has filed an Early Site Permit application with the NRC for the Victoria County location. CPS will continue to monitor the Exelon Project.

*Nuclear Cost Issue and CPS Internal Investigation.* Following the postponement of the City Council's vote, the CPS Board undertook an investigation to determine whether CPS management had knowledge of an increase in a preliminary cost estimate for the Project and why that information was not communicated to the CPS Board. Specifically, the CPS Board asked the CPS Chief Audit & Ethics Officer to investigate and answer the following questions: (1) Who knew what information, by when, and who did they inform; (2) Was there malicious intent to withhold information; (3) Was there a failure to exercise prudent judgment and/or a failure to communicate in a timely manner; and (4) Did the individuals understand their roles and accountabilities?

An outside law firm was hired to assist in the investigation, which took approximately four weeks to complete and involved the reviews of internal documents, interviews of numerous individuals and the preparation of a written report that was publicly disclosed on December 7, 2009. The results of this investigation were reported to the CPS Board in late November and early December 2009 and, based on that report, the CPS Board adopted a resolution finding that there was a failure of communication from certain members of CPS executive management to the CPS Board and the City Council regarding the "revised cost estimate" that was publicly disclosed in October 2009; that the failure of communication resulted in substantial part from a good faith belief that the "revised estimate" was not a formal estimate supported by data but, instead, was communicated as part of the ongoing negotiation process expected to lead to a contractually required formal cost estimate due on or about December 31, 2009, pursuant to the terms of the EPC Agreement; and that there was no malicious intent on the part of any member of the management team in connection with the failure of communication. The investigation report also concluded that no member of management instructed any other employee to conceal or withhold any information from the CPS Board and that lack of information flowing to the CPS Board was, at worst, due to a difference of opinion about what information should be deemed material and deserving of the CPS Board's attention.

During the course of the investigation, several changes occurred in the CPS Board and personnel:

- Shortly after the CPS Board initiated its investigation, two senior CPS staff members involved in the Project were placed on administrative leave pending results of the investigation.
- On November 26, 2009, Interim General Manager, Steve Bartley, resigned; a severance agreement with Mr. Bartley was reached.
- On November 30, 2009, the CPS Board adopted a resolution accepting the findings and results of the investigation, and reinstating the two senior staff members who had been placed on administrative leave.
- Also on November 30, 2009, Jelynn LeBlanc-Burley was named Acting General Manager (a role in which she served until August 1, 2010) and the CPS Board accelerated its search for a new General Manager & CEO to replace Milton Lee upon his previously-announced retirement in 2010.

- On December 15, 2009, Deputy General Counsel, Robert Temple resigned; a severance agreement was reached Mr. Temple.
- During the course of the public controversy surrounding the investigation, the Mayor and certain City Council members called for the resignation of CPS Board Chair, Aurora Geis and long-time trustee Steve Hennigan. Ms. Aurora Geis resigned effective January 14, 2010, and Mr. Charles E. Foster, a retired AT&T executive, was selected to replace her on the CPS Board.
- On January 22, 2010, Mr. Charles E. Foster was elected Chairman of the CPS Board.
- Mr. Hennigan continues to serve on the CPS Board; his term ends in January 2011.

While the Project's cost controversy was being investigated, CPS was exploring all its options regarding participation in or withdrawal from the Project. One of the steps it took to clarify its rights under the existing project agreements, including the EPC Agreement, was to seek judicial clarification regarding the consequences of unilaterally withdrawing. The resulting lawsuits were dismissed, subject to final execution of documents reflecting a settlement reached between CPS and NINA on March 1, 2010.

This litigation involved the following causes of action:

- On December 6, 2009, CPS filed a declaratory judgment action in State District Court in Bexar County seeking clarification of its rights under existing contracts with NINA and NRG regarding the parties' development of and participation in the Project.
- In mid-December 2009, CPS and NINA/NRG commenced discussions about a way to achieve a reasonable business solution to the litigation. CPS also continued its previously-initiated effort to sell some or all of its interest in the Project.
- On December 23, 2009, NINA filed an Answer to the CPS petition and also filed a counterclaim alleging breach of contract and requesting declaratory relief, a temporary injunction and forfeiture of CPS' interest in the Project.
- On December 23, 2009, CPS responded to NINA's counterclaim by filing an amended petition asserting additional causes of action against NINA, NRG and Toshiba including tortious interference with contract, fraud, negligent misrepresentation, and business disparagement, among others. The amended claim sought exemplary and punitive damages of up to \$32 billion.

Only CPS' declaratory judgment action was pursued in court. The court found that CPS would not forfeit its interest upon withdrawal, but would continue to be a tenant in common even if it ceased funding development of the Project. However, with both sides still interested in a business solution for all remaining matters, a settlement was pursued. CPS and NINA/NRG reached a business agreement to resolve their differences in the Project. By the terms agreed upon with NINA, CPS received a 7.625% ownership interest in the Project, an interest expected to entitle CPS to approximately 200 MW of power, depending on the output of the units, once they reach commercial operation (expected to occur in 2017-2018). Based on the latest load forecast, CPS does not anticipate needing this power or any additional base load generation until 2024. This interest in the Project will satisfy almost 40% of that need and is expected to contribute to meeting whatever carbon requirements may be imposed by federal legislation. CPS will, therefore, not need to make a decision regarding additional base load generation until at least 2015, but at that time will consider natural gas combined cycle units, natural gas peaking units, renewable energy, nuclear generation, and other conventional and nonconventional technologies that may or may not be currently available. The time period between 2015 and 2024, when the power will be needed, will be used for planning and construction.

CPS currently owns a percentage of the common facilities related to its ownership in STP Units 1 and 2, which will also be used by the Project when they become operational. One component of the Project settlement is the transfer of a percentage of the ownership in the common facilities from CPS to NINA. Tax-exempt debt was used to acquire and construct these common facilities and a portion of that debt is still outstanding. The IRS private business use regulations prevent state and local governments from transferring the benefits of tax-exempt financing to private business interests. On May 11, 2010, CPS used a combination of cash and taxable debt from its Flexible Rate Revolving Note Program to defease approximately \$25.7 million in principal amount of the allocable portion of the debt associated with the common facilities of the Project, that are now owned by NINA.

*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. Functions are provided from the QSE primary and backup facilities. QSE functions include load forecasting, day ahead and real time scheduling of load, generation and bilateral transactions, generator unit commitment and dispatch, communications, invoicing and settlement.

The QSE will update systems and prepare personnel to accommodate the newly designed ERCOT "Nodal" Market design. The new market design will vastly change the procedures to dispatch generation and schedule bilateral transactions. CPS is currently designing new processes and systems to continue to operate as a QSE in the new market.

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

*Distribution System.* The distribution system is supplied by 76 substations strategically located on the high voltage 138 kV transmission system. The central business district of the City is served by nine underground networks, each consisting of four primary feeders operated at 13.8 kV, transformers equipped with network protectors, and both a 4-wire 120/208 volt secondary grid system and a 4-wire 277/480 volt secondary spot system. This system is well designed for both service and reliability.

Approximately 7,610 circuit miles (three-phase equivalent) of overhead distribution lines are included in the distribution system. These overhead lines also carry secondary circuits and street lighting circuits. The underground distribution system consists of 362 miles of three-phase equivalent distribution lines, 83 miles of three-phase Downtown Network distribution lines, and 4,058 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground residential distribution systems. At July 31, 2010, the number of street lights in service was 79,468. The vast majority of the lights are high-pressure, sodium vapor units.

## ***Gas System***

*Transmission System.* The gas transmission system consists of a network of approximately 86 miles of steel mains that range in size from 4 to 30 inches. The entire system is coated and cathodically protected to mitigate corrosion. The 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 5,053 miles. The system consists of 2 to 30-inch steel mains and 1-1/4 to 8-inch high-density polyethylene (plastic) mains. The distribution system operates at pressures between 9 psig and 274 psig. All steel mains are coated and cathodically protected to mitigate corrosion. The vast majority of the gas services are connected to the distribution system, and the gas normally undergoes a final pressure reduction at the gas meter to achieve the required customer service pressure. Critical areas of the distribution system are 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, 2010, CPS implemented:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement provides additional guidance for accounting and reporting standards for intangible assets. The objective of this Statement is to reduce inconsistencies in financial reporting by providing further guidance on classification, recognition, measurement, impairment, presentation and disclosures related to intangible assets. There was no impact to the CPS Energy's financial statements as a result of this implementation.

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. It generally requires that derivatives be reported on the balance sheet at fair value and realized and unrealized gains/losses be reported on the statement of revenues, expenses and change in fund net assets. As an exception, hedge accounting would be required for potential hedging derivative instruments that are determined to be effective. Under hedge accounting, gains/losses are reported on the balance sheet as deferred credits/charges until expiration of the contract, at which time the deferred credits/charges are reported as an adjustment to the underlying hedged transaction.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The GAAP hierarchy governs what constitutes GAAP for all state and local governmental entities. It lists the order of priority of pronouncements that a governmental entity should look to for accounting and financial reporting guidance. There was no impact to the CPS Energy's financial statements as a result of this implementation.
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The objective of GASB Statement No. 56 is to incorporate three issues that were not previously addressed in the authoritative literature that establishes accounting principles—going concern considerations, related party transactions and subsequent events. These issues are currently addressed in the AICPA Statements on Auditing Standards; however, the GASB staff felt they would be more appropriately included in the accounting and financial reporting standards than in the auditing literature. The purpose of the statement is not to issue new guidance, but to incorporate existing guidance into the GASB standards to improve financial reporting by consolidating all sources of generally accepted accounting principles for state and local governments into one source. There was no impact to the CPS Energy's financial statements as a result of this implementation.

For the fiscal year ended January 31, 2009, CPS implemented:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement provides guidance that explains when pollution remediation-related obligations should be reported and how pollution remediation costs and liabilities should be determined.
- GASB Technical Bulletin 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*. This technical bulletin provides guidance that allows the annual required contribution ("ARC") adjustment for other postemployment benefits ("OPEBs") to be based on actual amounts associated with the amortization of past contribution deficiencies and excesses included in the ARC in cases in which those amounts are known by the actuary. No impact resulted from the guidance provided under this Technical Bulletin.

In addition to the two GASB items described above, CPS changed its method of accounting for the Decommissioning Trusts beginning in FY 2009. 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 Financial Accounting Standard ("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 ("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 sheets as net costs refundable through future rates since any excess funds are payable to customers. Going forward, prolonged unfavorable economic changes 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.

There was no impact to fund net assets as a result of this change in accounting method. Prior-year amounts have been reclassified to conform to current-year presentation.

Other than the aforementioned changes, there were no additional significant accounting principles or reporting changes implemented in the fiscal year ending January 31, 2010. Other accounting and reporting changes that occurred during the prior reporting year continued into the fiscal year ending January 31, 2010.

### ***Recent Financial Transactions***

On March 12, 2009, CPS issued \$442.0 million of tax-exempt New Series 2009A Revenue Refunding Bonds to refund \$450.0 million of commercial paper notes. Subsequent thereto and to date, CPS issued \$330.0 million of Tax Exempt Commercial Paper Notes.

On June 12, 2009, CPS issued \$375.0 million of Taxable New Series 2009C Direct Subsidy – Build America Bonds, which will be used for general system improvements.

On July 30, 2009, CPS issued \$207.9 million of tax-exempt New Series 2009D Revenue Refunding Bonds to refund the remaining \$227.7 million par value of the tax-exempt New Series 1998A Bonds.

On March 23, 2010, CPS issued \$380.0 million of Taxable New Series 2010A Direct Subsidy – Build America Bonds, which will be used for 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.

### ***CPS Historical Net Revenues and Coverage***

	Fiscal Years Ended January 31, (Dollars in Thousands)				
	2006	2007	2008	2009	2010
Gross Revenues <sup>1</sup>	\$1,754,927	\$1,822,230	\$1,943,313	\$2,191,323	\$1,981,103
Maintenance & Operating Expenses	1,057,035	1,104,037 <sup>2</sup>	1,177,337	1,408,353 <sup>2</sup>	1,205,189
Available For Debt Service	<u>\$ 697,892</u>	<u>\$ 718,193</u>	<u>\$ 765,976</u>	<u>\$ 782,970</u>	<u>\$ 775,914</u>
Actual Principal and Interest Requirements:					
Senior Lien Obligations <sup>3</sup>	<u>\$ 256,442</u>	<u>\$ 271,931</u>	<u>\$ 290,954</u>	<u>\$ 309,855</u>	<u>\$ 332,540<sup>5</sup></u>
Junior Lien Obligations <sup>4</sup>	<u>\$ 10,964</u>	<u>\$ 15,006</u>	<u>\$ 15,179</u>	<u>\$ 11,190</u>	<u>\$ 6,987</u>
Actual Coverage-Senior Lien	2.72x	2.64x	2.63x	2.53x	2.33x
Actual-Senior and Junior Lien	2.61x	2.50x	2.50x	2.44x	2.29x

<sup>1</sup> Calculated in accordance with the ordinances.

<sup>2</sup> Certain amounts in prior years have been reclassified to conform to the current year.

<sup>3</sup> Net of accrued interest where applicable.

<sup>4</sup> Series 2003 Junior Lien Obligations were issued May 15, 2003. Series 2004 Junior Lien Obligations were issued November 18, 2004. Actual interest payments.

<sup>5</sup> Includes a reduction of \$5.0 million related to the direct subsidy for the 2009C Build America Bonds.

(The remainder of this page is intentionally left blank.)

## **San Antonio Water System**

The San Antonio Water System is described in the body of this Official Statement.

## **The Airport System**

### ***General***

The City's airport system consists of the San Antonio International Airport (the "International Airport" or the "Airport") and Stinson Municipal Airport ("Stinson") (the International Airport and Stinson, collectively, the "Airport System"), both of which are owned by the City and operated by its Department of Aviation (the "Department").

The 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. Mexicana filed for bankruptcy protection and ceased service to the Airport in August 2010.

The City is in the process of updating the Airport Master Plan for the Airport. The Master Plan update is scheduled to be completed in early 2011. The Master Plan update will provide direction for the development of the Airport for 5, 10, and 20 years into the future. For the 5-year plan, the Master Plan update is expected to recommend modest improvement to complement the Capital Improvement Plan ("CIP"). Among the anticipated recommended improvements to be financed and constructed by the City are renovating and renewing Terminal A, land acquisition, construction of a taxiway connector, Airport maintenance facility, and an administrative center. (See "Capital Improvement Plan" below). Additionally, recommended improvements included in this Master Plan (but to be financed and constructed by non-City sources such as customer facility charges and third party and/or tenant financing) include an expansion to the Airport fuel farm, a consolidated rental car center, and the expansion of tenant ground service equipment maintenance and storage facilities.

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 46<sup>th</sup> based on final total U.S. passenger traffic for calendar year 2009. For the calendar year ended December 31, 2009, the Airport enplaned 3,905,439 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 single 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 (as described in more detail below).

Stinson, located on approximately 375 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 serves as the FAA's designated general aviation reliever 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 10 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, Port of San Antonio, and Stinson. A Target Industry 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 November 2010, the City will issue an RFP to update the Master Plan for Stinson.

## ***Capital Improvement Plan***

*General.* 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 CIP. The 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 improvement beyond 2016 for a series of reasons among them lack of demand, timing, and availability of federal grant funding. With the completion of Terminal B in November 2010, the CIP has been substantially completed.

The seven-year (FY 2010 – 2016) program totals \$239 million which is comprised of certain projects in process plus the adopted FY 2011 – 2016 Capital Improvement Program ("2010 Capital Program").

### ***FY 2010 Capital Improvement Program***

The FY 2010 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 re-life 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***

- 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 Terminal/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.

The anticipated sources of funding for the Airport's CIP for fiscal years 2010 through 2015 are as follows:

<u>Funding Sources</u>	<u>Projected Funding</u>
Federal Grants	
Entitlements/General Discretionary	\$ 11,935,790
Discretionary	45,513,250
General Discretionary	
Noise Discretionary	57,000,000
TxDOT Grants	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	34,409,005
Total	<u>\$239,159,177</u>

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

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

*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, taken together, approximately \$102,500,000 in PFC revenues. On February 15, 2005, the FAA approved an application amendment increasing the PFC funding by a net amount of \$13,893,537. On February 22, 2005, the FAA approved the City's application for an additional \$50,682,244 in PFC collections to be used for eleven new projects. On June 26, 2007, the FAA approved two amendments to approved applications increasing the PFC funding by a net amount of \$121,611,491 for two projects and \$67,621,461 for four projects. Additionally, the FAA approved the increased collection rate from \$3.00 to \$4.50 effective October 1, 2007. In May 2010, the FAA approved amendments to the City's PFC Authorization to increase the scope of the PFC funding for certain PFC project and permitted the addition of several elements. The May 28, 2010 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 than \$0.11 air carrier collection charge) per paying 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 project provides for the construction of an eight-gate Terminal B. Terminal B will replace Terminal 2, which is obsolete and will be demolished to make way for Terminal C. Terminal C will be constructed based upon demonstrated need that is projected to be beyond the forecast period. Terminal B is scheduled for completion in November 2010. The present Terminal 1 will be redesignated as Terminal A. With the completion of Terminal B, the City will initiate a program to renovate and renew Terminal A. The project consists of the renewal and replacement of key building infrastructure, 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 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. The Airport 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 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 will be closed and the land put to other uses.

## **Airport Operations**

*General.* The City is responsible for the issuance of revenue bonds for the Airport System and preparation of long-term financial feasibility studies for Airport System development. Direct supervision of airport operations is exercised by the Department. The Department is responsible for: (i) managing, operating, and developing the Airport, Stinson, 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 either the Airport or Stinson. The City Council appoints a 19-member Airport Advisory Commission. This 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, Aviation Director, 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 has its own police and fire departments on premises. The police and firefighters are assigned to duty at the Airport from the City’s Police and Fire Department, but their salaries are paid by the Department as an operation and maintenance expense of the Airport System.

The FAA has regulatory authority over navigational aid equipment, air traffic control, and operating standards at 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 to meet the new federal security requirements.

With the completion of the CIP, the Airport has a fully automated baggage screening and handling system that services 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, \$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 business 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		

(The remainder of this page is intentionally left blank.)

### ***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				
	2005	2006	2007	2008	2009
Gross Revenues <sup>1</sup> :	\$47,180,690	\$52,785,593	\$56,682,447	\$65,187,888	\$62,180,333
Airline Rental Credit	<u>5,322,516</u>	<u>7,988,304</u>	<u>8,831,771</u>	<u>5,040,274</u>	<u>4,165,260</u>
Adjusted Gross Revenues	\$52,503,206	\$60,773,897	\$65,514,218	\$70,228,162	\$66,345,593
Expenses	<u>(26,411,104)</u>	<u>(29,471,313)</u>	<u>(32,583,693)</u>	<u>(41,585,794)</u>	<u>(39,743,093)</u>
Net Income	<u>\$26,092,102</u>	<u>\$31,302,584</u>	<u>\$32,930,525</u>	<u>\$28,642,368</u>	<u>\$26,602,500</u>

<sup>1</sup> 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
2000	3,647,094	---	---
2001	3,444,875	(202,219)	(5.54)
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)

\* The decline in enplaned passengers is attributable to general economic conditions and two airlines failing.

Source: City of San Antonio, Department of Aviation.

(The remainder of this page is intentionally left blank.)

**Total Enplaned and Deplaned International Passengers - San Antonio Airport**

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

Calendar <u>Year</u>	<u>Total</u>	Increase/ <u>(Decrease)</u>	Percent (%) <u>Change</u>
2000	243,525	---	---
2001	219,352	(24,173)	(9.93)
2002	201,274	(18,078)	(8.24)
2003	159,576	(41,698)	(20.72)
2004	191,254	31,678	19.85
2005	185,992	(5,262)	(2.75)
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)

---

Source: City of San Antonio, Department of Aviation.

**Air Carrier Landed Weight - San Antonio Airport**

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

Calendar <u>Year</u>	<u>Total</u>	Increase/ <u>(Decrease)</u>	Percent (%) <u>Change</u>
2000	5,838,185	---	---
2001	5,548,023	(290,162)	(4.97)
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)

---

Source: City of San Antonio, Department of Aviation.

\* \* \*

**APPENDIX B**

**EXCERPTS FROM THE  
SAN ANTONIO WATER SYSTEM  
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**For the Year Ended December 31, 2009**

The information contained in this Appendix consists of excerpts selected by the Co-Financial Advisors from the San Antonio Water System Comprehensive Annual Financial Report for the Year Ended December 31, 2009, and is not intended to be a complete statement of the System's financial condition. Reference is made to the complete Report for further information.

**(THIS PAGE LEFT BLANK INTENTIONALLY)**



Padgett Stratemann & Co. LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

## Independent Auditors' Report

To the Board of Trustees  
San Antonio Water System  
San Antonio, Texas

We have audited the accompanying balance sheets of San Antonio Water System ("SAWS"), a component unit of the City of San Antonio, Texas, as of December 31, 2009 and 2008, and the related statements of revenues, expenses, and changes in equity and cash flows for the years then ended. These financial statements are the responsibility of SAWS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 SAWS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SAWS as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years 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 a separate report dated March 23, 2010 on our consideration of SAWS' 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

SAN ANTONIO • AUSTIN

100 N.E. Loop 410, Suite 1100 • San Antonio, Texas 78216 • P 210.828.6281 • T 800.879.4966 • F 210.826.8606 • [www.padgett-cpa.com](http://www.padgett-cpa.com)

An Independently Owned Member of The McGladrey Network Worldwide Services through RSM International

of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 the audit.

The Management's Discussion and Analysis and the Post Employment Benefit Plans – Schedules of Funding Progress (Unaudited) are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We 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.

*Padgett, Stratemann & Co., L.L.P.*

Certified Public Accountants  
March 23, 2010



## Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) serves as an introduction to San Antonio Water System's (SAWS) basic financial statements and provides a narrative overview and analysis of financial activities and performance for the fiscal year ending December 31, 2009. Please read it in conjunction with SAWS' financial statements including the notes to the financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- Total assets increased by \$304.1 million as compared to 2008 largely reflecting the more than \$250 million in spending on capital assets during 2009.
- Taking advantage of the historically low interest rate environment and its strong credit ratings, SAWS issued \$368.1 million of long-term bonds during 2009 with a weighted average true interest cost of 3.99%.
- Total cash and investments increased from \$478.9 million at the end of 2008 to \$576.7 million at the end of 2009.
- Total revenues were impacted by restrictions on outdoor water usage as well as historically low interest rates and totaled \$373.6 million compared to \$392.3 million in 2008.
- Operating income declined 26.4% to \$63 million as a result of the reduced revenues and higher operating costs.
- SAWS' year end 2009 equity ratio of 46.5% remains strong, although lower than the 49.1 % ratio at the end of 2008.

### OVERVIEW OF THE FINANCIAL STATEMENTS

MD&A is intended to serve as an introduction to the basic financial statements, which are comprised of four components:

- *Balance sheets* - present information on all of SAWS' assets and liabilities as of the end of each calendar year, with the difference between the two reported as equity. Over time, increases or decreases in equity may serve as a useful indicator of whether the financial position of SAWS is improving or deteriorating.
- *Statements of revenues, expenses and changes in equity* - present information showing how equity changed during the years presented on an accrual basis. This statement measures the success of SAWS' activities and can be used to determine whether SAWS has successfully recovered all its costs through its rates and other charges.
- *Statements of cash flows* - reflect cash receipts and payments for operating, non-capital financing, capital and related financing, and investing activities for the years presented.
- *Notes to financial statements* - provide additional information that is essential to a full understanding of the data provided in the financial statements, such as SAWS' accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

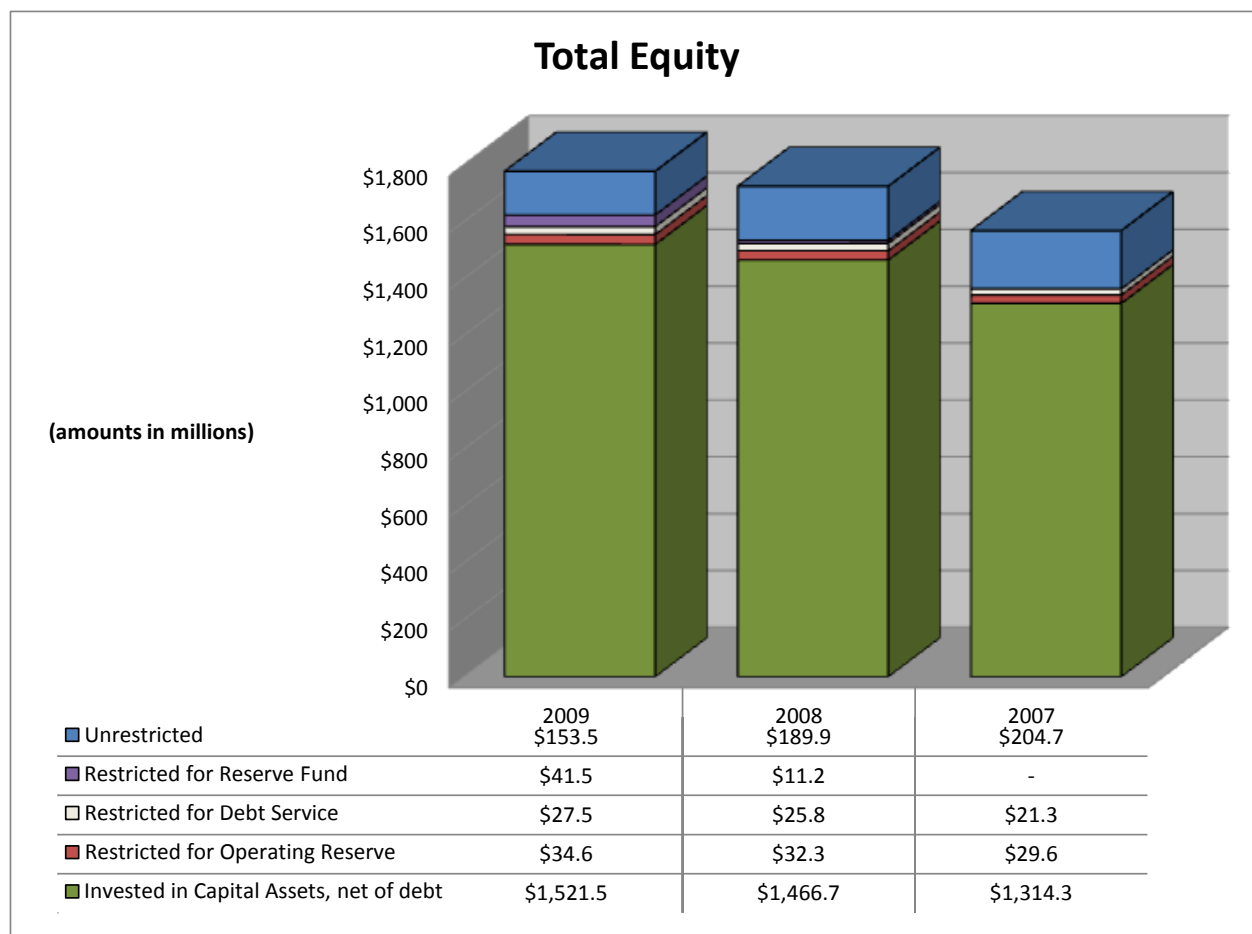
Supplementary information is presented for additional analysis and is not a required part of the basic financial statements.

- *Required Supplemental Information* - Information is presented concerning SAWS' progress in funding its obligations to provide pension and other post employment benefits to its employees.

## FINANCIAL ANALYSIS – FINANCIAL POSITION

CONDENSED BALANCE SHEETS				2009-2008		2008-2007	
	As of December 31,			Increase	%	Increase	%
(amounts in thousands)	2009	2008	2007	(Decrease)	Change	(Decrease)	Change
Current assets	\$ 321,640	\$ 352,112	\$ 323,374	\$ (30,472)	(9%)	\$ 28,738	9%
Capital assets, net	3,174,264	2,967,190	2,697,592	207,074	7%	269,598	10%
Other non-current assets	325,427	197,917	229,662	127,510	64%	(31,745)	(14%)
Total Assets	<u>\$ 3,821,331</u>	<u>\$ 3,517,219</u>	<u>\$ 3,250,628</u>	<u>\$ 304,112</u>	9%	<u>\$ 266,591</u>	8%
Current liabilities	\$ 117,064	\$ 126,963	\$ 100,470	\$ (9,899)	(8%)	\$ 26,493	26%
Non-current liabilities	1,925,659	1,664,407	1,580,229	261,252	16%	84,178	5%
Total Liabilities	2,042,723	1,791,370	1,680,699	251,353	14%	110,671	7%
Equity:							
Invested in capital assets, net							
of related debt	1,521,466	1,466,651	1,314,343	54,815	4%	152,308	12%
Restricted equity	103,639	69,269	50,891	34,370	50%	18,378	36%
Unrestricted equity	153,503	189,929	204,695	(36,426)	(19%)	(14,766)	(7%)
Total Equity	<u>1,778,608</u>	<u>1,725,849</u>	<u>1,569,929</u>	<u>52,759</u>	3%	<u>155,920</u>	10%
Total Liabilities and Equity	<u>\$ 3,821,331</u>	<u>\$ 3,517,219</u>	<u>\$ 3,250,628</u>	<u>\$ 304,112</u>	9%	<u>\$ 266,591</u>	8%

**Equity:** Over time, increases or decreases in equity may serve as a useful indicator of whether the financial position of SAWS is improving or deteriorating. As can be seen, SAWS' equity increased \$52.8 million or 3% from 2008 to 2009 and increased \$155.9 million or 10% from 2007 to 2008.



The largest portion of SAWS' equity reflects its investment in capital assets, less the related debt to acquire those assets. The capital assets reflected on this line represent the utility plant assets that SAWS utilizes to generate revenues to service the debt obligations and pay the operating costs of the organization. Any cash and investment amounts restricted for construction purposes are also reflected in these totals. The \$54.8 million increase from 2008 to 2009 reflects \$66.9 million of capital contributions from developers as well as the funding of 2009 capital expenditures with renewal and replacement funds offset by the depreciation expense for the period. The \$152.4 million increase in SAWS' equity invested in capital assets that took place between 2007 and 2008 reflects \$128.9 million of capital contributions from developers and funding of capital expenditures with non-debt sources partially offset by 2008 depreciation expense.

Funds that have been restricted for a specific purpose by legally enforceable legislation and bond covenants are classified as restricted equity. The components of restricted equity include funds Restricted for Operating Reserve, Restricted for Debt Service and Restricted for Reserve Fund.

As of December 31, 2009, \$34.6 million of cash and investments was classified as Restricted for Operating Reserve. This amount is restricted in accordance with the requirements of City of San Antonio Ordinance 75686 that calls for the establishment and maintenance of an operating reserve of two months of the annual maintenance and operations budget. The amount of cash and investments restricted for this purpose will vary with any changes in the budgeted level of maintenance and operations expense for the next ensuing year.

Additionally, \$27.5 million of cash and investments was restricted for debt service purposes at December 31, 2009. The cash and investments, net of restricted liabilities that was restricted for debt purposes increased over 2008 and 2007 levels of \$25.8 million and \$21.3 million, respectively, as a result of increases in the annual debt service requirements occurring during the years 2008-2010.

The requirements of Ordinance 75686 stipulate that SAWS must accumulate and maintain a reserve equal to 100% of the maximum annual debt service requirements for senior lien debt obligations. Increases in the required reserve amount may be deposited into the Reserve Fund over a five year period. Ordinance 75686 allows for SAWS to provide surety policies equal to all or part of the required reserve. Prior to 2008, SAWS acquired surety policies on debt issuances in lieu of depositing cash in its Reserve Fund. During 2008, due to a downgrade in the credit ratings of the surety policy provider on its 2005 revenue bonds, SAWS was required to make deposits in a Reserve Fund. The \$11.2 million transferred to the Reserve Fund in 2008 represented 100% of the maximum annual debt service on the 2005 bonds. In 2009, SAWS was required to make additional deposits to the Reserve Fund related to the downgrade in credit ratings of the surety policy provider on its 2002 and 2002A Series Bonds. Additional deposits to the Reserve Fund were also required as a result of debt issued during 2008 and 2009 as no additional surety policies were purchased. Deposits to the Reserve Fund during 2009 included additional transfers of \$30.3 million as well as \$5.9 million in proceeds from certain of the 2009 debt issuances. Reserve fund deposits are required to be maintained until a) the revenue bonds mature, b) the surety policy provider's credit ratings improve to the minimum ratings required under SAWS bond ordinance, or c) new surety policies are provided that meets the requirements of the bond ordinance. As of December 31, 2009 additional deposits to the Reserve Fund of \$38.7 million will be required over the next five years related to debt currently outstanding. SAWS does not believe that funding these reserve deposits will have a material adverse impact on its operations or financial condition.

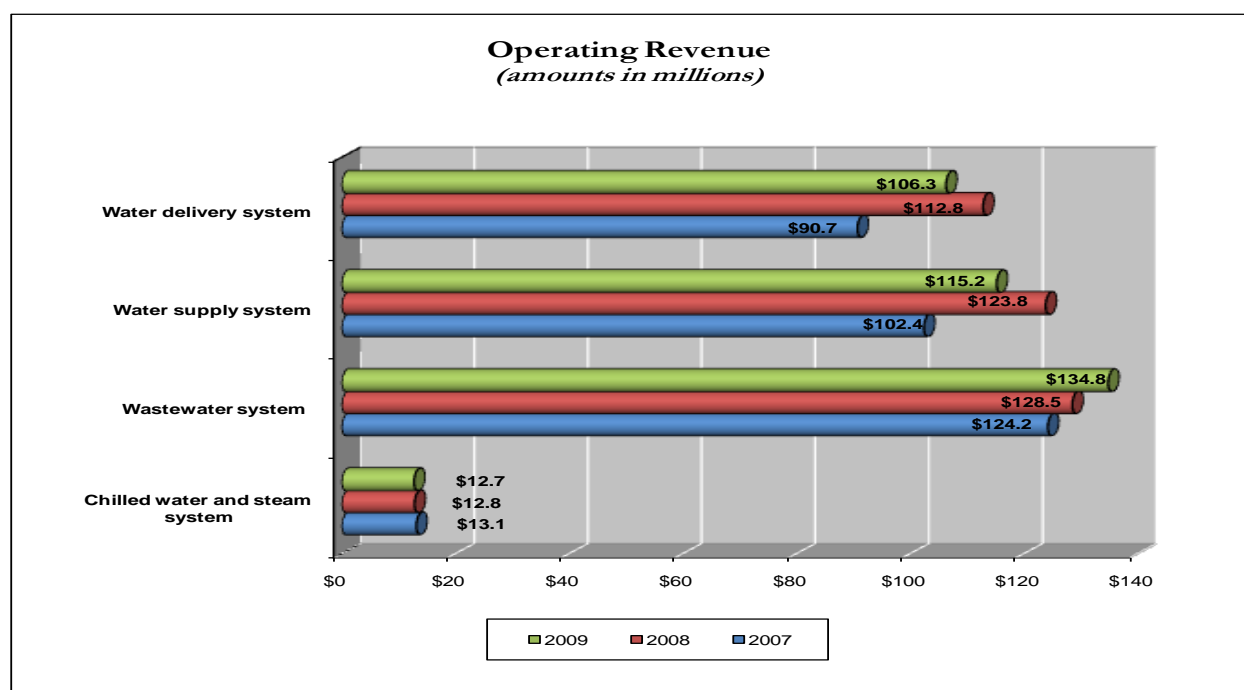
The remaining balance of SAWS' equity represents unrestricted equity and may be used for any allowable purpose as outlined in Ordinance 75686. The \$36.4 million decrease in unrestricted equity from 2008 to 2009 was the result of transfers to the Reserve Fund and funding capital expenditures with renewal and replacement funds, partially offset by funds provided by operations. The \$14.8 million decrease in unrestricted equity from 2007 to 2008 was the result of funds provided by operations being offset by funding capital additions with renewal and replacement funds as well as transfers to the Reserve Fund.

## **FINANCIAL ANALYSIS – REVENUES, EXPENSES AND CHANGES IN EQUITY**

During 2009, SAWS' equity increased by \$52.8 million as compared to the increase in 2008 of \$155.9 million. Capital contributions of \$66.9 million in 2009 were partially offset by a \$14.1 million loss before capital contributions. The 2008 increase in equity consisted of income before capital contributions of \$27 million and \$128.9 million of capital contributions.

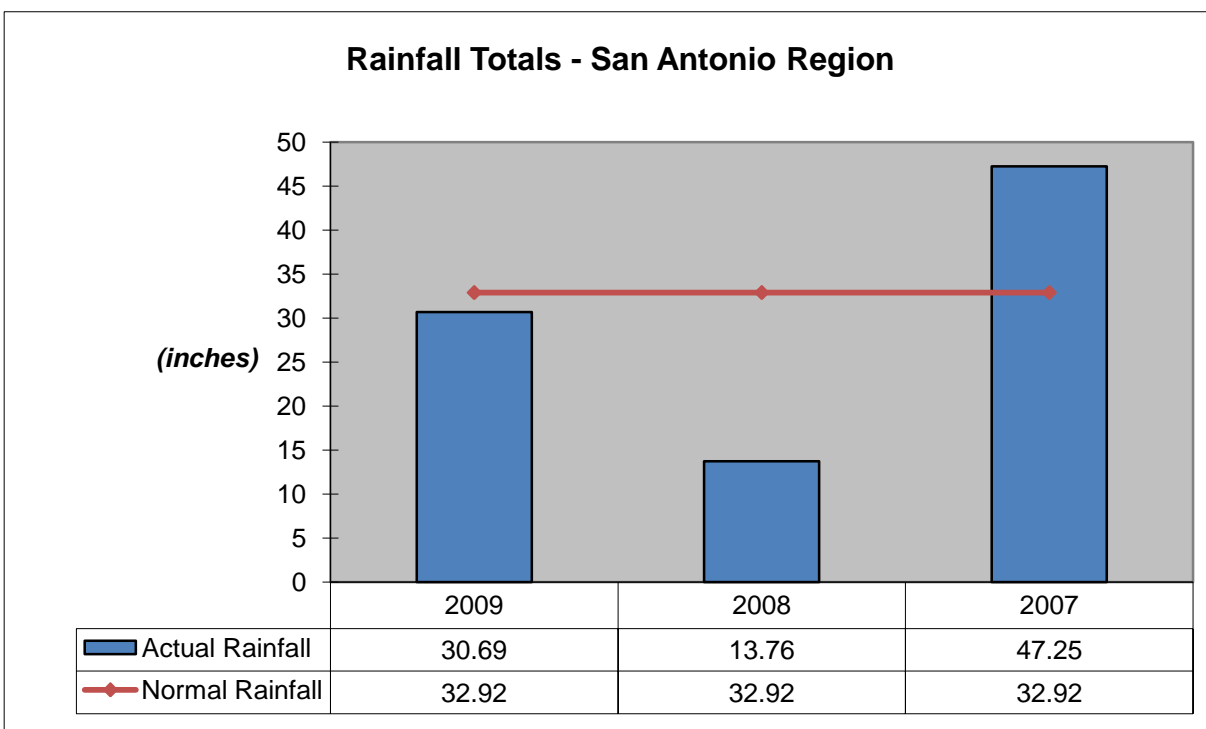
CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY							
(amounts in thousands)	Year-ended December 31,			2009-2008		2008-2007	
	2009	2008	2007	Increase (Decrease)	% Change	Increase (Decrease)	% Change
Operating revenues	\$ 369,053	\$ 377,909	\$ 330,337	\$ (8,856)	(2%)	\$ 47,572	14%
Non-operating revenues	4,511	14,382	24,442	(9,871)	(69%)	(10,060)	(41%)
Total Revenues	373,564	392,291	354,779	(18,727)	(5%)	37,512	11%
Operating expenses	306,058	292,268	266,487	13,790	5%	25,781	10%
Non-operating expenses	81,622	73,048	75,139	8,574	12%	(2,091)	(3%)
Total Expenses	387,680	365,316	341,626	22,364	6%	23,690	7%
Income before special items and capital contributions	(14,116)	26,975	13,153	(41,091)	(152%)	13,822	105%
Capital Contributions	66,875	128,945	139,764	(62,070)	(48%)	(10,819)	(8%)
Change in Equity	52,759	155,920	152,917	(103,161)	(66%)	3,003	2%
Equity, beginning of year	1,725,849	1,569,929	1,417,012	155,920	10%	152,917	11%
Equity, end of year	\$ 1,778,608	\$ 1,725,849	\$ 1,569,929	\$ 52,759	3%	\$ 155,920	10%

**Operating Revenues:** SAWS' operating revenues are provided by its four core businesses: Water Delivery, Water Supply, Wastewater, and Chilled Water and Steam. Changes in operating revenues from year to year are largely the result of weather conditions, customer growth and changes in rates for service. SAWS' operating revenues decreased from \$377.9 million in 2008 to \$369.1 million in 2009. The drought that began in late 2007 and continued throughout all of 2008, persisted during the first eight months of 2009. To minimize the impact of the drought on San Antonio's primary water supply, the Edwards Aquifer, water restrictions on outdoor water use were in effect from April through September. These restrictions contributed to a 5.8% reduction in metered water usage from 2008 to 2009. Reduced water usage more than offset the impact of a 3.9% increase in rates during 2009 resulting in a 2% decrease in operating revenues. The extremely dry weather conditions during 2008 contrasted to very wet weather conditions in 2007, resulting in a 14% increase in operating revenue between 2007 and 2008.

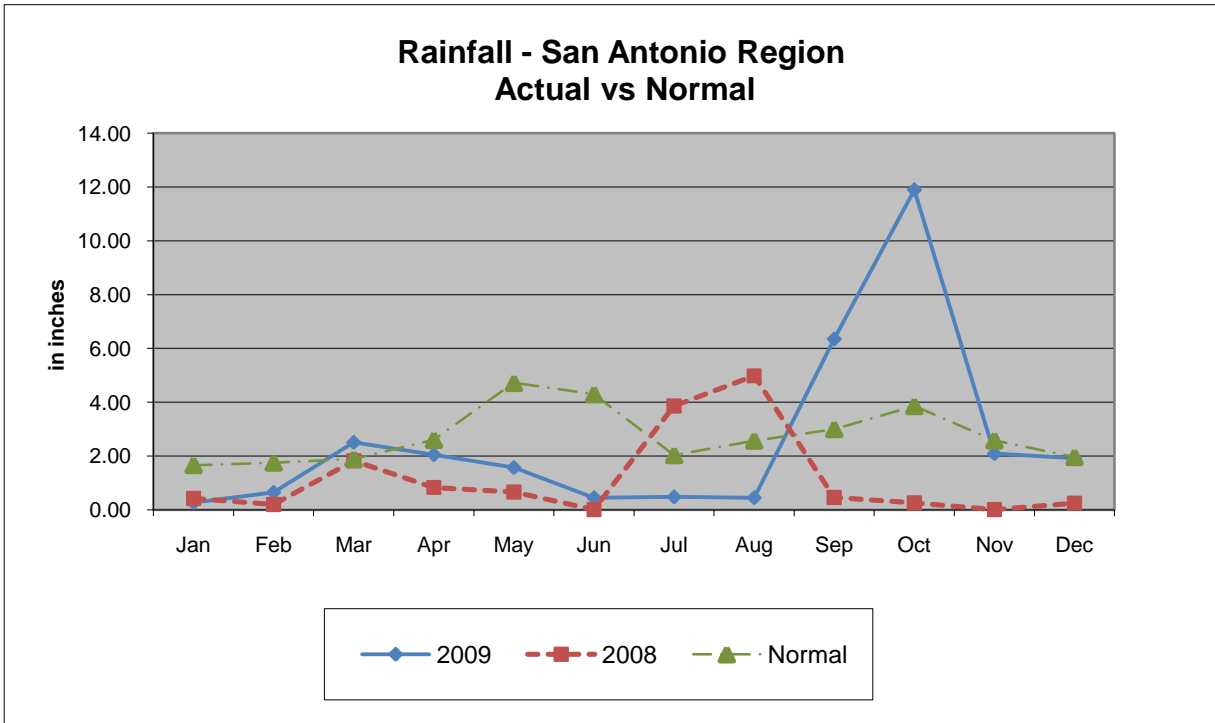


The Water Delivery core business is responsible for the actual distribution of water from its source to the customer's premises. Revenues for this business are derived through a combination of a monthly service charge that is dependent upon the size of the customer's water meter and a volume charge that relates to the customer's actual water usage. In 2009, Water Delivery revenues decreased \$6.5 million or 5.8% to \$106.3 million. The impact from a decrease in metered water usage during 2009 more than offset the impact of a 3.2% increase in rates and a 1.2% increase in the average number of water customers.

In 2008, Water Delivery revenues increased \$22.1 million or 24.4% to \$112.8 million as result of a 16.9% increase in the average gallons of water used per customer per day as well as a 1.7% growth in the average number of water customers.



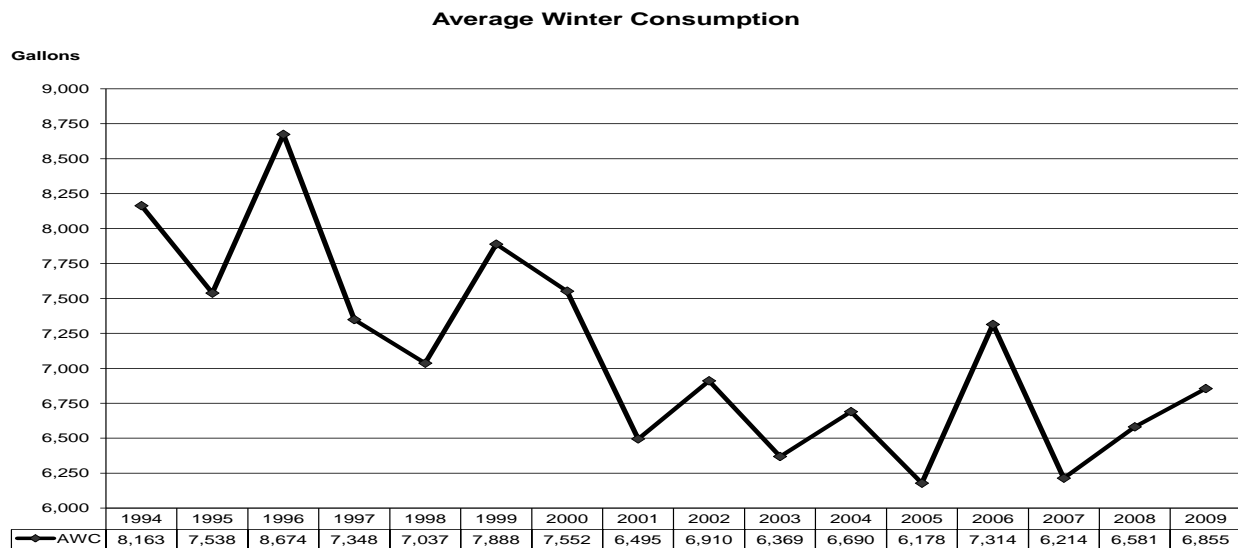
For both 2009 and 2008, rainfall received in the San Antonio region fell below normal amounts for the region. While the 30.69 inches received during 2009 was only slightly below normal for the year, only 8.4 inches were received during the first eight months of the year with the remaining 22.3 inches falling during the last four months of the year. The 24 month period ending in August 2009 was the driest 24 months for the region since recording began in 1885. In contrast, the 47.25 inches of rainfall received during 2007 was more than was received by the region during any previous fiscal year since the inception of SAWS in 1992. As noted in the following chart, rainfall during 2009 fell below normal levels for all but three months in 2009 and all but two months during 2008.



The Water Supply core business is responsible for all functions related to the development and provision of additional water resources. In order to support the costs associated with these initiatives, in October 2000, SAWS implemented a separate funding mechanism, known as the Water Supply Fee, for water supply development and water quality protection. In 2009, Water Supply revenues were \$115.2 million, or 7% lower than 2008. The impact of a decrease in water usage during 2009 more than offset the impact of a 2.8% rate increase. In 2008, Water Supply revenues were \$123.8 million, or 21% higher than the prior year. This increase was driven by an increase in water usage.

The collection and treatment of wastewater is the primary function of the Wastewater core business. Approximately 60% of Wastewater revenues are generated by residential customers. The residential portion of Wastewater revenue is calculated based upon the average water usage of each residential wastewater customer during a three consecutive month billing period from November through March. This average, referred to as the average winter consumption (AWC) goes into effect with the April billing during the year in which calculated and continues for a period of twelve months.

The following chart depicts SAWS AWC since 1994. While periods of extremely dry weather lead to spikes in the AWC, water conservation efforts have resulted in an overall downward trend in the AWC over the past 15 years.



During 2009, Wastewater revenues were \$134.8 million and 4.9% higher than 2008. The impacts of a 5.3% increase in wastewater rates, 4.2% increase in AWC and 1.9% increase in average customers were partially offset by a reduction in miscellaneous wastewater related fees.

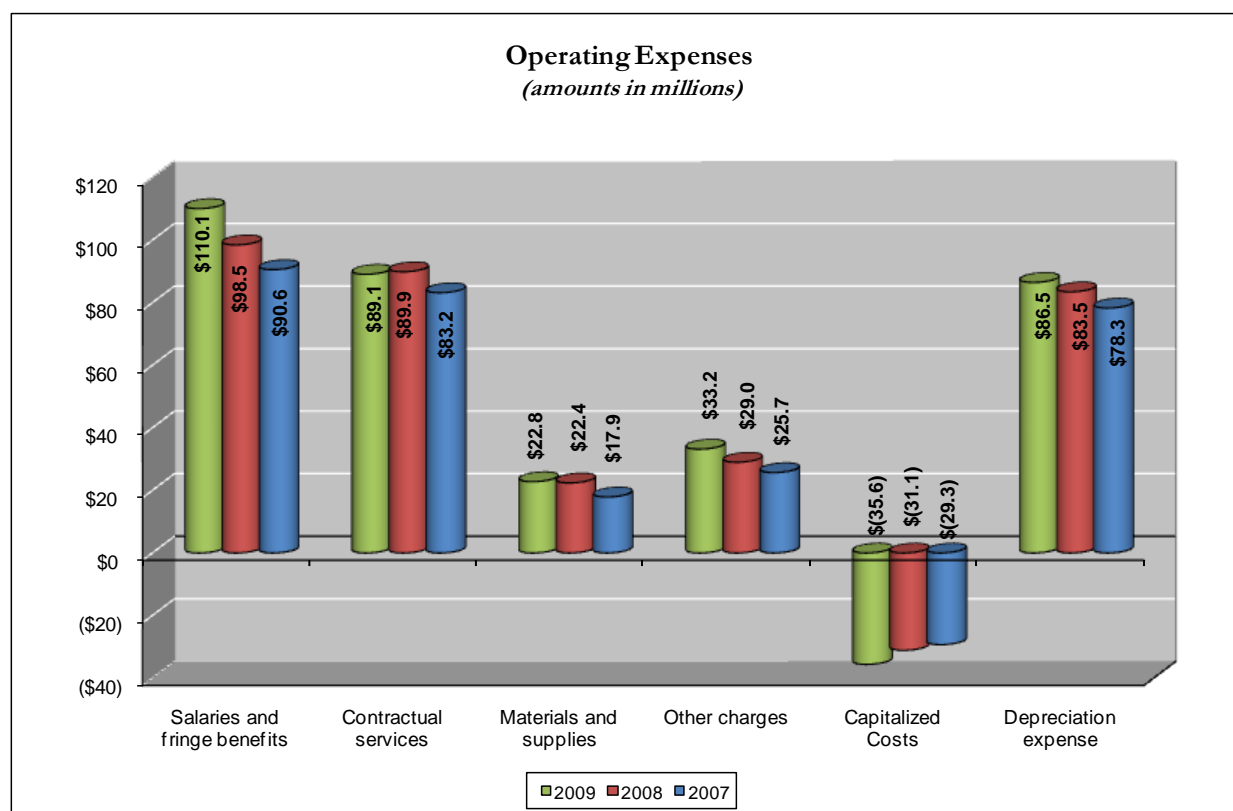
During 2008, Wastewater revenues were \$128.5 million and 3.5% higher than the previous year primarily as a result of a 2.7% growth in the average number of wastewater customers. In April 2008, the AWC increased 5.9% to 6,581 gallons for all of SAWS' residential customers; however, the AWC billed for all twelve months of 2008 was comparable to the AWC billed during 2007 as a result of the comparatively high level of AWC for the first three months of 2007.

The Chilled Water and Steam core business is responsible for providing heating and cooling services to customers, including various downtown hotels, City of San Antonio facilities, the Alamodome, Port Authority of San Antonio tenants and Hemisfair Plaza tenants. Revenues for this segment declined .1% from 2008 levels due to a slight decrease in revenues associated with the pass-through of lower energy costs in 2009. Revenues in 2008 were 2.6% lower than 2007 levels as the impact of the loss of a steam customer was partially offset by the pass-through of higher energy costs in 2008.

**Non-operating revenues:** Non-operating revenues, which primarily represent interest income earned on investments, decreased \$9.9 million during 2009 due to lower average yields on investments. While the average investment balance increased from \$448.5 million in 2008 to \$452.2 million in 2009, the average yield on SAWS's portfolio decreased from 3.02% in 2008 to .82% in 2009. During 2008, non-operating revenues decreased \$10.1 million from 2007 as the average investment balance decreased from \$462.6 million in 2007 to \$448.5 million in 2008 and the average yield decreased from 5.05% in 2007 to 3.02% in 2008.



**Operating Expenses:** Total 2009 operating expenses of \$306.1 million increased by \$13.8 million or 4.7% over 2008 levels. This increase primarily reflects an increase in salary and benefit related costs and depreciation expense.



During 2009, SAWS' salary and benefit related costs increased \$11.5 million or 11.7% over the prior year. This increase reflects an average merit based wage increase of 3% as well as the impact of wage adjustments granted to over 85% of SAWS employees in an effort to bring wages closer to average market wages. These market wage adjustments were phased in over a two year period beginning in July 2008 and accounted for approximately \$4.5 million of the increase in salaries and benefit related costs from 2008 to 2009. The average number of employees also increased 2.2% during 2009 due to a decrease in employee turnover during the year. Additionally, SAWS' benefit expenses related to its pension and other postemployment benefit plans increased \$5 million in 2009 due to increases in salaries, changes in actuarial assumptions and the impact of significant declines in the market value of plan assets during 2008.

During 2009 SAWS experienced decreases in certain operating costs such as utilities, fuel and chemicals as a result of decreasing energy costs. These savings served to offset the impact of higher maintenance costs associated with a 26% increase in main breaks resulting from the extreme drought conditions experienced during 2009. Combined, contractual services and material and supplies decreased \$.5 million or .4% from the previous year largely as a result of these factors.

Other charges increased \$4.2 million or 14.5% from the previous year primarily due to an increase in the cost associated with medical benefits provided to retired employees. Costs capitalized related to construction in progress increased from \$31.1 million in 2008 to \$35.6 million or 14.5% in 2009, reflecting the increase in salary and benefit costs related to work performed in-house on construction projects.

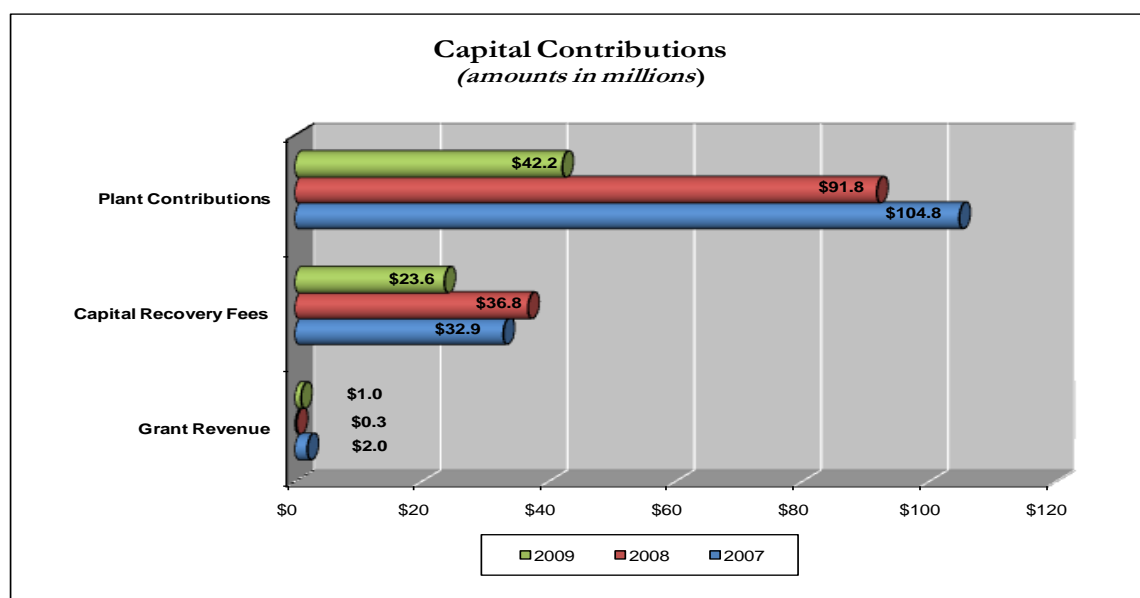
Depreciation expense for 2009 increased by \$3 million or 3.6% to \$86.5 million. This increase reflects the \$186 million in depreciable assets added to utility plant in service over the course of 2009.

Total operating expenses were \$292.3 million in 2008, an increase of \$25.8 million or 9.7% as compared to 2007. This increase reflects an increase in salary and benefit related costs, the impact of inflationary pressures and drought on operating costs, and an increase in depreciation expense. SAWS' salary and benefit related costs increased \$7.9 million or 8.7% from 2007. This increase primarily reflects merit pay increases as well as the first phase of the market wage adjustments. Rising energy costs and other inflationary pressures as well as maintenance costs associated with the drought resulted in an \$11.1 million or 11% increase in contractual services and materials and supplies from 2007. Other charges increased \$3.3 million or 12.9% from 2007 due to an increase in uncollectible accounts, workers compensation claims and capital project costs expensed in 2008. The increase in depreciation expense of \$5.2 million reflects the more than \$283 million in depreciable assets added to utility plant in service over the course of 2008.

**Non-operating Expenses:** 2009 non-operating expenses increased \$8.6 million or 12% from 2008 in part due to \$4 million in gains realized from the sale of assets in 2008. Additionally, interest expense increased \$4.1 million or 6.5% due to a 6.8% increase in average debt outstanding and other finance charges increased \$1.1 million due to the increasing cost of the revolving credit agreement which supports SAWS commercial paper program. Decreases in revenues during 2009 resulted in a decrease in payments to the City of San Antonio.

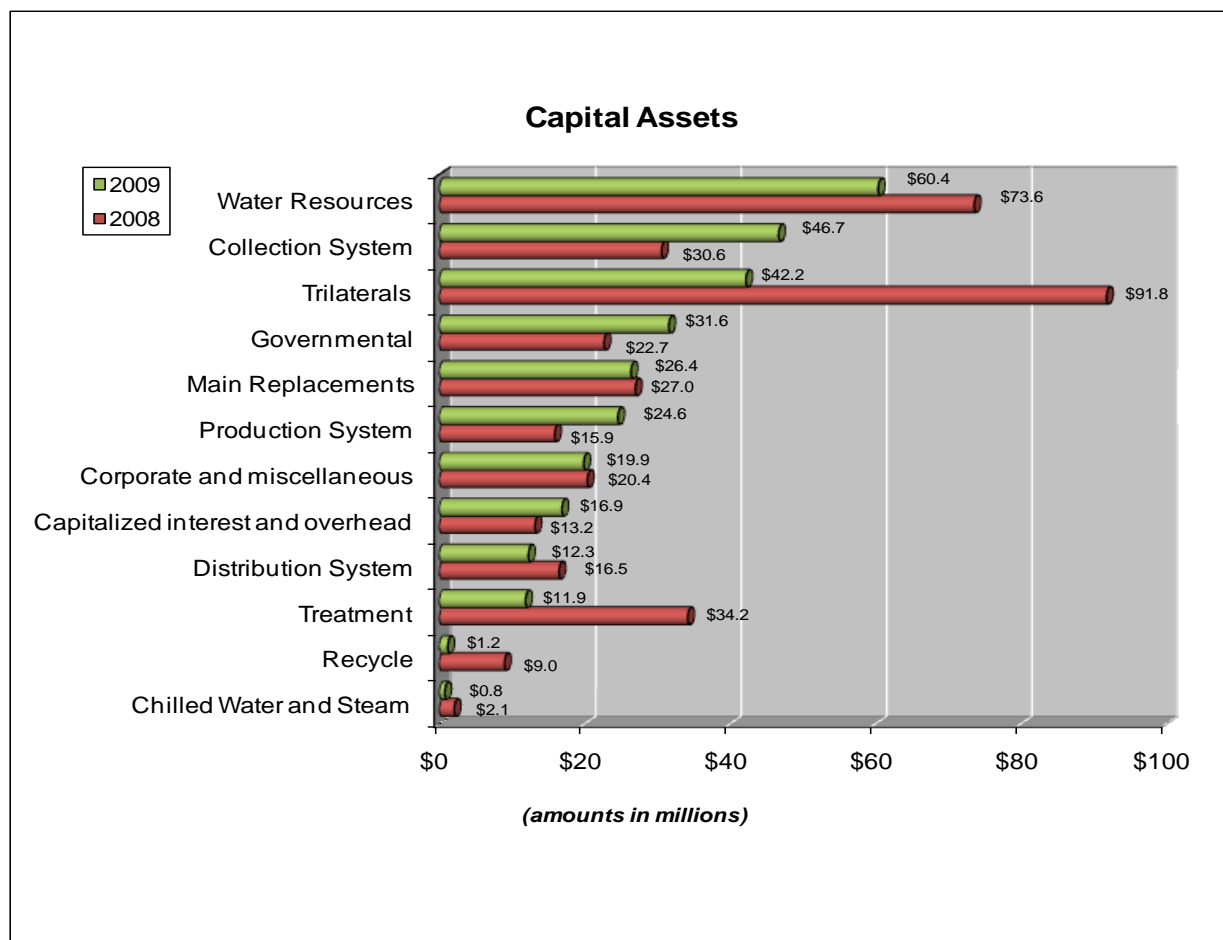
During 2008, non-operating expenses decreased \$2.1 million from 2007 as gains realized from the sale of assets offset increases in debt related costs and payments to the City of San Antonio. Although outstanding debt increased \$76.4 million or 4.8% during 2008, interest expense decreased slightly due to lower rates on commercial paper. Other debt related expenses increased primarily as a result of the increase in the cost of the revolving credit agreement. Increases in revenues during 2008 resulted in an increase in payments to the City of San Antonio.

**Capital Contributions:** Capital contributions for 2009 totaled \$66.9 million and represent a decline of \$62 million from 2008. Due to the weakened economy and tight credit markets, development activity in the San Antonio region declined significantly during 2009. As a result, plant contributions dropped \$49.6 million or 54% from 2008 while capital recovery fees were down \$13.2 million or 36%.



## CAPITAL ASSET ACTIVITY

During 2009, SAWS' total capital assets (net of accumulated depreciation) grew from \$3 billion to \$3.2 billion, while during 2008, net capital assets increased from \$2.7 billion to \$3 billion. Capital asset additions were \$294.9 million in 2009 and \$357 million in 2008. The graph below shows the additions for each year by general category.



SAWS is committed under various contracts for completion of construction or acquisition of capital assets totaling \$288 million as of December 31, 2009. For further detail information on capital assets, refer to Note E.

## LONG-TERM DEBT ACTIVITY

In February 2009, SAWS issued \$163.8 million of senior lien revenue bonds. The proceeds of these bonds were used to refund \$143 million in outstanding commercial paper notes, pay the cost of issuance and finance capital improvements. In December 2009, SAWS issued another \$204.3 million in bonds consisting of two issues of senior lien revenue bonds totaling \$115 million and two issues of junior lien revenue bonds totaling \$89.3 million under the Texas Water Development Board program. The proceeds of these bonds were used to refund \$12 million in outstanding commercial paper notes, deposit \$5.9 million in the Reserve Fund, pay the cost of issuance and finance capital improvements. SAWS also issued \$70 million in new commercial

paper notes, of which \$980,000 was used to redeem the remaining outstanding Series 2003 Subordinate Lien Bonds. The remaining proceeds of the notes were used to finance capital improvements. SAWS intends to reissue maturing commercial paper and ultimately refund such maturities with proceeds from the issuance of long-term revenue bonds. Consistent with this intent, SAWS classifies outstanding commercial paper notes as long-term debt.

In 2008, SAWS issued \$53.3 million of junior lien revenue bonds in two separate issues under the Texas Water Development Board program. The proceeds of these bonds were used to refund \$3 million in outstanding commercial paper notes, pay the cost of issuance and finance capital improvements. Additionally, during 2008 SAWS issued \$164.1 million in new commercial paper notes, of which \$110.6 million was used to redeem all but \$1 million of the outstanding Series 2003 Subordinate Lien Bonds. The remaining proceeds of the notes were used to finance capital improvements. Additional information about SAWS' long-term debt can be found in Note G and Note K.

In December 2009, the three major rating agencies, Fitch Ratings, Moody's Investor Services, Inc., and Standard & Poor's Ratings Services (S&P) reaffirmed SAWS' debt ratings on its senior and junior lien debt. These high quality ratings are based on SAWS' large, diverse, and growing service area; sound financial performance, as evident by SAWS' financial ratios; long term planning in water supply, infrastructure needs, and financial management; and competitive water and sewer rates. SAWS' commercial paper ratings also remained unchanged during 2009.

BOND AND COMMERCIAL PAPER RATINGS			
	Senior Lien Debt	Junior Lien Debt	Tax-Exempt Commercial Paper
Fitch Ratings	AA	AA-	F1+
Moody's Investors Service, Inc	Aa2	Aa3	P-1
Standard & Poor's Ratings Service	AA	AA-	A-1+

SAWS' bond ordinance requires the maintenance of a debt coverage ratio of at least 1.25x the maximum annual debt service on outstanding senior lien debt. As of December 31, 2009 and 2008, SAWS was in compliance with the terms and provisions of the ordinances and documents related to its outstanding bonds and commercial paper.

FINANCIAL RATIOS			
	2009	2008	2007
Maximum Annual Debt Coverage:			
Senior Lien Debt	1.46x	2.08x	1.85x
All Debt	1.23x	1.81x	1.55x
Equity ( <i>equity / total liabilities + equity</i> )	46.5%	49.1%	48.3%

## **ECONOMIC OUTLOOK FOR THE FUTURE**

The global economic downturn that began in 2008 and continued throughout 2009 has had an impact on development in the San Antonio region. During 2009 customer connections grew only 1.1% compared to 2.0% during 2008 and 2.7% during 2007. The San Antonio region is positioned to continue to grow at least moderately during the next few years despite the weakened national economy. While continued customer growth can help offset increasing operating costs, the development of additional water supplies to service the growth in customers as well as the continuing costs to address infrastructure issues will require future rate adjustments.

## **CONTACTING SAWS' FINANCIAL MANAGEMENT**

If you have questions about this report or need additional financial information, contact:

Douglas P. Evanson  
Sr. Vice President/Chief Financial Officer  
San Antonio Water System  
PO Box 2449  
San Antonio, Texas 78298

Information about the San Antonio Water System can also be obtained through the Internet at [www.saws.org](http://www.saws.org).

---

---

## ***BASIC FINANCIAL STATEMENTS***

**San Antonio Water System**  
**BALANCE SHEETS**  
*(amounts in thousands)*

	<b>December 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>CURRENT ASSETS</b>		
<b>Unrestricted Current Assets</b>		
Cash and cash equivalents	\$ 32,138	\$ 37,819
Investments	137,879	160,615
Accounts receivable, net of allowances for uncollectible accounts of \$2,388 and \$1,783, respectively	41,580	44,142
Other current assets	9,428	9,031
Total unrestricted current assets	<u>221,025</u>	<u>251,607</u>
<b>Restricted Current Assets:</b>		
Cash and cash equivalents	-	4
Investments	100,615	100,501
Total restricted current assets	<u>100,615</u>	<u>100,505</u>
Total current assets	<u>321,640</u>	<u>352,112</u>
<b>NONCURRENT ASSETS</b>		
<b>Unrestricted Noncurrent Assets</b>		
Unamortized debt issuance costs	19,407	17,937
<b>Restricted Noncurrent Assets:</b>		
Cash and cash equivalents	96,334	17,563
Investments	209,686	162,417
<b>Capital Assets:</b>		
Utility plant in service	3,650,619	3,482,308
Less allowance for depreciation	1,140,232	1,070,718
	<u>2,510,387</u>	<u>2,411,590</u>
Land, water rights and other intangible assets	235,906	182,993
Construction in progress	427,971	372,607
Total capital assets (net of accumulated depreciation)	<u>3,174,264</u>	<u>2,967,190</u>
Total Noncurrent Assets	<u>3,499,691</u>	<u>3,165,107</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 3,821,331</u></u>	<u><u>\$ 3,517,219</u></u>

The accompanying notes to financial statements form an integral part of this statement.

**San Antonio Water System**  
**BALANCE SHEETS (continued)**  
*(amounts in thousands)*

	December 31,	
	2009	2008
<b>LIABILITIES</b>		
<b>Current Liabilities To Be Paid From Unrestricted Assets</b>		
Accounts payable	\$ 21,390	\$ 30,597
Accrued vacation payable	4,785	4,264
Accrued payroll and benefits	1,040	5,150
Accrued claims payable	5,504	5,401
Sundry payables and accruals	4,700	5,593
Total unrestricted current liabilities	37,419	51,005
<b>Current Liabilities To Be Paid From Restricted Assets</b>		
Accrued interest payable	9,499	8,453
Payables under construction contracts	20,762	25,964
Customers' deposits	8,194	8,041
Commercial paper notes	2,600	2,465
Revenue bonds payable within one year	38,590	31,035
Total restricted current liabilities	79,645	75,958
<b>Total Current Liabilities</b>	117,064	126,963
<b>Noncurrent Liabilities</b>		
Accrued vacation payable	2,417	2,064
Unfunded postemployment benefits	47,093	26,546
Commercial paper notes	171,050	258,650
Revenue bonds payable after one year	1,721,110	1,396,490
Unamortized premium	17,990	16,302
Less unamortized loss	(22,884)	(24,697)
Less unamortized discount	(11,117)	(10,948)
<b>Total Noncurrent Liabilities</b>	1,925,659	1,664,407
<b>TOTAL LIABILITIES</b>	2,042,723	1,791,370
<b>EQUITY</b>		
Restricted for operating reserve	34,649	32,257
Restricted for debt service fund	27,511	25,790
Restricted for reserve fund	41,479	11,222
Invested in capital assets, net of related debt	1,521,466	1,466,651
Unrestricted	153,503	189,929
<b>TOTAL EQUITY</b>	1,778,608	1,725,849
<b>TOTAL LIABILITIES AND EQUITY</b>	\$ 3,821,331	\$ 3,517,219

The accompanying notes to financial statements form an integral part of this statement.



**San Antonio Water System**  
**STATEMENTS OF REVENUES, EXPENSES**  
**AND CHANGES IN EQUITY**  
**For the Years Ended December 31,**  
*(amounts in thousands)*

	<b>2009</b>	<b>2008</b>
<b>OPERATING REVENUES</b>		
Water delivery system	\$ 106,305	\$ 112,813
Water supply system	115,208	123,821
Wastewater system	134,826	128,517
Chilled water and steam system	12,714	12,758
Total operating revenues	<u>369,053</u>	<u>377,909</u>
<b>OPERATING EXPENSES</b>		
Salaries and fringe benefits	110,075	98,539
Contractual services	89,112	89,894
Material and supplies	22,768	22,438
Other charges	33,211	29,040
Less costs capitalized to construction in progress	<u>(35,643)</u>	<u>(31,137)</u>
Total operating expenses before depreciation	219,523	208,774
Depreciation expense	<u>86,535</u>	<u>83,494</u>
Total operating expenses	<u>306,058</u>	<u>292,268</u>
Operating income	62,995	85,641
<b>NONOPERATING REVENUES</b>		
Interest earned and miscellaneous	4,511	14,382
<b>NONOPERATING EXPENSES</b>		
Amortization of debt issuance costs	1,465	1,521
Other finance charges	2,508	1,418
Interest expense:		
Revenue bonds and commercial paper	67,685	63,213
Amortized discount/premium/loss/expense	(13)	302
Other	14	41
(Gain)/Loss on sale of capital assets	104	(4,014)
Payments to the City of San Antonio	9,740	10,448
Payments to other entities	119	119
Total nonoperating expenses	<u>81,622</u>	<u>73,048</u>
Increase in equity, before capital contributions	(14,116)	26,975
Capital contributions	<u>66,875</u>	<u>128,945</u>
<b>CHANGE IN EQUITY</b>	52,759	155,920
<b>EQUITY, BEGINNING OF YEAR</b>	<u>1,725,849</u>	<u>1,569,929</u>
<b>EQUITY, END OF YEAR</b>	<u><u>\$ 1,778,608</u></u>	<u><u>\$ 1,725,849</u></u>

The accompanying notes to financial statements form an integral part of this statement.

---

---

*This Page  
Intentionally Left Blank*

---

---

**San Antonio Water System**  
**STATEMENTS OF CASH FLOWS**  
**For the years ended December 31,**  
*(amounts in thousands)*

	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 367,109	\$ 370,001
Cash paid to vendors for operations	(121,366)	(110,690)
Cash paid to employees for services	(85,719)	(75,502)
Net cash provided by operating activities	160,024	183,809
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Payments to the City of San Antonio	(7,149)	(6,673)
Payments to other entities	(118)	(125)
Net cash used for noncapital financing activities	(7,267)	(6,798)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from sale of capital assets	545	9,294
Proceeds from developers for plant construction	23,636	36,842
Proceeds from grants	-	300
Payment to employees for construction of plant	(20,286)	(16,749)
Payment to vendors for construction of plant	(15,358)	(14,388)
Payments for acquisition of equipment and furniture	(17,871)	(17,733)
Payments for acquisition of property and plant	(196,700)	(191,847)
Proceeds from commercial paper	70,000	164,115
Payment for retirement of commercial paper	(157,465)	(3,000)
Proceeds from revenue bonds	371,998	53,260
Payment for retirement of revenue bonds	(35,880)	(138,245)
Payment on note payable	(120)	(480)
Payment of interest on commercial paper	(1,194)	(2,923)
Payment of interest on revenue bonds	(75,996)	(69,860)
Payment for bond related expenses	(3,491)	(1,097)
Payment for bank charges	(1,806)	(1,418)
Net cash used for capital and related financing activities	(59,988)	(193,929)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(766,425)	(757,415)
Maturity of investments	741,938	786,089
Interest income and other	4,804	15,473
Net cash used for investing activities	(19,683)	44,147
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	73,086	27,229
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR</b>	55,386	28,157
<b>CASH AND CASH EQUIVALENTS, AT END OF YEAR</b>	<u>\$ 128,472</u>	<u>\$ 55,386</u>

The accompanying notes to financial statements form an integral part of this statement.

San Antonio Water System  
**STATEMENTS OF CASH FLOWS (continued)**  
For the years ended December 31,  
*(amounts in thousands)*

	<u>2009</u>	<u>2008</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENTS OF CASH FLOWS TO THE BALANCE SHEETS</b>		
Cash and Cash Equivalents		
Unrestricted	\$ 32,138	\$ 37,819
Restricted		
Current	-	4
Noncurrent	96,334	17,563
	<u>\$ 128,472</u>	<u>\$ 55,386</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 62,995	\$ 85,641
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash revenues from City of San Antonio	(2,591)	(3,774)
Provision for uncollectible accounts	3,711	3,288
Charge-off of prior year construction expenditures to operating expense	689	1,345
Depreciation expense	86,535	83,494
Change in assets and liabilities:		
Increase in accounts receivable	(100)	(4,417)
Increase in other current assets	(851)	(533)
Increase/(Decrease) in accounts payable	(7,156)	3,555
Increase in accrued vacation payable	874	617
Increase/(Decrease) in accrued payroll and benefits	(4,110)	1,985
Increase in claims payables	103	89
Decrease in sundry payables and accruals	(775)	(994)
Increase in unfunded postemployment benefits	20,547	13,329
Increase in customers' deposits	153	184
Total adjustments	<u>97,029</u>	<u>98,168</u>
Net cash provided by operating activities	<u>\$ 160,024</u>	<u>\$ 183,809</u>

**NONCASH CAPITAL AND FINANCING ACTIVITIES**

The system received plant contributions from developers of \$42,190 in 2009 and \$91,827 in 2008. These amounts are recorded as capital contributions.

---

---

*This Page  
Intentionally Left Blank*

---

---

## **NOTES TO FINANCIAL STATEMENTS**

---

<b>A. Summary of Significant Accounting Policies</b>	22
Reporting Entity	22
Basis of Accounting	22
Recognition of Revenues	22
Revenue and Expense Classification	22
Annual Budget	23
Fund Accounting	23
Core Businesses	23
Restricted Resources	23
Cash Equivalents	23
Investments	23
Accounts Receivable	24
Inventory	24
Unamortized Debt Issuance Costs	24
Restricted Noncurrent Assets	24
Capital Assets	24
Capitalized Interest	25
Capital Contributions	25
Compensated Absences	25
Self-Insurance	25
Estimates	25
Reclassifications	25
<b>B. City Ordinance No. 75686</b>	25
Funds Flow	25
Transfers to the City's General Fund	26
Reuse Contract	26
Pledged Revenues	26
No Free Service	26
<b>C. Deposits and Investments</b>	26
<b>D. Accounts Receivable</b>	29
<b>E. Capital Assets</b>	30
<b>F. Other Liabilities</b>	32
Accrued Vacation Payable	32
Risk Management	32
<b>G. Long-Term Debt</b>	33
Revenue Bonds	33
Other Debt Matters	38
Commercial Paper Program	38
<b>H. Contingencies and Commitments</b>	40
<b>I. Pension and Retirement Plans</b>	42
<b>J. Other Post Employment Benefits</b>	47
<b>K. Subsequent Events</b>	50

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity:** On April 30, 1992, the San Antonio City Council approved Ordinance No. 75686 which effectuated the consolidation of all city owned utilities related to water including the water, wastewater, and water reuse systems as the San Antonio Water System (SAWS).

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. The City of San Antonio currently manages a stormwater system. The City has not incorporated the stormwater system within SAWS; however, SAWS administers certain aspects of the stormwater program on behalf of the City, including billing accounts and certain technical services, for a fee.

This Comprehensive Annual Financial Report includes no component units. However, the operations of SAWS as reported herewith are included as a discretely component unit of the City of San Antonio.

**Basis of Accounting:** The financial statements of SAWS are prepared and presented in accordance with accounting principles generally accepted in the United States of America for proprietary funds of governmental entities. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, SAWS applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as any Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions and Accounting Research Bulletin's issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The financial statements are prepared using the accrual basis of accounting with the economic resources measurement focus. Under this method, all assets and liabilities of SAWS are reported in the balance sheet, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**Recognition of Revenues:** 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. The amounts of unbilled revenue receivable are \$16,987,000 and \$18,878,000 at December 31, 2009 and December 31, 2008, respectively.

**Revenue and Expense Classification:** Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of SAWS are charges to customers for water supply, water delivery, wastewater, and chilled water and steam services. Operating expenses

## ***NOTES TO FINANCIAL STATEMENTS***

---

include the cost of service, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Annual Budget:** Sixty days prior to the beginning of each fiscal year, SAWS presents an annual budget prepared on an accrual basis to serve as a tool in controlling and administering the management and operation of the organization. The annual budget reflects an estimate of gross revenues and disposition of these revenues in accordance with the flow of funds required by Ordinance No. 75686 (See Note B). The annual budget is submitted to City Council for review and consultation.

**Fund Accounting:** Within SAWS' enterprise fund accounts, separate self-balancing sub-funds are maintained to account for resources for various purposes, thereby distinguishing balances restricted by City Ordinance or other enabling legislation from unrestricted resources. Interfund receivable and payable accounts have been eliminated in the financial statements.

**Core Businesses:** SAWS' operations are segregated into four core businesses as follows:

- Water Delivery – the functions of distributing water to the customer
- Water Supply – the functions related to the development and provision of additional water resources
- Wastewater – the functions of collecting and treating wastewater from the user customer
- Chilled Water and Steam – the functions related to providing chilled water and steam to specific customers of SAWS

**Restricted Resources:** It is SAWS' policy to use restricted resources first when an expenditure is made for purposes for which both restricted and unrestricted resources are available.

**Cash Equivalents:** SAWS considers investments with an original maturity of three months or less and all time deposits to be cash equivalents.

**Investments:** City Ordinance No. 75686, SAWS' Investment Policy, and Texas state law allow SAWS to invest in direct obligations of the United States 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 US Treasury and agency obligations, with a remaining maturity at time of purchase of one year or less are reported at cost.



## NOTES TO FINANCIAL STATEMENTS

---

**Accounts Receivable:** Accounts receivable are recorded at the invoiced amounts plus an estimate of unbilled revenue receivable. The allowance for doubtful accounts is management's best estimate of the amount of probable credit losses and is determined based on historical write-off experience. Account balances are written off against the allowance when it is probable the receivable will not be recovered.

**Inventory:** Inventories are valued at the lower of weighted average cost or market.

**Unamortized Debt Issuance Costs:** Expenses relating to the sale of revenue bonds are amortized over the life of the issue using the interest method.

**Restricted Noncurrent Assets:** Assets restricted for the acquisition of capital assets or to pay noncurrent liabilities are reported as noncurrent assets in the balance sheet regardless of their relative liquidity.

**Capital Assets:** Assets in service are capitalized when the unit cost is greater than or equal to \$5,000. 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

## **NOTES TO FINANCIAL STATEMENTS**

---

**Capitalized Interest:** Interest on debt proceeds used to finance utility plant additions is capitalized as part of the cost of capital assets. For the years ended December 31, 2009 and 2008, interest capitalized was \$9,953,000 and \$9,030,000, respectively.

**Capital Contributions:** Capital Contributions consist of plant contributions from developers, capital recovery fees, and grant proceeds received from governmental agencies for facility expansion. Capital Contributions are recognized in the statement of revenues, expenses, and changes in equity, after non-operating revenues (expenses), when eligibility requirements are met. Assets funded by capital recovery fees and grant proceeds are included in capital assets.

Capital recovery fees are charged to customers to connect to the water or wastewater system and may be used only for additional infrastructure capacity. In certain instances, infrastructure that facilitates expansion of SAWS' service capacity is contributed by developers. In these instances, SAWS records the donated infrastructure as plant contributions and grants credits to the developer equal to the estimated fair market value of the infrastructure contributed. These credits may only be used to offset future capital recovery fees owed by the developer. At December 31, 2009, SAWS had granted \$27.6 million in unused capital recovery fee credits to developers.

**Compensated Absences:** 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.

**Self-Insurance:** SAWS is self-insured for a portion of workers' compensation, employee's health, employer's liability, public officials' liability, property damage, and certain elements of general liability. A liability has been recorded for the estimated amount of eventual loss which will be incurred on claims arising prior to the end of the period including incurred but not reported claims.

**Estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Reclassifications:** Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

### **NOTE B - CITY ORDINANCE NO. 75686**

**Funds Flow:** City Ordinance No. 75686 requires that SAWS' gross revenues be applied in sequence to: (1) System Fund for 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;

---

## ***NOTES TO FINANCIAL STATEMENTS***

---

(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.

**Transfers to the City's General Fund:** City Ordinance No. 75686 requires SAWS to make transfers to the City each month after making all other payments required by the Ordinance. The amount of the transfer is determined by City Council from time to time and cannot exceed 5%. Currently SAWS transfers 2.7% of Gross Revenues to the City. Transfers to the City are reported as nonoperating expense in the Statement of Revenues, Expenses and Changes in Equity.

**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.

**Pledged Revenues:** Net Revenues of SAWS have been pledged to the payment and security of its senior lien debt obligations. Net Revenues are defined by City Ordinance No. 75686 as SAWS' Gross Revenues after deducting operating expenses before depreciation. SAWS' Gross Revenues consist of all revenue with respect to the operation and ownership of SAWS with the exception of capital contributions, payments received under the CPS Energy contract and earnings on funds deposited in the Project Fund and Reserve Fund until the Reserve Fund contains the required reserve amount.

**No Free Service:** City Ordinance No. 75686 also provides for no free services except for municipal fire-fighting purposes.

### **NOTE C - DEPOSITS AND INVESTMENTS**

**Deposits:** As of December 31, 2009, all funds of the organization 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 SAWS' 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 SAWS' demand and savings accounts was \$16,770,000 and the reported amount was \$12,914,000, which included \$30,000 of cash on hand, and certificates of deposits totaled \$44,000,000. As of December 31, 2008, the bank balance of SAWS' demand and savings accounts was \$26,318,000 and the reported amount was \$23,841,000, which included \$30,000 of cash on hand.

## NOTES TO FINANCIAL STATEMENTS

**Investments:** As of December 31, 2009, investments include securities issued by Agencies of the United States and funds held in escrow. Securities issued by U. S. Agencies 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.

SAWS had the following investments and remaining maturities at December 31, 2009 and 2008:

December 31, 2009 (amounts in thousands)						
Investment Type	Investment Maturities (in Days)				Fair Value	Reported Amount
	90 days or less	91 to 180	181 to 365	Greater Than 365		
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 held in Escrow:						
Frost National Bank	17,021	-	-	-	17,021	17,021
Wells Fargo Bank	54,538	-	-	-	54,538	54,538
	<u>\$ 207,229</u>	<u>\$ 198,557</u>	<u>\$ 80,729</u>	<u>\$ 33,221</u>	<u>\$ 519,736</u>	<u>\$ 519,738</u>

December 31, 2008 (amounts in thousands)						
Investment Type	Investment Maturities (in Days)				Fair Value	Reported Amount
	90 days or less	91 to 180	181 to 365	Greater Than 365		
U.S. Agency Discount Notes	\$ 124,339	\$ 134,092	\$ -	\$ -	\$ 258,431	\$ 257,565
U.S. Agency Coupon Notes	47,165	93,813	31,442	9,666	182,086	181,483
Money Market Funds held in Escrow:						
U.S. Bank	5,980	-	-	-	5,980	5,980
Wells Fargo Bank	10,050	-	-	-	10,050	10,050
	<u>\$ 187,534</u>	<u>\$ 227,905</u>	<u>\$ 31,442</u>	<u>\$ 9,666</u>	<u>\$ 456,547</u>	<u>\$ 455,078</u>

**Interest Rate Risk:** As a means of limiting its exposure to fair value losses due to rising interest rates, SAWS' investment policy limits its investments maturities to no more than five years. As of December 31, 2008, 94% of SAWS investment portfolio was invested in maturities less than one year. Investment maturities as of December 31, 2009 were as follows:

<u>Maturity</u>	<u>Percent of Portfolio</u>
Zero to 90 days	40%
91 to 180 days	38%
181 to 365 days	16%
More than one year	6%

## NOTES TO FINANCIAL STATEMENTS

**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 and 2008, SAWS held no direct investments with a credit rating below “AAA”.

Credit Rating	<i>(amount in thousands)</i>		Allocation	Investment Policy Limit
	Carrying Value	Market Value		
December 31, 2009				
AAA	\$ 519,738	\$ 519,736	100.0%	Max. = 100%
Total Portfolio	<u>\$ 519,738</u>	<u>\$ 519,736</u>	<u>100.0%</u>	
December 31, 2008				
AAA	\$ 455,078	\$ 456,547	100.0%	Max. = 100%
Total Portfolio	<u>\$ 455,078</u>	<u>\$ 456,547</u>	<u>100.0%</u>	

**Concentration of Credit Risk:** SAWS’ investment policy does not limit the amount it may invest in U.S. Treasury securities, government-guaranteed securities, or government-sponsored entity securities. However, in order to manage its exposure to credit risk, the investment policy does limit the amount that can be invested in any one government-sponsored issuer to no more than 50% of the total investment portfolio, and no more than 5% 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 five percent of its investments in the following government-sponsored entities in the form of discount or coupon notes:

Federal Home Loan Bank	25 %
Federal National Mortgage Association	26 %
Federal Home Loan Mortgage Corporation	26 %

## NOTES TO FINANCIAL STATEMENTS

The following is a reconciliation of deposits and investments disclosed in the note to the amounts presented for cash and investments in the balance sheets for 2009 and 2008:

<i>(amounts in thousands)</i>	December 31,	
	2009	2008
Reported amounts in note for:		
Deposits, including certificates of deposit	\$ 56,914	\$ 23,841
Investments	519,738	455,078
Total Deposits & Investments	<u>\$ 576,652</u>	<u>\$ 478,919</u>
Totals from Balance Sheets:		
Cash and Cash Equivalents:		
Unrestricted cash and cash equivalents	\$ 32,138	\$ 37,819
Restricted cash and cash equivalents:		
Current:		
Debt Service Fund	-	4
Noncurrent:		
Reserve Fund	3	1,532
Construction funds	96,331	16,031
	<u>96,334</u>	<u>17,563</u>
Total cash and cash equivalents	<u>128,472</u>	<u>55,386</u>
Investments:		
Unrestricted current investments	137,879	160,615
Restricted current investments:		
Customer deposits	8,194	8,041
Operating reserve	34,649	32,257
Debt Service Fund	37,010	34,239
Construction funds	20,762	25,964
	<u>100,615</u>	<u>100,501</u>
Restricted noncurrent investments:		
Reserve Fund	47,365	9,690
Construction funds	162,321	152,727
	<u>209,686</u>	<u>162,417</u>
Total investments	<u>448,180</u>	<u>423,533</u>
Total Cash, Cash Equivalents and Investments	<u>\$ 576,652</u>	<u>\$ 478,919</u>

## NOTE D – ACCOUNTS RECEIVABLE

Accounts receivable, net of allowance for uncollectible accounts are broken down by core business as follows:

<i>(amounts in thousands)</i>	December 31,	
	2009	2008
Water Delivery	\$ 12,043	\$ 13,300
Water Supply	12,843	13,011
Wastewater	15,387	15,787
Chilled Water & Steam	1,307	2,044
	<u>\$ 41,580</u>	<u>\$ 44,142</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE E – CAPITAL ASSETS

A summary of capital asset activity for the year ended December 31, 2009 is as follows:

<i>(amounts in thousands)</i>	December 31, 2008	Increases	Transfers	Decreases	December 31, 2009
Capital Assets, not being depreciated:					
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 capital assets, not being depreciated/amortized	555,600	281,555	(172,589)	689	663,877
Capital assets, being depreciated					
Structures and improvements	415,477	117	28,407	1	444,000
Pumping and purification equipment	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
Equipment and machinery	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 capital assets being depreciated/amortized	3,482,308	13,392	172,589	17,670	3,650,619
Less accumulated depreciation					
Structures and improvements	(90,901)	(9,058)	-	(1)	(99,958)
Pumping and purification equipment	(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)
Equipment and machinery	(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 capital assets, being depreciated/amortized	2,411,590	(73,143)	172,589	649	2,510,387
Capital assets, net	\$ 2,967,190	\$ 208,412	\$ -	\$ 1,338	\$ 3,174,264

## NOTES TO FINANCIAL STATEMENTS

A summary of capital asset activity for the year ended December 31, 2008 is as follows:

<i>(amounts in thousands)</i>	December 31, 2007	Increases	Transfers	Decreases	December 31, 2008
Capital Assets, not being depreciated:					
Land	\$ 78,543	\$ -	\$ 1,785	\$ 1,756	\$ 78,572
Acquisition of water rights	44,794	-	59,262	-	104,056
Other intangible assets	296	69			365
Construction in progress	361,192	341,507	(328,747)	1,345	372,607
Total capital assets, not being depreciated/amortized	484,825	341,576	(267,700)	3,101	555,600
Capital assets, being depreciated					
Structures and improvements	377,979	740	36,758	-	415,477
Pumping and purification equipment	114,249	618	7,926	-	122,793
Distribution and transmission system	1,316,131	936	118,756	834	1,434,989
Treatment facilities	1,273,780	52	95,997	4,582	1,365,247
Equipment and machinery	100,721	10,508	1,073	9,544	102,758
Furniture and fixtures	4,932	60	56	-	5,048
Computer equipment	16,847	1,676	730	844	18,409
Software	10,392	791	6,404	-	17,587
Total capital assets being depreciated/amortized	3,215,031	15,381	267,700	15,804	3,482,308
Less accumulated depreciation					
Structures and improvements	(82,548)	(8,353)	-	-	(90,901)
Pumping and purification equipment	(21,308)	(2,829)	-	-	(24,137)
Distribution and transmission system	(350,938)	(31,153)	-	(758)	(381,333)
Treatment facilities	(466,173)	(31,228)	-	(4,582)	(492,819)
Equipment and machinery	(56,369)	(6,199)	-	(8,900)	(53,668)
Furniture and fixtures	(3,342)	(282)	-	-	(3,624)
Computer equipment	(13,008)	(1,702)	-	(800)	(13,910)
Software	(8,578)	(1,748)	-	-	(10,326)
Total accumulated depreciation	(1,002,264)	(83,494)	-	(15,040)	(1,070,718)
Total capital assets, being depreciated/amortized	2,212,767	(68,113)	267,700	764	2,411,590
Capital assets, net	\$ 2,697,592	\$ 273,463	\$ -	\$ 3,865	\$ 2,967,190



## NOTES TO FINANCIAL STATEMENTS

### NOTE F – OTHER LIABILITIES

**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.

<i>(amounts in thousands)</i>						
	Balance at Beginning of Year	Current-Year Accruals	Payments	Balance at End of Year	Estimated Due Within One Year	
Year Ended						
December 31, 2009	\$ 6,328	\$ 5,659	\$ (4,785)	\$ 7,202	\$ 4,785	
Year Ended						
December 31, 2008	\$ 5,711	\$ 4,881	\$ (4,264)	\$ 6,328	\$ 4,264	

**Risk Management:** SAWS is exposed to various risks of financial loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. SAWS is self administered and self-insured for the first \$500,000 of each worker's compensation, general liability, automobile liability and public official's liability claim and for the first \$250,000 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 \$5,504,000 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:

<i>(amounts in thousands)</i>						
	Balance at Beginning of Year	Current-Year Accruals	Payments	Balance at End of Year	Estimated Due Within One Year	
Year Ended						
December 31, 2009	\$ 5,401	\$ 2,050	\$ (1,947)	\$ 5,504	\$ 5,504	
Year Ended						
December 31, 2008	\$ 5,312	\$ 2,276	\$ (2,187)	\$ 5,401	\$ 5,401	

## ***NOTES TO FINANCIAL STATEMENTS***

---

### **NOTE G – LONG TERM DEBT**

#### **REVENUE BONDS**

On February 12, 2009, SAWS issued \$163,755,000 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 \$143,000,000 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 \$12,250,000 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.

On December 10, 2009, SAWS issued \$102,750,000 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% 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 \$54,300,000 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.

## ***NOTES TO FINANCIAL STATEMENTS***

---

On December 30, 2009, SAWS issued \$35,000,000 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 \$12,000,000 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 percent below the Texas Water Development Boards 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 0.64% to 2.82%, with an overall effective rate of 1.40% 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 \$1,395,665,000 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 2.50% to 6.25%.

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 \$364,035,000 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 0.30% to 4.35%.

## NOTES TO FINANCIAL STATEMENTS

The following summarizes transactions of the revenue bonds for the years ended December 31, 2009 and 2008:

<i>(amounts in thousands)</i>	Balance Jan. 1, 2009	Additions	Reductions/ Amortization	Balance Dec. 31, 2009	Due Within One Year
Bonds Payable	\$ 1,427,525	\$ 368,055	\$ 35,880	\$ 1,759,700	\$ 38,590
Less Deferred Amounts: For issuance discounts/ premiums/losses	\$ (19,343)	\$ 3,345	\$ 13	\$ (16,011)	\$ -
Total Bonds Payable, Net	<u>\$ 1,408,182</u>	<u>\$ 371,400</u>	<u>\$ 35,893</u>	<u>\$ 1,743,689</u>	<u>\$ 38,590</u>

<i>(amounts in thousands)</i>	Balance Jan. 1, 2008	Additions	Reductions/ Amortization	Balance Dec. 31, 2008	Due Within One Year
Bonds Payable	\$ 1,512,510	\$ 53,260	\$ 138,245	\$ 1,427,525	\$ 31,035
Less Deferred Amounts: For issuance discounts/ premiums/losses	\$ (19,645)	\$ -	\$ (302)	\$ (19,343)	\$ -
Total Bonds Payable, Net	<u>\$ 1,492,865</u>	<u>\$ 53,260</u>	<u>\$ 137,943</u>	<u>\$ 1,408,182</u>	<u>\$ 31,035</u>

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 after that.

<u>Annual Debt Service Requirements</u> <u>Revenue and Refunding Bonds</u> <i>(amounts in thousands)</i>						
Year	Senior Lien				Junior Lien	
	Principal	Interest Expense	Federal Subsidy	Net Interest Cost	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	-	-
	<u>\$ 1,395,665</u>	<u>\$ 1,220,152</u>	<u>\$ (37,692)</u>	<u>\$ 1,182,460</u>	<u>\$ 364,035</u>	<u>\$ 133,957</u>

## ***NOTES TO FINANCIAL STATEMENTS***

---

### **Pay-Fixed, Receive-Variable Interest Rate Swap**

**Objective of the 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 SAWS’ Capital Improvements 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 interest rate cost than a traditional long term fixed rate bond issued at that time. 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 \$110,615,000 of the outstanding principal amount of \$111,615,000 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 \$1,000,000 of the Series 2003 Bonds outstanding. In May 2009, SAWS redeemed \$20,000 of the Series 2003 Bonds and \$2,465,000 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 \$980,000 of Series 2003 Bonds outstanding with commercial paper notes. At December 31, 2009 the interest rate swap serves to hedge \$109,130,000 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 notes 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 of the Series 2003 Bonds. The Series 2003 Bonds were issued on March 27, 2003, with a principal amount of \$122,500,000. 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, JPMorgan Chase & Co. announced its acquisition of The Bear Stearns Companies Inc., the parent of Bear Stearns FPI. The transaction closed on May 30, 2008. JPMorgan Chase guaranteed the trading obligations of Bear Stearns and its subsidiaries. Effective June 16, 2009, the swap agreement was amended between SAWS, JPMorgan Chase & Co, and MBIA to provide for JPMorgan Chase Bank N.A. to become the swap counterparty and allow for the remaining \$980,000 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.

## **NOTES TO FINANCIAL STATEMENTS**

---

The combination of commercial paper notes and a floating-to-fixed swap creates a synthetic fixed-rate of 4.18%. 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 \$10.6 million. 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, JPMorgan Chase Bank, N.A. was rated AA- by Fitch Ratings and Standard & Poor's and Aa1 by Moody's Investors Services 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.

**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. JPMorgan Chase may terminate the swap if SAWS fails to perform under the terms of the agreement. SAWS' ongoing payment obligations under the swap are insured as provided for in the swap amendment and JPMorgan 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 \$109,130,000 of variable-rate debt hedged by the swap is outstanding in commercial paper notes with current maturities less than 87 days. As previously noted, SAWS intends to reissue the commercial paper notes in amounts matching the notional amounts and amortization schedule of the swap.

## NOTES TO FINANCIAL STATEMENTS

**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 as detailed below. As rates vary, variable-rate interest payments and net swap payments will vary. Principal payments assume that commercial paper notes 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**  
*(amounts in thousands)*

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	<u>\$ 109,130</u>	<u>\$ 4,203</u>	<u>\$ 59,737</u>	<u>\$ 173,070</u>

### OTHER DEBT MATTERS

**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, \$44,605,000 of bonds outstanding were considered defeased.

### COMMERCIAL PAPER PROGRAM

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 million. Notes payable under the program cannot exceed maturities of 270 days.

## NOTES TO FINANCIAL STATEMENTS

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 revolving credit agreement, the capacity of the revolving credit agreement is \$300 million.

The issuance of commercial paper is further supported by the following agreements and related participants:

- Dealer Agreements with Goldman, Sachs & Co., J.P. Morgan Securities Inc., and Ramirez & Co., Inc.
- Revolving Credit Agreement with Bank of America, N.A., State Street Bank and Trust Company, and U.S. Bank National Association
- Issuing and Paying Agency Agreement with The Bank of New York Mellon Trust Company, N.A.

The borrowings under the commercial paper program are equally and ratably secured by and are payable from (i) the proceeds from the sale of bonds or additional borrowing under the commercial paper program and (ii) borrowing under and pursuant to the revolving credit agreement.

Commercial paper notes of \$173,650,000 are outstanding as of December 31, 2009. Of this balance, \$109,130,000 relates to the refunding of the Series 2003 Bonds while the remaining \$64,520,000 proceeds were used solely for financing of capital improvements. Interest rates on the notes outstanding at December 31, 2009 range from 0.20% to 0.38% and maturities range from 16 to 126 days. The outstanding notes had an average rate of 0.28% 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 previously in this footnote, SAWS intends to redeem \$2,600,000 of commercial paper in 2010. Therefore, this portion of the commercial paper is classified as a current liability.

The following summarizes transactions of the commercial paper program for the years ended December 31, 2009 and 2008:

<i>(amounts in thousands)</i>	Outstanding Notes at Beginning of Year	Notes Issued	Notes Retired	Outstanding Notes at End of Year	Payable Within One Year
Year Ended December 31, 2009	<u>\$ 261,115</u>	<u>\$ 70,000</u>	<u>\$ 157,465</u>	<u>\$ 173,650</u>	<u>\$ 2,600</u>
Year Ended December 31, 2008	<u>\$ 100,000</u>	<u>\$ 164,115</u>	<u>\$ 3,000</u>	<u>\$ 261,115</u>	<u>\$ 2,465</u>



## NOTES TO FINANCIAL STATEMENTS

### NOTE H - CONTINGENCIES AND COMMITMENTS

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 leases include price escalations and the average annual cost per acre foot ranges from \$134 to \$165. The future commitments under these leases are as follows:

<i>(dollars in thousands)</i>						
	2010	2011	2012	2013	2014	Thereafter
Edwards Aquifer - lease obligations	\$ 5,551	\$ 5,904	\$ 5,138	\$ 2,760	\$ 1,860	\$ 6,399
Edwards Aquifer - lease obligations (acre feet)	41,508	39,482	33,328	19,452	12,777	41,007

SAWS also has various commitments relating to the purchase of water supplies. A summary of these commitments is provided below. As with any estimates, the actual amounts paid could differ materially.

<i>(dollars in thousands)</i>						
	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)	5,891	5,500	5,500	5,500	5,500	101,000
Variable purchased water obligations	\$ 3,743	\$ 3,217	\$ 3,165	\$ 2,789	\$ 2,469	\$ 66,021
Variable purchased water obligations (acre feet)	4,538	3,787	3,604	3,347	3,017	66,432

These firm and variable purchased water obligations relate to the contractual commitments made in connection with SAWS' wholesale water contracts with the 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.

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% of the determined sustainable yield of the project, or 2,343 acre-feet annually. As this contract expires in February 2010, SAWS is contractually required to pay for only 293 acre-feet in 2010 at \$447 per acre-foot. SAWS has the option to extend this agreement for five years at a renegotiated price.

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. 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

## NOTES TO FINANCIAL STATEMENTS

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 million.

SAWS has entered into various agreements to pump water from the Carrizo Aquifer. 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.

<i>(dollars in thousands)</i>	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)	-	-	-	11,687	11,687	175,305

SAWS is also committed under various contracts for completion of construction or acquisition of utility plant totaling approximately \$288 million as of December 31, 2009. Funding of this amount will come from excess revenues, contributions from developers, restricted assets and available commercial paper capacity.

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 2008 and 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 cannot be reasonably estimated.

## ***NOTES TO FINANCIAL STATEMENTS***

---

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.

SAWS has expensed \$39.3 million 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.

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.

### **NOTE I - PENSION AND RETIREMENT PLANS**

SAWS' retirement program includes benefits provided by the Texas Municipal Retirement System, the San Antonio Water System Retirement Plan, the San Antonio Water System Deferred Compensation Plan, and Social Security.

#### **Plan Descriptions**

**Texas Municipal Retirement System:** SAWS provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 833 administered by TMRS, an agent multiple-employer public employee retirement system. TMRS was established in 1948 as a retirement and disability pension system for municipal employees in the State of Texas.

Benefits provided under the plan 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 ages 60 and above with 5 or more years of service 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.

## ***NOTES TO FINANCIAL STATEMENTS***

---

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by TMRS. This report may be obtained by contacting TMRS at:

P.O. Box 149153  
Austin, Texas 78714-9153  
Telephone: 1-800-924-8677  
Website: [www.tmrs.com](http://www.tmrs.com)

**San Antonio Water System Retirement Plan:** 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. SAWSRP is governed by SAWS which may amend plan provisions and which is responsible for the management of plan assets. SAWS has delegated to Principal Financial Group the authority to manage certain plan assets and administer the payment of benefits.

SAWSRP 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 the plan 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 (i) 20 Years of vesting service regardless of age or (ii) five years of vesting service and at least age 60.

The normal retirement benefit is based upon two factors, average compensation and years of vesting service. Average Compensation is defined as the monthly average of total compensation received for the three consecutive years ending December 31, out of the last ten compensation years prior to normal retirement date which gives the highest average. The normal retirement benefit under SAWSRP is equal to the following:

1. 1.2% of the Average Compensation, times years of credited service not in excess of 25 years, plus
2. 0.75% of the Average Compensation, times years of credited service in excess of 25 years but not in excess of 35 years, plus
3. 0.375% of the Average Compensation, times years of credited service in excess of 35 years.

Upon retirement, an employee must select from one of seven alternative payment plans. Each payment plan provides for monthly payments as long as the retired employee lives. The options available address how plan benefits are to be distributed to the designated beneficiary of the retired employee. The program also provides death and disability benefits.

## **NOTES TO FINANCIAL STATEMENTS**

---

An employee is automatically 100% vested upon attainment of age 65 or upon becoming totally and permanently disabled. SAWSRP'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 the Principal Financial Group. Funds under the contract that have been allocated and applied to purchase annuities are excluded from the pension plan's assets. SAWSRP's unallocated separate accounts are valued at fair value.

SAWSRP issues a publicly available financial report that includes financial statements and required supplemental information. The report may be obtained by contacting Principal Financial Group at:

711 High Street  
Des Moines, Iowa 50392  
Telephone: 800-986-3343  
Website: [www.principal.com](http://www.principal.com)

**San Antonio Water System Deferred Compensation Plan:** SAWS has a deferred compensation plan for its employees, created in accordance with Internal Revenue Code Section 457. The plan, available to all regular employees, permits them to defer a portion of their salary until future years. The compensation deferred under this plan is not available to employees until termination, retirement, death, or qualifying unforeseeable emergency. Participation in the plan is voluntary, and SAWS does not make any contributions. SAWS has no liability for losses under this plan but does have the usual fiduciary responsibilities of a plan sponsor.

### **Funding Policies**

**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 5.02% while the phased-in rate for 2009 was 3.77% of salary. The current contribution rate for employees is 3% of salary.

## **NOTES TO FINANCIAL STATEMENTS**

**SAWSRP:** The 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.

### **Annual Pension Cost and Actuarial Methods and Assumptions**

The following tables summarize SAWS' annual pension cost for the years ended December 31, 2009 and 2008 and provide three year trend information for each of SAWS' defined benefit plans.

#### **Annual Pension Cost** *(amounts in thousands)*

	Year Ended December 31,			
	2009		2008	
	TMRS	SAWSRP	TMRS	SAWSRP
Annual Required Contributions:				
SAWS	\$ 4,275	\$ 6,035	\$ 2,600	\$ 4,891
Plan members	2,553	-	2,216	-
Total Annual Pension Cost	6,828	6,035	4,816	4,891
Contributions Made	5,762	6,035	4,816	4,891
Increase in net pension obligation	1,066	-	-	-
Net pension obligation beginning of year	-	-	-	-
Net pension obligation end of year	\$ 1,066	\$ -	\$ -	\$ -

#### **Three Year Trend Information**

<b>Plan</b>	<b>Year Ended December 31,</b>	<b>Annual Pension Cost (APC) (in thousands)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation (in thousands)</b>
TMRS	2009	\$ 6,828	84%	\$ 1,066
	2008	4,815	100%	-
	2007	4,460	100%	-
SAWSRP	2009	\$ 6,035	100%	\$ -
	2008	4,891	100%	-
	2007	4,710	100%	-

## NOTES TO FINANCIAL STATEMENTS

The table below summarizes the actuarial methods and assumptions used in the most recent actuarial valuation for each of SAWS' defined benefit plans.

### Actuarial Methods and Assumptions

	TMRS	SAWSRP
Actuarial Valuation Date	12/31/2008	1/1/2009
Actuarial Cost Method	Projected Unit Credit	Entry Age Normal - Frozen Initial Liability
Amortization Method	Level Percent of Payroll	Level Dollar
Remaining Amortization Period	29 Years - Closed	28 Years - Closed
Asset Valuation Method	Amortized Cost	Smoothed Market Value (4 years)
Actuarial Assumptions:		
Investment Rate of Return	7.5%	8.0%
Inflation Rate	3.0%	n/a
Cost of Living Adjustments	2.1%	n/a
Projected Salary Increases	Varies by age and service	Table S-5 from the Actuary's Pension Handbook plus 3.4%

### Funded Status

The funded status of each of the defined benefit plans as of the most recent actuarial valuation dates is as follows:

Plan	Actuarial Valuation Date	Actuarial Value of Assets (in thousands) (a)	Actuarial Liability (AAL) (in thousands) (b)	Unfunded AAL (UAAL) (in thousands) (b-a)	Funded Ratio (a/b)	Covered Payroll (in thousands) (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
TMRS	December 31, 2008	\$ 63,674	\$ 96,539	\$ 32,865	66%	\$ 74,448	44%
SAWSRP	January 1, 2009	\$ 74,611	\$ 99,144	\$ 24,533	75%	\$ 70,252	35%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

## **NOTES TO FINANCIAL STATEMENTS**

---

### **NOTE J – OTHER POST EMPLOYMENT BENEFITS (OPEB)**

**Plan Description:** In addition to providing pension benefits described in Note I, SAWS provides certain health care 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	<u>448</u>
Total	2,621

**Funding Policy:** The contribution requirements of plan members and SAWS are established and may be amended by the SAWS Board of Trustees. To date, SAWS has funded all obligations arising under these plans on a pay-as-you-go basis. Going forward, SAWS' actual 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 \$5,884,000, while plan members receiving benefits contributed \$296,000 through their required contribution. For the year ended December 31, 2008 SAWS' contribution to the plan equaled the current premiums of \$5,132,000, while plan members receiving benefits contributed \$149,000 through their required contribution. No contributions were made in 2008 or 2009 to prefund benefits.



## NOTES TO FINANCIAL STATEMENTS

**Annual OPEB Cost and Net OPEB Obligation:** SAWS' annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 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 liabilities over a 28 year closed period. The following table shows the components of SAWS' annual OPEB cost, the amount actually contributed to the plan and changes in the net OPEB obligation for the years ended December 31, 2009 and 2008:

<i>(amounts in thousands)</i>	Year Ended December 31,	
	2009	2008
Annual Required Contribution (ARC)	\$ 25,759	\$ 17,696
Interest on net OPEB obligation	1,261	765
Adjustment to ARC	(1,655)	-
Annual OPEB costs	25,365	18,461
Contributions made	\$ (5,884)	\$ (5,132)
Increase in net OPEB obligation	19,481	13,329
Net OPEB obligation at beginning of year	26,546	13,217
Net OPEB obligation at end of year	<u>\$ 46,027</u>	<u>\$ 26,546</u>

SAWS' annual OPEB cost and the percentage cost contributed to the plan for the years ended December 31, 2009 and 2008 were as follows:

Year Ended December 31,	Annual OPEB Cost <i>(amounts in thousands)</i>	Percentage of Annual OPEB Cost Contributed
2009	\$ 25,365	28.7%
2008	\$ 18,461	27.8%
2007	\$ 17,696	25.3%

### Funded Status

The funded status of SAWS' OPEB plan as of the actuarial valuation performed as of January 1, 2009 is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
January 1, 2009	\$ -	\$ 297,259	\$ 297,259	-	\$ 75,270	395%

## ***NOTES TO FINANCIAL STATEMENTS***

---

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. In accordance with GASB 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, SAWS will obtain new actuarial valuations for its OPEB plan at least biennially.

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.

**Actuarial Methods and Assumptions:** 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 SAWS 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 following table summarizes the actuarial methods and assumptions used in the most recent actuarial valuation for each of SAWS' defined benefit plans.

### **Actuarial Methods and Assumptions**

Actuarial Valuation Date	January 1, 2009
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar
Remaining Amortization Period	28 Years - Closed
Actuarial Assumptions:	
Investment Rate of Return	4.75%
Inflation Rate	None

## ***NOTES TO FINANCIAL STATEMENTS***

---

Health care cost trend rates are used to anticipate increases in medical benefit costs expected to be experienced by the retiree health plan in each future year. The trend rates used are as follows:

Year Beginning January 1	Annual Rate of Increase		
	Pre-Medicare Medical	Medicare Eligible Medical	Prescription Drugs
2009	7.5%	6.0%	8.5%
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%

### **NOTE K – SUBSEQUENT EVENTS**

On March 4, 2010, SAWS issued \$59,145,000 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2010. The proceeds from the sale of the bonds were used to (i) refund \$38,130,000 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 1999 (the “1999 Junior Lien Bonds”), (ii) refund \$25,070,000 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 1999-A (the “1999-A Junior Lien Bonds”), and (iii) pay the cost of issuance. The refunding of the 1999 Junior Lien Bonds and 1999-A Junior Lien Bonds resulted in a reduction of SAWS’ total debt service payments over the next ten years of approximately \$4.9 million and SAWS obtained an economic gain (difference between the present value of the old and new debt service payments) of approximately \$4.3 million. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on the pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

## ***NOTES TO FINANCIAL STATEMENTS***

---

On February 1, 2010 the District Judge in the 200<sup>th</sup> Judicial District Court of Travis County, Texas granted LCRA's plea asserting full or partial governmental immunity from suit and dismissed SAWS' law suit discussed in Note H. On February 17, 2010, SAWS' filed an appeal to the Court of Appeals for the Third Appellate District of Texas in Austin, Texas. Following a decision by the Court of Appeals, either party may further appeal to the Supreme Court of Texas. However, consideration by the Supreme Court is discretionary with the Court and may be refused. Resolution of the appeal on the issue of governmental immunity is expected to take from two to five years, although the time is very difficult to predict.

---

---

***REQUIRED SUPPLEMENTAL INFORMATION***

**San Antonio Water System**  
**REQUIRED SUPPLEMENTARY INFORMATION – (Unaudited)**  
**Post Employment Benefit Plans**  
**Schedules of Funding Progress**

Historical trend information about the plans is presented herewith as required supplementary information. It is intended to help users assess the plans' funding status on an on-going basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other utility retirement systems.

Actuarial Valuation Date	Actuarial Value of Assets (in thousands) (a)	Accrued Liability (AAL) (in thousands) (b)	Unfunded AAL (UAAL) (in thousands) (b-a)	Funded Ratio (a/b)	Covered Payroll (in thousands) (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
-----------------------------	---	---	---	--------------------------	---	---

**Texas Municipal Retirement System:**

December 31, 2008	\$ 63,674	\$ 96,539	\$ 32,865	66%	\$ 74,448	44%
December 31, 2007	62,023	90,776	28,753	68%	68,412	42%
December 31, 2006	59,801	75,652	15,851	79%	65,078	24%

**San Antonio Water System Retirement Plan:**

January 1, 2009	\$ 74,611	\$ 99,144	\$ 24,533	75%	\$ 70,252	35%
January 1, 2008	73,777	89,919	16,142	82%	66,996	24%
January 1, 2007	66,129	82,709	16,580	80%	63,462	26%

**Other Post Employment Benefit Plan:**

January 1, 2009	\$ -	\$ 297,259	\$ 297,259	-	\$ 75,270	395%
January 1, 2007	-	200,083	200,083	-	69,288	289%

**APPENDIX C**

**INTERIM FINANCIAL REPORT 9-30-10**

**(THIS PAGE LEFT BLANK INTENTIONALLY)**



*Summary of Revenues, Expenses and Changes in Equity - Unaudited*

<i>(All Amounts in millions)</i>	Quarter Ended		12 Months Ended	
	September 30		September 30	
	2010	2009 (a)	2010	2009 (a)
<i>Revenues</i>				
Water Supply	\$ 33.9	\$ 32.0	\$ 110.7	\$ 119.7
Water Delivery	32.8	30.6	101.4	110.5
Wastewater System	33.4	34.6	130.1	132.5
Chilled Water and Steam System	3.4	3.6	12.2	12.4
Total Operating Revenues	103.5	100.8	354.4	375.1
Non Operating Revenues	0.5	0.8	3.3	6.4
Total Revenues	104.0	101.6	357.7	381.5
<i>Expenses</i>				
Operating and Maintenance	54.4	56.2	221.3	209.5
Depreciation Expense	23.2	21.5	90.7	86.1
Interest and Debt Related	18.1	16.9	73.1	65.8
Transfer to City of San Antonio	2.7	2.7	9.3	10.1
Other	0.5	1.0	4.8	1.8
Total Expenses	98.9	98.3	399.2	373.3
<i>Income (Loss) Before Capital Contributions</i>	5.1	3.3	(41.5)	8.2
Capital Contributions	10.7	15.5	49.8	87.6
<i>Change in Equity</i>	15.8	18.8	8.3	95.8
<i>Equity Beginning</i>	1,783.8	1,772.5	1,791.3	1,695.5
<i>Equity Ending</i>	\$ 1,799.6	\$ 1,791.3	\$ 1,799.6	\$ 1,791.3

*(a) Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.*

*Summary of Balance Sheet Information - Unaudited*

(All Amounts in millions)	September 30	
	2010	2009 (a)
<i>Assets</i>		
Current Assets	\$ 328.5	\$ 353.3
Noncurrent Assets	259.9	183.4
Capital Assets, Net	3,311.8	3,106.1
Total Assets	<u>3,900.2</u>	<u>3,642.8</u>
<i>Liabilities</i>		
Current Liabilities	128.3	118.6
Long Term Debt, Net	1,972.3	1,732.9
Total Liabilities	<u>2,100.6</u>	<u>1,851.5</u>
<i>Equity</i>		
Invested in plant, net of related debt	1,560.8	1,516.7
Restricted	101.6	84.6
Unrestricted	137.2	190.0
Total Equity	<u>1,799.6</u>	<u>1,791.3</u>
Total Liabilities and Equity	<u>\$ 3,900.2</u>	<u>\$ 3,642.8</u>

(a) Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**APPENDIX D**

**SELECTED PROVISIONS OF THE PARITY LIEN ORDINANCE**

**(THIS PAGE LEFT BLANK INTENTIONALLY)**

## SELECTED PROVISIONS OF THE PARITY LIEN ORDINANCE

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

SECTION 1: Definitions. For all purposes of this Ordinance (as defined below), except as otherwise expressly provided or unless the context otherwise requires, in addition to other terms defined elsewhere herein, the terms defined in this Section have the meanings assigned to them in this Section, and certain terms used in Section 55 of this Ordinance have the meanings assigned to them in such Section, all as follows:

A. *Accountant* means a certified public accountant or accountants or a firm of certified public accountants, in either case, with demonstrated expertise and competence in public accountancy.

B. *Additional Junior Lien Obligations* means (i) any bonds, notes, warrants, certificates of obligation, or other Debt hereafter issued by the City that are payable, in whole or in part, from and equally and ratably secured by a lien on and pledge of the Net Revenues on a parity with the currently outstanding Junior Lien Obligations, such pledge being junior and inferior to the lien on and pledge of the Pledged Revenues that are or will be pledged to the payment of the Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City, but prior and superior to the lien on and pledge of the Net Revenues that are or will be pledged to the payment of the currently outstanding Subordinate Lien Obligations or any Additional Subordinate Lien Obligations or Inferior Lien Obligations hereafter issued by the City, and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by a junior and inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

C. *Additional Senior Lien Obligations* means (i) bonds, notes, warrants, certificates of obligation, or other Debt which the City reserves the right to issue or enter into, as the case may be, in the future under the terms and conditions provided in Section 23 of this Ordinance and which obligations are equally and ratably secured solely by a first lien on and pledge of the Pledged Revenues on a parity with the currently outstanding Senior Lien Obligations, and (ii) obligations hereafter issued to refund any of the foregoing (as determined within the sole discretion of the City Council in accordance with applicable law) if issued in a manner so as to be payable from and equally and ratably secured by a first lien on and pledge of the Pledged Revenues as determined by the City Council in accordance with applicable law.

D. *Additional Subordinate Lien Obligations* means (i) any bonds, notes, warrants, certificates of obligation, or other Debt hereafter issued by the City that are payable, in whole or in part, from and equally and ratably secured by a lien on and pledge of the Net Revenues, such pledge being subordinate and inferior to the lien on and pledge of the Net Revenues that are or will be pledged to the payment of the currently outstanding Senior Lien Obligations and Junior

Lien Obligations and any Additional Senior Lien Obligations or Additional Junior Lien Obligations hereafter issued by the City, but prior and superior to the lien on and pledge of the Net Revenues that are or will be pledged to the payment of any Inferior Lien Obligations hereafter issued by the City, and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by a subordinate and inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

E. *Annual Debt Service Requirements* means, as of the date of calculation, the principal of and interest on all Senior Lien Obligations coming due at Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the City on such Senior Lien Obligations, or be payable in respect of any required purchase of such Senior Lien Obligations by the City) in such Fiscal Year, and, for such purposes, any one or more of the following rules shall apply at the election of the Board:

(1) Committed Take Out. If the City has entered into a Credit Agreement constituting a binding commitment within normal commercial practice, from any bank, savings and loan association, insurance company, financial institution, or similar institution to discharge any of its Funded Debt at its Stated Maturity (or, if due on demand, at any date on which demand may be made by the owner thereof) or to purchase any of its Funded Debt at any date on which such Funded Debt is subject to required purchase, all under arrangements whereby the City's obligation to repay the amounts advanced for such discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased shall be excluded from such calculation, and the principal of and interest on the Funded Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added.

(2) Balloon Debt. If the principal (including the accretion of interest resulting from original issue discount or compounding of interest) of any series or issue of Funded Debt due (or payable in respect of any required purchase of such Funded Debt by the City) in any Fiscal Year is substantially greater than the greatest amount of principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year such that, in its reasonable judgment, the Board finds that the City will elect, or will find it necessary, in the future to issue Debt for the purposes of refunding all or a portion of such principal in order to restructure the payment of such principal (such principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein and throughout this Section as *Balloon Debt*), the amount of principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the original principal amount of such Balloon Debt amortized over the Term of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation.

(3) Consent Sinking Fund. In the case of Balloon Debt, if a Designated Financial Officer shall deliver to the City a certificate providing for the retirement of (and the instrument creating such Balloon Debt shall permit the retirement of), or for the

accumulation of a sinking fund for (and the instrument creating such Balloon Debt shall permit the accumulation of a sinking fund for), such Balloon Debt according to a fixed schedule stated in such certificate ending on or before the Fiscal Year in which such principal (and premium, if any) is due, then the principal of (and, in the case of retirement, or to the extent provided for by the sinking fund accumulation, the premium, if any, and interest and other debt service charges on) such Balloon Debt shall be computed as if the same were due in accordance with such schedule, provided that this clause (3) shall apply only to Balloon Debt for which the installments previously scheduled have been paid or deposited to the sinking fund established with respect to such Debt on or before the times required by such schedule; and provided further that this clause (3) shall not apply where the Board has elected to apply the rule set forth in clause (2) above.

(4) Prepaid Debt. Principal of and interest on Senior Lien Obligations, or portions thereof, shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year for which such principal or interest is payable from funds on deposit or set aside in trust for the payment thereof at the time of such calculations (including without limitation capitalized interest and accrued interest so deposited or set aside in trust) with a financial institution acting as fiduciary with respect to the payment of such Senior Lien Obligations.

(5) Variable Rate. As to any Senior Lien Obligations that bear interest at a variable interest rate which cannot be ascertained at the time of calculation of the Annual Debt Service Requirement, then, at the option of the Board, the greater of (a) an interest rate equal to the average rate borne by such Senior Lien Obligations (or by comparable debt in the event that such Senior Lien Obligations have not been outstanding during the preceding 24 months) for any 24-month period ending within 30 days prior to the date of calculation, or (b) an interest rate equal to the 30-year "Tax-Exempt Revenue Bond Index" (as most recently published in *The Bond Buyer*), shall be presumed to apply for all future dates, unless such index is no longer published in *The Bond Buyer*, in which case an index of tax-exempt revenue bonds with maturities of at least 20 years which is published in a financial newspaper or journal with national circulation may be used for this purpose, and the maturity schedule for any such Senior Lien Obligations shall be calculated, to the extent necessary, in the manner provided in clause (2) of this definition.

(6) Commercial Paper. With respect to any Senior Lien Obligations issued in the form of commercial paper, the interest on such Senior Lien Obligations shall be calculated in the manner provided in clause (5) of this definition, and the maturity schedule shall be calculated in the manner provided in clause (2) of this definition.

(7) Credit Agreement Payments. If the City has entered into a Credit Agreement in connection with an issue of Senior Lien Obligations, payments due under the Credit Agreement, from either the City or the Credit Provider, shall be included in such calculation except to the extent that the payments are already taken into account under (1) through (6) above, and any payments otherwise included above under (1) through (6) which are to be replaced by payments under a Credit Agreement, from either the City or the Credit Provider, shall be excluded from such calculation. With respect to

any calculation of historic data, only those payments actually made in the subject period shall be taken into account in making such calculation, and, with respect to prospective calculations, only those payments reasonably expected to be made in the subject period shall be taken into account in making the calculation.

F. *Authorized Official* means any of the Mayor, the City Clerk, the City Manager, or the Chief Financial Officer of the City or the President/Chief Executive Officer or the Senior Vice President/Chief Financial Officer of the Board.

G. *Average Annual Debt Service Requirements* means that average amount which, at the time of computation, will be required to pay the Annual Debt Service Requirements when due (either at Stated Maturity or mandatory redemption) and derived by dividing the total of such Annual Debt Service Requirements by the number of Fiscal Years then remaining before Stated Maturity of such Senior Lien Obligations. For the purposes of this definition, a fractional period of a Fiscal Year shall be treated as an entire Fiscal Year. Capitalized interest payments provided from bond proceeds, accrued interest on any Senior Lien Obligations, and interest earnings thereon shall not be credited in making such computation.

H. *Board* means the Board of Trustees of the System confirmed and described in Section 32 of this Ordinance.

I. *Bonds* means the \$110,000,000 “City of San Antonio, Texas Water System Revenue Bonds, Taxable Series 2010B (Direct Subsidy - Build America Bonds)” as authorized by this Ordinance.

J. *Capital Additions* means any water, wastewater treatment, reuse water, and/or stormwater drainage plants or facilities, or an interest therein, including any associated transmission facilities with respect to each or any combination of the foregoing facilities found by the Board to be a Capital Addition.

K. *Capital Improvements* means any extensions, improvements, replacements, and betterments to the System other than Capital Additions.

L. *City* means the City of San Antonio, Texas, and where appropriate, the City Council.

M. *Closing Date* means the date of physical delivery of the initial Bonds in exchange for the payment in full therefor by the Purchaser.

N. *Commercial Paper* means the “City of San Antonio, Texas Water System Commercial Paper Notes, Series A” which the City has authorized in a maximum aggregate principal amount of \$500,000,000.

O. *CPS Contract* means the Wastewater Contract executed on September 15, 1990 between the Alamo Conservation and Reuse District and the City Public Service Board of San Antonio. Pursuant to Ordinance No. 74983 the City Council abolished the Alamo Conservation and Reuse District and assumed all of such entity’s assets and obligations by creating the



Department of Water Reuse as a new City department and a part of the System pursuant to the provisions of the City's Home Rule Charter.

P. *Credit Agreement* means a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Debt, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized, and approved by the City as a Credit Agreement in connection with the authorization, issuance, security, or payment of any Debt.

Q. *Credit Facility* means (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a rating agency having an outstanding rating on any Debt would rate such Debt fully insured by a standard policy issued by the insurer in its highest generic rating category for such obligations, or (ii) a letter or line of credit issued by any financial institution, provided that a rating agency having an outstanding rating on any Debt would rate such Debt in one of its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of such Debt and the interest thereon.

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

S. *Debt* means

(1) all indebtedness payable from Pledged Revenues and/or Net Revenues incurred or assumed by the City for borrowed money (including indebtedness payable from Pledged Revenues and/or Net Revenues arising under Credit Agreements) and all other financing obligations of the System payable from Pledged Revenues and/or Net Revenues that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

(2) all other indebtedness payable from Pledged Revenues and/or Net Revenues (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations pertaining to the System that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining *Debt*, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository (a) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (b) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the System in prior Fiscal Years.

T. *Debt Service Fund* means the special Fund confirmed by the provisions of Section 15 of this Ordinance.

U. *Depository* means one or more official depository banks of the Board.

V. *DTC* means The Depository Trust Company, New York, New York and its successors and assigns.

W. *Designated Financial Officer* means the chief executive officer of the Board, the chief financial officer of the Board, or such other financial or accounting official of the Board so designated by the City Council.

X. *Engineer* means an individual, firm, or corporation engaged in the engineering profession, being a registered professional engineer under the laws of the State of Texas, having specific experience with respect to water, wastewater, reuse water, and/or stormwater drainage systems similar to the System designated by the Board and such individual, firm, or corporation may be employed by, or may be an employee of, the City or the Board.

Y. *Extraordinary Event* means the occurrence of a change to sections 54AA or 6431 of the Code (as such sections were added by section 1531 of the Stimulus Act, pertaining to build America bonds) or if there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such Sections or any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of an act or omission by the City to satisfy the requirements to receive the 35% cash subsidy payment from the United States Treasury, pursuant to which the City's 35% cash subsidy payment from the United States Treasury is reduced or eliminated.

Z. *Extraordinary Redemption Price* means an amount, as determined by a Designated Financial Officer, equal to the greater of: (1) the issue price of the Bonds set forth herein (but not less than 100% of the principal amount of the Bonds) to be redeemed or (2) the sum of the present value of the remaining scheduled payments of principal and interest on the Bonds to be redeemed to the maturity date of such Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate plus one hundred (100) basis points, plus accrued interest on the Bonds to be redeemed to the redemption date.

AA. *Fiscal Year* means the twelve-month accounting period used by the Board in connection with the operation of the System, currently ending on December 31st of each year,

which may be any twelve consecutive month period established by the Board, but in no event may the Fiscal Year be changed more than one time in any three calendar year period.

BB. *Funded Debt* of the System means all Senior Lien Obligations created or assumed by the City that mature by their terms (in the absence of the exercise of any earlier right of demand), or that are renewable at the option of the City to a date, more than one year after the original creation or assumption of such Debt by the City.

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

DD. *Gross Revenues* for any period means all revenue during such period in respect or on account of the operation or ownership of the System, *excluding* refundable meter deposits, restricted gifts, grants in aid of construction, any amounts payable to the United States as rebate pursuant to the provisions of Section 42, any impact fees charged by the System pursuant to the provisions of Chapter 395, as amended, Local Government Code, payments received pursuant to the CPS Contract together with earnings and interest thereon, and earnings and income derived from the investment or deposit of money in the Project Fund and, until the Reserve Fund contains the Required Reserve Amount, the Reserve Fund, *but including*, earnings and income derived from the investment or deposit of money in the Debt Service Fund, the Reserve Fund after it contains the Required Reserve Amount, and any earnings and income from any special fund or account created and established for the payment or security of the Senior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Inferior Lien Obligations, unless the ordinance which authorizes the issuance of any such obligations specifically provides that any such earnings and income are to be deposited to another fund or account other than the System Fund.

EE. *Holder* or *Holder*s means the registered owner, whose name appears in the Security Register, for any Bond.

FF. *Inferior Lien Obligations* means (i) any bonds, notes, warrants, certificates of obligation, or other Debt hereafter issued by the City that are payable from and equally and ratably secured by a lien on and pledge of the Net Revenues that is subordinate and inferior to the pledge thereof securing payment of the currently outstanding Senior Lien Obligations, Junior Lien Obligations, and Subordinate Lien Obligations or any Additional Senior Lien Obligations, Additional Junior Lien Obligations, or Additional Subordinate Lien Obligations hereafter issued by the City, (ii) any obligations that are issued subject to the limitations in Section 1502.052, as

amended, Texas Government Code, and (iii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by an inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

GG. *Interest Payment Date* means the date semiannual interest is payable on the Bonds, being May 15 and November 15 of each year, commencing May 15, 2011, while any of the Bonds remain Outstanding.

HH. *Junior Lien Obligations* means (i) the outstanding and unpaid obligations of the City that are payable, in whole or in part, from and equally and ratably secured by a junior lien on and pledge of the Net Revenues of the System securing the payment of any Senior Lien Obligations, identified as follows:

(1) “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2001”, dated March 1, 2001, in the original principal amount of \$9,715,000;

(2) “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2001-A”, dated March 1, 2001, in the original principal amount of \$15,435,000;

(3) “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2002”, dated March 1, 2002, in the original principal amount of \$15,650,000;

(4) “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2002-A”, dated March 1, 2002, in the original principal amount of \$12,090,000;

(5) “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2003”, dated March 1, 2003, in the original principal amount of \$34,000,000;

(6) “City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2004”, dated July 1, 2004, in the original principal amount of \$10,635,000;

(7) “City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2004-A”, dated July 1, 2004, in the original principal amount of \$26,365,000;

(8) “City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2007”, dated December 15, 2006, in the original principal amount of \$8,070,000;

(9) “City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2007A”, dated December 15, 2006, in the original principal amount of \$35,375,000;

(10) “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2008”, dated May 15, 2008, in the original principal amount of \$30,000,000;

(11) “City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2008A”, dated May 15, 2008, in the original principal amount of \$23,260,000;

(12) “City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2009”, dated November 1, 2009, in the original principal amount of \$54,300,000;

(13) “City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2009A”, dated November 1, 2009, in the original principal amount of \$35,000,000;

(14) “City of San Antonio, Texas Water System Junior Lien Revenue Refunding Bonds, Series 2010”, dated February 1, 2010, in the original principal amount of \$59,145,000; and

(ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by a junior and inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

II. *Maintenance and Operating Expenses* means all current expenses of operating and maintaining the System not paid from the proceeds of any Debt, *including* (1) the cost of all salaries, labor, materials, repairs, and extensions necessary to render efficient service, *but only if*, in the case of repairs and extensions, that are, in the judgment of the Board (reasonably and fairly exercised), necessary to maintain operation of the System and render adequate service to the City and the inhabitants thereof and other customers of the System, or are necessary to meet some physical accident or condition which would otherwise impair the payment of Debt, (2) payments to pension, retirement, health, hospitalization, and other employee benefit funds for employees of the Board engaged in the operation or maintenance of the System, (3) payments under contracts for the purchase of water supply, treatment of sewage, or other materials, goods, or services for the System to the extent authorized by law and the provisions of such contract, (4) payments to auditors, attorneys, and other consultants incurred in complying with the obligations of the City or the Board hereunder, (5) the payments made on or in respect of obtaining and maintaining any Credit Facility, and (6) any legal liability of the City or the Board arising out of the operation, maintenance, or condition of the System, *but excluding* any allowance for depreciation, property retirement, depletion, obsolescence, and other items not requiring an outlay of cash and any interest on the Bonds or any Debt.

JJ. *Make-Whole Redemption Price* means an amount, as determined by a Designated Financial Officer, equal to the greater of: (1) the issue price of the Bonds set forth herein (but not less than 100% of the principal amount of the Bonds) to be redeemed or (2) the sum of the present value of the remaining scheduled payments of principal and interest on the Bonds to be redeemed to the maturity date of such Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year

containing twelve 30-day months, at the Treasury Rate plus thirty (30) basis points, plus accrued interest on the Bonds to be redeemed to the redemption date.

KK. *Maximum Annual Debt Service Requirements* means the greatest requirements of Annual Debt Service Requirements (taking into account all mandatory principal redemption requirements) scheduled to occur in any future Fiscal Year or in the then current Fiscal Year for the particular obligations for which such calculation is made. Capitalized interest payments provided from bond proceeds, accrued interest on any Senior Lien Obligations, and interest earnings thereon shall not be credited in making such computation.

LL. *Net Revenues* means Gross Revenues with respect to any period, after deducting the Maintenance and Operating Expenses during such period.

MM. *Ordinance* means this ordinance adopted by the City Council on October 21, 2010.

NN. *Outstanding* when used in this Ordinance with respect to Bonds means, as of the date of determination, all Bonds issued and delivered under this Ordinance, except:

- (1) those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;
- (2) those Bonds for which payment has been duly provided by the City in accordance with the provisions of Section 42 of this Ordinance; and
- (3) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 37 of this Ordinance.

OO. *Pledged Revenues* means (1) the Net Revenues, plus (2) any additional revenues, income, receipts, or other resources, including, without limitation, any grants, donations, or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which hereafter are pledged by the City to the payment of the Senior Lien Obligations, and excluding those revenues excluded from Gross Revenues.

PP. *Previously Issued Senior Lien Obligations* means the shall mean (i) the outstanding and unpaid obligations of the City that are payable solely from and equally and ratably secured by a prior and first lien on and pledge of the Pledged Revenues of the System, identified as follows:

- (1) “City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2001”, dated March 1, 2001, in the original principal amount of \$58,700,000;
- (2) “City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2002” dated February 1, 2002 in the original principal amount of \$300,510,000;

(3) “City of San Antonio, Texas Water System Revenue Bonds, Series 2002-A” dated February 15, 2002 in the original principal amount of \$137,820,000;

(4) “City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2004”, dated May 15, 2004 in the original principal amount of \$84,700,000;

(5) “City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2005”, dated November 15, 2005 in the original principal amount of \$298,220,000;

(6) “City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2007”, dated January 15, 2007 in the original principal amount of \$311,160,000;

(7) “City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2009”, dated January 15, 2009 in the original principal amount of, \$163,755,000;

(8) “City of San Antonio, Texas Water System Revenue Bonds, Series 2009A”, dated November 1, 2009 in the original principal amount of \$12,250,000;

(9) “City of San Antonio, Texas Water System Revenue Bonds, Taxable Series 2009B (Direct Subsidy – Build America Bonds)”, dated November 1, 2009 in the original principal amount of \$102,750,000; and

(10) upon issuance, the Bonds; and

(ii) obligations hereafter issued to refund any of the foregoing if issued in a manner so as to be payable from and equally and ratably secured by a first lien on and pledge of the Pledged Revenues of the System as determined by the City Council in accordance with any applicable law.

QQ. *Project Fund* means the special fund created and established by the provisions of Section 19 of this Ordinance.

RR. *Prudent Utility Practice* means any of the practices, methods, and acts, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods, and acts engaged in or previously approved by a significant portion of the public utility industry, known at the time the decision was made, that would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety, and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather is a spectrum of possible practices, methods, or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety, and expedition. In the case of any facility included in the System which is operated in common with one or more other entities, the term *Prudent Utility Practice*, as applied to such facility, shall have the meaning set forth in the agreement governing the operation of such facility.

SS. *Purchaser* means the initial purchaser or purchasers of the Bonds named in Section 38 of this Ordinance.

TT. *Rating Agency* means any nationally recognized securities rating agency which has assigned a rating to the Senior Lien Obligations.

UU. *Renewal and Replacement Fund* means the special fund confirmed by the provisions of Section 18 of this Ordinance.

VV. *Required Reserve Amount* means the amount required to be deposited and maintained in the Reserve Fund under the provisions of Section 16 of this Ordinance.

WW. *Required Reserve Fund Deposits* means the monthly deposits, if any, required to be deposited and maintained in the Reserve Fund under the provisions of Section 16 of this Ordinance.

XX. *Senior Lien Obligations* means the Bonds, the Previously Issued Senior Lien Obligations, and any Additional Senior Lien Obligations hereafter issued by the City or bonds issued to refund any of the foregoing (as determined within the sole discretion of the City Council in accordance with applicable law) if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured by a first lien on and pledge of the Pledged Revenues.

YY. *Series 1992 Bonds* means the “City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 1992” originally issued in the aggregate principal amount of \$635,925,000 pursuant to an Ordinance adopted on April 30, 1992 that are no longer outstanding.

ZZ. *Series 2010A Bonds* means the “City of San Antonio, Texas Water System Revenue Bonds, Series 2010A” proposed to be issued concurrently with the Bonds, but ultimately determined by an Authorized Official to not be issued.

AAA. *Stated Maturity* means the annual principal payments of the Bonds payable on May 15 of each year, as set forth in Section 4 of this Ordinance.

BBB. *Special Project* means, to the extent permitted by law, any water, wastewater, reuse water, or municipal drainage system property, improvement, or facility declared by the City, upon the recommendation of the Board, not to be part of the System, for which the costs of acquisition, construction, and installation are paid from proceeds of a financing transaction other than the issuance of bonds payable from ad valorem taxes, Pledged Revenues, or Net Revenues and for which all maintenance and operation expenses are payable from sources other than ad valorem taxes, Pledged Revenues, or Net Revenues, but only to the extent that and for so long as all or any part of the revenues or proceeds of which are or will be pledged to secure the payment or repayment of such costs of acquisition, construction, and installation under such financing transaction.

CCC. The term *Subordinate Lien Obligations* shall mean (i) the currently outstanding and unpaid obligations of the City that are payable wholly or in part from a lien on and pledge of



the Net Revenues that is subordinate and inferior to the pledge thereof securing payment of the currently outstanding Senior Lien Obligations and the Junior Lien Obligations or any Additional Senior Lien Obligations or Additional Junior Lien Obligations, all as further provided in Section 24 of the Ordinance, identified as follows:

“City of San Antonio, Texas Water System Commercial Paper Notes, Series A”, authorized in the aggregate principal amount of \$500,000,000, including the currently outstanding Commercial Paper Notes and Loan Notes (each as defined in the ordinance authorizing the issuance of the Commercial Paper Notes);

and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by an inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

DDD. *Surety Bond* means the surety bonds guaranteeing certain payments into the Reserve Fund as provided in Section 16 hereof with respect to the Senior Lien Obligations as provided in the Surety Bond and subject to the limitations set forth in the Surety Bond and the Surety Bond shall constitute a permissible Surety Policy.

EEE. *Surety Policy* means and includes a surety bond, insurance policy, letter of credit, or other agreement or instrument whereby the issuer is obligated to provide funds up to and including the maximum amount and under the conditions specified in such agreement or instrument.

FFF. *System* means all properties, facilities, and plants currently owned, operated, and maintained by the City and/or the Board for the supply, treatment, and 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, whether situated within or without the limits of the City, all water (in any form) owned by the City, and any other projects and programs of the Board; provided, however, that the City expressly retains the right to incorporate (1) a stormwater system as provided by the provisions of Section 402.041 through 402.054, as amended, Local Government Code, or other similar law, and (2) any other related system as provided by the laws of the State of Texas as a part of the System. The System shall not include any Special Project or any water or water-related properties and facilities owned by the City as part of its electric and gas systems.

GGG. *Term of Issue* means with respect to any Balloon Debt, a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or the “maximum maturity date” in the case of commercial paper (“maximum maturity date” having the meaning given to said term in any ordinance authorizing the issuance of commercial paper) or (ii) the maximum term provided by the laws of the State of Texas.

HHH. *Treasury Rate* shall mean, with respect to any redemption date for a particular Bond, the yield to maturity as of such redemption date of United States Treasury securities with

a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Bond to be redeemed or first date of optional call of such Bond at par (if applicable); provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

SECTION 13: Rates and Charges. For the benefit of the Holders of the Senior Lien Obligations and in addition to all provisions and covenants in the laws of the State of Texas and in this Ordinance, the City hereby expressly stipulates and agrees, while any of the Senior Lien Obligations are outstanding, to establish and maintain rates and charges for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient:

- A. to pay Maintenance and Operating Expenses;
- B. to produce Pledged Revenues sufficient to pay (1) 1.25 times the Annual Debt Service Requirements for such Fiscal Year on the Senior Lien Obligations and (2) the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Senior Lien Obligations and any other obligations or evidences of indebtedness issued or incurred that are payable from and equally and ratably secured solely by a first lien on and pledge of the Pledged Revenues;
- C. to produce Net Revenues, together with any other lawfully available funds (including the proceeds of Debt which the City expects will be utilized to pay all or part of the principal of and/or interest on any obligations described in this subsection C), sufficient to pay (1) the principal of and interest on the currently outstanding Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the City and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the currently outstanding Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the City and any other obligations or evidences of indebtedness issued or incurred that are payable from and equally and ratably secured, in whole or in part, by a junior lien on and pledge of the Net Revenues; (2) the principal of and interest on the currently outstanding Subordinate Lien Obligations and any Additional Subordinate Lien Obligations hereafter issued by the City and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the currently outstanding Subordinate Lien Obligations and any Additional Subordinate Lien Obligations hereafter issued by the City and any other obligations or evidences of indebtedness issued or incurred that are payable from and equally and ratably secured, in whole or in part, by a subordinate lien on and pledge of the Net Revenues; and (3) the principal of and interest on any Inferior Lien Obligations hereafter issued by the City as the same become due and payable and to deposit the amounts required to be deposited in any special fund created and established for the payment and security of any Inferior Lien Obligations hereafter issued by the City;

D. to produce Net Revenues, together with any other lawfully available funds, to fund the transfers as permitted by the provisions of Section 17 of this Ordinance; and

E. to pay any other Debt payable from the Net Revenues and/or secured by a lien on the System.

Should the annual audit report required by Section 28 hereof reflect that the Pledged Revenues for the Fiscal Year covered thereby were less than necessary to meet the requirements of paragraph B of this Section, the Board will, within thirty (30) days after receipt of such annual audit report, report such fact to the City Council (which report shall be in addition to other required reports to the City Council) and review the operations of the System and the rates and charges for services provided, and the Board (and the City Council, if required) will make the necessary adjustments or revisions, if any, in order that the Pledged Revenues for the succeeding year will be sufficient to satisfy the foregoing coverage requirement specified in paragraph B above.

SECTION 14: System Fund - Flow of Funds. The City hereby covenants, agrees, and establishes that the Gross Revenues shall be deposited by the Board, as collected and received, into a separate account (previously created, established, and to be maintained with the Depository) known as the "City of San Antonio, Texas Water System Revenue Fund" (the *System Fund*) and that the Gross Revenues shall be kept separate and apart from all other funds of the City. All Gross Revenues deposited into the System Fund shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

FIRST: to the payment of all necessary and reasonable Maintenance and Operating Expenses as defined herein or required by statute, including, but not limited to, Chapter 1502, as amended, Texas Government Code (formerly Texas Revised Civil Statutes Annotated Article 1113, as amended), to be a first charge on and claim against the Gross Revenues, including a two-month reserve amount based upon the budgeted amount of Maintenance and Operating Expenses for the current Fiscal Year, which amount shall be retained in the System Fund.

SECOND: to the payment of the amounts required to be deposited into the Debt Service Fund created and established for the payment of the Senior Lien Obligations as the same become due and payable.

THIRD: to the payment of the amounts required to be deposited into the Reserve Fund created and established to maintain the amounts required to be deposited in accordance with the provisions of this Ordinance or the ordinances relating to the issuance of the Senior Lien Obligations.

FOURTH: to the payment of the amounts required to be deposited into the interest and sinking, reserve, or contingency fund to be created and established for the payment, security, and benefit of the currently outstanding Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the City as the same become due and payable.

FIFTH: to the payment of the amounts required to be deposited into the interest and sinking, reserve, or contingency fund to be created and established for the payment, security, and benefit of the currently outstanding Subordinate Lien Obligations and any Additional Subordinate Lien Obligations hereafter issued by the City as the same become due and payable.

SIXTH: to the payment of the amounts required to be deposited into the funds or accounts created and established for the payment of any Inferior Lien Obligations hereafter issued by the City as the same become due and payable; and

SEVENTH: to the payment of the amounts to be transferred to the City's General Fund as provided in Section 17 hereof and into the Renewal and Replacement Fund created and established by Section 18 hereof.

SECTION 15: Debt Service Fund. For purposes of providing funds to pay the principal of, premium, if any, and interest on the Senior Lien Obligations as the same become due and payable, the City agrees that the Board shall maintain, at the Depository, and there has previously been created a separate and special account or fund to be created and known as the "City of San Antonio, Texas Water System Revenue Bonds Interest and Sinking Fund" (the *Debt Service Fund*). The City covenants that the Board shall deposit into the Debt Service Fund prior to each principal and interest payment date from the available Pledged Revenues an amount equal to one hundred per cent (100%) of the amount required to fully pay the interest on and the principal of the Senior Lien Obligations then falling due and payable, such deposits to pay maturing principal and accrued interest on the Senior Lien Obligations to be made by the Board in substantially equal monthly installments on or before the business day before the 15th day of each month, beginning on or before the business day before the 15th day of the month next following the delivery of the Bonds to the Purchaser. If the Pledged Revenues in any month are insufficient to make the required payments into the Debt Service Fund, then the amount of any deficiency in such payment shall be added to the amount otherwise required to be paid into the Debt Service Fund in the next month.

The required monthly deposits to the Debt Service Fund for the payment of principal of and interest on the Senior Lien Obligations shall continue to be made as hereinabove provided until such time as (i) the total amount on deposit in the Debt Service Fund and the Reserve Fund is equal to the amount required to fully pay and discharge all outstanding Senior Lien Obligations (principal, premium, if any, and interest) or (ii) the Senior Lien Obligations are no longer outstanding.

Accrued interest and capitalized interest, if any, received from the purchaser of any Senior Lien Obligation shall be taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited into the Debt Service Fund. No accrued interest or capitalized interest on the Bonds was received from the Purchaser.

SECTION 16: Reserve Fund. To accumulate and maintain a reserve for the payment of the Senior Lien Obligations equal to 100% of the Maximum Annual Debt Service Requirements (calculated by the Board at the beginning of each Fiscal Year and as of the date of issuance of the Bonds and each series of Additional Senior Lien Obligations) for the Senior Lien Obligations

(the *Required Reserve Amount*), the City agrees that the Board has previously created and established, and shall maintain a separate and special fund or account known as the “City of San Antonio, Texas Water System Revenue Bond Reserve Fund” (the *Reserve Fund*), which Fund shall be maintained at the Depository. Earnings and income derived from the investment of amounts held for the credit of the Reserve Fund shall be retained in the Reserve Fund until the Reserve Fund contains the Required Reserve Amount; thereafter, such earnings and income shall be deposited to the credit of the System Fund. All funds deposited into the Reserve Fund shall be used solely for the payment of the principal of and interest on the Senior Lien Obligations, when and to the extent other funds available for such purposes are insufficient, and, in addition, may be used to retire the last Stated Maturity or Stated Maturities of or interest on the Senior Lien Obligations.

The City may provide a Surety Policy or Policies issued in amounts equal to all or part of the Required Reserve Amount for the Senior Lien Obligations in lieu of depositing cash into the Reserve Fund; provided, however, that no such Surety Policy may be so substituted unless the substitution of the Surety Policy will not, in and of itself, cause any ratings then assigned to the Senior Lien Obligations by any Rating Agency to be lowered and the ordinance authorizing the substitution of the Surety Policy for all or part of the Required Reserve Amount for the Senior Lien Obligations contains (i) a finding that such substitution is cost effective and (ii) a provision that the interest due on any repayment obligation of the City by reason of payments made under such Surety Policy does not exceed the highest lawful rate of interest which may be paid by the City at the time of the delivery of the Surety Policy. The City reserves the right to use Gross Revenues to fund the payment of (1) periodic premiums on the Surety Policy as a part of the payment of Maintenance and Operating Expenses, and (2) any repayment obligation incurred by the City (including interest) to the issuer of the Surety Policy, the payment of which will result in the reinstatement of such Surety Policy, prior to making payments required to be made to the Reserve Fund pursuant to the provisions of this Section to restore the balance in such fund the Required Reserve Amount for the Senior Lien Obligations.

Until the issuance of any Additional Senior Lien Obligations (or as recalculated by the Board as provided in the preceding paragraph), the Required Reserve Amount shall be increased by \$10,999,245 as a result of the issuance of the Bonds. This increased amount shall be deposited to the Reserve Fund in 60 monthly deposits of \$183,320.75. This sum, when taking into account cash on deposit in the Reserve Fund and the hereinafter described surety policies, satisfies the Required Reserve Amount as of the Closing Date, and additionally recognizing and taking into account the Reserve Fund deposits from the following existing surety policies: (i) a Surety Policy issued by Financial Guaranty Insurance Corporation for the Series 2001 Bonds, (ii) a Surety Policy issued by Financial Security Assurance Inc. for the Series 2002 Bonds, (iii) a Surety Policy issued by Financial Security Assurance Inc. for the Series 2002-A Bonds, (iv) a Surety Policy issued by Financial Guaranty Insurance Company for the Series 2004 Bonds, (v) a Surety Policy issued by MBIA Insurance Corporation for the Series 2005 Bonds, and (vi) a Surety Policy issued by Financial Guaranty Insurance Company for the Series 2007 Bonds.

As and when Additional Senior Lien Obligations are delivered or incurred, the Required Reserve Amount shall be increased, if required, to an amount calculated in the manner provided in the first paragraph of this Section. Any additional amount required to be maintained in the Reserve Fund shall be so accumulated by the deposit of all or a portion of the necessary amount

from the proceeds of the issue or other lawfully available funds in the Reserve Fund immediately after the delivery of the then proposed Additional Senior Lien Obligations, or, at the option of the City, by the deposit of monthly installments, made on or before the business day before the 15th day of each month following the month of delivery of the then proposed Additional Senior Lien Obligations, of not less than 1/60th of the additional amount to be maintained in the Reserve Fund by reason of the issuance of the Additional Senior Lien Obligations then being issued (or 1/60th of the balance of the additional amount not deposited immediately in cash), thereby ensuring the accumulation of the appropriate Required Reserve Amount.

When and for so long as the cash and investments in the Reserve Fund equal the Required Reserve Amount, no deposits need be made to the credit of the Reserve Fund; but, if and when the Reserve Fund at any time contains less than the Required Reserve Amount (other than as the result of the issuance of Additional Senior Lien Obligations as provided in the preceding paragraph), the City covenants and agrees that the Board shall cure the deficiency in the Required Reserve Amount by resuming the Required Reserve Fund Deposits to such Fund from the Pledged Revenues such monthly deposits to be in amounts equal to not less than 1/60th of the Required Reserve Amount covenanted by the City to be maintained in the Reserve Fund with any such deficiency payments being made on or before the business day before the 15th day of each month until the Required Reserve Amount has been fully restored. The City further covenants and agrees that, subject only to the prior payments to be made to the Debt Service Fund, the Pledged Revenues shall be applied and appropriated and used to establish and maintain the Required Reserve Amount and to cure any deficiency in such amounts as required by the terms of this Ordinance and any other ordinance pertaining to the issuance of Additional Senior Lien Obligations.

During such time as the Reserve Fund contains the Required Reserve Amount, the Board may, at its option, withdraw all surplus funds in the Reserve Fund in excess of the Required Reserve Amount and deposit such surplus in the Debt Service Fund.

In the event a Surety Policy issued to satisfy all or a part of the City's obligation with respect to the Reserve Fund causes the amount then on deposit in the Reserve Fund to exceed the Required Reserve Amount for the Senior Lien Obligations, the Board may transfer such excess amount to any fund or funds established for the payment of or security for the Senior Lien Obligations (including any escrow established for the final payment of any such obligations pursuant to the provisions of Chapter 1207, as amended, Texas Government Code), or to the Renewal and Replacement Fund; provided, however, to the extent that such excess amount represents Senior Lien Obligation proceeds, then such amount must be transferred to the Debt Service Fund or be otherwise used in accordance with then-applicable Texas law.

#### SECTION 17: Payments to City General Fund.

A. The Designated Financial Officer of the Board shall transfer no later than the last business day of each month, an amount of money calculated, subject to the second paragraph of Section 18, not to exceed 5% (or such lesser amount as may be determined from time to time by the City Council) of the Gross Revenues (after making each of the payments required by the provisions of subparagraphs First through Sixth of Section 14 hereof) for the preceding month to be utilized by the City in the manner permitted by the provisions of Chapter 1502, as amended,

Texas Government Code. The amount so transferred shall be net of all amounts owed by the City to the Board for the utility services described in Section 29E hereof; provided, however, that the Board shall provide the City with a sufficiently detailed statement of charges for such utility services to permit the City to allocate the charges for such utility services to the appropriate office, division, or department of the City.

B. To the extent that the available Net Revenues in any month are insufficient for the Board to make all or part of the transfer required by the preceding paragraph, the Board shall make up such shortfall (i) in the next month in which available Net Revenues exceed the amounts required to make the transfer to the City pursuant to the preceding paragraph and the *pari passu* payment to the Renewal and Replacement Fund under Section 18 or (ii) to the extent such shortfall has not been made up by the last month of the Fiscal Year, solely from any surplus funds deposited into the Renewal and Replacement Fund for such Fiscal Year. The Board's obligation to make up any shortfall in a Fiscal Year shall not carry over to a subsequent Fiscal Year.

**SECTION 18: Renewal and Replacement Fund.** There has previously been created and established and there shall be maintained on the books of the Board, and accounted for separate and apart from all other funds of the City and the Board, a separate fund to be entitled the "City of San Antonio, Texas Water System Renewal and Replacement Fund" (the *Renewal and Replacement Fund*). The Renewal and Replacement Fund shall be used for the purpose of (1) paying the costs of improvements, enlargements, extensions, additions, replacements, or other capital expenditures related to the System, or (2) paying the costs of unexpected or extraordinary repairs or replacements of the System for which System funds are not available, or (3) paying unexpected or extraordinary expenses of operation and maintenance of the System for which System funds are not otherwise available, or (4) depositing any funds received by the City pursuant to the CPS Contract, and such funds, including any interest or income thereon, shall be maintained in a separate, segregated account of the Renewal and Replacement Fund and shall only be used to pay Maintenance and Operating Expenses of the water reuse facilities of the System or the debt service requirements on any obligations incurred as permitted by the CPS Contract and in no event shall any such amount, including interest and income thereon, be transferred to the general fund of the City except as permitted by the CPS Contract, or (5) paying bonds or other obligations of the System for which other System revenues are not available, or (6) in the last month of any Fiscal Year to make up any shortfall as required by Section 17B, or (7) for any other lawful purpose in support of the System. The Renewal and Replacement Fund shall be maintained at the Depository.

Deposits to the Renewal and Replacement Fund shall be *pari passu* with the gross amount payable to the City pursuant to Section 17 (prior to the deduction of any charges for utility services provided pursuant to Section 29E) until the full amount payable to the City under such Section has been paid. That is, such deposits to the Renewal and Replacement Fund shall be made equally and ratably, without preference, and on a dollar-for-dollar basis with the gross amount payable to the City pursuant to Section 17, prior to the deduction of any charges for services, until the full amount to be paid to the City in a Fiscal Year under Section 17 has been transferred to the City's General Fund. Thereafter, all surplus Net Revenues shall be deposited to the Renewal and Replacement Fund.

SECTION 19: Project Fund. The creation of the special fund of the City, known as the “City of San Antonio, Texas Water System Project Fund” is hereby confirmed. The Project Fund shall be maintained as a separate account on the books of the Board at the Depository. The Project Fund shall be used only to account for (i) the proceeds of Senior Lien Obligations, (ii) any premium thereon, and (iii), except as hereinafter provided, investment earnings thereon issued for the purposes of paying the costs of and capitalized interest on, the Senior Lien Obligations during the extension, construction, improvement, or repair of the System, the costs of issuance of the Senior Lien Obligations, and for any other lawful purpose. Any amounts remaining in the Project Fund upon the completion of the projects funded therefrom shall be transferred by the Board to the Debt Service Fund.

Money on deposit in the Project Fund may, at the option of the Board, be invested as permitted by Texas law; provided, however, that all such deposits and investments shall be made in such manner that the money required to be expended from the Project Fund will be available at the proper time or times. All such investments shall be valued in terms of current market value no less frequently than the last business day of the Fiscal Year, except that any direct obligations of the United States of America — State and Local Government Series shall be continuously valued at their par value or principal face amount. Any obligation in which money is so invested shall be kept and held in the Depository, except as hereinafter provided. For purposes of maximizing investment returns, money in the Project Fund may be invested, together with money in the funds maintained in the Renewal and Replacement Fund or with any other money of the Board, in common investments of the kind described above, or in a common pool of such investments which shall be kept and held at the Depository, and which shall not be deemed to be or constitute a commingling of such money or funds, provided that safekeeping receipts or certificates of participation clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased, with such money or owned by the Project Fund are held by or on behalf of the Project Fund.

All interest and income derived from such deposits and investments may be deposited in the Project Fund as permitted by the provisions of Chapter 1201, as amended), Texas Government Code, and shall not constitute Gross Revenues, except that, to the extent required by law, such interest and income may be applied to make such payments to the United States as shall be required to assure that interest on the Senior Lien Obligations is excludable from gross income for federal income tax purposes of the Holders as described in Section 42 of this Ordinance.

SECTION 20: Deficiencies - Excess Pledged or Net Revenues.

A. If on any occasion there shall not be sufficient Pledged Revenues (after making all payments pertaining to the currently outstanding Senior Lien Obligations) to make the required deposits into the Debt Service Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available unallocated Pledged Revenues, or from any other sources available for such purpose, and such payments shall be in addition to the amounts required to be paid into these Funds during such month or months.

B. Subject to making the deposits required by this Ordinance, or any ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations, or the payments



required by the provisions of the ordinances authorizing the issuance of the currently outstanding Junior Lien Obligations and Subordinate Lien Obligations or any Additional Junior Lien Obligations, Additional Subordinate Lien Obligations, or any Inferior Lien Obligations hereafter issued by the City, the excess Net Revenues may be used as set forth in Sections 17 and 18 hereof.

SECTION 21: Payment of Bonds. While any of the Senior Lien Obligations are outstanding, the Designated Financial Officer and/or the Authorized Officials shall cause to be transferred to the Paying Agent/Registrar therefor, from funds on deposit in the Debt Service Fund, and, if necessary, in the Reserve Fund, amounts sufficient to fully pay and discharge promptly each installment of interest on and principal of the Senior Lien Obligations as such installment accrues or matures; such transfer of funds must be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the Senior Lien Obligations not later than the business day next preceding the date a debt service payment is due on the Senior Lien Obligations.

SECTION 22: Investment of Funds - Valuation - Transfer of Investment Income.

A. Money in the System Fund, the Debt Service Fund, the Reserve Fund, and the Renewal and Replacement Fund may, at the option of the Board, be invested in time deposits or certificates of deposit secured in the manner required by law for public funds, or be invested in direct obligations of, including obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities of the United States of America or as otherwise permitted by state law including, but not limited to, the Public Funds Investment Act, as amended, Chapter 2256, as amended, Texas Government Code, or any successor provision of law, as in effect from time to time; provided that all such deposits and investments shall be made in such manner (which may include repurchase agreements for such investments with any national bank) that the money required to be expended from any fund will be available at the proper time or times, and provided further that in no event shall such deposits or investments of money in the Reserve Fund mature later than the final maturity date of the Senior Lien Obligations. All such investments shall be valued in terms of current market value no less frequently than the last business day of the Board's Fiscal Year, except that any direct obligations of the United States of America - State and Local Government Series shall be continuously valued at their par value or principal face amount. Any obligation in which money is so invested shall be kept and held at the Depository, except as hereinafter provided. For purposes of maximizing investment returns, money in such funds may be invested, together with money in other funds or with other money of the Board, in common investments of the kind described above, or in a common pool of such investment which shall be kept and held at the Depository, which shall not be deemed to be or constitute a commingling of such money or funds provided that safekeeping receipts or certificates of participation clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such fund are held by or on behalf of each such fund. If necessary, such investments shall be promptly sold to prevent any default.

B. All interest and income derived from such deposits and investments (other than interest and income derived from deposits to the Reserve Fund if the Reserve Fund does not

contain the Required Reserve Amount) shall be credited to the System Fund monthly and shall constitute Gross Revenues.

SECTION 23: Issuance of Additional Senior Lien Obligations. In addition to the right to issue Additional Junior Lien Obligations, Additional Subordinate Lien Obligations, and Inferior Lien Obligations as authorized by Section 24 hereof pursuant to any laws of the State of Texas, the City reserves the right to issue Additional Senior Lien Obligations. The Additional Senior Lien Obligations, when issued in compliance with the terms and conditions hereinafter prescribed, shall be payable from and equally and ratably secured by a first lien on and pledge of the Pledged Revenues in the same manner and to the same extent as the Bonds. The Additional Senior Lien Obligations may be issued in such form and manner as is now or hereafter authorized by the laws of the State of Texas for the issuance of evidences of indebtedness or other instruments and should new methods or financing techniques be developed that differ from those now available, the City and the Board reserve the right to employ the same in their financing arrangements; provided, however, that none shall be issued unless and until the following conditions, as appropriate, have been met:

A. Conditions Precedent - General. The City covenants and agrees that Additional Senior Lien Obligations will not be issued unless and until:

(1) the Designated Financial Officer executes a certificate stating that (a) except for a refunding to cure a default, or the deposit of a portion of the proceeds of any Additional Senior Lien Obligations to satisfy the City's or the Board's obligations under this Ordinance, the City and the Board are not then in default as to any covenant, condition, or obligation prescribed in this Ordinance or in the ordinances authorizing the issuance of any then outstanding Senior Lien Obligations, and (b) each of the special funds created for the payment, security, and benefit of the Senior Lien Obligations then outstanding contains the amount of money then required to be on deposit therein. This certificate shall be dated as of the date the ordinance is adopted authorizing the issuance of the Additional Senior Lien Obligations;

(2) the laws of the State of Texas in force at such time provide for the issuance of the Additional Senior Lien Obligations;

(3) the ordinance authorizing the issuance of the Additional Senior Lien Obligations provides for deposits (at the times established in Section 15 hereof) to be made to the Debt Service Fund in amounts sufficient to pay the principal of, premium, if any, and interest on such Additional Senior Lien Obligations as the same mature; and

(4) the ordinance authorizing the issuance of the Additional Senior Lien Obligations (a) provides that the amount to be accumulated and maintained in the Reserve Fund shall be in an amount equal to not less than the Required Reserve Amount, after giving effect to the issuance of the proposed Additional Senior Lien Obligations, and (b) provides that any additional amount required to be deposited in the Reserve Fund shall be so accumulated by the deposit in the Reserve Fund of all or any part of such required additional amount in cash immediately after the delivery of such Additional Senior Lien Obligations, or, at the option of the Board, by (i) the deposit of such required

additional amount (or any balance of such required additional amount not deposited in cash as permitted above) in approximately equal monthly installments, made on or before the tenth day of each month following the delivery of such Additional Senior Lien Obligations (or 1/60 of the balance of such required additional amount not deposited in cash as permitted above) or (ii) the deposit of a Surety Policy which, in whole or in combination with deposits described in clause (i) above, is sufficient to satisfy the required additional amount to be on deposited in the Reserve Fund to accumulate and maintain the Required Reserve Amount.

B. Conditions Precedent - Capital Improvements. The City covenants and agrees that Additional Senior Lien Obligations will not be issued for the purpose of financing Capital Improvements, unless and until the conditions precedent in subparagraph A above have been satisfied and, in addition thereto the Designated Financial Officer represents that, according to the books and records of the Board, the Net Revenues, for the preceding Fiscal Year or for any 12 consecutive calendar month period out of the 18-month period ending not more than ninety (90) days preceding the month the ordinance authorizing the issuance of the Additional Senior Lien Obligations is adopted, are equal to at least 125% of the Maximum Annual Debt Service Requirements for all Senior Lien Obligations to be outstanding after giving effect to the issuance of the Additional Senior Lien Obligations then proposed. In making such a determination of the Net Revenues, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective not more than ninety (90) days prior to adoption of the ordinance authorizing the issuance of the Additional Senior Lien Obligations and, for purposes of satisfying the Net Revenues test, make a pro forma determination of the Net Revenues for the period of time covered by this representation based on such change in rates and charges being in effect for the entire period covered by the Designated Financial Officer's representation.

C. Conditions Precedent - Capital Additions - Initial Issue. The City covenants and agrees that Additional Senior Lien Obligations will not be issued for the purpose of financing Capital Additions unless and until (i) the same conditions precedent specified in subparagraph A above have been satisfied, and (ii) the conditions precedent specified in subparagraph B above are satisfied or, in the alternative, the City and the Board have obtained:

(1) a comprehensive report from an Engineer concerning the Capital Additions to be financed, which report shall (a) contain (i) detailed estimates of the cost of acquiring and constructing the Capital Additions, (ii) the estimated date the acquisition and construction of the Capital Additions will be completed and commercially operative, and (iii) a detailed analysis of the impact of the Capital Additions on the financial operations of the System during the construction thereof and for at least five Fiscal Years after the date the Capital Additions are anticipated to become commercially operative, and (b) conclude that (i) the Capital Additions are necessary and will substantially increase the capacity, or are needed to replace existing facilities, to meet current and projected demands for the service or product to be provided thereby, and (ii) the estimated cost of providing the service or product from the Capital Additions will be reasonable in comparison with projected costs for furnishing such service or product from other reasonably available sources; and

(2) a certificate of an Engineer to the effect that, based on the report described in C(1) above, the projected Net Revenues for each of the five Fiscal Years subsequent to the date the Capital Additions are anticipated to become commercially operative, as estimated in the report, will be equal to at least 125% of the Maximum Annual Debt Service Requirements for all Senior Lien Obligations to be outstanding after giving effect to the issuance of the Additional Senior Lien Obligations.

D. Condition Precedent - Capital Additions - Subsequent Issues. Once a Capital Addition has been initiated by meeting the conditions precedent specified in subparagraph C and the initial issue or series of Additional Senior Lien Obligations delivered therefor, the City reserves the right to issue additional issues or series of Additional Senior Lien Obligations to finance the costs of completing the acquisition and construction thereof and making the same commercially operative without satisfying any condition precedent under subparagraphs B or C but not until or unless:

(1) the Board makes a forecast (the *Forecast*) of the operations of the System demonstrating the System's ability to pay all obligations payable from the Net Revenues to be outstanding after the issuance of the Additional Senior Lien Obligations then being issued for the period (the *Forecast Period*) of each ensuing year through the fifth Fiscal Year subsequent to the latest estimated date such Capital Additions are anticipated to be commercially operative (in the event any obligation does not bear a fixed numerical rate of interest, the calculation as to the rate to be borne until the fifth Fiscal Year after the Capital Additions are estimated to become commercially operative shall be based upon an estimate by the Board of such interest rate); and

(2) the Engineer reviews such Forecast and executes a certificate to the effect that (a) such Forecast is reasonable and, based thereon (and such other factors deemed to be relevant), the Net Revenues will be adequate to pay all Senior Lien Obligations to be outstanding after the issuance of the Additional Senior Lien Obligations then being issued for the Forecast Period and (b) the proceeds from the sale of such Additional Senior Lien Obligations are estimated to be sufficient to complete such acquisition and construction.

E. Computations; Reports. In the preparation of the Engineer's report required in subparagraphs C or D above, the Engineer may rely upon other experts or professionals, including those in the employment of the City or the Board, provided such Engineer's report discloses the extent of such reliance and concludes it is reasonable to rely on these experts or professionals. In connection with the issuance of Additional Senior Lien Obligations for Capital Additions, the Engineer's certificate, together with the Engineer's report for the initial issue and the Forecast for a subsequent issue, shall be conclusive evidence and the only evidence required to show compliance with the provisions and requirements of subparagraphs C and D above.

F. Combined Issues. Additional Senior Lien Obligations for Capital Additions may be combined in a single issue with Additional Senior Lien Obligations for Capital Improvements provided the conditions precedent set forth in the applicable subparagraphs B, C, and D are complied with as the same relate to the respective purposes.

G. Parity. All such Additional Senior Lien Obligations provided for in this Section, when issued in accordance with the above, shall be payable from and equally and ratably secured by a first lien on and pledge of the Pledged Revenues on a parity with the pledge thereof securing the payment of the Bonds, and the provisions of this Ordinance relating to the use of Pledged Revenues shall be applicable to such Additional Senior Lien Obligations as though the same were a part of such original authorization.

SECTION 24: Issuance of Additional Junior Lien Obligations, Additional Subordinate Lien Obligations, and Inferior Lien Obligations. The City hereby reserves the right to issue, at any time, obligations including, but not limited to, Additional Junior Lien Obligations, Additional Subordinate Lien Obligations, and Inferior Lien Obligations payable from and equally and ratably secured, in whole or in part, by a lien on and pledge of the Net Revenues, subordinate and inferior in rank and dignity to the lien on and pledge of such Net Revenues securing the payment of the currently outstanding Senior Lien Obligations, as may be authorized by the laws of the State of Texas.

SECTION 25: Refunding Bonds. The City reserves the right to issue refunding bonds to refund all or any part of the outstanding Senior Lien Obligations, pursuant to any law then available, upon such terms and conditions as the City Council may deem to be in the best interest of the City, its inhabitants, and other customers of the System, and if less than all such outstanding Senior Lien Obligations are refunded, the conditions precedent prescribed for the issuance of Additional Senior Lien Obligations set forth in Section 23 of this Ordinance shall be satisfied and the representations and certifications required in Section 23B and C shall give effect to the Maximum Annual Debt Service Requirements of the proposed refunding bonds (but shall not give effect to the Maximum Annual Debt Service Requirements of the obligations being refunded following their cancellation or provision being made for their payment); provided, however, if as a result of such refunding the Annual Debt Service Requirements are not increased in any Fiscal Year, the City shall not be required to satisfy the requirements of Section 23B or C as a requirement for the issuance of such refunding bonds.

SECTION 26: Issuance of Special Project Obligations. Nothing in this Ordinance shall be construed to deny the City the right and it shall retain the right to issue Special Project obligations, provided, however, the City will not issue Special Project obligations unless the City concludes, upon recommendation of the Board, that (i) the plan for developing the Special Project is consistent with sound planning, (ii) the Special Project would not materially and adversely interfere with the operation of the System, (iii) the Special Project can be economically and efficiently operated and maintained, and (iv) the Special Project can be economically and efficiently utilized by the Board to meet water, wastewater, water reuse, or stormwater drainage requirements and the cost of such will be reasonable.

SECTION 27: Maintenance of System - Insurance. The City covenants and agrees that while the Senior Lien Obligations remain outstanding the Board will maintain and operate the System in accordance with Prudent Utility Practice and will maintain casualty and other insurance on the properties of the System and its operations of a kind and in such amounts customarily carried by municipal corporations in the State of Texas engaged in a similar type of business (which may include an adequate program of self-insurance); and that it will faithfully and punctually perform all duties with reference to the System required by the laws of the State

of Texas. All money received from losses under such insurance policies, other than public liability policies, are hereby pledged as security for the Senior Lien Obligations until and unless the proceeds are paid out in making good the loss or damage in respect of which such proceeds are received, either by replacing the property destroyed or repairing the property damaged, and adequate provision for making good such loss or damage must be made within ninety (90) days after the date of loss. The payment of premiums for all insurance policies required under the provisions hereof and the costs associated with the maintenance of any self-insurance program shall be considered Maintenance and Operating Expenses. Nothing in this Ordinance shall be construed as requiring the City or the Board to expend any funds which are derived from sources other than the operation of the System, but nothing herein shall be construed as preventing the City or the Board from doing so.

SECTION 28: Records and Accounts - Annual Audit. The City covenants and agrees that so long as any of the Senior Lien Obligations remain outstanding, the Board will keep and maintain separate and complete records and accounts pertaining to the operations of the System in which complete and correct entries shall be made of all transactions relating thereto, as provided by generally accepted accounting principles, consistently applied, and by Chapter 1502, as amended, Texas Government Code (formerly Texas Revised Civil Statutes Annotated Articles 1113 and 1113b, as amended), or other applicable law. The Holders of the Bonds or any duly authorized agent or agents of such Holders shall have the right to inspect the System and all properties comprising the same. The City further agrees that, following the close of each Fiscal Year, the Board will cause an audit of such books and accounts to be made by an Accountant. Copies of each annual audit shall be made available for public inspection during normal business hours at the Board's principal office and the City Clerk's office and may be furnished to, upon written request, any Holder upon payment of the reasonable copying and mailing charges. Expenses incurred in making the annual audit of the operations of the System shall be considered as Maintenance and Operating Expenses.

SECTION 29: Special Covenants. The City hereby further covenants that:

A. it has the lawful power to pledge the Pledged Revenues supporting the Bonds and has lawfully exercised this power under the laws of the State of Texas, including the power existing under Chapters 1371 and 1502, as amended, Texas Government Code, and the City's Home Rule Charter;

B. the Senior Lien Obligations shall be equally and ratably secured by a lien on and pledge of the Pledged Revenues in a manner that one obligation shall have no preference over any other obligation;

C. other than for the payment of the currently outstanding Junior Lien Obligations, Subordinate Lien Obligations, and the Senior Lien Obligations, the Pledged Revenues and/or the Net Revenues have not in any manner been pledged to the payment of any debt or obligation of the City or of the System;

D. as long as any Bonds, or any interest thereon, remain Outstanding, neither the City nor the Board will sell, lease, or encumber the System or any substantial part thereof (except as provided in Sections 23, 24, and 25 of this Ordinance) provided that this covenant shall not be

construed to prohibit the sale of such machinery, or other properties or equipment which has become obsolete or otherwise unsuited to the efficient operation of the System;

E. no free service (except water provided to the City for municipal fire-fighting purposes and certain stormwater utility service) of the System shall be allowed, and, should the City or any of its agencies or instrumentalities make use of the services and facilities of the System, payment of the reasonable value thereof shall be made, if necessary, by the City pursuant to Section 17;

F. to the extent that it legally may, the City further covenants and agrees that, so long as any of the Bonds, or any interest thereon, are Outstanding, no franchise shall be granted for the installation or operation of any competing utility systems, and the operation of any such systems by anyone is hereby prohibited;

G. through the Board as an agent of the City, it will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Ordinance; through the Board as an agent of the City, it will promptly pay or cause to be paid the principal amount of and interest on all Senior Lien Obligations, on the dates and in the places and manner prescribed in this Ordinance; and through the Board as an agent of the City, it will, at the time and in the manner prescribed, deposit or cause to be deposited the amounts required to be deposited into the Funds and accounts as provided in accordance with this Ordinance; and any Holder of any Senior Lien Obligations may require the City and the Board, their officials, and employees to carry out, respect or enforce the covenants and obligations of this Ordinance by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against the City or the Board, their officials, and employees;

H. through the Board as an agent of the City, it shall at all times operate or cause to be operated the System consistent with Prudent Utility Practice;

I. it has or will obtain, or through the Board as an agent of the City, it has or will obtain, lawful title, whether such title is in fee or lesser interest, to the land, buildings, structures, facilities, and other property constituting the System; that it warrants that it will, or through the Board as an agent of the City, defend the title to all such land, buildings, structures, facilities, and other property and every part thereof, for the benefit of the Holders of the Senior Lien Obligations, against the claims and demands of all persons whomsoever; it is lawfully qualified to pledge the Pledged Revenues to the payment of the Senior Lien Obligations in the manner prescribed herein, and it has lawfully exercised such rights;

J. through the Board as an agent of the City, it will from time to time and before the same become delinquent pay and discharge all taxes, assessments, and governmental charges, if any, which shall be lawfully imposed upon it, the Board, or the System; through the Board as an agent of the City, it will pay all lawful claims for rents, royalties, labor, materials, and supplies which if unpaid might by law become a lien or charge thereon, the lien of which would be prior to or interfere with the liens hereof, so that the priority of the liens granted hereunder shall be fully preserved in the manner provided herein, and it will not create or suffer to be created any mechanic's, laborer's, materialman's, or other lien or charge which might or could be prior to the

liens hereof, or do or suffer any matter or thing whereby the liens hereof might or could be impaired; provided however, that no such tax, assessment, or charge, and that no such claims which might be used as the basis of a mechanic's, laborer's, materialman's, or other lien or charge, shall be required to be paid so long as the validity of the same shall be contested in good faith by the City or the Board; and

K. the City and the Board will comply with all of the terms and conditions of any and all laws, franchises, permits, and authorizations applicable to or necessary with respect to the System; and the City and the Board have obtained or will obtain and keep in full force and effect all franchises, permits, authorization, and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation, and maintenance of the System.

SECTION 30: Limited Obligations of the City. The Senior Lien Obligations are limited, special obligations of the City payable from and equally and ratably secured solely by a first lien on and pledge of the Pledged Revenues, and the Holders thereof shall never have the right to demand payment of the principal or interest on the Bonds from any funds raised or to be raised through taxation by the City.

SECTION 31: Security for Funds. All money on deposit in the Funds for which this Ordinance makes provision (except any portion thereof as may be at any time properly invested as provided herein) shall be secured in the manner and to the fullest extent required by the laws of Texas for the security of public funds, and money on deposit in such Funds shall be used only for the purposes permitted by this Ordinance.

SECTION 32: Management of System.

A. Pursuant to the authority contained in Chapter 1502, as amended, Texas Government Code (formerly Texas Revised Civil Statutes Annotated Article 1115b, as amended), except as otherwise specifically provided in this Ordinance, the complete management and control of the System during such time as any Debt is outstanding shall be vested in a seven-member board of trustees to be known as the "San Antonio Water System Board of Trustees". Such board is referred to in this Ordinance as the "Board." The Mayor of the City from time to time shall ex-officio be one of the members of the Board, and the other current members of the Board as of the date of passage of this Ordinance are Willie A. Mitchell currently serving a term ended May 31, 2010 (Mr. Mitchell remains in such position until his reappointment, or his replacement is appointed, by the City Council), Robert Anguiano currently serving a term ending on May 31, 2012, Samuel E. Luna, Elizabeth M. Provencio, and Louis E. Rowe all currently serving a term ending May 31, 2013, and Alexander E. Briseño currently serving a term ending May 31, 2014. Notwithstanding the foregoing, the Members of the Board may be increased to a number greater than seven (7), to include the Mayor of the City as an ex-officio member, as otherwise appointed by the City.

B. Members of the Board must be citizens of the United States and must either reside inside the corporate limits of the City or inside the area served by the System. No person who is related within the second degree of consanguinity or affinity (or as further restricted by the City's Home Rule Charter) to any Member of the Board or any member of the City Council shall be eligible for appointment as a Member of the Board. The term of office of each Member of the



Board shall be four (4) years. All terms shall commence on June 1 and shall terminate on May 31 four years later; provided, however, in the event a replacement for a Member has not been named by the City Council prior to the expiration of such Member's term, such Member shall serve until such Member's successor shall be appointed, and such successor's term shall terminate on May 31st of the year in which such term normally would have terminated if the City Council had appointed such successor prior to the termination of such Member's term. No person who has served as a Member of the Board for a total of two (2) terms shall be eligible for appointment as a Member of the Board. Any Member who is appointed to the Board to serve out an unexpired portion of another Member's term shall not be considered to have served a term unless the unexpired portion of the term so served is two (2) years or more.

C. Removal of residence from the area served by the System by any Member of the Board shall vacate such person's office as a Member of the Board, and any Member of the Board (other than the Mayor of the City) who shall be continuously absent from all meetings of the Board for a period of four (4) consecutive months shall, unless such person has requested and been granted leave of absence by the unanimous vote of the remaining Members of the Board, be considered to have vacated such person's office as a Member of the Board.

D. All vacancies in membership on the Board, whether occasioned by failure or refusal of any person to accept appointment or by resignation, failure to continue to qualify to serve, expiration of term of office, or otherwise, shall be filled by majority vote of all members of the City Council then holding office. Any Member of the Board other than the Mayor of the City may, by a two-thirds (2/3) vote of all members of the City Council then holding office, be removed from office, with or without cause. For purposes of this Section 32, the term *members of the City Council then holding office* shall be the number of persons authorized from time to time by the City's Home Rule Charter to be members of the City Council, whether or not all such positions are filled at any particular time.

E. Except as otherwise specifically provided in this Ordinance, the Board shall have absolute and complete authority and power to control, manage, and operate the System and shall control the expenditure and application of the Gross Revenues of the System pursuant to this Ordinance. In connection with the control, management, and operation of the System and the expenditure and application of the Gross Revenues therefrom, the Board shall be vested with all of the powers of the City with respect thereto, including all powers necessary or appropriate for the performance of all the covenants, undertakings, and agreements of the City contained in this Ordinance, and, with the exception of fixing rates and charges for service rendered by the System, shall have full power and authority to make rules and regulations governing the furnishing of services of the System to customers and for the payment of the same, and for the discontinuance of such services upon failure of customers to pay therefor and, to the extent authorized by law and by this Ordinance, shall have authority to make extensions, improvements, and additions to the System and to acquire by purchase or otherwise properties of every kind in connection therewith. The operational policies of the Board shall parallel those of the City Council insofar as practicable.

F. The Board shall determine the rates, fees, and charges for services rendered and to be rendered by the System, with due consideration being accorded to the terms, covenants, and conditions contained in this Ordinance and the ordinances authorizing the issuance of any

Additional Senior Lien Obligations. In the event any such determination reflects a necessity for the adjustment either by an increase or a reduction of such rates, fees, and charges, then the Board shall submit to the City Council a full report of the basis upon which such proposed adjustment is predicated, accompanied by a formal request from the Board for approval and adoption of the rates, fees, and charges recommended by the Board. If the City Council approves the adjustment thus recommended by the Board, it shall pass an appropriate ordinance placing such adjusted rates, fees, and charges in effect; provided, however, that the rates, fees, and charges for services rendered by the System shall never be reduced in such amounts as will impair the performance of any of the covenants contained in this Ordinance or in any ordinance authorizing the issuance of any Additional Senior Lien Obligations.

G. The Mayor, with the concurrence of the City Council, annually shall appoint one of the other Members of the Board as the Chairman of the Board. The Board annually shall elect one of its Members as Vice-Chairman of the Board and shall appoint a Secretary and an Assistant Secretary, either or both of whom may, but need not be, a Member or Members of the Board. If a Member of the Board is not appointed as Secretary or Assistant Secretary, then an employee or employees of the Board may be so appointed. The Board may adopt rules for the orderly conduct of its meetings. The Board shall manage and conduct the affairs of the System in a manner consistent with practices ordinarily employed by the boards of directors of private utility corporations operating properties of a similar nature and with the same degree of prudence. The Board shall have at least one meeting monthly. All meetings of the Board shall be open to the public in accordance with the requirements of Chapter 551, as amended, Texas Government Code. The Board is authorized to adopt rules of procedure and standards of conduct for persons attending and participating in its meetings and any public hearings conducted by or on behalf of the Board.

H. The Board shall appoint and employ all officers, employees, and professional consultants which it may deem desirable, including, without limitation, a chief executive officer of the System, attorneys, auditors, engineers, architects, and other advisers; provided, however, that the City Attorney shall be the chief legal adviser of the Board. The selection of additional attorneys shall be made in consultation with the City Attorney, but the decision of the Board shall be final. The Board may delegate administrative duties and authority to its employees and consultants. No officer or employee of the Board may be employed who shall be related within the second degree of consanguinity or affinity (or as further restricted by the City's Home Rule Charter) to any Member of the Board or any member of the City Council.

I. The Board shall obtain and keep continually in force an employees' fidelity and indemnity bond ("blanket" form), or its equivalent, written by a solvent and recognized insurer and covering losses to the amount of not less than One Hundred Thousand Dollars (\$100,000.00).

J. The Board shall make such provision for an employee retirement plan or pensions for employees of the Board as it may in its discretion determine. The Board may continue in existence the retirement plans in effect on the date of adoption of the ordinance authorizing the issuance of the Series 1992 Bonds for the Waterworks System, the Wastewater Department of the City, and the Water Reuse Department of the City and may change the same from time to time as it may determine. The title to and ownership of funds set aside in accordance with an

employee retirement plan shall be held in trust for the benefit of the members of such pension plan.

K. The Members of the Board, other than the Mayor of the City shall each receive annual compensation in the amount of \$2,500.00 or such additional amount as may be determined from time to time by the City Council. The Members of the Board shall be entitled to payment by the Board of their reasonable and necessary expenses for the discharge of their duties.

L. The Members of the Board shall not be personally liable, either individually or collectively, for any act or omission in the performance of their duties as Members of the Board not willfully fraudulent or in bad faith. The Board may authorize the use of Board funds to provide defense for its Members or its employees for civil actions brought against them for any such acts and may hold such Members and employees harmless from any damages awarded against them in any civil action.

M. The City Manager, or the City Manager's designee, shall be authorized to attend meetings of the Board, and the Board shall provide the City Manager with notice of such meetings in the same manner that such notice is given by the Board to its Members.

N. The Board when expending funds for improvements and materials and supplies shall be governed by the then current provisions of applicable City policy and the laws of the State of Texas relating to notices to bidders, advertisement thereof, requirements as to the taking of sealed bids based upon specifications for such improvements or purchase, the furnishing of surety bonds by contractors, and the manner of letting contracts.

O. The City Council reserves the right to require the Board, at the System's expense and payable from the Renewal and Replacement Fund, to conform its installations in the streets, alleys, and public ways of the City to any changes created by City construction projects; provided, however, such City ordered relocation of System facilities at System expense shall be limited, in any Fiscal Year, to an amount not to exceed 5% of the Board's annual budget for Maintenance and Operating Expenses in such Fiscal Year. Relocation costs exceeding such 5% limitation shall be funded through direct payment of such excess costs by the City, through payment to the Board of such excess cost by the City, or through the issuance of Debt.

P. No Member of the Board, or any officer, agent, or employee of the Board shall have a financial interest, direct or indirect, in any contract with the Board or shall be financially interested, directly or indirectly, in the sale to the Board of any land, materials, supplies, or services except on behalf of the Board as an officer or employee or as permitted by the provisions of Chapter 171, as amended, Local Government Code, or any other similar general Texas law in effect from time to time, or the City's Home Rule Charter, whichever is most restrictive.

Q. The Board shall prepare an annual budget to serve as a tool in controlling and administering the management and operation of the System. The annual budget shall reflect an estimate of Gross Revenues and an estimate of the disposition of these revenues in accordance with the funds flow requirements of this Ordinance. The annual budget shall be presented and

approved by the Board at least sixty (60) days prior to the beginning of the Board's Fiscal Year. Immediately following approval of the annual budget by the Board, it shall be submitted to the City Council for review and consultation. The Board may subsequently modify its approved budget by giving notice thereof to the City.

R. The Board shall prepare and administer, and may amend from time to time, a master plan for the System (the *Master Plan*), addressing the water resource and capital improvement projects required to accommodate the projected growth and development of the service area of the System. The Master Plan (and any amendment thereof) shall be approved by the Board and submitted for consideration and approval by the City Council in accordance with applicable provisions of the City's Home Rule Charter then in effect.

S. The Board shall provide the City Council with a complete briefing on any matter of litigation which is being contemplated involving the Board as a plaintiff against the City or any of its agencies, and City Council approval shall be obtained by the Board prior to the formal initiation of any such matter of litigation. Unless the City Attorney recommends City Council approval with respect to a particular matter of litigation proposed to be initiated by the Board, all other matters of litigation initiated by the Board may be approved by the Board without approval of the City Council.

T. The Board shall establish an appeals process for disciplinary actions involving its employees. An appeals committee composed of at least three (3) persons who are neither employees nor Members of the Board shall be appointed by the Board, and such committee shall operate under rules established by the Board from time to time. Such committee shall make recommendations to the chief executive officer of the System, with the final determination concerning disposition of a disciplinary action being made by the chief executive officer of the System. The Board shall further establish Equal Employment Opportunity and Affirmative Action programs in compliance with applicable federal and State of Texas guidelines. All personnel policies established by the Board shall parallel those of the City in effect from time to time insofar as practicable.

U. During each Fiscal Year, the Board shall prepare and formally present to the City Council a minimum of two (2) reports regarding the status of water resource planning and development, other water related issues being undertaken or contemplated by the Board, and other matters previously requested by the City Council.

V. The City Council reserves the right, by ordinance, to abolish the Board and thereafter transfer control, maintenance, and operation of the System to a department of the City in accordance with the provisions of the laws of the State of Texas and the City's Home Rule Charter. The City Council may so abolish the Board at any regular or special meeting of the City Council upon the affirmative vote of 3/4 of the members of the City Council then holding office. Such vote must be preceded by at least two (2) public hearings conducted by the City Council at least 30 days apart. Notice of such public hearings and the subject matter to be discussed shall be published at least one (1) time prior to each such hearing in a newspaper of general circulation within the City at least 15 days prior to the hearing. Such hearings may be conducted at a regular or special meeting of the City Council or in some other location designated by the City Council, and the calling of such hearings and the authorization of the publication of such notices may be

by majority vote of all members of the City Council then holding office at any regular or special meeting of the City Council. The ordinance abolishing the Board shall name the effective date of the abolition of the Board and the transfer of maintenance, control, and operation of the System to the City. By the same procedure, the City Council may subsequently reconstitute the Board and thereafter transfer control, maintenance, and operation of the System to such Board as otherwise set forth in this Ordinance.

SECTION 33: Remedies in Event of Default. In addition to all the rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in the payments to be made to the Debt Service Fund or Reserve Fund, or (b) defaults in the observance or performance of any other of the covenants, conditions, or obligations set forth in this Ordinance, the Holders of any of the Bonds shall be entitled to seek a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body of the City and/or the Board and other officers of the City and/or the Board to observe and perform any covenant, condition, or obligation prescribed in this Ordinance.

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

SECTION 46: Ordinance a Contract - Amendments - Outstanding Senior Lien Obligations. The City acknowledges that the covenants and obligations of the City herein contained are a material inducement to the purchase of the Bonds. This Ordinance shall constitute a contract with the Holders from time to time, shall be binding on the City and the Board and their successors and assigns, and shall not be amended or repealed by the City so long as any Bond remains Outstanding except as permitted in this Section.

A. The Holders of a majority in Outstanding principal amount of the Senior Lien Obligations shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the City; provided, however, that nothing herein contained shall permit or be construed to permit the amendment of the terms and conditions in this Ordinance or in the Senior Lien Obligations so as to:

- (1) make any change in the maturity of any of the outstanding Senior Lien Obligations;
- (2) reduce the rate of interest borne by any of the outstanding Senior Lien Obligations;
- (3) reduce the amount of the principal payable on the outstanding Senior Lien Obligations;
- (4) modify the terms of payment of principal of, premium, if any, or interest on the outstanding Senior Lien Obligations or impose any conditions with respect to such payment;

(5) affect the rights of the Holders of less than all of the Senior Lien Obligations then outstanding;

(6) amend clause A of this Section; or

(7) change the minimum percentage of the principal amount of Senior Lien Obligations necessary for consent to any amendment;

unless such amendment or amendments shall be approved by the Holders of all of the Senior Lien Obligations then outstanding.

B. If at any time the City shall desire to amend this Ordinance under this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in The City of New York, New York, and a newspaper of general circulation in the City, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal corporate trust office of the Paying Agent/Registrar for inspection by all Holders of the Senior Lien Obligations. Such publication is not required, however, if notice in writing is given to each Holder of any Senior Lien Obligations.

C. Whenever at any time not less than 30 days, and within one year, from the date of the first publication of such notice, or other service of written notice, the City shall receive an instrument or instruments executed by the Holders of at least a majority in outstanding principal amount of the Senior Lien Obligations then outstanding, which instrument or instruments shall refer to the proposed amendment described in such notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file with the Paying Agent/Registrar, the City Council may pass such amendment in substantially the same form.

D. Upon the passage of any such amendment pursuant to the provisions of this Section, this Ordinance shall be deemed to be amended in accordance with such amendment, and the respective rights, duties and obligations under this Ordinance of the City, the Board, and all the Holders of then outstanding Senior Lien Obligations shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendment.

E. Any consent given by the Holders of a Bond pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication of the notice provided for in this Section, and shall be conclusive and binding upon all future Holders of the same Senior Lien Obligations during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the Holder who gave such consent (as long as such person remains a Holder), or by a successor in title, by filing written notice thereof with the Paying Agent/Registrar and the City, but such revocation shall not be effective if the Holders of at least a majority in outstanding principal amount of the Senior Lien Obligations have, prior to the attempted revocation, consented to and approved the amendment.

F. The foregoing provisions of this Section notwithstanding, the City Council may amend this Ordinance without the consent of any Holder of the Senior Lien Obligations, solely for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City or the Board contained in this Ordinance, other covenants and agreements thereafter to be observed, grant additional rights or remedies to the Holders of the Senior Lien Obligations or to surrender, restrict or limit any right or power herein reserved to or conferred upon the City or the Board;

(2) to make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in this Ordinance, or in regard to clarifying matters or questions arising under this Ordinance, as are necessary or desirable and not contrary to or inconsistent with this Ordinance and which shall not adversely affect the interests of the Holders of the Senior Lien Obligations then outstanding;

(3) to modify any of the provisions of this Ordinance in any other respect whatever, provided that such modification shall be, and be expressed to be, effective only after the Senior Lien Obligations outstanding at the date of the adoption of such modification shall cease to be outstanding;

(4) to make such amendments to this Ordinance as may be required, in the opinion of bond counsel, to preserve (i) the validity and effectiveness of the elections and designations made in Section 40 hereof, (ii) the right of the City to continue its receipt of the Tax Credit; and (iii) the continued compliance with the BAB Agreement;

(5) to make such changes, modifications, or amendments as may be necessary or desirable in order to allow the Holders of the Senior Lien Obligations to thereafter avail themselves of a book-entry system for payments, transfers, and other matters relating to the Senior Lien Obligations, which changes, modifications or amendments are not contrary to or inconsistent with other provisions of this Ordinance and which shall not adversely affect the interests of the Holders of the Senior Lien Obligations;

(6) to make such changes, modifications, or amendments as may be necessary or desirable in order to obtain or maintain the granting of a rating on the Senior Lien Obligations by a Rating Agency or to obtain or maintain a Credit Agreement or a Credit Facility issued in support of the Senior Lien Obligations; or

(7) to make such changes, modifications, or amendments as may be necessary or desirable, which shall not adversely affect the interests of the Holders of the Senior Lien Obligations in order, to the extent permitted by law, to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange agreements, or similar type of agreements with respect to the Senior Lien Obligations. Notice of any such amendment may be published by the City in the manner described in clause B of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

G. Ownership of the Senior Lien Obligations shall be established by the Security Register maintained by the Paying Agent/Registrar, in its capacity as registrar and transfer agent for the Senior Lien Obligations.



**APPENDIX E**

**FORM OF CO-BOND COUNSEL'S OPINION**

**(THIS PAGE LEFT BLANK INTENTIONALLY)**

**Fulbright & Jaworski L.L.P.**  
**300 Convent Street, Suite 2200**  
**San Antonio, Texas 78205**

**Escamilla, Poneck & Cruz, LLP**  
**700 North St. Mary's Street, Suite 850**  
**San Antonio, Texas 78205**

**FINAL**

IN REGARD to the authorization and issuance of the “City of San Antonio, Texas Water System Revenue Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds)” (the *Bonds*), dated November 15, 2010, in the aggregate principal amount of \$110,000,000 we have reviewed the legality and validity of the issuance thereof by the City of San Antonio, Texas (the *City*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof, and have stated maturities of May 15 in each of the years 2012 through 2025, May 15, 2032, May 15, 2034, and May 15, 2040, unless optionally or mandatorily redeemed prior to stated maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Bonds.

WE HAVE SERVED AS CO-BOND COUNSEL for the City solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas and for no other purpose. 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 City or the City's water system and have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. 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.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the City Council of the City in connection with the issuance of the Bonds, including the Ordinance, a resolution adopted by the Board of Trustees of the San Antonio Water System (the *System*), and a Paying Agent/Registrar Agreement dated October 21, 2010 between the City and U.S. Bank National Association, Dallas, Texas; (2) customary certifications and opinions of officials of the City and the System; (3) certificates executed by officers of the City and the System relating to certain facts within the knowledge and control of the City and the System; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the City, which we found to be in due form and properly executed, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding special obligations of the City enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from and equally and ratably secured solely by a first and prior lien on and pledge of the Pledged Revenues (as defined in the Ordinance), on a parity with the currently outstanding Previously Issued

**Legal Opinion of Fulbright & Jaworski L.L.P. and Escamilla, Poneck & Cruz, LLP in connection with the authorization and issuance of “CITY OF SAN ANTONIO, TEXAS WATER SYSTEM REVENUE BONDS, TAXABLE SERIES 2010B (DIRECT SUBSIDY – BUILD AMERICA BONDS)”**

Senior Lien Obligations (as defined in the Ordinance), derived from the operation of the System (as defined in the Ordinance). In the Ordinance, the City retains the right to issue Additional Senior Lien Obligations (as defined in the Ordinance) and bonds or other evidences of indebtedness whose lien on and pledge of the Net Revenues shall be subordinate and inferior to that possessed by the Senior Lien Obligations (as defined in the Ordinance), without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. The Bonds do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any property of the City or the System, except with respect to the Pledged Revenues. The holder of the Bonds shall never have the right to demand payment of the Bonds out of any funds raised or to be raised by taxation.

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; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

**IRS CIRCULAR 230 DISCLOSURE:**

TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE IRS, WE INFORM YOU THAT ANY U.S. FEDERAL TAX ADVICE CONTAINED IN THIS COMMUNICATION (INCLUDING ANY ATTACHMENTS) IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF (I) AVOIDING PENALTIES UNDER THE INTERNAL REVENUE CODE OR (II) PROMOTING, MARKETING OR RECOMMENDING TO ANOTHER PARTY ANY TRANSACTION OR TAX-RELATED MATTER[S].



Financial Advisory Services  
Provided By

