

OFFICIAL STATEMENT

Dated October 9, 2013

Ratings: Fitch: "AA"

Moody's: "Aa2"

S&P: "AA"

(See "RATINGS" herein.)

NEW ISSUE – Book-Entry-Only

In the opinion of Co-Bond Counsel (named below), assuming continuing compliance by the City (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Ordinance (defined below) and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as herein described, corporations. (See "TAX MATTERS" herein.)

\$79,350,000

CITY OF SAN ANTONIO, TEXAS

(A political subdivision of the State of Texas located primarily in Bexar County)

WATER SYSTEM JUNIOR LIEN REVENUE AND REFUNDING BONDS, SERIES 2013E (NO RESERVE FUND)

Dated Date: October 1, 2013

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 \$79,350,000 Water System Junior Lien Revenue and Refunding Bonds, Series 2013E (No Reserve Fund) (the "Bonds") pursuant to the general laws of the State of Texas, including particularly Chapter 1207, as amended, Texas Government Code ("Chapter 1207"), Chapter 1371, as amended, Texas Government Code ("Chapter 1371" and, together with Chapter 1207, the "Act"), Chapter 1502, as amended, Texas Government Code, the City's Home Rule Charter, and the ordinance (the "Ordinance") relating to the Bonds adopted by the City Council of the City (the "City Council") on September 19, 2013. As permitted by the Act, the City Council has, in the Ordinance, delegated to certain authorized officials of the City and SAWS (each a "Designated Financial Officer") 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. The Approval Certificate was executed by the Senior Vice President/Chief Executive Officer of SAWS on October 9, 2013.

PAYMENT TERMS . . . Interest on the Bonds will accrue from their date of initial delivery to the initial purchasers thereof identified below (the "Underwriters"), will be payable on May 15 and November 15 of each year, commencing May 15, 2014, 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 other currently outstanding Junior Lien Obligations (as described herein), a junior lien on and pledge of the Net Revenues (as defined herein) of the System (defined herein) remaining after the City's satisfaction of its debt service payment and reserve fund obligations relating to the Senior Lien Obligations (as described herein). **The Reserve Fund (defined herein) providing additional security for certain of the outstanding Junior Lien Obligations does not additionally secure the Bonds.** The City has not covenanted or obligated itself to pay the Bonds from money raised or to be raised from taxation (see "THE BONDS – Security and Source of Payment; Pledge of Net Revenues" 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 provide funds for the purposes of (i) building, improving, extending, enlarging, and repairing the System, (ii) refunding certain currently outstanding Commercial Paper Notes (as described in Schedule I hereto, the "Refunded Commercial Paper"), and (iii) paying the costs of their issuance.

CUSIP PREFIX: 79642B

MATURITY SCHEDULE & 9 DIGIT CUSIP

See Schedule on Inside Cover

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 LLP of San Antonio, Texas, a member of Norton Rose Fulbright, and Escamilla & Poneck, LLP, San Antonio, Texas, Co-Bond Counsel (see "APPENDIX E - FORM OF CO-BOND COUNSEL'S OPINION" herein). Certain legal matters will be passed upon for the City by the City Attorney, for the Board by Langley & Banack, Incorporated, San Antonio, Texas, and for the Underwriters by McCall, Parkhurst & Horton L.L.P. and Shelton & Valadez, P.C., both of San Antonio, Texas, Co-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 November 6, 2013.

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

FROST BANK

MITSUBISHI UFJ SECURITIES

RAYMOND JAMES

MATURITY SCHEDULE

CUSIP NO. ⁽¹⁾ PREFIX: 79642B

Principal Amount (\$)	Stated Maturity (May 15)	Interest Rate (%)	Initial Yield (%)	CUSIP No. ⁽¹⁾ Suffix
3,180,000	2014	2.000	0.180	ZJ5
3,370,000	2015	4.000	0.330	ZK2
3,505,000	2016	4.000	0.620	ZL0
3,670,000	2017	5.000	0.970	ZM8
3,840,000	2018	4.000	1.420	ZN6
4,015,000	2019	5.000	1.760	ZP1
4,200,000	2020	4.000	2.080	ZQ9
4,395,000	2021	5.000	2.360	ZR7
4,620,000	2022	5.000	2.600	ZS5
4,855,000	2023	5.000	2.800	ZT3
5,105,000	2024	5.000	3.030 ⁽²⁾	ZU0
5,365,000	2025	5.000	3.210 ⁽²⁾	ZV8
5,640,000	2026	5.000	3.400 ⁽²⁾	ZW6
5,930,000	2027	5.000	3.590 ⁽²⁾	ZX4
6,235,000	2028	5.000	3.720 ⁽²⁾	ZY2
6,555,000	2029	5.000	3.840 ⁽²⁾	ZZ9
4,870,000	2030	4.000	4.120	A29

(Interest accrues from the Date of Delivery)

REDEMPTION . . . The City has reserved the right, at its option, to redeem Bonds having stated maturities on and after May 15, 2024, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on May 15, 2023, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. (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.
- (2) Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on May 15, 2023, the first optional call date for the Bonds, at a redemption price of par plus accrued interest.

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USE OF INFORMATION

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

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

The information set forth herein has been obtained from the 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 herein.

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 MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING DTC OR ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION WAS PROVIDED BY DTC.

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 THE SCHEDULE AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS – CITY OF SAN ANTONIO

City Council	Length of Service	Term Expires	Occupation
Julián Castro, Mayor	4 Years, 3 Months	May 31, 2015	Attorney
Diego M. Bernal, District 1	2 Years, 3 Months	May 31, 2015	Attorney
Ivy R. Taylor, District 2	4 Years, 3 Months	May 31, 2015	College Lecturer
Rebecca Viagran, District 3	3 Months	May 31, 2015	Business Owner
Rey Saladaña, District 4	2 Years, 3 Months	May 31, 2015	Adjunct Professor
Shirley Gonzales, District 5	2 Months	May 31, 2015	Business Owner
Ray Lopez, District 6	4 Years, 3 Months	May 31, 2015	Retired
Cris Medina, District 7	2 Years, 3 Months	May 31, 2015	Business Owner
Ron Nirenburg, District 8	2 Months	May 31, 2015	Broadcast General Manager
Elisa Chan, District 9 ⁽¹⁾	4 Years, 3 Months	May 31, 2015	Business Owner
Carlton Soules, District 10	2 Years, 3 Months	May 31, 2015	Commercial Real Estate

⁽¹⁾ On October 7, 2013, Councilwoman Elisa Chan submitted her resignation from the City Council, which will become effective on October 18, 2013, in order to file to become a candidate for another public office. Pursuant to a recent City Charter amendment, this seat on the City Council will remain vacant until filled as a result of a special election to be called by the City Council.

APPOINTED OFFICIALS – SAN ANTONIO WATER SYSTEM BOARD OF TRUSTEES

Board	Length of Service	Term Expires	Occupation
Heriberto Guerra Chairman	2 Years	May 31, 2014	Chairman and CEO Avanzar Interior Technologies
Louis E. Rowe Trustee	4 Years, 3 Months	May 31, 2017	President and CEO Goetting & Associates
Ernesto Arrellano, Jr. Trustee	Newly Appointed*	May 31, 2017	USAA Investment Operations Analyst
Patricia Jasso Trustee	Newly Appointed*	May 31, 2016	Retired
Patricia E. Merritt Trustee	Newly Appointed*	May 31, 2014	Retired
Wesley Reed Williams Trustee	Newly Appointed*	May 31, 2017	Retired
Julián Castro, Mayor and Ex-Officio Member	4 Years, 3 Months	May 31, 2015	Attorney

* Appointed on October 10, 2013; takes office on October 22, 2013.

SELECTED ADMINISTRATIVE STAFF – SAN ANTONIO WATER SYSTEM

Name	Position	Length of Service with System	Total Government Service
Robert R. Puente	President/Chief Executive Officer	5 Years, 4 Months	22 Years, 8 Months
Steven M. Clouse	Senior Vice President/Chief Operating Officer	24 Years	25 Years, 9 Months
Kelley Neumann	Senior Vice President - Strategic Resources	20 Years, 11 Months	31 Years, 10 Months
Douglas P. Evanson	Senior Vice President/Chief Financial Officer	8 Years, 4 Months	8 Years, 4 Months
Nancy Belinsky	Vice-President - Legal/General Counsel	10 Years, 4 Months	10 Years, 4 Months
Sharon De La Garza	Vice President - Human Resources	1 Year, 5 Months	17 Years, 5 Months
Gregorio Flores, III	Vice President - Public Affairs	7 Years, 11 Months	7 Years, 11 Months

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CONSULTANTS AND ADVISORS

Special Counsel to the Board..... Langley & Banack, Incorporated
San Antonio, Texas

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

Co-Bond CounselFulbright & Jaworski LLP, a member of Norton Rose Fulbright
San Antonio, Texas
and
Escamilla & Poneck, LLP
San Antonio, Texas

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San Antonio, Texas

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SELECTED ADMINISTRATIVE STAFF – CITY OF SAN ANTONIO

Name	Position	Tenure with City of San Antonio	Tenure in Current Position
Sheryl L. Sculley ⁽¹⁾	City Manager	7 Years, 10 Months	7 Years, 10 Months
Erik J. Walsh	Deputy City Manager	19 Years, 3 Months	1 Year, 11 Months
Peter Zaroni ⁽²⁾	Deputy City Manager	16 Years, 5 Months	9 Months
Ed Belmares	Assistant City Manager	6 Years, 8 Months	1 Year, 10 Months
David Ellison	Assistant City Manager	2 Years, 2 Months	1 Year, 5 Months
Carlos Contreras ⁽³⁾	Assistant City Manager	4 Years, 7 Months	9 Months
Gloria Hurtado ⁽⁴⁾	Assistant City Manager	2 Years, 6 Months	9 Months
Michael D. Bernard ⁽⁵⁾	City Attorney	7 Years, 10 Months	7 Years, 10 Months
Leticia M. Vacek	City Clerk	9 Years, 3 Months	9 Years, 3 Months
Ben Gorzell, Jr.	Chief Financial Officer	22 Years, 10 Months	3 Years, 1 Month
Troy Elliott	Director of Finance	17 Years	1 Year, 11 Months
Maria Villagomez	Director of Management and Budget	15 Years, 11 Months	3 Years, 10 Months

⁽¹⁾ Hired as City Manager in November 2005 with more than 30 years of public management experience, including serving as Assistant City Manager of the City of Phoenix, Arizona for 16 years and City Manager of Kalamazoo, Michigan, for which she worked for 15 years.

⁽²⁾ Promoted to Deputy City Manager effective November 19, 2012. Prior to his promotion, Mr. Zaroni served as the City's Assistant City Manager beginning on April 7, 2010.

⁽³⁾ Promoted to Assistant City Manager effective November 19, 2012. Prior to his promotion, Mr. Contreras served as the City's Director of Intergovernmental Relations Department beginning on February 1, 2009.

⁽⁴⁾ Promoted to Assistant City Manager effective November 19, 2012. Prior to her promotion, Mrs. Hurtado served as the City's Director of Human Services Department beginning on March 14, 2011.

⁽⁵⁾ Announced his intent to resign as City Attorney and return to private practice, but is expected to serve in his current position for the remainder of the 2013 year.

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OFFICIAL STATEMENT
RELATING TO
\$79,350,000
CITY OF SAN ANTONIO, TEXAS
(A political subdivision of the State of Texas located primarily in Bexar County)
WATER SYSTEM REVENUE AND REFUNDING BONDS
SERIES 2013E (NO RESERVE FUND)

INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of \$79,350,000 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2013E (No Reserve Fund) (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance (hereinafter defined), except as otherwise indicated herein (see “SELECTED PROVISIONS OF THE ORDINANCE” in APPENDIX D).

There follows in this Official Statement descriptions of the Bonds and certain information regarding the San Antonio Water System (“SAWS” or the “System”) and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the Co-Financial Advisors, Public Financial Management, Inc., Arlington, Virginia, 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 (“MSRB”) 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.

DESCRIPTION OF THE CITY

The City of San Antonio, Texas (the “City” or “San Antonio”) 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 10 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 2010 Census population for the City was 1,327,407 and for Bexar County was 1,714,773. 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. For additional information regarding the City, see “APPENDIX A - GENERAL INFORMATION REGARDING THE CITY.”

CITY’S COMBINED WATER AND WASTEWATER SYSTEM

The System consists of the City’s combined water and wastewater system. Management, operation, and maintenance of the System is vested in the SAWS Board of Trustees (the “Board”) under the various City ordinances authorizing the issuance of SAWS debt obligations, including the Ordinance.

PLAN OF FINANCING

PURPOSE

Proceeds from the sale of the Bonds will be used to (i) build, improve, extend, enlarge, and repair the System, (ii) refund certain of the currently outstanding Commercial Paper Notes (as described in Schedule I hereto, the “Refunded Commercial Paper”) to increase the capacity of the System’s Tax-Exempt Commercial Paper Program (defined and described herein), and (iii) pay the costs of their issuance.

REFUNDED COMMERCIAL PAPER

The Refunded Commercial Paper, and interest due thereon, are to be paid on their respective stated maturities from funds to be deposited with U.S. Bank National Association, Dallas, Texas (the “Escrow Agent”) pursuant to an Escrow Deposit Letter, dated as of September 19, 2013 (the “Escrow Agreement”), between the City and the Escrow Agent.

The Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriters and a cash contribution of the City, the City will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Commercial Paper at their respective stated maturities. Such funds will be held by the Escrow Agent in a special escrow account (the “Escrow Fund”) and irrevocably pledged to the payment of the principal of and interest on the Refunded Commercial Paper. Public Financial Management, Inc. and Estrada Hinojosa & Company, Inc., in their capacity as Co-Financial Advisors to the System, will certify as to the sufficiency of the amounts initially deposited to the Escrow Fund (the “Sufficiency Certificate”), without regard to investment, to pay the principal of and interest on the Refunded Commercial Paper when due at stated maturity. Such cash held in the Escrow Fund will not be available to pay the debt service requirements on the Bonds.

By the deposit of Bond proceeds and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have effectuated the defeasance of the Refunded Commercial Paper pursuant to the respective terms of the City ordinances authorizing their issuance. It is the opinion of Co-Bond Counsel that, as a result of such defeasance, and in reliance upon the Sufficiency Certificate, the Refunded Commercial Paper will no longer be payable from the applicable pledge of Net Revenues (defined herein) of the System made under the respective City ordinances authorizing their issuance, but will be payable solely from the amounts on deposit in the Escrow Fund and held for such purpose by the Escrow Agent, and that the Refunded Commercial Paper will be defeased and is not to be included in or considered to be indebtedness of the System for the purpose of a limitation of indebtedness or for any other purpose.

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

ISSUANCE OF ADDITIONAL OBLIGATIONS CONCURRENTLY WITH AND IN CLOSE PROXIMITY TO THE BONDS

On September 23, 2013, the City sold its \$60,100,000 Water System Junior Lien Revenue Bonds, Series 2013D (the "Series 2013D Bonds") to the Texas Water Development Board (the "TWDB") pursuant to its Clean Water State Revolving Fund Program. The Series 2013D Bonds are scheduled to close on October 31, 2013.

In addition and concurrently with the Bonds, the City is issuing its \$100,000,000 Water System Variable Rate Junior Lien Revenue and Refunding Bonds, Series 2013F (No Reserve Fund) (the "Series 2013F Bonds"), which are issued as Junior Lien Obligations – No Reserve Fund (defined herein). This Official Statement describes only the Bonds. Investors interested in purchasing the Series 2013F Bonds should review the offering document related thereto.

Subsequent to the issuance of the Bonds and the Series 2013F Bonds, the City intends to sell its \$26,370,000 (preliminary, subject to change) Water System Junior Lien Revenue Bonds, Series 2013C (the "Series 2013C Bonds") to the TWDB pursuant to its Drinking Water State Revolving Fund Program. The Series 2013C Bonds are scheduled to close on December 5, 2013. The Series 2013C Bonds and the Series 2013D Bonds are issued as Additional Junior Lien Obligations (defined herein) that are Reserve Fund-Secured Junior Lien Obligations (defined herein) for the purpose of financing improvements and additions to the System.

THE BONDS

DESCRIPTION OF THE BONDS

The Bonds are dated October 1, 2013, 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, will be computed on the basis of a 360-day year composed of twelve 30-day months, and will be payable on May 15 and November 15, commencing May 15, 2014. 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).

AUTHORITY FOR ISSUANCE

The Bonds are issued pursuant to the general laws of the State of Texas, including particularly Chapter 1207, as amended, Texas Government Code ("Chapter 1207"), Chapter 1371, as amended, Texas Government Code ("Chapter 1371" and, together with Chapter 1207, the "Act"), Chapter 1502, as amended, Texas Government Code, the City's Home Rule Charter, and an ordinance (the "Ordinance") authorizing the issuance of the Bonds adopted by the City Council of the City (the "City Council") on September 19, 2013. As permitted by the Act, the City Council has, in the Ordinance, delegated to certain authorized officials of the City and SAWS (each a "Designated Financial Officer") 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. The Approval Certificate was executed by the Senior Vice President/Chief Executive Officer of SAWS on October 9, 2013.

The Bonds are issued as Junior Lien Obligations–No Reserve Fund and, as a result thereof, are not additionally benefited by the creation and establishment of a Reserve Fund (see "SECURITY FOR THE BONDS – Parity Lien Ordinance Amendment" herein).

SECURITY AND SOURCE OF PAYMENT; PLEDGE OF NET REVENUES

The Bonds are special obligations of the City, payable both as to principal and interest, solely from and secured by, together with the other Junior Lien Obligations (as described herein), a junior lien on and pledge of the Net Revenues of the System remaining after satisfaction of all City payment and reserve fund obligations relating to the Senior Lien Obligations. **The Bonds are not additionally benefited by the creation and establishment of a Reserve Fund. The City has not covenanted or obligated itself to pay the Bonds from money raised or to be raised from taxation.**

All Net Revenues of the System remaining after satisfaction of financial obligations of the City resulting from the prior pledge thereof and lien thereon securing the payment of the Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City (as defined in the Ordinance) have been irrevocably pledged to the payment and security of the Junior Lien Obligations, which includes the Bonds, the Previously Issued Junior Lien Obligations, the Junior Lien Obligations–No Reserve Fund, and any Additional Junior Lien Obligations hereafter issued by the City (as each such term is defined in the Ordinance), including the establishment and maintenance of special funds or accounts created for the payment and security thereof. This pledge constitutes a junior lien on the Net Revenues of the System. In addition to the foregoing, the City has, in the Ordinance, reserved the right to pledge, and has in fact pledged, on a subordinate and inferior lien level of priority

to the pledge thereof and lien thereon securing the payment of the Junior Lien Obligations, the Net Revenues of the System as security for the Subordinate Lien Obligations (as defined in the Ordinance), as well as the right to pledge, on a further subordinated and inferior lien level of priority to the pledge thereof and lien thereon securing the payment of the Subordinate Lien Obligations, the Net Revenues of the System as security for the Inferior Lien Obligations (as defined in the Ordinance). To date, the City has not issued any Inferior Lien Obligations. For a complete description of the security for the Bonds, see "SECURITY FOR THE BONDS" 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 Net 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 Net 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 has covenanted in the Ordinance to take such measures as it determines is reasonable and necessary to enable a filing of a security interest in said pledge to occur.

OUTSTANDING DEBT

After the issuance of the Bonds, the City will have outstanding Senior Lien Obligations, as follows:

Dated Date	Outstanding Debt (\$) ⁽¹⁾	Issue Description
May 15, 2004	1,980,000	Water System Revenue and Refunding Bonds, Series 2004
November 15, 2005	295,585,000	Water System Revenue Refunding Bonds, Series 2005
January 15, 2007	261,915,000	Water System Revenue Refunding Bonds, Series 2007
January 15, 2009	148,855,000	Water System Revenue and Refunding Bonds, Series 2009
November 1, 2009	2,595,000	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	106,720,000	Water System Revenue Bonds, Taxable Series 2010B (Direct Subsidy - Build America Bonds)
March 15, 2011	42,925,000	Water System Revenue Refunding Bonds, Series 2011
August 15, 2011	159,025,000	Water System Revenue Refunding Bonds, Series 2011A
February 1, 2012	222,645,000	Water System Revenue Refunding Bonds, Series 2012
September 1, 2012	161,730,000	Water System Revenue and Refunding Bonds, Series 2012A
Total	<u>\$1,506,725,000</u>	

(1) Unaudited as of the date of this Official Statement.

In addition to the outstanding Senior Lien Obligations presented above, the City will, after the issuance of the Bonds, have outstanding the Junior Lien Obligations secured by and payable from Net Revenues as follows:

Dated Date	Outstanding Debt (\$) ⁽¹⁾	Issue Description
July 1, 2004	7,430,000	Water System Junior Lien Revenue and Refunding Bonds, Series 2004
July 1, 2004	20,385,000	Water System Junior Lien Revenue and Refunding Bonds, Series 2004-A
December 15, 2006	5,965,000	Water System Junior Lien Revenue and Refunding Bonds, Series 2007
December 15, 2006	24,850,000	Water System Junior Lien Revenue and Refunding Bonds, Series 2007A
May 15, 2008	26,405,000	Water System Junior Lien Revenue Bonds, Series 2008
May 15, 2008	20,700,000	Water System Junior Lien Revenue and Refunding Bonds, Series 2008A
November 1, 2009	49,120,000	Water System Junior Lien Revenue Bonds, Series 2009
November 1, 2009	35,000,000	Water System Junior Lien Revenue and Refunding Bonds, Series 2009A
February 1, 2010	41,520,000	Water System Junior Lien Revenue Refunding Bonds, Series 2010
December 1, 2010	16,470,000	Water System Junior Lien Revenue and Refunding Bonds, Series 2010A
May 15, 2011	22,255,000	Water System Junior Lien Revenue Bonds, Series 2011
May 15, 2011	17,305,000	Water System Junior Lien Revenue and Refunding Bonds, Series 2011A
April 1, 2012	28,995,000	Water System Junior Lien Revenue Refunding Bonds, Series 2012 (No Reserve Fund)
August 1, 2012	19,085,000	Water System Junior Lien Revenue Bonds, Series 2012 (TWDB CWSRF Tier III)
April 1, 2013	50,000,000	Water System Junior Lien Revenue Bonds, Series 2013A (WIF)
April 15, 2013	82,885,000	Water System Junior Lien Revenue Refunding Bonds, Series 2013B (No Reserve Fund)
October 1, 2013	26,370,000*	The Series 2013C Bonds ⁽²⁾
October 1, 2013	60,100,000	The Series 2013D Bonds
October 1, 2013	100,000,000	The Series 2013F Bonds
October 1, 2013	79,350,000	The Bonds
Total	<u>\$ 707,820,000*</u>	

* Preliminary, subject to change.

(1) Unaudited as of the date of this Official Statement.

(2) Delivery expected to occur on or about December 5, 2013.

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

Authorized Amount ⁽¹⁾	Amount Outstanding ⁽²⁾	Issue Description
\$500,000,000	\$55,000,000 ⁽³⁾	Water System Commercial Paper Notes, Series A
\$500,000,000	\$116,655,000 ⁽⁴⁾	Water System Commercial Paper Notes, Series B

- (1) Represents the combined authorization of the Series A Notes and the Series B Notes (i.e. the combined principal amount of Series A Notes and Series B Notes that can be outstanding at any time is \$500,000,000).
- (2) Unaudited as of the date of this Official Statement.
- (3) Excludes the Refunded Commercial Paper which the City is refunding (in an aggregate principal amount of \$132,120,000) with portions of each of the Bonds and the Series 2013F Bonds.
- (4) \$98,000,000 of this outstanding balance of Series B 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. \$18,655,000 of this outstanding balance of Series B Notes is attributed to the acquisition of an operating surface water treatment facility, with the cost associated with such acquisition (i.e. debt service on these Series B Notes and associated liquidity and administrative fees) being allocated to and paid by the District Special Project (defined herein) through which SAWS assumed BexarMet. See “THE DISTRICT SPECIAL PROJECT – Surface Water Treatment Plant” herein.

None of the above obligations, including the Bonds, are a charge upon any other income or revenues of the City, other than Net Revenues, 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 Net 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.

See the “Combined System Revenue Debt Service Requirements” table under “DEBT AND OTHER FINANCIAL INFORMATION” for a description of the debt service requirements on all outstanding indebtedness issued by the City for the benefit of the System.

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) payment of amounts required on any Senior Lien Obligations issued by the City; (3) payment of amounts required on any Junior Lien Obligations issued by the City; (4) payment of amounts required on any Subordinate Lien Obligations issued by the City; (5) payment of amounts required on any Inferior Lien Obligations issued by the City; and (6) transfers to the City’s General Fund and to the Renewal and Replacement Fund. The Commercial Paper Program (under which the City may issue Series A Notes and Series B Notes in a combined amount not to exceed \$500,000,000) represents the City’s only currently outstanding Subordinate Lien Obligations, but it is authorized to issue Additional Subordinate Lien Obligations. The City has not issued any Inferior Lien Obligations, but the City is authorized to do so under the Ordinance. (See “THE BONDS – Security and Source of Payment; Pledge of Net Revenues” herein; see also “SECURITY FOR THE BONDS – Flow of Funds” and “APPENDIX D - SELECTED PROVISIONS OF THE 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 (i) pay all Maintenance and Operating Expenses of the System, (ii) produce “Pledged Revenues” (substantively defined in the Ordinance to mean the senior and superior lien on and pledge of Net Revenues of the System securing the repayment of the Senior Lien Obligations and any Additional Senior Lien Obligations, plus any additional revenues, income, receipts, or other resources of the City pledged as security for the Senior Lien Obligations) at least equal to 1.25 times the interest on and the principal of the Senior Lien Obligations and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Senior Lien Obligations, and (iii) produce Net Revenues, together with any other lawfully available funds, to pay the principal of and interest on the currently outstanding Junior Lien Obligations, which includes the Bonds, as the same become due and payable and to deposit the amounts required to be deposited in any special fund or account created and established for the payment and security of any Additional Junior Lien Obligations hereafter issued by the City. (See “SECURITY FOR THE BONDS – Rate Covenant” for a description of additional rate covenants of the City.)

ADDITIONAL OBLIGATIONS

In the Ordinance, the City has reserved the right to issue (i) Additional Senior Lien Obligations, which are primarily secured by and payable from a lien on and pledge of the Net Revenues of the System that is senior and superior to the pledge thereof and lien thereon securing the Bonds, (ii) Additional Junior Lien Obligations, which are secured by and payable from a lien on and pledge of the Net Revenues of the System on parity with the pledge thereof and lien thereon securing the Bonds, (iii) Additional Subordinate Lien Obligations, which are primarily secured by and payable from a lien on and pledge of the Net Revenues of the System that is subordinate and inferior to the pledge thereof and lien thereon securing the Bonds, and (iv) Inferior Lien Obligations, which are primarily secured by and payable from a lien on and pledge of the Net Revenues of the System that is further subordinated and inferior to the pledge thereof and lien thereon securing the Subordinate Lien Obligations and any Additional Subordinate Lien Obligations.

The issuance of Additional Senior Lien Obligations is subject to the requirements of the ordinances of the City authorizing the respective issuance of Senior Lien Obligations and include, as the primary threshold matter, the ability to demonstrate that the Pledged 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.

The City's issuance of Additional Junior Lien Obligations payable from a parity lien pledge of the Net Revenues, which (together with the Previously Issued Junior Lien Obligations and the Junior Lien Obligations-No Reserve Fund (which includes the Bonds)) will be equally and ratably secured by a junior lien on and pledge of the Net Revenues of the System, is subject to complying with certain conditions in the Ordinance. For the issuance of Additional Junior Lien Obligations the repayment of which is not insured by a municipal bond insurance policy and that are not sold to the TWDB, and 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 preceding the month the ordinance authorizing the issuance of the Additional Junior Lien Obligations is adopted, must be equal to at least the average annual requirement for the payment of principal of and interest on all outstanding Junior Lien Obligations after giving effect to the Additional Junior Lien Obligations then proposed. For the issuance of Additional Junior Lien Obligations the repayment of which is not insured by a municipal bond insurance policy and that are sold to the TWDB, the City must show that Net Revenues for the same reporting period identified above are at least equal to one and one-fourth times the average annual requirement for the payment of principal of and interest on all outstanding Junior Lien Obligations after giving effect to the Additional Junior Lien Obligations then proposed. The issuance of Additional Junior Lien Obligations that are Reserve Fund-Secured Junior Lien Obligations (defined herein) also require satisfaction of certain conditions precedent, including additionally funding, as necessary, the Reserve Fund. (See "SECURITY FOR THE BONDS – Reserve Fund" herein). The Ordinance also specifies the conditions upon which Additional Subordinate Lien Obligations and Inferior Lien Obligations may be issued. See "APPENDIX D - SELECTED PROVISIONS OF THE ORDINANCE" for terms and conditions to be satisfied for the issuance of Additional Junior Lien Obligations herein.

REDEMPTION

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after May 15, 2024, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on May 15, 2023, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. 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) shall 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) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the 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 shall 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. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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. 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 thereof, 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, or (3) reduce the aggregate principal amount of Bonds required for consent to any amendment, addition, or rescission.

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 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 (defined herein). Any such deposit, with respect to a net defeasance, 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 Bond; provided, however, that no certification by an independent accounting firm of the sufficiency of deposits shall be required in connection with a gross defeasance of 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, (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, and (D) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no

assurance that current Texas law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (A) through (C) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under Texas law as permissible defeasance securities.

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, the City's right to redeem the 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, the Board, the Co-Financial Advisors, and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City 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.

The Depository Trust Company ("DTC"), New York, New York, 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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/Registrar 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.

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

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

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 (defined herein) (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 interest on a Bond 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 the Ordinance and the City’s obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the 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. 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, 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 reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (as further described under the caption “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 Net Revenues), such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Co-Bond Counsel will note with respect to the Bonds that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and to general principals of equity that permit the exercise of judicial discretion.

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	\$79,350,000.00
Net Reoffering Premium	9,331,077.55
Total Sources of Funds	<u>\$88,681,077.55</u>

Uses of Funds

Escrow Fund Deposit	\$52,120,000.00
Construction Fund Deposit	35,925,966.46
Underwriters' Discount	308,365.00
Cost of Issuance	326,746.09
Total Uses of Funds	<u>\$88,681,077.55</u>

In addition to the foregoing, the City will, at the time of initial delivery of the Bonds, contribute to the Escrow Fund, from lawfully available System funds, an amount equal to the interest owed on the Refunded Commercial Paper to their respective date of stated maturity.

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.

PLEGDED REVENUES

The Bonds are special obligations of the City which, together with the currently outstanding Previously Issued Junior Lien Obligations, Junior Lien Obligations-No Reserve Fund, and any Additional Junior Lien Obligations hereafter issued (collectively, the "Junior Lien Obligations"), are payable solely from and equally and ratably secured by a lien on and pledge of the Net Revenues of the System that is junior and inferior to the pledge thereof and lien thereon securing the repayment of the Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City (which first lien on Net Revenues is included in the definition of "Pledged Revenues"), along with any other additional revenues, income, receipts, or other resources that are pledged by the City to the payment of the Junior Lien Obligations (but excluding 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 Construction 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, 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 "APPENDIX D - SELECTED PROVISIONS OF THE ORDINANCE" 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 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 special funds and accounts created and established for the payment, security and benefit of the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City.

THIRD: to the payment of the amounts required to be deposited into the special funds and accounts created and established for the payment, security and benefit of the currently outstanding Junior Lien Obligations and any Additional Junior Lien Obligations hereafter issued by the City.

FOURTH: to the payment of the amounts that must be deposited in any special funds and accounts 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.

FIFTH: to the payment of the amounts that must be deposited in any special funds and accounts created and established for the payment, security, and benefit of any Inferior Lien Obligations hereafter issued by the City.

SIXTH: to the payment of the amounts to be transferred to the City's General Fund and into the Renewal and Replacement Fund, in accordance with the applicable provisions of the Ordinance.

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

BOND FUND; EXCESS BOND PROCEEDS

For purposes of providing funds to pay the principal of and interest on the Bonds as the same become due and payable, the City shall maintain, at the Depository, a separate and special fund or account created and known as the "Bond Fund." The City has covenanted that there shall be deposited from the Revenue Fund into the Bond Fund prior to each principal and interest payment date from the available Pledged Revenues an amount equal to one hundred percent (100%) of the amount required to fully pay the interest on and the principal of the Bonds then falling due and payable, such deposits to pay maturing principal and accrued interest on the Bonds to be made in substantially equal monthly installments on or before the first day of each month, beginning on or before the first day of the month next following the delivery of the Bonds to the Underwriters. No such deposit shall be required if, on the first day of each month, revenues sufficient to pay the maturing principal and interest payments are, and remain on deposit in the Bond Fund. If the Pledged Revenues in any month are insufficient to make the required payments into the Bond Fund, then the amount of any deficiency in such payment shall be added to the amount otherwise required to be paid into the Bond Fund in the next month.

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

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

PARITY LIEN ORDINANCE AMENDMENT

By ordinance of the City Council adopted on March 8, 2012, the City has amended the respective City ordinances authorizing the issuance of each series of the then-outstanding Previously Issued Junior Lien Obligations. These ordinance amendments permitted the City to issue, under certain circumstances described below, Junior Lien Obligations-No Reserve Fund, which are City obligations payable from and secured by a junior and inferior lien on and pledge of Net Revenues on parity with the lien thereon and pledge thereof securing the Reserve Fund-Secured Junior Lien Obligations (defined below), but that are not additionally benefited by money on deposit in the Reserve Fund.

Prior to the effectiveness of these ordinance amendments, all Additional Junior Lien Obligations were required to be additionally secured by a lien on and pledge of the Reserve Fund. The aforementioned ordinance amendments, which are now effective, allow the City to issue Junior Lien Obligations-No Reserve Fund so long as such Junior Lien Obligations-No Reserve Fund are sold to parties other than the TWDB. The City remains permitted to issue from time to time Reserve Fund-Secured Junior Lien Obligations upon satisfaction of the conditions described below under "SECURITY FOR THE BONDS – Reserve Fund" (in addition to the other prerequisites to the issuance of Additional Junior Lien Obligations described herein under "THE BONDS – Additional Obligations").

The necessary amendments to City ordinances to permit the issuance of Junior Lien Obligations-No Reserve Fund were consented to by each bond insurer and surety fund provider for each series of then-outstanding Previously Issued Junior Lien Obligations, as well as the TWDB (being the sole owner or consent right holder with respect to this matter for each series of then-outstanding Previously Issued Junior Lien Obligations).

As used herein, "Junior Lien Obligations-No Reserve Fund" means the City's Water System Junior Lien Revenue Refunding Bonds, Series 2012 (No Reserve Fund), its Water System Junior Lien Revenue Refunding Bonds, Series 2013B (No Reserve Fund), the Bonds, the Series 2013F Bonds, and any Additional Junior Lien Obligations hereafter issued that are not additionally benefited by money on deposit in the Reserve Fund; the term "Reserve Fund-Secured Junior Lien Obligations" means the Previously Issued Junior Lien Obligations and any Additional Junior Lien Obligations that are secured by a parity lien on and pledge of the Reserve Fund and specifically excluding the Junior Lien Obligations-No Reserve Fund.

The Bonds, together with the Series 2013F Bonds, represent the third and fourth issuances of Junior Lien Obligations – No Reserve Fund.

RESERVE FUND

The City ordinances authorizing the respective issuance of the Previously Issued Junior Lien Obligations require the Board to accumulate and maintain a reserve for the payment of the currently outstanding Junior Lien Obligations that are Reserve Fund – Secured Junior Lien Obligations (the “Required Reserve Amount”) equal to the Average Annual Debt Service Requirements (calculated on a Fiscal Year basis and determined as of the date of issuance of the most recently issued series of Additional Junior Lien Obligations that are Reserve Fund – Secured Junior Lien Obligations) of the Junior Lien Obligations that are Reserve Fund – Secured Junior Lien Obligations. To comply with this requirement, the City has heretofore created and established and now maintains, a separate and special fund or account known as the “City of San Antonio, Waterworks and Sewer System Junior Lien Revenue Bond Reserve Fund” (the “Reserve Fund”), which fund or account is maintained at the Depository. All funds deposited into the Reserve Fund (excluding earnings and income derived or received from deposits or investments which will be transferred to the System Fund during such period as there is on deposit in the Reserve Fund the Required Reserve Amount) shall be used solely for the payment of the principal of and interest on the currently outstanding Junior Lien Obligations that are Reserve Fund – Secured Junior 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 interest on any Junior Lien Obligations that are Reserve Fund – Secured Junior Lien Obligations. As of the date of issuance of the Bonds, the Reserve Fund is fully funded with a combination of cash, investments, and reserve fund surety policies issued by qualified providers.

Except as hereinafter described, as and when Additional Junior Lien Obligations that are Reserve Fund – Secured Junior Lien Obligations are delivered and incurred, the Required Reserve Amount shall be increased, if required, to an amount calculated in the manner provided in the City ordinances authorizing the respective issuance of the Previously Issued Junior Lien Obligations that are Reserve Fund-Secured Junior Lien Obligations. Any additional amount required to be maintained in the Reserve Fund shall be so accumulated by the deposit of the necessary amount of the proceeds of the issue or other lawfully available funds in the Reserve Fund immediately after the delivery of the issue of the then proposed Additional Junior Lien Obligations that are Reserve Fund – Secured Junior Lien Obligations, or, at the option of the City, by the deposit of monthly installments, made on or before the tenth day of each month following the month of delivery of the then proposed Additional Junior Lien Obligations that are Reserve Fund – Secured Junior 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 Junior Lien Obligations that are Reserve Fund – Secured Junior 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 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 Junior Lien Obligations that are Reserve Fund – Secured Junior Lien Obligations as described in the preceding paragraph), the City has covenanted and agreed to cure the deficiency in the Required Reserve Amount by resuming the Required Reserve Fund Deposits to said Fund or account from the Net Revenues of the System, or any other lawfully available funds, 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 tenth day of each month until the Required Reserve Amount has been fully restored. The City has further covenanted and agreed that, subject only to the prior payments to be made to the Bond Fund relating to the Junior Lien Obligations and as required by the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations or any Additional Senior Lien Obligations hereafter issued by the City, the Net 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 the ordinances authorizing the respective issuance of Previously Issued Junior Lien Obligations that are Reserve Fund-Secured Junior Lien Obligations and any other ordinance pertaining to the issuance of any Additional Junior Lien Obligations that are Reserve Fund – Secured Junior Lien Obligations.

During such time as the Reserve Fund contains the Required Reserve Amount, the City 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 System Fund; provided, however, to the extent that such excess amount represents bond proceeds, then such amounts must be transferred to the Bond Fund.

See “THE BONDS – Security and Source of Payment” and “SELECTED PROVISIONS OF THE 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 “SECURITY FOR THE BONDS – 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 “APPENDIX D - SELECTED PROVISIONS OF THE ORDINANCE – Payments to City General Fund” herein.

RENEWAL AND REPLACEMENT FUND

The Renewal and Replacement Fund has been established and confirmed 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, except as permitted by the CPS Contract, (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 "APPENDIX D - SELECTED PROVISIONS OF THE ORDINANCE – Renewal and Replacement Fund" herein.

RATE COVENANT

The City has agreed, while any of the Senior Lien Obligations and Junior 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/or 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 Net 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 revenues of the System.

See "SAWS STATISTICAL SECTION – Monthly, Water, Sewer, and Water Supply Fee Rates" and "APPENDIX D - SELECTED PROVISIONS OF THE ORDINANCE – Rates and Charges" herein.

REFUNDABLE TAX CREDIT BONDS

The refundable tax credits to be received by the City in connection with any obligations secured by System revenues that are designated as obligations entitling to the City to the receipt of refundable tax credits from the United States Department of the Treasury under the Code (including, but not limited, to obligations designated as "build America bonds" and "qualified bonds" under the Code), will be considered as an offset to debt service on those obligations to which the credit relates for the purpose of satisfying any debt service coverage requirements under the Ordinance, including satisfaction of any rate covenant, reserve fund requirement, or prerequisite to the issuance of additional indebtedness at any lien level.

The City has determined that the reduced amount of refundable tax credit payments to be received from the United States Treasury in relation to its outstanding obligations designated as "build America bonds" or and "qualified bonds" under the Code as a result of the automatic reductions in federal spending effective March 1, 2013 pursuant to the Budget Control Act of 2011 (commonly referred to as "Sequestration") will not have a material impact on the financial condition of the City or its ability to pay regularly scheduled debt service on its outstanding obligations when and in the amounts due and owing. See Footnote (3) to table appearing "DEBT AND OTHER FINANCIAL INFORMATION – Combined System Revenue Debt Service Requirements" herein.

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 reuse 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 reuse systems, and (ii) refunding all outstanding obligations of the City issued to finance improvements to and extensions of its waterworks, wastewater and water reuse systems; and refunding certain other outstanding obligations relating to the City's waterworks, wastewater and water reuse systems; which are secured by and payable from a pledge of revenues derived from, the City's waterworks, wastewater and water reuse systems, respectively. The City believes that refunding the obligations and establishing the System in 1992 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 1.7 million residents. The System employs over 1,700 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.

Attached hereto as APPENDIX B are excerpts from SAWS' Comprehensive Annual Financial Report for the year ended December 31, 2012 and attached hereto as APPENDIX C are the unaudited interim financial reports for the System for the period of time commencing on April 1, 2012 and ending on March 31, 2013 (prepared in accordance with generally accepted accounting principles), which, together, provide the System's recent operating results. See "APPENDIX B - EXCERPTS FROM THE SAN ANTONIO WATER SYSTEM COMPREHENSIVE ANNUAL FINANCIAL REPORT" and "APPENDIX C - SAWS INTERIM FINANCIAL REPORT MARCH 31, 2013".

The present members of the Board are:

Board	Length Of Service	Term Expires	Occupation
Heriberto Guerra Chairman	2 Years	May 31, 2014	Chairman and CEO Avanzar Interior Technologies
Louis E. Rowe Trustee	4 Years, 3 Months	May 31, 2017	President and CEO Goetting & Associates
Ernesto Arrellano, Jr. Trustee	Newly Appointed*	May 31, 2017	USAA Investment Operations Analyst
Patricia Jasso Trustee	Newly Appointed*	May 31, 2016	Retired
Patricia E. Merritt Trustee	Newly Appointed*	May 31, 2014	Retired
Wesley Reed Williams Trustee	Newly Appointed*	May 31, 2017	Retired
Julián Castro, Mayor and Ex-Officio Member	4 Years, 3 Months	May 31, 2015	Attorney

* Appointed on October 10, 2013; takes office on October 22, 2013

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 four 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”), the Capital Improvements Advisory Committee (“CIAC”), and the BexarMet Integration Advisory Committee (“BMIAC”). Members for each of these committees are sought to represent diverse interests from the System’s service area. In addition to these ongoing advisory committees, the Rates Advisory Committee (“RAC”), a special purpose committee, was implemented in September 2013. Similar to the other committees, the membership of the RAC is designed to represent diverse viewpoints from the System’s service area.

Citizen Advisory Panel (“CAP”). The CAP was established in 1998 to provide System staff and the Board 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 programs 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 and Bexar County region.

Community Conservation Committee (“CCC”). The CCC was organized in 1996 to provide input to System staff and the Board 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. Over the last several years, 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 called 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 2011. (See “SAWS STATISTICAL SECTION - Impact Fees” herein.)

BexarMet Integration Advisory Committee (“BMIAC”). The BMIAC was created on April 3, 2012, pursuant to Senate Bill 341 (defined herein) to provide feedback and advice to System staff and the Board on the integration of the services and infrastructure of BexarMet. The BMIAC provides recommendations to the Board in the form of quarterly briefings. (See “THE DISTRICT SPECIAL PROJECT – Bexar Metropolitan Water District” herein.)

Rates Advisory Committee (“RAC”). SAWS will undertake a comprehensive rates, fees and charges study (the “Rate Design Study”) in 2013 and 2014 over a period of approximately 15 to 18 months. The purpose of the Rate Design Study is to provide SAWS with information regarding the rate structure for water delivery, water resource development, recycled water, and wastewater. The RAC, comprised of a cross-section of SAWS customers, will be asked to provide input to the Board on the Rate Design Study. Among the various rate issues to be addressed, the Rate Design Study will specifically develop a proposed single, integrated water rate structure for both SAWS and former BexarMet customers now being served through the hereinafter defined District Special Project.

ADMINISTRATION AND OPERATING PERSONNEL

The President/Chief Executive Officer of SAWS is Robert R. Puente. Prior to joining SAWS 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 SAWS, 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 SAWS, 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 SAWS in 1992, she spent three years as the Airport Engineer for the City of San Antonio and served as an officer in the United States Army Corps of Engineers.

The Senior Vice President/Chief Financial Officer is Douglas P. Evanson. Mr. Evanson joined SAWS in April of 2005. Prior to joining SAWS, 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 and General Counsel is Nancy Belinsky. Ms. Belinsky joined the System in 2003. Prior to joining SAWS, Ms. Belinsky practiced commercial real estate law with the law firm of Akin Gump Strauss Hauer and Feld LLP. Ms. Belinsky received her Doctor of Jurisprudence from St. Mary's University School of Law.

The Vice President of Human Resources is Sharon De La Garza. Ms. De La Garza joined the System in 2012. Prior to joining SAWS, Ms. De La Garza was Assistant City Manager for the City of San Antonio, having spent a total of ten years with the City. Ms. De La Garza also served as the Assistant Human Resources Director and Human Resource Director for the City of Dallas, Texas from 1999 to 2004.

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

Name	Position	Length of Service with System	Total Government Service
Robert R. Puente	President/Chief Executive Officer	5 Years, 4 Months	22 Years, 8 Months
Steven M. Clouse	Senior Vice President/Chief Operating Officer	24 Years	25 Years, 9 Months
Kelley Neumann	Senior Vice President - Strategic Resources	20 Years, 11 Months	31 Years, 10 Months
Douglas P. Evanson	Senior Vice President/Chief Financial Officer	8 Years, 4 Months	8 Years, 4 Months
Nancy Belinsky	Vice President - Legal/General Counsel	10 Years, 4 Months	10 Years, 4 Months
Sharon De La Garza	Vice President - Human Resources	1 Year, 5 Months	17 Years, 5 Months
Gregorio Flores, III	Vice President - Public Affairs	7 Years, 11 Months	7 Years, 11 Months

SYSTEM STRUCTURE

The System is structured to strategically position functions to maximize efficiencies and responsiveness to System customers. Six groups report to the President/CEO, which include the Senior Vice President/COO, Senior Vice President – Strategic Resources, Senior Vice President/CFO, Vice President - Human Resources, Vice President - Public Affairs, and Vice President and General Counsel.

The Internal Audit Department, which is responsible for financial and operational audits of System departments, divisions, activities, and programs, reports functionally to the Board and administratively to the President/CEO.

President/Chief Executive Officer. The President/CEO is responsible and accountable for overall leadership of SAWS. 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 groups report directly to the Chief Operating Officer.

Operations Group

The Operations Group oversees the overall Production & Treatment Group and the Distribution & Collection Group. The Chief Operation Officer is responsible for overseeing the wastewater infrastructure and ensuring the integrity of the System, which responsibilities include:

- Facilities Management and Maintenance – 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;
- Security – Coordinates and oversees the security program and associated activities for all System personnel and properties;
- 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;
- Fleet – Provides vehicles, equipment and maintenance service, and fuel for System employees; maintains corporate vehicle pool program and ensures that vehicles and heavy equipment are properly maintained and in good working condition;
- Environmental 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;
- Maintenance Planning – Oversees work order data, plans maintenance schedules and provides overall data management and reporting pertaining to field and plant operations. In addition, the department is responsible for performing predictive maintenance and failure analysis on identified critical equipment of these systems; and
- Sewer System Improvements – This program consists of capital improvements and operating requirements that will help the System meet the endorsed levels of service goals for regulatory permit compliance, system reliability and functionality, and sustainable operations of the System’s sewer system.

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, and Medio treatment plants 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 – Oversees all the operations of the water treatment plants of the System as well as manages all the biosolids to ensure proper disposal of the waste to meet federal regulations; and
- Treatment Maintenance – Manages all the electrical, instrumentation, mechanical and recycle maintenance for the System’s water treatment plants.

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;
- Sewer Line Cleaning – Reduces potential for back-ups due to debris and grease; and
- Leak Detection Programs – Ensures water leaks are identified, reducing water loss.

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;
- Operations & Maintenance Engineering – Provides operational and maintenance engineering support for Production & Treatment and Operations & Collection;
- 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; and
- Service Center Facility Planning – Responsible for planning and coordinating the location, strategic placement of the facility and ensuring that the logistics and operations of the service center meets the needs of the System.

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 four departments:

- Water Resources – Develops and implements long-term, sustainable water supply projects while proactively managing existing supplies;
- Environmental 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; and
- 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 three 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;
- Finance and Treasury – Responsible for the securitization and overall management of the System's debt, as well as investments, cash, and bank relationship management;
- Purchasing – Manages the processing and contracting of all purchasing requests for material, supplies, and services; and
- Supply – Responsible for inventory and distribution support of all materials for the System.

Information Services

Information Services 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 areas 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; and
- 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.

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:

- Billing Support – Ensures customer billing is accurate and timely; provides support for the billing process; validates consumption prior to billing, and responds to and resolves high bill inquiries;
- Billing Operations – Coordinates specialized billing programs such as the Flat Rate Sewer Program, Stormwater Billing, and Ancillary Billing;
- Call Center – Serves as the primary liaison between the System and its customers; promptly handles all inbound telephone customer inquiries regarding billing, account information, service problems, and payments;
- Customer Support – Operates three full-service walk-in locations and manages Remittance Processing, which processes all payments received by mail and summarizes payment collected from pay stations throughout the service area;
- Field Data Services – Ensures all meter reads are collected and accurate as the first step in the billing process;
- Revenue Collections – Dedicated to reducing and mitigating revenue losses associated with theft or unauthorized use of services, as well as proactively collecting revenue from delinquent accounts;
- Meter Services – Ensures meter equipment remains functional and operational; and
- Quality and Training – Responsible for training and process improvements throughout the various divisions in Customer Service.

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;
- Wellness – Coordinates system-wide wellness programs to enhance employee health while promoting programs to minimize future cost increases for medical care;
- Safety – Coordinates all System safety activities and ensures a safe environment for all System employees; ensures the System is compliant with all federal, State, and local regulations and safety standards;
- Claims – Operates as a small insurance office for the System, handling all workers compensation, casualty and subrogation claims; and
- Risk Management – Manages all facets of the System’s comprehensive commercial insurance program as well as the conduct of premises risk assessments.

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, wastewater, and water reuse 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; and
- 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 and General Counsel. The Vice President and General Counsel provides legal advice and counsel to the Board and System management and also oversees the Contracting and the Corporate Real Estate departments. This group consists of the following departments:

- Legal – Represents the System to customers, the regulating community, and business partners. The group provides legal advice and opinions, researches legal issues, drafts legal documents and legal memorandums, and coordinates the activities of outside legal counsel;
- Contracting – Manages the administration of all construction and professional services contracts; administration of the TWDB capital funding program; administration of all System records in compliance with the Texas Local Government Records Act and best records management practice; compliance with the Texas Public Information Act; and administration of the System’s Small, Minority and Women Owned Business Program; and
- Corporate Real Estate – Responsible for property acquisitions, dispositions and lease management activities; includes obtaining property easements for capital improvement projects.

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 reuse of wastewater (the “Water Reuse 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 or any water or water-related properties and facilities owned by the City as part of its electric and gas system. See “SECURITY FOR THE BONDS – Pledged Revenues” herein and “APPENDIX D - SELECTED PROVISIONS OF THE ORDINANCE” herein. The District Special Project (defined herein) is a Special Project that is not part of the System. See “THE DISTRICT SPECIAL PROJECT” herein.

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” herein.)

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 642 square miles, making it the largest water purveyor in Bexar County. The System serves approximately 80% of the water utility customers in Bexar County. As of December 31, 2012, the System provided potable water service to approximately 365,000 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 26 elevated storage tanks and 38 ground storage reservoirs, of which 12 act as both, with combined storage capacities of 209 million gallons. As of December 31, 2012, the Waterworks System had installed 5,022 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, 2012, the Waterworks System was equipped with 27,914 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 504 square miles. The System also coordinates with the City 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 1.7 million people. As of December 31, 2012, the System provided wastewater services to approximately 412,000 customer connections.

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

The Wastewater System is composed of approximately 5,200 miles of mains and three major treatment plants, Dos Rios, Leon Creek and Medio Creek. All three plants are conventional activated sludge facilities. 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 initially to the ETJ boundary of the City. When the TCEQ grants a CCN to a water or sewer purveyor, it provides that purveyor with a monopoly for retail service. By expanding the CCN to the ETJ, developments needing retail water and sewer service within the ETJ must apply to SAWS. Service can then be provided according to System standards, avoiding small, undersized systems servicing new development. The System's CCN applications for water consisted of 12 separate applications that originally covered 64,000 acres. Two applications have been amended and one withdrawn reducing the total application area to approximately 28,300 acres. The applications for sewer consisted of nine separate applications that originally covered 407,000 acres. Three of these applications have been amended, reducing the sewer application area to approximately 276,000 acres. Of the water applications, nine have been finalized consisting of approximately 26,300 acres, which acreage is now included in the System's CCN; the remaining applications should be finalized within the next year and total 2,000 acres. Of the sewer applications, four have been finalized and added 131,600 acres to the System's CCN. The remaining five applications should be finalized within the next year and total 145,242 acres. The expansion of the CCN to the ETJ supports development regulations for the City. Within the ETJ, the City has certain standards for development that ensure areas developed in the ETJ and then annexed by the City will already have some City development regulations in place.

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 Aerospace. The System's chilled water producing capacity places it as one of the largest producers of chilled water in south Texas. The chilled water and steam system had gross revenues of \$12.4 million in Fiscal Year 2012.

The System is in the process of phasing out its steam services in the City's downtown area, which the System expects to occur gradually over an approximately five-year period. The System anticipates this action to have a positive financial impact as a result of operational costs savings outweighing any resultant loss in revenues.

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 the City. This water recycling 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 water recycling 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 “Stormwater Permit”). The TPDES program is administered by the TCEQ. The TCEQ issued a renewal of this permit on September 28, 2007. The Stormwater 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 3, 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 Stormwater 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 2013 is \$5,002,114, for which the System anticipates being reimbursed approximately \$5,058,241 from the stormwater utility fee imposed by the City (which amount is larger due to different estimates used at the time of the City’s adoption of its budget).

WATER SUPPLY

In 1996, the City Council initiated the current era of San Antonio water supply planning when it appointed a 34-member citizens committee to develop strategic policies and goals for management of the City’s water resources. 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 the City Council and became the foundation of the System’s efforts. On November 5, 1998, the City Council accepted the Water Resources Plan entitled “Securing Our Water Future Together” (the “1998 Plan”) as the first comprehensive, widely supported water resource plan for the City. 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 Board unanimously approved the Water Resource Plan 2005 Update (the “2005 Update”). The 2005 Update represented a comprehensive review of the assumptions governing population and per capita consumption projections in Bexar County through 2050. The 2005 Update included an analysis of each water supply alternative available for meeting future needs and demonstrated the System’s commitment to obtain additional water supplies. The projected capital cost of the water supply projects approved in the 2005 Update totaled more than \$2 billion. As a result of continuing concerns relative to the cost of the projects identified, potential changes in projects, and changes in SAWS personnel, a new Water Supply Task Force was assembled in June 2008 to review, evaluate, and update the System’s Water Resource plan. This task force, completed its review in early 2009. After a comprehensive public outreach period, the Board and the City Council approved the 2009 Water Management Plan. The 2009 Water Management Plan Update was subsequently updated in 2012 to incorporate the results of the 2010 United States Census, the integration of the Bexar Metropolitan Water District with the System, changes in water resource projects, the results of the Edwards Aquifer Habitat Conservation Plan, and additional information on supply and demand during drought. This effort resulted in the 2012 Water Management Plan, which was approved by the SAWS Board on December 4, 2012.

The 2012 Water Management Plan outlines a diversified foundation for the City’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 and commercial 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, 2012, the System’s water supply includes the following:

- Edwards Aquifer, 260,310 acre-feet, which represents 58% of the System’s total supply;
- Aquifer Storage and Recovery underground storage, 94,939 acre-feet, which represents 21% of total supply;
- Recycled Water to CPS Energy, 50,000 acre-feet, which represents 11% of total supply;
- Recycled Water to other customers, 25,000 acre-feet, which represents 6% of total supply;
- Canyon Lake, 8,500 acre-feet, which represents 2% of total supply;
- Carrizo Aquifer, 6,400 acre-feet, which represents 1% of total supply; and
- Trinity Aquifer, 3,500 acre-feet, which represents slightly less than 1% of total supply.

EDWARDS AQUIFER BACKGROUND

For most of its modern history, 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 and its surrounding metropolis, which serves as a home for nearly two million residents. In 2010, 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 spring fed 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.

EDWARDS AQUIFER REGULATION

In 1993, the Texas Legislature adopted the Edwards Aquifer Authority Act. This act created the Edwards Aquifer Authority ("EAA" or "Edwards Aquifer Authority") as a conservation and reclamation district under Article XVI, Section 59, of the Texas Constitution. The EAA is governed by a 15 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 EAA Act. To date, the EAA's exercise of power has been primarily limited to managing Edwards Aquifer withdrawals, although the EAA has initiated efforts in recent years to regulate water quality.

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. As of December 31, 2012, through permitting, purchases, and leases, the System has access to 252,954 acre-feet of Edwards Aquifer groundwater withdrawal rights, which is approximately 45% of the regional pumping cap. See "THE SAN ANTONIO WATER SYSTEM – Edwards Aquifer Recovery Implementation Program" herein. Approximately 225,000 acre-feet of this inventory is owned and the remainder leased. The 2012 Water Management Plan also identified the potential purchase or lease of 10,900 acre-feet of additional Edwards Aquifer water in the period between 2012 and 2020. 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.

EDWARDS AQUIFER MANAGEMENT PLAN

The City has established a proactive Aquifer Management Plan to manage the region's water resources during periods of drought. Established by City ordinance, the Aquifer Management Plan restricts water use based on specific levels of the Edwards Aquifer. The City approved the following aquifer level triggers in 2009 and updated specific regulations associated with each trigger in 2013.

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

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

Stage Two – Stage Two restrictions begin when the Edwards Aquifer level drops to 650 feet mean sea level at the monitored well. During Stage Two restrictions, SAWS pumping allocation from the Edwards Aquifer is reduced by 30%. SAWS customers are limited to one-day-per week landscape watering with an irrigation system or sprinkler based on the last number of the customer's street address and are only allowed to water from 7 a.m. to 11 a.m. and from 7 p.m. to 11 p.m. on their assigned day.

Stage Three – Stage Three restrictions begin when the Edwards Aquifer level drops to 640 feet mean sea level at the monitored well and the total supply of water to SAWS from the Edwards Aquifer and other available sources is insufficient to meet customer demand while complying with applicable regulations governing water supply withdrawals. During Stage Three restrictions, SAWS pumping allocation from the Edwards Aquifer is reduced by 35%. SAWS customers are limited to landscape watering with an irrigation system or sprinkler once every other week based on the last number of the customer's street address and are only allowed to water from 7 a.m. to 11 a.m. and from 7 p.m. to 11 p.m. on their assigned day.

Stage Four – Stage Four restrictions begin when the Edwards Aquifer level drops to 630 feet mean sea level at the monitored well; after a 30-day monitoring period once Stage Three is declared; and the total supply of water from the Edwards Aquifer and other available water sources to

SAWS is insufficient to meet customer demand while complying with applicable regulations governing water supply withdrawals. During Stage Four restrictions, SAWS pumping allocation from the Edwards Aquifer is reduced by 40%. SAWS customers are limited to landscape watering with an irrigation system or sprinkler once every other week based on the last number of the customer's street address and are only allowed to water from 7 a.m. to 11 a.m. and from 7 p.m. to 11 p.m. on their assigned day. Also during Stage Four, a drought surcharge is assessed on all accounts for water used or assumed to be used for landscape irrigation. The surcharge is the highest volumetric rate assessed by SAWS and is assessed on any residential and irrigation account with monthly water usage exceeding 12,717 and 5,236 gallons, respectively. The surcharge rate is assessed in addition to the regular water and wastewater rates.

Due to varying weather patterns, the City has been in and out of drought restrictions based on the fluctuating mean sea level of the Edwards Aquifer at the monitoring well. On May 1, 2012, the City entered Stage Two restrictions and currently remains in Stage Two restrictions as of the date of this Official Statement. For additional information on the various levels of drought restrictions and current level of the Edwards Aquifer, see www.saws.org.

EDWARDS AQUIFER RECOVERY IMPLEMENTATION PROGRAM

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. When Edwards 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 Ordinances 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 legislation called for the program to be developed through a facilitated, consensus-based process that involved input from the United States Fish and Wildlife Service (the "USFWS" or the "Service"), other appropriate federal agencies, and all interested stakeholders. The EAA and certain State agencies were specifically charged to develop and execute a program document that may be in the form of a Habitat Conservation Plan ("HCP") used in issuance of an Incidental Take Permit.

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 other documents. The EARIP was 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 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 an HCP as the program document required by SB 3.

On November 7, 2011, the EARIP steering committee and stakeholders endorsed the final draft of the HCP, an Implementing Agreement, and a Funding and Management Agreement by a vote of 24-1 (with one abstention) all of which were recommended to the Board of Directors of the EAA. The steering committee members who objected or abstained from the recommendation clearly stated support of the program as a whole, but declined to endorse the funding method. The stakeholders and the members of the steering committee reached broad consensus on the fundamental elements and associated details of a multi-year adaptive management plan which formed the foundation of the HCP in support of the desired Incidental Take Permit with a term of 15 years. The stakeholders also reached consensus on the level of springflow to be achieved by Phase One of the management plan. Studies and action undertaken during Phase One will determine whether different levels of springflow need to be pursued in Phase Two.

Since that time, the HCP and related implementing documents have been completed, accepted by the region's stakeholders, approved and passed by the City Councils of New Braunfels and San Marcos, Texas, the Board of Directors of the Edwards Aquifer Authority, the Board of Regents of Texas State University in San Marcos, and the Board.

The City, acting by and through SAWS, along with the EAA, the City of New Braunfels, the City of San Marcos, and Texas State University – San Marcos, filed an application for an Incidental Take Permit ("ITP") to protect future groundwater withdrawals from the Edwards Aquifer and other activities affecting listed threatened or endangered species associated with the Edwards Aquifer. On March 18, 2013, the Service approved the submitted HCP and issued Incidental Take Permit No. TE63663A-O.

These five entities are individually, and in certain cases collectively, responsible for implementing the conservation measures, as well as the minimization and mitigation measures, defined in the HCP. With the addition of the Guadalupe-Blanco River Authority ("GBRA") as a non-voting observer, these five partners comprise the HCP Implementing Committee. The HCP Implementing Committee is responsible for supervising all aspects of the implementation of the HCP, including routine decisions and strategic policy matters. The HCP Implementing Committee operates under a requirement of 100% consensus agreement. The System is active and engaged in the HCP Implementing Committee.

The steering committee of the EARIP has transitioned into the role of a Stakeholder Committee. The Stakeholder Committee will consult with and advise the program manager and HCP Implementing Committee. The System is represented on and engages with the Stakeholder Committee.

The Phase One activities associated with ensuring minimum continuous springflows will include a Voluntary Irrigation Pumping Suspension Option ("VISPO"), a Regional Conservation Program, prescribed use of the SAWS Twin Oaks Aquifer Storage and Recovery ("ASR") Facility, and a Stage V Drought Management stage as a back-up to the other activities. The ASR commitment anticipates that the EAA or appropriate contractor, currently the San Antonio River Authority ("SARA"), will lease and deliver to SAWS up to 50,000 acre-feet of Edwards Aquifer groundwater withdrawal rights for pumping and storage in the SAWS Twin Oaks ASR Facility during periods of water availability. SAWS will then be required at certain drought trigger levels over a 10-year period equal to the drought of record to deliver escalating annual amounts (up to 46,300 acre-feet of water in the driest year), from the ASR Facility to the SAWS' distribution system. When SAWS is delivering water from the ASR during these periods, SAWS pumping from the Edwards Aquifer must be reduced by an amount equal to the amount of water being delivered from the ASR. Thus, during these periods of the most critical drought, water from the ASR Facility may be used as a substitute for SAWS pumping (up to 46,300 acre-feet per year) rather than as a supplement or reserve for SAWS pumping. Stage V pumping restrictions will reduce firm yield of Edwards Aquifer permits to 56% of the face permit amount if the Edwards Aquifer falls to 625 feet mean sea level at the J-17 monitoring well. The 2012 Water Management Plan accounts for and addresses these changes.

In addition to the springflow management activities, the proposed management plan requires mitigation and habitat restoration activities at the Comal and San Marcos Springs. These activities include recreation management, additional biological research, modeling enhancement, expansion of refugia facilities and control of non-native species.

Total average annual cost over the term of the Phase One activities is currently estimated to be \$17.4 million (funding for which is described below).

In addition to the Phase One conservation measures, additional modeling and scientific research will be conducted during Phase One as part of the adaptive management process. Phase One conservation measures will continue in Phase Two unless terminated by a decision of the Permit holders. An additional, or "presumptive", Phase Two conservation measure has been identified for implementation if monitoring indicates that the results of the Phase One activities are inadequate to provide the necessary habitat protection, and no other Phase Two measure is agreed upon by all of the Permit holders. This presumptive Phase Two activity will be expanded use of the ASR, after completion of the water resources integration pipeline. The concept generally involves using the expanded pipeline capacity to deliver the same volume of water (46,300 acre-feet) more quickly from the ASR into the SAWS' distribution system, thereby also more quickly reducing pumping at selected SAWS pumping facilities during deep, extended drought periods. Current aquifer models indicate that additional reductions in pumping in Stage V (to 47%) may be necessary to accomplish the level of minimum springflow protectiveness outlined in the HCP. The applied research in Phase One, including aquifer model refinements and improvements, biological studies, ecological studies, and species life history requirements investigations will provide a basis for a better-informed scientific assessment of the necessity of Phase Two, the springflow levels, and the appropriateness of the habitat goals within the HCP. The impact of these additional pumping restrictions on the 2012 Water Management Plan has not yet been fully analyzed.

In 2011, the EARIP stakeholders determined that the best way to fund the proposed HCP was to ask the voters in the region to support a sales tax. However, the EARIP was not successful in obtaining legislative authorization to conduct the necessary election. As a second option, the EARIP determined that the imposition of fees on pumpers of Edwards Aquifer groundwater was the best available way to fund the activities. Due to the legislative cap on agricultural pumping fees, the burden of EARIP's program costs will fall upon municipal and industrial pumpers. The Edwards Aquifer Authority approved an annual special program fee of \$50/acre-foot to support the HCP, which became effective April 2, 2012 and was collected for the remainder of the 2012 calendar year. The Aquifer Management Fee in effect from April 2, 2012 through December 31, 2012 was \$97/acre-foot. The Edwards Aquifer Authority made a policy decision to only collect 75% of the special program fees during 2013. The Edwards Aquifer Authority also increased their non-HCP related fees from \$39 in 2011 to \$47 in 2012, bringing the total Edwards Aquifer Authority fee to \$84/acre-foot. In formulating its new budget, the Edwards Aquifer Authority has announced that its management fees will not change in 2014.

The HCP, HCP Implementing Agreement, and related documents were approved by the Board on November 1, 2011, and by the governing bodies of all other participants in December 2011. The documents were submitted to the USFWS for review and consideration. The collaborative nature of the EARIP process provided USFWS support to issue the HCP and accompanying ITP. This collaboration includes the agricultural community's willingness to participate in VISPO activities, favorable technical modeling that indicates maintenance of minimum continuous springflow assurances that translate into species protection and the proactive implementation of the financial mechanisms to implement the strategies within the HCP. On February 15, 2013, USFWS published the Final Environmental Impact Statement and Record of Decision on the Edwards Aquifer Recovery Implementation Program Habitat Conservation Plan for Incidental Take Permit in the Federal Register that supports the ITP issuance. As indicated earlier, the Service issued a 15-year permit with a start date of March 18, 2013 and the region is, to the maximum extent practicable, implementing the provisions of the HCP.

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; the optimization takes place when aquifer levels are high and the System is able to store excess Edwards Aquifer water rights to help offset demand on the Edwards Aquifer when those levels reach critical stages in future years. During those critical stages the System will deliver stored Edwards Aquifer water from ASR to its customers; it is during this time that the aquifer is most vulnerable to increased demand. The reduced demand helps slow the downward trend of declining levels until rain events return to recharge the aquifer. 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 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. The ASR helped curtail the continued decline long enough to allow autumn rainfall to recharge the Edwards Aquifer. The System’s ASR facility was recognized in 2007 by the National Groundwater Association as the “2007 Outstanding Groundwater Project.”

In 2008, the System continued capital improvements to complete Phase II of the project, which involved well field expansion and treatment plant improvements through the completion of 13 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 the 2011 drought, the System withdrew approximately 13,218 acre-feet of water from the ASR for customer use to slow the rate of the water level decline of the Edwards Aquifer and delay as much as possible entering into a more restrictive stage of water use. During 2012, the System increased the storage in the ASR by nearly 7,000 acre-feet.

In the 2009 Water Management Plan, the role of the ASR was expanded to use the facility as a longer-term storage reserve and to expand the ASR storage capability to serve as a long-term strategy to optimize available water resources. Also, as described under “THE SAN ANTONIO WATER SYSTEM – Edwards Aquifer Recovery Implementation Program” herein, the ASR is an integral component of the HCP. As of August 31, 2013, the System had amassed net storage of 81,592 acre-feet of water that will be used in long-term drought situations to help meet the System’s water needs.

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; 3,422 acre-feet in 2008; 1,736 acre-feet in 2009; and 2,222 acre-feet in 2010. The low production in 2009 was the result of the severe drought conditions experienced across the region during the first eight months of 2009. Low production in 2010 resulted from the drought and Oliver Ranch was out of production while a new contract extension was completed. However, in 2011, approximately 3,050 acre-feet of water was produced despite the drought conditions influencing the region, with production attributed to SAWS Trinity facilities in 2012 of over 3,100 acre-feet. Re-negotiated water sales agreements jointly entered into by SAWS and the DSP (hereinafter defined) regarding the Trinity Aquifer may significantly increase this amount. See “THE DISTRICT SPECIAL PROJECT – Water Resources – Trinity Aquifer” herein. In severe drought, the 2012 Water Management Plan acknowledges that the Trinity Aquifer water may be reduced to 2,000 acre-feet per annum.

WESTERN CANYON PROJECT

The System, entities in Comal County, entities in Kendall County (the “participants”), and the GBRA continue to work together in the Western Canyon Project to deliver water from the Canyon Lake Reservoir. GBRA is required through contracts to divert, treat and deliver water to the participants at certain points in the System’s delivery system. The System has been receiving project water since April of 2006 (year total was 4,957 acre-feet) and in 2012 received nearly 9,400 acre-feet. Over time, the amount received will decline to a guaranteed amount of 4,000 acre-feet as GBRA’s in-district participants in the project complete infrastructure necessary to enable them to obtain their contracted supply and their growth allows the participants to utilize their full allotment of reserved water.

The System receives all water produced from the plant that is not used by other participants in the project. Pursuant to the terms of its contract with GBRA, this contract will terminate December 31, 2037, with an option to extend until 2077 under new payment terms.

BRACKISH GROUND WATER DESALINATION PROJECT

A brackish ground water desalination (“BGD”) program is well suited for the south central Texas region, which contains more than 300 million acre-feet of brackish groundwater. The 2012 Water Management Plan calls for completion of a brackish water desalination plant to annually produce 12,210 acre-feet of potable water per year by 2016.

SAWS feasibility work on a brackish groundwater desalination project was completed in 2008. The purpose of the feasibility work was to determine the long-term sustainability of the water supply, the water quality, and if treatment of brackish water through reverse osmosis would be successful. Sustainable brackish water resources were identified in south Bexar County to support operation of a desalination plant for greater than 50 years. The salinity of the brackish water is low and therefore very favorable for use with the reverse osmosis process. Successful pilot testing of the reverse osmosis membranes 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. Formal approval was received for use of the Toray membranes in November 2010. The reverse osmosis treatment plant will be located in southern Bexar County on property owned by the System. Water from the desalination plant will be integrated by pipeline into the northwest portion of City. Concentrate disposal will be accomplished through the use of deep well injection. SAWS submitted a Notice of Intent for a Class I Underground Injection Control (UIC) General Permit to TCEQ in June 2011. Authorization under the Class I General Permit allows SAWS to complete the test injection well and develop four additional injection well sites. SAWS received authorization to drill the Class I test injection well on August 2, 2011 and for the four additional Class I injection wells on September 4, 2011. The test well injection was drilled and completed in June 2012. The first phase of SAWS' BGD program will require three Class I injection wells.

A total of 13 production wells will be required to support the first phase of the project. Design of the first eight production wells was completed and construction began in November 2011. Construction of the initial eight wells will be completed by the second quarter of 2013. SAWS issued a Request for Qualifications for the Brackish Groundwater Desalination Program Manager/Design Engineering team. Statements of Qualifications were received in December 2011. SAWS selected a Program Manager and received Board approval on May 1, 2012 to begin the conceptual design of this program. In December 2012, SAWS Board approved the Construction Manager at Risk. The Construction Manager at Risk will provide constructability review of the design work and manage the construction of the program. Design engineering was approved by SAWS Board in January 2013. The design engineering effort will be completed by the end of 2013. When all planned phases of the BGD program are constructed, a total of approximately 30,525 acre-feet per year is expected to be produced by 2026. Recent hydrologic work indicates that SAWS can develop all three phases (30,525 acre-feet) of the project in Bexar County. The 2012 Water Management Plan continues to incorporate the Brackish Ground Water Desalination Project as a three phased 30,525 acre-foot supply. Phase I of the program is on schedule for operation in late 2016.

The City has received support for this project from the TWDB through subsidized loans. In December 2009, the City sold to 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 for the planning and design (and to refund outstanding commercial paper notes initially issued) for the desalination project. In August 2011, the City sold "Water System Junior Lien Revenue Bonds, Series 2011", for the construction of production wells, a test injection well, and property acquisition for the Phase One production well fields, and in May 2013, the City closed on the Series 2013A Bonds for construction related costs of the desalination project.

CARRIZO AQUIFER PROJECTS

The 2012 Water Management Plan calls for the water from this project to be available for SAWS use through a recent agreement with the Schertz/Seguin Local Government Corporation ("SSLGC") in late 2013.

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. SAWS submitted an initial, consolidated permit application to the District in June 2005 for production and transportation of approximately 23,000 acre-feet of Carrizo Aquifer groundwater. That application was rejected by the District's General Manager as being administratively incomplete. Shortly after the application was rejected, the District changed its rules to reduce by half the amount of groundwater that can be produced per acre of land controlled. SAWS re-filed its application in June 2006 to request permits for the production and transportation of 11,688 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 30 years, subject to periodic five-year review.

SAWS' application was declared administratively complete on July 12, 2006, and contested by several parties on October 10, 2006. Throughout 2007, 2008, and 2009, SAWS 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 and December of 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 SAWS' applications. Two entities continued to oppose the applications. On July 13, 2010, the District approved SAWS' 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 Water Protection Association ("WPA"), one of the contesting parties, filed an appeal from the District's decision in the Judicial District Court of Gonzales County.

The District and SAWS filed motions to dismiss the appeal for want of jurisdiction because WPA failed to timely exhaust its administrative remedies. The motions were denied by the district court by interlocutory order dated April 27, 2011. The District and SAWS appealed the district court's decision to the Court of Appeals for the Thirteenth District of Texas at Corpus Christi. On May 31, 2012, the Court vacated the trial court's judgment and dismissed the case for want of jurisdiction. WPA did not file a motion for rehearing. Therefore, the case is over and the permits are final and non-appealable.

In order to minimize the cost of the project by foregoing the need for a major new pipeline, SAWS has negotiated a Mutual Regional Water Supply Contract with the cities of Schertz and Seguin and the SSLGC for shared use of that entity's existing water treatment facility and other infrastructure in Gonzales County and Guadalupe County, already located in the vicinity of the System's project well field. The SSLGC is a statutory quasi-governmental corporation created by the cities of Schertz and Seguin to develop and operate a ground water supply for those municipalities. It also provides services to certain other small municipalities in the area.

Successful negotiations concluded in December 2010 and were formalized by the Board, the Board of Directors of the SSLGC, and the City Councils of Schertz and Seguin on February 1, 2011 when they entered into the Mutual Regional Water Supply Contract (the “MRWS Contract”). On July 19, 2012, the SSLGC initially delivered its \$25,425,000 Contract Revenue Bonds, Series 2012 (San Antonio Water System Expansion Water Treatment Project 2), the repayment of which is secured by the payments to be made by SAWS to the SSLGC under the aforementioned MRWS Contract. As a result of the issuance of these contract revenue bonds, the obligation of the System to make payments to SSLGC under the MRWS Contract is unconditional. In addition to funding the expansion of the treatment facilities, the System will pay the SSLGC for water treatment and transportation services relative to the 11,688 acre-feet of water expected to be produced by SAWS from the Carrizo Aquifer. The System may also purchase surplus water produced by SSLGC at the same rate charged to other SSLGC customers. Utilizing SSLGC’s pipeline will reduce the capital investment by SAWS necessary to complete this water supply project by \$88 million. The final engineering report was submitted by SSLGC and accepted by SAWS. The project has been competitively bid and began construction activities on July 30, 2012. As earlier stated, SAWS expects water to be available to it through this project by late 2013.

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 phase began production in August 2008, with production of 383 acre-feet in 2008. The Local Carrizo Water Supply program produced 5,301 acre-feet in 2009, 311 acre-feet in 2012, 6,341 acre-feet in 2011, and 4,167 acre-feet in 2012.

The offsite phase was completed in August 2010. This additional phase will reduce the effects of this naturally occurring movement of water and provide increased operational flexibility of recovering the stored water.

In early 2012, a preliminary analysis was performed to determine the potential for additional production from the Carrizo Aquifer in southern Bexar County. Based on the analysis, a more in-depth study of the feasibility for expanded Carrizo Aquifer production was begun in late 2012.

This study is currently underway, with a goal of developing additional Carrizo Aquifer production in a three phase approach of up to 21,000 acre-feet per year, which production is included in the 2012 Water Management Plan. Initial analysis of available data indicates that productivity of the Carrizo Aquifer in the study area appears to be sufficient to supply the proposed production levels without resulting in significant effects on surrounding Carrizo Aquifer wells. Modeling efforts are underway to recommend optimum well spacing and production levels for the project.

In addition, a detailed examination of current Carrizo Aquifer production, current SAWS properties, and available water quality data from the area is being conducted to help determine the initial locations for the three phases of the proposed project development.

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 the City, and Brazos, Bureson, Lee, Leon, Milam, and Robertson Counties northeast of the City, 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 Water Management Plan indicates the System may need over 75,000 acre-feet per year of additional water in the long-term projection to meet long-term demand. One of the possible ways the 2009 Water Management 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. The System received 13 responses to the RFI on October 22, 2010. Information derived from these responses was utilized to develop a Request for Competitive Sealed Proposal which was issued on January 14, 2011 with a six-month return date of July 22, 2011. Nine proposals were received on July 22, 2011. After careful evaluation, four proposals were deemed to be responsive. The System is in the process of further evaluating these four proposals in anticipation of selecting one or more projects in support of the 2012 Water Management Plan.

OCEAN DESALINATION

While not explicitly targeted for pursuit in the near term, the 2012 Water Management Plan alludes to 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 are on-going. 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, future consideration.

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 24,500 acre-feet per year are under contractual commitment and 20,274 acre-feet per year are on-line. The System will deliver up to 25,000 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 Energy, this is the largest reuse water project in the country. The System recently amended its contract with CPS Energy to provide such reuse water through 2060. 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.

WATER RESOURCES INTEGRATION PIPELINE

The 2012 Water Management Plan addresses the operating challenge of co-locating the Brackish Groundwater Project, Local Carrizo, Expanded Bexar County Carrizo, and Aquifer Storage and Recovery Projects at a single site (Twin Oaks in southern Bexar County) by continuing to recommend the expedited construction of the Water Resources 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

General. Beginning in 1994, the System progressively implemented aggressive water conservation programs, which reduced total per capita water production and use by 43.2% (being 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 50-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 2009 Water Management Plan. The 2009 Water Management Plan goals for per capita consumption for normal conditions remained the same at 116 gpcd by 2016, the goal for dry years was updated to 126 gpcd, and a goal of 106 gpcd for wet years was added.

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 18 finalists for the 2007 Innovations in American Government Awards.

In 2012, the System again updated its Water Management Plan, and instituted advanced conservation goals which reflected both the dry year demand that it experienced in 2011, as well as the legislatively mandated assumption of the Bexar Metropolitan Water District service area. 143 gpcd is the current demonstrated baseline of water use for the community during an extreme dry year with moderate drought restrictions. The goal of the 2012 Water Management Plan is to reduce dry year demand from the present 143 gpcd to 135 gpcd by the year 2020. Each single incremental reduction in gpcd is enough water for 10,000 people, or a cumulative 1,644 acre-feet per year in dry-year savings.

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. A total of 25,000 High Efficiency Toilets/Low Flow Toilets were distributed in 2008; 19,000 in 2009; 9,198 in 2010; 6,702 in 2011; and 5,825 in 2012;
- *Plumbers to People* provides leak repairs and retrofits to qualified low-income homeowner customers. The System, in cooperation with the City's Department of Community Initiatives, 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; and
- *Conservation Makeover* assists low-income customers by saving water and money. Conservation staff reviews U.S. Census data and determines areas that predominantly have low-income households that have not taken advantage of the free toilet programs. SAWS takes the list of areas to the City Council for assistance in selection of target areas in their respective single-member districts. Once the City Council approves an area, SAWS sends out letters requesting that the homeowners contact SAWS for a pre-inspection. SAWS staff will conduct the pre-inspection and forward the customer list to the contractor. The contractor will fix any minor leaks found, install low-flow showerheads and aerators, and replace high-flow toilets at no cost to the customer. This program saves water at a low cost and assists customers who are in financial hardship. The Conservation Makeover Program retrofitted 521 homes in 2010; 580 homes in 2011; and 378 in 2012.

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. In 2012, SAWS provided over 1,900 home conservation consultations and an additional 750 conservation retrofits at low income homes, reaching over 2,650 families with in-home conservation assistance; and

- *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 featuring plants that thrive in the City. A gardening expert responds to regularly submitted questions. In addition, gardening related events are highlighted in an events calendar. This weekly communication is currently delivered to approximately 12,445 System customers. Several local gardening-based volunteer groups help 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 many 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 toilets, 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 the City 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 is reduced 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* allow conservation staff to seek to work with irrigation and landscape professionals and with building managers to put best management practices in place as businesses are finding that irrigation consumption can account for a significant amount of their total water usage. 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; and
- *WaterSaver Contractor* is a free training program that 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 AND QUANTITY

The System's Resource Protection and Compliance Department is responsible for the System's efforts in protecting the quality of the Edwards Aquifer and, in cooperation with the System's Water Resources Department, 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. 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 United States Geological Survey (the "USGS") conducted a study of the San Marcos Springs hydrogeology and water balance known as the San Marcos Springs Recharge – Investigative Study. This effort encompasses scientific investigative work to refine the hydrogeologic setting, determine the hydraulic properties and groundwater flow gradient, and define local sources and flowpaths providing flow from San Marcos Springs. This study provides 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 Springs flow. The final Report has completed USGS editorial review and is now available on the USGS website.

ENTERPRISE RESOURCE SOFTWARE SYSTEM

In 2006, the System initiated a program to implement an integrated software system, called ERSS (Enterprise Resource Software System). The ERSS program is composed of various third-party developed information systems applications including: Finance, Procurement, Human Resources, Payroll, Budgeting, Asset Management, Work Order, Permitting, Customer Information and Billing. The total budget to implement all applications within the ERSS program is \$34.2 million. To date, the System has successfully implemented all but the Customer Information and Billing ("CIS") applications of the ERSS program. By the time the System has successfully implemented the CIS applications, the System will have invested approximately \$14.3 million to develop, configure and implement the CIS applications. These costs have been capitalized in accordance with GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets* and are included in Capital Assets on the Balance Sheet. Since April 2012, the System engaged with the third party developer of the CIS application to change the delivery approach and implement a collaborative process for developing and implementing the CIS applications. As a result of the collaboration, significant, substantive strides have been made towards functional and technical product completion. The System and the third party developer have committed to continue the current focus through SAWS' successful implementation of the CIS applications in 2013.

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DEBT AND OTHER FINANCIAL INFORMATION

COMBINED SYSTEM REVENUE DEBT SERVICE REQUIREMENTS⁽¹⁾

Fiscal Year Ended 12/31			The Bonds			Series 2013F Bonds			Total Debt Service Requirements	Percent of Principal Retired
	Existing Senior Lien Debt Service ⁽²⁾	Existing Junior Lien Debt Service ⁽³⁾	Principal	Interest	Total	Principal	Interest	Total		
2013 ⁽⁴⁾	\$ 35,060,676	\$ 6,829,604	\$ -	\$ -	\$ -	\$ -	\$ 85,616	\$ 85,616	\$ 41,975,897	-
2014	98,681,111	39,634,769	3,180,000	3,734,306	6,914,306	-	1,250,000	1,250,000	146,480,186	2.56%
2015	96,646,395	41,713,690	3,370,000	3,543,250	6,913,250	-	1,250,000	1,250,000	146,523,336	5.19%
2016	96,618,700	44,325,317	3,505,000	3,405,750	6,910,750	-	1,250,580	1,250,580	149,105,347	8.02%
2017	99,404,187	44,119,249	3,670,000	3,243,900	6,913,900	-	1,249,420	1,249,420	151,686,755	11.08%
2018	99,372,553	44,114,115	3,840,000	3,075,350	6,915,350	-	1,250,000	1,250,000	151,652,018	14.25%
2019	96,259,204	44,934,404	4,015,000	2,898,175	6,913,175	-	1,250,000	1,250,000	149,356,782	17.44%
2020	105,662,498	36,218,214	4,200,000	2,713,800	6,913,800	-	1,250,580	1,250,580	150,045,092	20.79%
2021	106,549,705	36,243,449	4,395,000	2,519,925	6,914,925	-	1,249,420	1,249,420	150,957,499	24.32%
2022	108,206,449	34,162,951	4,620,000	2,294,550	6,914,550	-	1,250,000	1,250,000	150,533,950	27.98%
2023	109,009,112	30,602,229	4,855,000	2,057,675	6,912,675	-	1,250,000	1,250,000	147,774,017	31.67%
2024	109,207,532	28,843,234	5,105,000	1,808,675	6,913,675	-	1,250,580	1,250,580	146,215,022	35.46%
2025	109,208,809	26,639,806	5,365,000	1,546,925	6,911,925	-	1,249,420	1,249,420	144,009,960	39.32%
2026	110,392,223	26,655,857	5,640,000	1,271,800	6,911,800	-	1,250,000	1,250,000	145,209,880	43.41%
2027	110,437,853	24,685,981	5,930,000	982,550	6,912,550	-	1,250,000	1,250,000	143,286,383	47.60%
2028	110,837,287	23,838,156	6,235,000	678,425	6,913,425	-	1,250,580	1,250,580	142,839,448	51.95%
2029	79,384,181	23,836,669	6,555,000	358,675	6,913,675	-	1,249,420	1,249,420	111,383,945	55.04%
2030	79,353,436	20,904,188	4,870,000	97,400	4,967,400	1,960,000	1,235,636	3,195,636	108,420,660	58.12%
2031	79,332,190	20,904,061	-	-	-	6,990,000	1,174,272	8,164,272	108,400,522	61.33%
2032	79,294,069	19,506,794	-	-	-	7,075,000	1,086,944	8,161,944	106,962,807	64.62%
2033	80,045,436	19,511,454	-	-	-	7,165,000	996,690	8,161,690	107,718,579	68.07%
2034	117,237,877	16,701,120	-	-	-	7,255,000	906,955	8,161,955	142,100,952	73.25%
2035	93,060,780	11,674,699	-	-	-	7,345,000	815,608	8,160,608	112,896,086	77.31%
2036	93,046,341	11,674,911	-	-	-	7,440,000	723,609	8,163,609	112,884,861	81.55%
2037	93,030,605	11,669,355	-	-	-	7,535,000	629,085	8,164,085	112,864,045	85.98%
2038	79,698,563	11,549,336	-	-	-	7,630,000	534,519	8,164,519	99,412,418	89.99%
2039	79,687,383	8,652,915	-	-	-	7,725,000	438,448	8,163,448	96,503,745	94.04%
2040	63,026,298	5,622,422	-	-	-	7,820,000	341,531	8,161,531	76,810,251	97.37%
2041	13,872,113	4,758,167	-	-	-	7,920,000	242,567	8,162,567	26,792,846	98.52%
2042	10,098,688	3,810,655	-	-	-	8,020,000	142,973	8,162,973	22,072,315	99.50%
2043	-	3,000,003	-	-	-	8,120,000	41,990	8,161,990	11,161,993	100.00%
	\$ 2,641,722,254	\$ 727,337,770	\$ 79,350,000	\$ 36,231,131	\$115,581,131	\$100,000,000	\$ 29,396,442	\$ 129,396,442	\$ 3,614,037,597	

⁽¹⁾ Total debt service excludes tax-exempt commercial paper.

⁽²⁾ Takes into account refundable tax credit anticipated to be received from the United States Department of the Treasury (the "Subsidy Payment") as a result of certain Senior Lien Obligations being issued and sold as "build America bonds" under and pursuant to the American Recovery and Reinvestment Act of 2009 used to offset debt service payments on subject outstanding Senior Lien Obligations. Subsidy Payments are subject to offset by the federal government. SAWS has determined that the reduced amount of Subsidy Payment to be received from the United States Treasury in relation to the aforementioned build America bonds as a result of the automatic reductions in federal spending effective March 1, 2013 pursuant to the Budget Deficit Control Act of 2011 (commonly referred to as "Sequestration") will not have a material impact on the financial condition of the System or its ability to pay regularly scheduled debt service on its outstanding obligations when and in the amounts due and owing. See "SECURITY FOR THE BONDS – Refundable Tax Credit Bonds" herein. Subsidy Payments reduced by 7.2% per annum through final maturity of the related Senior Lien Obligations to account for Sequestration.

⁽³⁾ Includes the Series 2013D Bonds; excludes the Series 2013C Bonds.

⁽⁴⁾ Excludes debt service on outstanding debt that has become due and owing and been paid prior to the date of this Official Statement.

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 “2003 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, both scheduled payments and termination payments (subject to the policy’s terms and condition, including policy limits upon termination), are insured by MBIA Insurance Corporation (“MBIA”); the counterparty’s obligations are not insured or guaranteed. In February 2009 MBIA ceded its U.S. public finance book of business (which includes the aforementioned hedge insurance policy) to subsidiary MBIA Insurance Corp. of Illinois, which has been renamed National Public Finance Guarantee Corp. 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 are secured by a lien on the Net Revenues of the System on a parity with the lien securing the 2003 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 2003 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 2003 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 2003 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 2003 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 2003 Subordinate Lien Obligations outstanding to be redeemed with Commercial Paper Notes (Series B Notes), while maintaining the swap agreement as an existing obligation to all parties. 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 2003 Subordinate Lien Obligations on June 24, 2009 with Commercial Paper Notes. See “Commercial Paper Note Program” below. No such 2003 Subordinate Lien Obligations are currently outstanding; \$98,000,000 in Commercial Paper Notes (Series B Notes) used to redeem 2003 Subordinate Lien Obligations is currently outstanding.

If the swap agreement is terminated, the City could be obligated to make a substantial payment to the counterparty, depending on market conditions. As of August 31, 2013, the termination payment that the City would be liable for if the swap agreement were terminated on such date would be \$16.4 million (unaudited and unverified). Prospective investors should be aware that the value of the termination payments varies day to day and that such valuation herein provided represents an unaudited and unverified estimate provided to SAWS by JPMorgan Chase Bank, N.A., as the swap counterparty. For more information concerning the swap agreement, see “APPENDIX B - EXCERPTS FROM THE SAN ANTONIO WATER SYSTEM ANNUAL FINANCIAL REPORT”, Note G. 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, to be issued from time to time as the City of San Antonio, Texas Water System Commercial Paper Notes, Series A and the City of San Antonio, Texas Water System Commercial Paper Notes, Series B (the “Series A Notes” and “Series B Notes”, respectively). 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 September 20, 2042. The TECP is supported by revolving credit agreements with The Bank of Tokyo-Mitsubishi UFJ, Ltd., acting through its New York branch (“Bank of Tokyo”), and Wells Fargo Bank, N.A. (“Wells Fargo”) (together the “Agreement”). Bank of Tokyo supports the Series A Notes in the amount of \$250,000,000 with Wells Fargo supporting the Series B Notes in the amount of \$150,000,000, providing for the combined liquidity support for this program of \$400,000,000. As of the date of this Official Statement \$171,655,000 in Commercial Paper Notes are outstanding, comprised of \$55,000,000 in Series A Notes (which excludes \$132,120,000 in Series A Notes the System is refunding with portions of each of the Bonds and the Series 2013F Bonds) and \$116,655,000 in Series B Notes. Any advances for payment of Commercial Paper Notes under the Agreements are secured by a lien and pledge of the Net Revenues of the System subordinate to the Senior Lien Obligations, and the Junior Lien Obligations (including the Bonds) and on a parity with the Commercial Paper Notes (which are the only Subordinate Lien Obligations currently outstanding) and the System’s obligations under the interest hedge transaction described above.

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 System 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 the System Ordinance, which serves as a supplement to the TMRS. (For more detailed information concerning the retirement plan, see "APPENDIX B - EXCERPTS FROM THE SAN ANTONIO WATER SYSTEM ANNUAL FINANCIAL REPORT" – Note J.)

OTHER POSTEMPLOYMENT BENEFITS ("OPEB")

The System provides certain postretirement medical and life insurance benefits to qualified employees, their spouses, and other 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.

By State law, any employee that retires under either the TMRS or SAWS retirement plans is eligible, at the time of retirement, to obtain health insurance benefits similar to those offered to active SAWS employees. Contributions made by retirees for health insurance benefits vary based on retirement date, years of service and the health care options selected. Retirees may also purchase coverage for their spouse at group rates partially subsidized by SAWS. After age 65, healthcare benefits under the plan are supplemental to Medicare benefits.

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. Prior to 2012, the System funded all obligations arising under these plans on a pay-as-you-go basis. In March 2012, SAWS established and contributed \$12 million to the OPEB Trust. Funds in the OPEB Trust must be used for the exclusive purpose of providing benefits to eligible retirees and their dependents. In 2013, the System began making annual contributions to the OPEB Trust in accordance with a plan that results in fully funding the actuarially determined annual required contributions for these benefits over a period of time.

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, 2012, plan members receiving benefits contributed \$570,000. In addition to the \$12 million contributed to the OPEB Trust in 2012, the System contributed the remainder of the pay-as-you-go cost of \$6,753,000. In 2011, the System's Board approved increases in the required contributions by plan members beginning in 2012. These increases will be phased in over eight years. The expected long-term impact of these increases will result in the plan members eventually contributing one-third of the annual premiums for retiree health insurance. Based on the latest actuarial valuation dated January 1, 2011, the unfunded actuarial accrued liability for this plan was \$242.4 million and the annual required contribution was \$20.7 million. For further information with respect to the System's OPEB liabilities, please refer to Note K of the excerpts from SAWS' Comprehensive Annual Financial Report for the year ended December 31, 2012. (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 summary of capital improvement projects during calendar year 2013:

- \$16.9 Million is budgeted for the wastewater treatment program to repair/replace/upgrade treatment facilities and provide capacity for future growth;
- \$37.4 Million is budgeted for the wastewater collection program to fix deteriorated components of the collection system, and provide capacity for future growth;
- \$89.8 Million is budgeted to replace sewer and water mains;
- \$35.2 Million is budgeted for the governmental replacement and relocation program;
- \$22.1 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
- \$116.2 Million is budgeted for water supply development, water treatment, and water transmission projects for new sources of water.

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

	Capital Improvement Projections*					
	Fiscal Year Ended December 31,					
	2013	2014	2015	2016	2017	Total
Water Supply	\$118,901,425	\$160,690,984	\$ 30,279,790	\$ 18,289,554	\$ 40,022,127	\$ 368,183,880
Water Delivery	65,206,249	87,554,343	51,913,803	58,095,638	101,989,454	364,759,487
Wastewater	159,873,590	140,117,472	164,353,446	182,976,050	138,053,144	785,373,702
Heating and Cooling	6,170,296	2,837,500	2,055,750	752,500	7,325,000	19,141,046
Total Annual Requirements	\$350,151,560	\$391,200,299	\$248,602,789	\$260,113,742	\$287,389,725	\$1,537,458,115

* Preliminary, subject to change.

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.

	Projected Funding Sources*					
	Fiscal Year Ended December 31,					
	2013	2014	2015	2016	2017	Total
Revenues	\$ 28,479,552	\$ 49,008,875	\$ 74,546,082	\$ 49,147,998	\$ 65,759,631	\$ 266,942,138
Impact Fees	14,340,247	13,774,525	14,610,901	20,991,011	21,298,077	85,014,761
Debt Proceeds	307,331,761	328,416,899	159,445,806	189,974,734	200,332,017	1,185,501,217
Total	\$350,151,560	\$391,200,299	\$248,602,789	\$260,113,743	\$287,389,725	\$1,537,458,116

* Preliminary, subject to change.

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 parity lien Debt Service Fund and the Reserve Fund, as applicable, in accordance with the ordinances authorizing the currently outstanding Senior Lien Obligations and Junior Lien Obligations, respectively.

Budgetary Procedures. The System prepares and presents, 60 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 on December 4, 2012. The System's investments are managed by its Senior Vice President/Chief Financial Officer, Treasurer, 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, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated 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 a combination of cash and obligations described in clause (1) and require the security being purchased by the City or cash held 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 herein and in the Investment Act 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, (12) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or "AAA-m" or its equivalent, and (13) 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 and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments. 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, 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 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 15% 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 no-load 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⁽¹⁾. At December 31, 2012, investable System funds were 65.92% invested in obligations of the United States, or its agencies and instrumentalities, 14.48% invested in Certificates of Deposit, and 10.41% invested in money market funds. The investments and maturity terms are consistent with State law, and SAWS' 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 SAWS by reference to published quotations, dealer bids, and comparable information) was approximately 100.03% of their book value and approximately 100.00% of its purchase price; with 91.89% of the System's investments maturing in less than one year. No funds of SAWS 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 December 31, 2012, the System funds were invested in the following categories:

	Percentages	Carrying Amount ⁽²⁾	Market Value
Money Market Deposits	10.41%	\$53,929,958	\$53,929,958
Certificates of Deposit	14.48%	75,000,000	75,000,000
U.S. Treasury Notes	8.18%	42,368,634	42,378,603
U.S. Agency Notes	59.75%	299,181,833	299,319,550
Demand and Savings	9.18%	47,573,144	47,573,144
Cash on Hand	0.01%	29,520	29,520
Total	100.00%	\$518,083,089	\$518,230,775

(1) Unaudited.

(2) At Amortized Cost.

THE DISTRICT SPECIAL PROJECT

BEXAR METROPOLITAN WATER DISTRICT

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

BexarMet was created by the 49th Texas Legislature in 1945, to serve anticipated growth in Bexar County. From an initial account base of 4,765 primarily residential accounts, it grew to more than 92,000 residential and commercial accounts served in 2011. Over several years, repeated customer complaints about inadequate service, alleged mismanagement, and excessive rates resulted in legislative intervention in 2007, through the enactment of House Bill 1565, by the 80th Texas Legislature mandating various operational and financial audits of BexarMet along with the creation of the Joint Committee on Oversight of the Bexar Metropolitan Water District (the "Oversight Committee") to monitor operations, management, and governance of BexarMet. Attempts to implement legislative remedies concerning BexarMet operations during the 81st Texas Legislative Session were unsuccessful and monitoring by the Oversight Committee continued through the start of the 82nd Texas Legislative Session in January 2011. During that time, BexarMet dismissed its General Manager for failing to disclose an indictment for conduct alleged to have occurred at his prior place of employment and unrelated to BexarMet operations (a charge to which he pled guilty in 2012). Additionally, allegations were made that BexarMet was misstating certain revenues recognized in its 2010 interim preliminary unaudited financial statements. To remove any appearance of impropriety, the governing body of BexarMet (the "BexarMet Board") hired an external forensic auditor to review the claims. The revenue entries at issue were reversed during the completion of the final audit, and BexarMet received an unqualified opinion in its final annual audit. As disclosed in its preliminary financial statements and in the final 2010 audit, due to abnormally high rainfall during the 2010 fiscal year, BexarMet revenues were down approximately 10% which resulted in BexarMet failing to maintain its debt service coverage ratio as required by its authorizing orders for its debt obligations. In anticipation of the potential debt service coverage ratio shortfall, the BexarMet Board, with the assistance of an outside rate consultant, expedited its review of its existing rates and rate structure, and diligently worked to formulate a new rate structure to provide sufficient revenues to meet its covenanted rate coverage requirements and maintain its capital improvement plan, while balancing the impact on its ratepayers. The new rate structure was adopted with implementation of a 7% increase on September 1, 2010. BexarMet anticipated that additional budget cutting measures coupled with the new rates and additional revenues generated thereby, would restore its fiscal health. In addition to the foregoing, and during this time, BexarMet continued to report to the Oversight Committee and worked diligently to improve its operations and financial position. For fiscal year ended April 30, 2011, according to the records released by BexarMet, BexarMet realized a record amount of gross revenues, ended the fiscal year with a debt service coverage ratio of 1.57; and received an unqualified opinion on its 2011 audited financial statements.

DISSOLUTION AND ASSUMPTION BY THE CITY

At the beginning of the 82nd Texas Legislative Session, the Oversight Committee recommended that two bills be passed. In May 2011, the 82nd Texas Legislature enacted Senate Bill 341 ("Senate Bill 341" or "SB 341"). SB 341 established several key measures including the immediate monitoring and review of BexarMet operations by the TCEQ. The primary component of SB 341, however, required the conduct of an election (the "Election") by BexarMet ratepayers to vote on the dissolution of BexarMet and consolidation with SAWS, which Election was held on November 8, 2011. At this Election, BexarMet ratepayers voted in favor of dissolution (9,047 votes for versus 3,172 votes against).

These results were canvassed by the BexarMet Board and certified to the Texas Secretary of State on November 18, 2011. The last prerequisite to the assumption of operational control and management of BexarMet by SAWS was preclearance of the Election results by the United States Department of Justice (the "DOJ"), which was received on January 27, 2012. The City commenced assumption procedures on January 28, 2012. SAWS, acting by and through the City, took action to accommodate the assumption of BexarMet in accordance with the requirements and specifications of SB 341. On October 20, 2011, the City Council adopted an ordinance creating a "Special Project", as authorized by SB 341 and pursuant to City ordinances authorizing then-outstanding Senior Lien Obligations, where the assumed BexarMet will reside as a segregated component unit of SAWS until full integration into the SAWS system occurs within the timeframe specified by SB 341. The City received judicial validation of this position pursuant to declaratory judgment action filed under Chapter 1205, as amended, Texas Government Code (In re the City of San Antonio and Certain Public Securities, Cause No. D-1-GV-12-000115, 410th Judicial District Court of Travis County, Texas).

Pursuant to SB 341: (a) the term of each Director of BexarMet expired on the date the Election results were certified to the Secretary of State of the State of Texas; (b) SAWS assumed control of the operation and management of BexarMet on the date the Election results were certified to the Secretary of State of the State of Texas; (c) not later than the 90th day after the date the Election results were certified to the Secretary of State of the State of Texas, the TCEQ, in consultation with the Oversight Committee, was required to transfer or assign to the SAWS all: (1) rights and duties of BexarMet, including existing contracts, duties, assets, and obligations of BexarMet, (2) files, records, and accounts of BexarMet, including those that pertained to the control, finances, management, and operation of BexarMet, and (3) permits, approvals, and certificates necessary to provide water services; (d) to the extent that a transfer of an item required the approval of a state agency, the state agency was required to grant approval without additional notice or hearing; and (e) after the TCEQ transferred the property, assets, and liabilities as prescribed by this section, the TCEQ was required to enter an order dissolving BexarMet. On May 30, 2012, the TCEQ entered an order finally dissolving BexarMet in accordance with the provisions of SB 341. Information filings for the former BexarMet made prior to these dates remain available on the MAC (defined herein) website under the City's listings as its "Water System Special Project."

SB 341 stated that its intent was not to enhance or harm the position of a party that had contracted with BexarMet and no law or charter provision may be construed to limit the SAWS performance of an obligation under a contract transferred or assigned to SAWS as a result of the dissolution of BexarMet, if revenue from the contract was pledged wholly or partly to pay debt service on revenue bonds approved by the Texas Attorney General.

In the five years prior to dissolution, BexarMet made, in addition to its requisite annual filings, periodic material event notice filings with EMMA concerning the following matters: enactment of SB 341; covenant default under a direct-pay letter of credit with Wells Fargo Bank, National Association supporting its then-existing commercial paper program; covenant defaults under its bond documentation, including failure to meet debt service coverage requirements; material litigation; and termination of an existing interest rate hedging agreement. In addition, BexarMet timely made its annual disclosure filings during this period, with the exception of its requisite filing for the fiscal year ending April 30, 2011 (filed late in two parts on November 14, 2011 and November 17, 2011, respectively). BexarMet filed notice with EMMA of this late filing on November 29, 2011.

BexarMet's most recent financial statements for the fiscal year ending April 30, 2011 and their most recent official statement are available on EMMA and through the MAC as described above.

DSP WATERWORKS SYSTEM

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

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

WATER RESOURCES

The DSP Waterworks System has the following water supplies:

Groundwater Resources. Three aquifers, the Edwards, the Trinity, and the Carrizo, provide groundwater to the DSP.

Edwards Aquifer. Through permitting, purchases, and leases, the DSP has access to 35,585 acre-feet of Edwards Aquifer groundwater withdrawal rights. The DSP received an initial pumping permit of 22,824 acre-feet, and through purchase or leases, has acquired an additional 12,761 acre-feet.

Trinity Aquifer. The DSP and SAWS entered into a groundwater purchase agreement with a private entity that controls Trinity Aquifer wells in north Bexar County effective July 10, 2012. This agreement represents a renegotiation of a prior agreement between this private entity and the Bexar Metropolitan Water District, which renegotiated agreement renders all previous agreements void. The renegotiated agreement calls for the

DSP and SAWS to purchase up to 3,750 acre-feet of water per year through July 1, 2013 and, thereafter, up to 17,000 acre-feet of water annually to be provided to the northern most portion of the combined SAWS/DSP service area. The DSP will be responsible for payment of any water delivered through the agreed-to point of delivery through July 1, 2013. After July 1, 2013, the DSP will be responsible to pay for approximately 30% of the water delivered through the point of delivery while SAWS will be responsible for approximately 70% of the water delivered through the point of delivery. This is the percentage of anticipated split between DSP and SAWS distribution receiving the supply based on the maximum delivery amount. The proportional split is both dependent on actual maximum production capabilities and delivery to the end customers receiving the supply. The well-field which is the subject of the agreement has never been pumped at full capacity. As a result, the actual amount of groundwater to be supplied within the constraints of the agreement will not be known until production is underway. The cost of the water is consistent with the cost of other non-Edwards Aquifer water supplies being developed by SAWS.

Carrizo Aquifer. In 2007, the DSP entered into a water sale agreement (“WSA”) with Canyon Regional Water Authority (“CRWA”) for 2,800 acre-feet of groundwater from the Carrizo Aquifer in Gonzales and Guadalupe Counties, which will be delivered beginning in 2013 (Phase I). An additional 4,000 acre-feet of water will be delivered by 2018 to compensate for the loss of water from the Short Term Commitment (Lake Dunlap) which expires in 2023. The DSP will be provided from CRWA up to 8,250 acre-feet of water beginning in 2018. This amount will be fixed and continue indefinitely. The source of this supply will be predominately groundwater from the Carrizo Aquifer and include Wilcox Aquifer groundwater produced from leases in Guadalupe County.

Surface Water Resources. Portions of the DSP service area are located within the San Antonio River Basin. The San Antonio River Basin drains approximately 4,000 square miles of land extending in a generally southeast direction from Bandera County to its confluence with the Guadalupe River immediately upstream of San Antonio Bay. Senior priority water withdrawal applications within the San Antonio River Basin are no longer being accepted but senior rights may be purchased and transferred. Junior priority applications for water rights in the San Antonio River Basin may still be sought. The major streams in the basin are the Medina River, San Antonio River, and Cibolo Creek, where water rights have been adjudicated pursuant to the Texas Water Rights Adjudication Act of 1967.

Medina Valley. The Medina Valley consists of a 950 square mile drainage area upstream of the confluence of Medio Creek, Potranco Creek, and the Medina River. The surface runoff from about two-thirds of the Medina Valley is upstream of Medina Lake. For purposes of water resource protection and minimizing customer costs, the DSP has adopted a non-degradation policy in support of TCEQ’s public water supply stream quality designations. The DSP has contracted with the USGS for water quality and quantity measurements in support of its Medina Valley surface water development activities.

The DSP owns and leases approximately 10,000 acre-feet per year of municipal surface water rights in the Medina Valley. These “run-of-river” rights have minimum downstream flow restrictions that prohibit diversions when streamflow gets below 20 cubic feet per second (“cfs”).

The Bexar-Medina-Atascosa Counties Water Control and Improvement District No. 1 (“BMA”) is authorized to impound up to 254,000 acre-feet of water in Medina Lake and annually divert approximately 66,000 acre-feet per year (20,000 acre-feet per year for municipal and industrial purposes and 46,000 acre-feet per year for agricultural irrigation). The DSP has entered into a WSA with the BMA to purchase approximately 20,000 acre-feet per year of municipal/industrial water, at a cost of \$69 per acre-foot. According to the WSA, this raw water cost increased at the end of 2012 to the GBRA Basin-Wide Rate, which is currently at \$125/AF. Under the WSA, the DSP is required to use the water purchased for municipal purposes within its service areas or, upon prior approval of BMA, may resell to third parties outside of its service areas for any lawful purpose. Third party sales of water diverted by the DSP outside of the San Antonio River Basin require the approval of the TCEQ. This surface water right has no minimum downstream flow restrictions.

In December 1999, the Plant (defined herein) began treating Medina River water to drinking water standards. When downstream flow conditions are above 20 cfs, the DSP uses its run-off-river rights to divert and treat at the Plant. When downstream flow conditions are below 20 cfs, the DSP uses its WSA with BMA to divert and treat at the Plant. (See “THE DISTRICT SPECIAL PROJECT – Surface Water Treatment Plant” herein.)

Due to the severity of the ongoing drought, Medina Lake was at less than 5% of capacity on August 14, 2013. The BMA has indefinitely suspended the availability of Medina Lake water to irrigation users. Due to water quality concerns, the DSP elected to indefinitely shut down the Plant in April 2013. As of August 14, 2013, the DSP has diverted and treated approximately 1,600 acre-feet of Medina Valley water in 2013.

Central Valley. The Central Valley consists of an 850 square mile drainage area upstream of the confluence of Calaveras Creek, the Medina River, and the San Antonio River. The DSP owns 1,100 acre-feet per year of run-of-river water rights from the Medina River in the Central Valley. The DSP also owns 630 acre-feet of run-of-river water rights from the San Antonio River in the Central Valley. All water rights owned by the DSP in the Central Valley are located downstream of the Plant and will require the construction and acquisition of additional water storage facilities, pump stations, and pipelines for transporting the water to the Plant.

Lake Dunlap. The DSP, together with certain water supply corporations and cities, is a member of the CRWA. The CRWA was created to develop long-range non-Edwards Aquifer water supplies for its members. Presently, the CRWA has a contract with GBRA for the purchase of raw water from Canyon Lake, and has constructed a treatment plant for such water. Under the terms of the water purchase agreement between the DSP and GBRA, the DSP is allocated 4,000 acre-feet as its Short Term Annual Commitment, although 500 acre-feet are leased to the City of Cibolo through December 31, 2018. This raw water supply is treated at the CRWA treatment plant and delivered to the DSP’s northeast service area. In October of 2005, the DSP’s northeast service area began receiving 3.6 million gallons per day of treated surface water from CRWA’s Lake Dunlap project. Lake Dunlap is a small on-channel reservoir on the Guadalupe River downstream from the Canyon Lake reservoir. As a member of the CRWA, the DSP shares ownership in this project (which includes the right to receive its output, but also requires payment of its cost of consumption, operation, and maintenance).

SURFACE WATER TREATMENT PLANT

The Bexar Metropolitan Development Corporation (the “Corporation”) was an industrial development corporation created under the “Development Corporation Act of 1979,” Chapter 501, Texas Local Government Code, as amended, by the DSP to construct a surface water treatment plant (the “Plant”) located southwest of the City of San Antonio. The Corporation issued its “Bexar Metropolitan Development Corporation Water Facility Contract Revenue Bonds, Series 1998” (the “Corporation Bonds”), to finance the construction of the Plant. The Plant, currently operated by United Water Services San Antonio LLC (a private company), is located on a 39-acre site owned by the Corporation, approximately one and one quarter miles from the Medina River. The Plant is capable of treating 15.0 MGD expandable in modular form to an ultimate treatment capacity of 27.0 MGD. The Plant is running at capacity, requiring 14.5 MGD of raw water for processing.

Raw water supply to the Plant is withdrawn from the Medina River downstream of the Lake Medina Diversion Dam (see “THE DISTRICT SPECIAL PROJECT – Surface Water Resources – Medina Valley” herein). The Medina River drainage basin contains 1,354 square miles, and the adjacent land is primarily rural in nature. Raw water quality data for the Medina River compiled by various laboratories indicates that, with proper treatment, the Plant’s raw water supply is a suitable drinking water source.

The DSP and the Corporation entered into a “Lease With an Option to Purchase,” dated as of July 1, 1998 (the “Lease”), pursuant to which the DSP leased the Plant from the Corporation for a period from July 16, 1998 until May 1, 2028, unless earlier terminated by the DSP pursuant to the Lease. During the term of the Lease, the DSP is required each month to pay, among other things, all debt service on the Corporation Bonds, the costs to operate and maintain the Plant and to fund the “Bexar Metropolitan Development Corporation Major Maintenance Fund”, a repair and replacement fund for the Plant, and all costs and expenses of the Corporation in the administration of the Lease and the Plant. All payments made by the DSP under the Lease are characterized as “operating expenses” of the DSP. Due to the large projected growth, the DSP is planning to expand the Plant as contemplated when built to meet these needs. This will utilize the extra water the DSP has in Medina Lake, which the DSP is currently paying for but not utilizing.

Effective August 6, 2012, the Corporation Bonds were redeemed using proceeds from the SAWS commercial paper program (the Series B Notes), effectuating the acquisition of the Plant by SAWS pursuant to the terms of the Lease. Upon the completion of the purchase of the Plant by SAWS and the redemption of the Corporation Bonds, the purpose of the Corporation was fulfilled. Accordingly, the Corporation was dissolved on October 12, 2012. The cost of servicing this debt (including allocable costs of liquidity and other administrative fees), as well as the cost of operating and maintaining the Plant, is allocated to and paid by the DSP and the production from the Plant will continue to be sold by the DSP to satisfy the needs of the customers of the DSP Waterworks System.

POST-ASSUMPTION CITY ACTIONS

Since its assumption of BexarMet on January 28, 2012 by and through the DSP, the City has taken multiple actions relative to the former BexarMet system aimed at increasing operational efficiency and strengthening its financial condition. These actions include:

- Acquisition of the Plant by SAWS and allocation of the resultant short-term, variable rate debt expense to the DSP, as described above, resulted in a decreased maintenance and operation expense of the DSP of approximately \$1.8 million for the 13-month period beginning August 6, 2012 and ending on August 31, 2013 (being the difference between the pro-rata annual debt service on the Corporation Bonds for such period less the allocated debt expense (interest and facility fees only; no principal) for the same period carried by SAWS of \$160,330);
- Establishment of a flexible rate revolving note private placement program, in an authorized amount not to exceed \$100,000,000 at any time outstanding, pursuant to which the DSP can issue from time to time program notes that are to be sold to Wells Fargo Bank, National Association, under a Note Purchase Agreement, dated as of June 28, 2012 and expiring on May 1, 2015, and the proceeds from which may be used for authorized purposes. On June 28, 2012, the DSP initially issued \$68,700,000 in program notes for the purpose of refinancing \$10,000,000 in commercial paper notes (that had been converted to bank bonds under BexarMet’s former commercial paper program), as well as refinancing BexarMet’s Waterworks System Revenue Bonds, Series 1998 in the aggregate principal amount of \$33,662,958.85 and its Waterworks System Revenue Refunding Bonds, Series 2002 in the aggregate principal amount of \$22,035,000. These actions resulted in debt service savings to the DSP;
- Implementation of various operational efficiencies, to include (i) integration of System and DSP staff (120 employees transferred to the System; 81 remain in DSP positions; effective October 1, 2013, all remaining DSP employees will be transitioned to SAWS employees); (ii) conversion from DSP payroll system to System standards; (iii) integration and conversion of networks, servers, customer billing accounts, and all business applications; and (iv) consolidation of staff to a single facility;
- Renegotiation of water supply contracts to incorporate terms determined by System staff to reflect current water market standards; and
- Amendment of the DSP’s fiscal year end from April 30 to December 31, to align with the SAWS’ fiscal year.

These actions have produced positive results. Based on unaudited data, the DSP’s (i) debt service coverage has increased from 1.33 (as of January 31, 2012 and as re-calculated by SAWS staff) to 1.61 as of December 31, 2012 and (ii) days cash-on-hand has increased from 99 days (as of January 31, 2012) to 154 days as of December 31, 2012. SAWS approved its first audited financial results for the DSP on April 22, 2013 in conjunction with the delivery of the SAWS audit. The DSP audited financial statement is available on the SAWS website.

On February 13, 2012, Standard and Poor’s Rating Services, (“S&P”) revised its outlook to positive and affirmed the “A” rating on the BexarMet revenue bond obligations and on March 14, 2012, Moody’s Investors Services (“Moody’s”) confirmed the “A1” rating of the BexarMet senior lien obligations, the “A2” rating on its subordinate lien obligations and revised its outlook to stable from negative. Both S&P and Moody’s cited the assumption of BexarMet by SAWS as the reason for the revised rating. On May 30, 2012, Fitch Ratings affirmed the “A” rating on the BexarMet debt assumed by SAWS and revised the outlook to positive. Moody’s affirmed these ratings on March 12, 2013; S&P affirmed its ratings on March 19, 2013.

The DSP, as of December 31, 2012, had outstanding indebtedness secured by and payable from (i) a senior and superior lien on and pledge of the net revenues of the DSP Waterworks System in the amount of \$163,246,387 (excluding accreted interest on capital appreciation bonds) and (ii) a subordinate and inferior lien on and pledge of the net revenues of the DSP Waterworks System (which includes the outstanding program notes issued from time to time under the aforementioned flexible rate revolving note private placement program) in the amount of \$80,445,000. Debt allocated to the DSP, the costs of which are paid from gross revenues of the DSP Waterworks System as maintenance and operations expenses, totals \$18,655,000.

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SAWS STATISTICAL SECTION

The following Statistical Section is derived from SAWS' Comprehensive Annual Financial Report for the year ended December 31, 2012. See "APPENDIX B - EXCERPTS FROM THE SAN ANTONIO WATER SYSTEM COMPREHENSIVE ANNUAL FINANCIAL REPORT".

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

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
System Fund:										
Net investment in capital assets	\$1,570,840	\$1,452,676	\$1,291,968	\$1,262,840	\$1,297,893	\$1,104,726	\$971,355	\$887,192	\$792,641	\$703,854
Restricted	38,389	35,227	33,955	34,649	32,257	29,567	28,380	32,870	27,844	25,621
Unrestricted	17,528	17,680	19,017	19,407	17,937	19,475	27,649	30,849	81,920	48,963
Total net position - System Fund	1,626,757	1,505,583	1,344,940	1,316,896	1,348,087	1,153,768	1,027,384	950,911	902,405	778,438
Internal Service Fund ^(a) :										
Net investment in capital assets	-	-	-	-	-	-	496	822	1,043	1,802
Unrestricted	-	-	-	-	-	-	9,371	9,475	10,232	10,421
Total net position - Internal Service Fund	-	-	-	-	-	-	9,867	10,297	11,275	12,223
Debt Service Fund:										
Restricted	34,254	34,862	31,222	27,511	25,790	21,324	18,350	15,978	11,706	5,156
Total net position - Debt Service Fund	34,254	34,862	31,222	27,511	25,790	21,324	18,350	15,978	11,706	5,156
Reserve Fund:										
Restricted	58,681	54,696	50,688	41,479	11,222	-	-	-	-	-
Total net position - Reserve Fund	58,681	54,696	50,688	41,479	11,222	-	-	-	-	-
Renewal & Replacement Fund:										
Net investment in capital assets	83,968	98,455	98,555	89,888	85,191	116,344	114,701	73,733	77,767	47,552
Unrestricted	116,179	120,363	94,402	134,096	171,992	185,220	171,037	105,273	23,484	75,326
Total net position - Renewal & Replacement Fund	200,147	218,818	192,957	223,984	257,183	301,564	285,738	179,006	101,251	122,878
Project Fund:										
Net investment in capital assets	38,101	48,481	159,254	168,738	83,567	93,273	75,673	78,910	91,430	134,781
Total net position - Project Fund	38,101	48,481	159,254	168,738	83,567	93,273	75,673	78,910	91,430	134,781
Total - All Funds:										
Net investment in capital assets	1,692,909	1,599,612	1,549,777	1,521,466	1,466,651	1,314,343	1,162,225	1,040,657	962,881	887,989
Restricted	131,324	124,785	115,865	103,639	69,269	50,891	46,730	48,848	39,550	30,777
Unrestricted	133,707	138,043	113,419	153,503	189,929	204,695	208,057	145,597	115,636	134,710
Total Net Position	\$1,957,940	\$1,862,440	\$1,779,061	\$1,778,608	\$1,725,849	\$1,569,929	\$1,417,012	\$1,235,102	\$1,118,067	\$1,053,476

(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									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Operating Revenues										
Water delivery	\$121,078	\$125,188	\$106,864	\$ 105,204	\$ 111,379	\$ 89,991	\$ 104,104	\$ 92,954	\$ 72,495	\$ 64,823
Water Supply	136,704	130,755	117,402	113,783	123,167	101,550	117,626	107,506	78,123	75,647
Wastewater	168,368	150,520	132,408	133,641	127,400	123,180	123,780	112,769	98,691	87,226
Chilled water & steam	12,378	11,631	12,223	12,714	12,675	12,997	13,146	13,304	11,963	12,130
	<u>438,528</u>	<u>418,094</u>	<u>368,897</u>	<u>365,342</u>	<u>374,621</u>	<u>327,718</u>	<u>358,656</u>	<u>326,533</u>	<u>261,272</u>	<u>239,826</u>
Operating expenses before depreciation:										
Salaries and fringe benefits	125,295	127,816	121,523	115,177	103,556	95,821	90,857	81,752	80,403	75,631
Contractual services	100,165	66,900	82,708	89,112	89,894	83,243	82,121	87,272	69,127	71,085
Materials and supplies	23,966	24,868	20,320	22,768	22,438	17,947	16,330	15,035	14,144	13,753
Other charges	21,790	21,756	36,883	24,398	20,735	17,884	11,201	9,804	8,074	8,771
Less: Costs capitalized to Construction in Progress	(33,640)	(32,282)	(34,945)	(35,643)	(31,137)	(29,334)	(23,244)	(22,714)	(19,053)	(19,312)
Internal Service Fund – net (gain)/loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>704</u>	<u>(249)</u>	<u>1,555</u>
Operating expense before depreciation	237,576	209,058	226,489	215,812	205,486	185,561	177,265	171,853	152,446	151,483
Depreciation	103,034	98,374	107,761	86,535	83,494	78,307	71,312	67,958	60,646	57,005
Total operating expenses	<u>340,610</u>	<u>307,432</u>	<u>334,250</u>	<u>302,347</u>	<u>288,980</u>	<u>263,868</u>	<u>248,577</u>	<u>239,811</u>	<u>213,092</u>	<u>208,488</u>
Operating Income	97,918	110,662	34,647	62,995	85,641	63,850	110,079	86,722	48,180	31,338
Non-operating revenues:										
Interest and miscellaneous	6,149	5,955	3,625	4,511	14,382	24,442	20,716	10,007	7,060	7,309
Non-operating expenses:										
Amortization of debt insurance costs	1,783	1,809	2,081	1,465	1,521	1,015	645	537	500	430
Other finance charges	2,934	2,881	2,936	2,508	1,418	880	1,081	931	1,144	1,031
Interest expense	74,782	77,751	76,805	67,686	63,556	63,672	60,612	46,788	41,592	40,895
(Gain)/Loss on sale of capital assets	(430)	(773)	(392)	104	(4,014)	4	(2,266)	1,227	(131)	199
Payments to City of San Antonio	11,161	10,926	9,565	9,740	10,448	9,376	10,026	8,983	7,102	6,608
Payments to other entities	122	124	124	119	119	192	211	213	184	-
Total non-operating expense	<u>90,352</u>	<u>92,718</u>	<u>91,119</u>	<u>81,622</u>	<u>73,048</u>	<u>75,139</u>	<u>70,309</u>	<u>58,679</u>	<u>50,391</u>	<u>49,163</u>
Special Items	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,999)</u>	<u>(3,584)</u>	<u>(9,786)</u>	<u>-</u>
Increases (decreases) in net position, before capital contributions	13,715	23,899	(52,847)	(14,116)	26,975	13,153	55,487	34,466	(4,937)	(10,516)
Capital contributions										
Plant Contributions	44,787	23,263	27,162	42,190	91,827	104,795	81,208	48,238	45,302	52,055
Capital Recovery Fees	36,761	35,872	25,038	23,636	36,842	32,926	45,112	33,171	24,226	14,236
Grant Revenue	237	345	1,100	1,049	276	2,043	103	1,160	-	-
Total contributions	<u>81,785</u>	<u>59,480</u>	<u>53,300</u>	<u>66,875</u>	<u>128,945</u>	<u>139,764</u>	<u>126,423</u>	<u>82,569</u>	<u>69,528</u>	<u>66,291</u>
Change in net position	<u>\$ 95,500</u>	<u>\$ 83,379</u>	<u>\$ 453</u>	<u>\$ 52,759</u>	<u>\$ 155,920</u>	<u>\$ 152,917</u>	<u>\$ 181,910</u>	<u>\$ 117,035</u>	<u>\$ 64,591</u>	<u>\$ 55,775</u>

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

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Assets:										
Capital Assets, net of accumulated depreciation	\$3,771,228	\$3,553,065	\$3,362,867	\$3,174,264	\$2,967,190	\$2,697,592	\$2,471,129	\$2,838,280	\$2,180,021	\$2,016,140
Cash and Investments	517,876	528,761	575,629	576,652	478,919	480,240	435,543	337,322	307,769	331,657
Other Assets	88,769	81,338	75,578	74,823	71,110	72,796	65,482	64,828	59,691	45,896
Total Assets	4,377,873	4,163,164	4,014,074	3,825,739	3,517,219	3,250,628	2,972,154	2,740,430	2,547,481	2,393,693
Deferred Outflows of Resources										
Accumulated Decrease in Fair Value of Hedging Derivatives	19,746	18,380	5,575	-	-	-	-	-	-	-
Liabilities:										
Revenue Bonds Payable (net)	2,046,550	1,891,320	1,832,523	1,743,689	1,408,182	1,492,865	1,257,642	1,348,054	1,134,379	1,018,643
Commercial Paper Notes	170,745	214,930	244,650	173,650	261,115	100,000	237,360	98,000	238,400	269,000
Other Liabilities	222,384	212,854	163,415	129,792	122,073	87,834	60,140	59,274	56,635	52,574
Total Liabilities	2,439,679	2,319,104	2,240,588	2,047,131	1,791,370	1,680,699	1,555,142	1,505,328	1,429,414	1,340,217
Equity in System	\$1,957,940	\$1,862,440	\$1,779,061	\$1,778,608	\$1,725,849	\$1,569,929	\$1,417,012	\$1,235,102	\$1,118,067	\$1,053,476
Percentage Equity in System	44.5%	44.5%	44.3%	46.5%	49.1%	48.3%	47.7%	45.1%	43.9%	44.0%

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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 ^(c)	Total Direct Rate			
						Water		Sewer	
						Base Rate ^(d)	Usage Rate ^(e)	Base Rate ^(f)	Usage Rate ^(g)
2012	66,596	55,320	11,276	16.93%	49,055	\$7.31	\$20.24	\$9.92	\$12.24
2011	70,699	59,133	11,566	16.36%	49,918	7.10	18.10	8.73	10.78
2010 ^(a)	61,272	52,578	8,694	14.19%	48,152	7.10	18.10	8.73	10.78
2009	62,649	55,295	7,354	11.74%	51,987	6.77	20.04	7.76	9.63
2008	67,523	58,828	8,695	12.88%	50,347	6.56	19.92	7.37	9.14
2007	55,043	49,511	5,532	10.05%	49,217	6.56	19.59	7.37	9.14
2006	63,388	57,724	5,664	8.94%	53,270	6.56	19.69	7.37	9.14
2005	58,990	55,005	3,985	6.76%	48,287	6.11	18.42	7.33	9.10
2004	51,231	49,367	1,864	3.64%	49,592	5.61	15.47	6.60	8.19
2003	55,039	50,575	4,464	8.11%	49,669	5.61	13.20	5.70	7.14

- (a) Reflects rate increase and rate restructuring for water usage beginning in November 2010. Prior to November, Water Base Rate (including TCEQ fees) was \$6.96, Water Usage Rate was \$20.52, Sewer Base Rate (including TCEQ fees) was \$7.81, and Sewer Usage Rate was \$9.63.
- (b) Pumpage is total potable water production less Aquifer Storage and Recovery recharge.
- (c) Represents amounts billed to customers. Residential Class customers are billed based on water usage during a consecutive three month billing period from November through March. All other customer classes are billed for wastewater treatment based on actual water usage during each monthly billing period.
- (d) Rate shown is for 5/8" meters. See Schedule 8 for the rates of other meter sizes.
- (e) Represents standard (non-seasonal) usage charge for monthly residential water usage of 7,788 gallons per month. Includes water supply and EAA fees.
- (f) Minimum service availability charge (includes charge for first 1,496 gallons).
- (g) Represents usage charge for a residential customer based on winter average water consumption of 6,178 gallons per month.

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

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Water Sales:										
Residential Class	\$72,620	\$79,332	\$66,410	\$65,333	\$68,516	\$56,096	\$65,927	\$58,351	\$44,829	\$45,147
General Class	35,504	33,571	32,326	32,943	32,330	29,313	31,606	28,613	24,006	23,219
Wholesale Class	1,255	234	136	204	179	120	145	182	114	143
Irrigation Class ^(a)	11,164	11,722	12,909	12,176	16,124	10,659	12,541	11,723	8,210	8,666
Total Water	120,543	124,859	111,781	110,656	117,149	96,188	110,219	98,869	77,159	77,175
Water Supply Fees ^(b)										
Residential Class	44,163	51,696	45,312	45,909	49,042	39,081	48,403	42,283	28,623	23,290
General Class	32,537	31,586	29,764	30,403	30,140	28,105	29,531	27,036	19,945	16,410
Wholesale Class	2,294	202	158	178	160	132	166	165	104	116
Irrigation Class	12,058	13,029	7,154	6,288	8,016	5,285	6,154	5,741	3,559	2,824
Total Water Supply Fees	91,052	96,513	82,388	82,778	87,358	72,603	84,254	75,225	52,231	42,640
EAA Pass-through fees ^(c)										
Residential Class	10,841	4,767	5,423	3,605	5,893	3,561	4,925	4,818	3,304	3,247
General Class	7,352	2,930	3,648	2,387	3,622	2,560	3,005	3,080	2,303	2,288
Wholesale Class	509	18	19	14	19	12	17	19	12	16
Irrigation Class	1,242	540	765	494	963	481	626	654	411	394
Total Pass-through fees	19,944	8,255	9,855	6,500	10,497	6,614	8,573	8,571	6,030	5,945
Conservation Fees:										
Residential Class	2,986	3,682	2,814	2,962	3,663	1,986	4,112	3,291	2,411	2,411
General Class	7,040	6,702	4,461	4,008	3,938	3,957	3,637	3,968	3,558	3,519
Total Conservation	10,026	10,384	7,275	6,970	7,601	5,943	7,749	7,259	5,969	5,930
Wastewater Sales:										
Residential Class	98,674	88,702	79,118	81,202	75,752	72,212	72,901	63,605	55,763	48,649
General Class	54,175	48,271	41,768	41,343	40,034	38,554	38,325	37,342	31,622	28,410
Wholesale Class	6,761	6,105	5,044	5,225	5,281	6,469	6,704	6,435	5,695	4,693
Surcharge	5,134	4,815	4,861	4,648	4,614	4,409	4,271	4,081	4,019	4,075
Total Wastewater	164,744	147,893	130,791	132,418	125,681	121,644	122,201	111,463	97,099	85,827
TCEQ Pass-through fees ^(d)										
Water customers	1,064	1,178	964	-	-	-	-	-	-	-
Wastewater customers	411	464	280	-	-	-	-	-	-	-
	1,475	1,642	1,244	-	-	-	-	-	-	-
Recycled Water Sales	5,074	5,068	3,955	4,393	4,287	3,244	3,795	3,100	2,669	2,455
Stormwater Fees	4,558	4,158	3,745	3,358	3,037	3,056	3,056	2,938	2,746	2,400
Chilled Water & Steam	12,485	11,715	12,337	12,714	12,758	13,101	13,243	13,371	12,028	12,193
Miscellaneous Fees and Charges	12,427	10,193	8,872	9,266	9,541	7,944	8,204	7,374	6,756	6,519
Provision for Uncollectible Accounts	(3,800)	(2,811)	(3,463)	(3,711)	(3,288)	(2,619)	(2,638)	(1,637)	(1,415)	(1,260)
Total Operating Revenue	\$438,528	\$417,869	\$368,780	\$365,342	\$374,621	\$327,718	\$358,656	\$326,533	\$261,272	\$239,824

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

(b) Effective December 1, 2000, a water supply fee was approved on all potable water service.

(c) EAA pass-through fees are designed to recoup fees charged by the EAA. The fee is charged based on water usage. Any previous over or under recovery of fees is considered in determining the fees to be charged each year.

(d) TCEQ pass-through fees are designed to recoup fees charged by the TCEQ. Fee is a per customer charge.

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

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Water Sales ^(a) :										
Residential Class	30,070	34,153	28,932	30,667	33,025	26,651	33,162	30,917	27,054	27,624
General Class	20,393	20,986	19,465	20,309	20,297	19,166	20,232	19,769	18,851	19,464
Wholesale Class	1,412	128	101	119	108	90	114	121	98	137
Irrigation Class	3,445	3,866	4,080	4,200	5,398	3,604	4,216	4,198	3,364	3,350
Total Water	55,320	59,133	52,578	55,295	58,828	49,511	57,724	55,005	49,367	50,575
Water Sales:										
Residential Class	26,572	27,371	26,746	29,825	28,148	27,383	28,859	25,293	25,421	24,860
General Class	20,066	20,134	20,002	20,338	20,352	19,634	21,967	22,262	21,800	22,249
Wholesale Class	2,417	2,413	1,404	1,824	1,847	2,200	2,444	1,732	2,371	2,560
Total Wastewater	49,055	49,918	48,152	51,987	50,347	49,217	53,270	49,287	49,592	49,669
Conservation - Residential Class ^(b)	3,026	4,106	2,935	3,469	3,948	2,432	4,276	3,613	2,634	2,636
Recycled Water Sales	18,129	18,990	14,968	16,321	16,559	14,148	14,836	14,048	13,626	13,643

(a) Water Supply and EAA fees are billed based on the gallons billed for water sales.

(b) Gallons billed for conservation are included in the gallons billed for water sales.

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

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Water Sales ^(a) :										
Residential Class	339,204	335,280	331,853	327,610	323,754	318,270	308,807	298,271	289,458	282,016
General Class	23,582	23,369	23,225	23,242	23,104	22,943	22,662	22,384	22,092	21,894
Wholesale Class	8	7	7	7	7	7	7	6	6	7
Total Water	362,794	358,656	355,085	350,859	346,865	341,220	331,476	320,661	311,556	303,917
Irrigation Class ^(b)	8,633	8,479	8,350	8,202	7,940	7,602	7,232	6,883	6,522	6,283
Water Sales:										
Residential Class	383,553	378,380	373,755	368,948	361,966	352,038	338,693	326,516	316,498	313,042
General Class	24,824	24,550	24,407	24,285	23,999	23,604	23,408	23,016	22,590	22,386
Wholesale Class	12	12	7	12	13	11	12	12	12	11
Total Wastewater	408,389	402,942	398,169	393,245	385,978	375,653	362,113	349,544	339,100	335,439
Conservation - Residential Class ^(c)	23,804	33,708	21,791	56,665	29,973	15,548	31,716	27,963	18,754	22,177
Recycled Water Sales	92	80	81	86	76	71	69	56	51	33

(a) Water Supply and EAA fees are billed to water customers with water usage.

(b) Represents the number of customers included in Residential, General and Wholesale Classes which also have irrigation meters.

(c) 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 (Inside City Limits)

	Fiscal Year									
	2012	2011	2010 ^(c)	2009	2008	2007	2006	2005	2004	2003
Water										
Service Availability Charge by meter size:										
5/8"	\$7.14	\$6.91	\$6.91	\$6.77	\$6.56	\$6.56	\$6.56	\$6.11	\$5.61	\$5.61
3/4"	10.01	9.68	9.68	8.59	8.32	8.32	8.32	7.75	7.12	6.85
1"	15.75	15.23	15.23	12.49	12.10	12.10	12.10	11.28	10.36	8.22
1-1/2"	30.09	29.10	29.10	22.25	21.56	21.56	21.56	20.09	18.46	11.45
2"	47.28	45.73	45.73	33.95	32.90	32.90	32.90	30.66	28.18	16.68
3"	87.44	84.56	84.56	61.27	59.37	59.37	59.37	55.33	50.85	47.94
4"	144.78	140.02	140.02	100.30	97.19	97.19	97.19	90.58	83.25	64.75
6"	288.17	278.69	278.69	197.89	191.75	191.75	191.75	178.70	164.24	117.90
8"	460.22	445.09	445.09	314.96	305.19	305.19	305.19	284.43	261.42	167.34
10"	660.95	639.22	639.22	451.57	437.57	437.57	437.57	407.80	374.81	251.76
12"	1,234.47	1,193.88	1,193.88	841.86	815.76	815.76	815.76	760.26	698.76	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
Next 5,236 gallons				0.1309	0.1268	0.1268	0.1268	0.1182	0.1086	0.1038
Next 4,488 gallons				0.2058	0.1994	0.1994	0.1994	0.1858	0.1707	0.1288
Over 17,205 gallons ^(a)				0.3288	0.3186	0.3186	0.3186	0.2969	0.2728	0.2703
Seasonal ^(b) :										
First 7,481 gallons				0.0906	0.0878	0.0878	0.0878	0.0818	0.0751	0.0722
Next 5,236 gallons				0.1423	0.1379	0.1379	0.1379	0.1285	0.1181	0.1128
Next 4,488 gallons				0.2217	0.2148	0.2148	0.2148	0.2002	0.1840	0.1388
Over 17,205 gallons ^(a)				0.4246	0.4114	0.4114	0.4114	0.3834	0.3523	0.3490
Standard:										
First 5,985 gallons	0.0948	0.0917	0.0917							
Next 6,732 gallons	0.1372	0.1327	0.1327							
Next 4,488 gallons	0.1935	0.1871	0.1871							
Over 17,205 gallons ^(a)	0.3388	0.3277	0.3277							
Seasonal ^(d) :										
First 5,985 gallons	0.0948	0.0917	0.0917							
Next 6,732 gallons	0.1492	0.1443	0.1443							
Next 4,488 gallons	0.2219	0.2146	0.2146							
Over 17,205 gallons ^(a)	0.4597	0.4446	0.4446							
Sewer ^(e)										
Service Availability Charge ^(f)	9.86	8.68	8.68	7.76	7.37	7.37	7.37	7.33	6.60	5.70
Usage (per 100 gallons)	0.2615	0.2302	0.2302	0.2057	0.1953	0.1953	0.1953	0.1943	0.1750	0.1526

(a) Includes \$0.0966 per 100 gallons billed as conservation fees.

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

(c) Applies to water billed after November 2010.

(d) Rate is applied to all billings beginning May 1 and ending on or about September 30 of each year. At all other times the Standard rate is utilized.

(e) 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. 2010 Rate applies to wastewater services billed in December 2010. 2009 rate applies to wastewater services for January 2010 through November 2010.

(f) Includes the first 1,496 gallons.

San Antonio Water System
Schedule 9 - Residential Class Rates (Outside City Limits)

	Fiscal Year									
	2012	2011	2010 ^(c)	2009	2008	2007	2006	2005	2004	2003
Water										
Service Availability Charge by meter size:										
5/8"	9.29	8.98	8.98	8.78	8.51	8.51	8.51	7.93	7.28	7.28
3/4"	13.02	12.59	12.59	11.16	10.81	10.81	10.81	10.07	9.25	8.92
1"	20.47	19.80	19.80	16.23	15.73	15.73	15.73	14.66	13.47	10.68
1-1/2"	39.12	37.83	37.83	28.92	28.02	28.02	28.02	26.11	23.99	14.89
2"	61.48	59.46	59.46	44.14	42.77	42.77	42.77	39.86	36.63	21.70
3"	113.68	109.94	109.94	79.65	77.18	77.18	77.18	71.93	66.11	62.31
4"	188.23	182.04	182.04	130.39	126.35	126.35	126.35	117.75	108.22	84.16
6"	374.62	362.30	362.30	257.24	249.26	249.26	249.26	232.30	213.51	153.27
8"	598.30	578.63	578.63	409.45	396.75	396.75	396.75	369.76	339.85	217.54
10"	859.24	830.99	830.99	587.03	568.83	568.83	568.83	530.13	487.25	327.29
12"	1,604.82	1,552.05	1,552.05	1,094.42	1,060.48	1,060.48	1,060.48	988.33	908.39	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
Next 5,236 gallons				0.1702	0.1649	0.1649	0.1649	0.1537	0.1412	0.1350
Next 4,488 gallons				0.2674	0.2591	0.2591	0.2591	0.2415	0.2219	0.1673
Over 17,205 gallons ^(a)				0.4274	0.4141	0.4141	0.4141	0.3859	0.3546	0.3463
Seasonal ^(b) :										
First 7,481 gallons				0.1176	0.1140	0.1140	0.1140	0.1062	0.0976	0.0940
Next 5,236 gallons				0.1850	0.1793	0.1793	0.1793	0.1671	0.1535	0.1466
Next 4,488 gallons				0.2882	0.2793	0.2793	0.2793	0.2603	0.2392	0.1840
Over 17,205 gallons ^(a)				0.5519	0.5348	0.5348	0.5348	0.4984	0.4580	0.4487
Standard:										
First 5,985 gallons	0.1234	0.1193	0.1193							
Next 6,732 gallons	0.1784	0.1725	0.1725							
Next 4,488 gallons	0.2516	0.2433	0.2433							
Over 17,205 gallons ^(a)	0.4405	0.4260	0.4260							
Seasonal ^(d) :										
First 5,985 gallons	0.1234	0.1193	0.1193							
Next 6,732 gallons	0.1940	0.1876	0.1876							
Next 4,488 gallons	0.2885	0.2790	0.2790							
Over 17,205 gallons ^(a)	0.5975	0.5779	0.5779							
Sewer ^(e)										
Service Availability Charge ^(f)	11.85	10.43	10.43	9.32	8.85	8.85	8.85	8.80	7.92	6.84
Usage (per 100 gallons)	0.3138	0.2762	0.2762	0.2468	0.2343	0.2343	0.2343	0.2331	0.2100	0.1831

(a) Includes \$0.0966 per 100 gallons billed as conservation fees.

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

(c) Applies to water billed after November 2010.

(d) Rate is applied to all billings beginning May 1 and ending on or about September 30 of each year. At all other times the Standard rate is utilized.

(e) 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. 2010 Rate applies to wastewater services billed in December 2010. 2009 rate applies to wastewater services for January 2010 through November 2010.

(f) Includes the first 1,496 gallons.

San Antonio Water System
Schedule 10 - General Class Rates

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Water										
Service Availability Charge by meter size ^(a) :										
5/8"	\$9.92	\$9.59	\$9.59	\$9.81	\$9.51	\$9.51	\$9.51	\$8.86	\$8.14	\$8.74
3/4"	14.18	13.71	13.71	13.16	12.75	12.75	12.75	11.88	10.91	11.37
1"	22.68	21.93	21.93	19.21	18.61	18.61	18.61	17.34	15.93	14.81
1-1/2"	43.95	42.50	42.50	35.03	33.94	33.94	33.94	31.63	29.07	23.55
2"	69.48	67.20	67.20	52.83	51.19	51.19	51.19	47.71	46.85	34.44
3"	129.04	124.80	124.80	106.92	103.60	103.60	103.60	96.55	88.74	91.60
4"	214.13	207.09	207.09	176.40	170.93	170.93	170.93	159.30	146.41	136.14
6"	426.86	412.82	412.82	350.03	339.18	339.18	339.18	316.10	290.53	259.71
8"	682.12	659.69	659.69	543.20	526.36	526.36	526.36	490.55	450.87	391.47
10"	979.93	947.71	947.71	755.89	732.45	732.45	732.45	682.62	627.40	536.79
12"	1,830.83	1,770.63	1,770.63	1,191.85	1,154.89	1,154.89	1,154.89	1,076.32	989.26	662.31
Usage (per 100 gallons)										
Below base (b)				0.1086	0.1052	0.1052	0.1052	0.0980	0.0900	0.0900
100-125% of base				0.1257	0.1218	0.1218	0.1218	0.1135	0.1043	0.0975
125-150% of base				0.1633	0.1582	0.1582	0.1582	0.1474	0.1354	0.1050
150-200% of base				0.2138	0.2072	0.2072	0.2072	0.1931	0.1774	0.1150
Over 200% of base				0.3160	0.3062	0.3062	0.3062	0.2854	0.2623	0.2590
Usage (per 100 gallons)										
Base ^(d)	0.1148	0.1110	0.1110							
100-125% of base	0.1372	0.1327	0.1327							
125-175% of base	0.1924	0.1861	0.1861							
Over 175% of base	0.2818	0.2725	0.2725							
Water – Outside City Limits										
Service Availability Charge by meter size (a):										
5/8"	12.89	12.47	12.47	11.83	11.46	11.46	11.46	10.68	9.81	10.57
3/4"	18.43	17.82	17.82	15.72	15.23	15.23	15.23	14.19	13.04	13.60
1"	29.48	28.51	28.51	22.94	22.23	22.23	22.23	20.72	19.04	17.53
1-1/2"	57.14	55.26	55.26	41.69	40.40	40.40	40.40	37.65	34.60	27.43
2"	90.33	87.36	87.36	63.01	61.06	61.06	61.06	56.71	52.30	39.92
3"	167.76	162.24	162.24	125.31	121.42	121.42	121.42	113.16	104.00	107.34
4"	278.37	269.22	269.22	206.48	200.08	200.08	200.08	186.47	171.38	157.40
6"	554.91	536.66	536.66	409.39	396.70	396.70	396.70	369.71	339.80	298.12
8"	886.76	857.60	857.60	637.69	617.92	617.92	617.92	575.88	529.30	450.40
10"	1,273.92	1,232.03	1,232.03	891.35	863.71	863.71	863.71	804.95	739.84	619.47
12"	2,380.08	2,301.82	2,301.82	1,444.41	1,399.62	1,399.62	1,399.62	1,304.40	1,198.89	770.88
Usage (per 100 gallons)										
Below base ^(b)				0.1410	0.1366	0.1366	0.1366	0.1273	0.1170	0.1170
100-125% of base				0.1635	0.1584	0.1584	0.1584	0.1476	0.1356	0.1268
125-150% of base				0.2121	0.2055	0.2055	0.2055	0.1915	0.1760	0.1365
150-200% of base				0.2778	0.2692	0.2692	0.2692	0.2509	0.2306	0.1495
Over 200% of base				0.4109	0.3982	0.3982	0.3982	0.3711	0.3410	0.3367
Usage (per 100 gallons)										
Base ^(d)	0.1492	0.1443	0.1443							
100-125% of base	0.1783	0.1724	0.1724							
125-175% of base	0.2501	0.2419	0.2419							
Over 175% of base	0.3662	0.3542	0.3542							
Sewer – Inside City Limits										
Service Availability Charge ^(e)	9.86	8.68	8.68	7.76	7.37	7.37	7.37	7.33	6.60	6.40
Usage (per 100 gallons)	0.2615	0.2302	0.2302	0.2057	0.1953	0.1953	0.1953	0.1943	0.1750	0.1489
Sewer – Outside City Limits										
Service Availability Charge ^(f)	11.85	10.43	10.43	9.32	8.85	8.85	8.85	8.80	7.92	7.68
Usage (per 100 gallons)	0.3138	0.2762	0.2762	0.2468	0.2343	0.2343	0.2343	0.2331	0.2100	0.1787

(a) A portion of the meter charge is billed as conservation fees.

(b) Base is defined as 90% of the previous average annual usage. Effective for water billed through November 2010.

(c) Effective for water billed beginning December 2010.

(d) Base is defined as 100% of the previous average annual usage.

(e) 2010 Rate applies to wastewater services billed in December 2010. 2009 rate applies to wastewater services for January 2010 through November 2010.

(f) Includes the first 1,496 gallons.

San Antonio Water System
Schedule 11 - Wholesale Class Rates

	Fiscal Year									
	2012	2011	2010 ^(c)	2009	2008	2007	2006	2005	2004	2003
Water - Inside City Limits										
Service Availability Charge by meter size:										
6"	\$ 288.17	\$278.69	\$278.69	\$197.89	\$191.75	\$191.75	\$191.75	\$178.70	\$164.24	\$247.60
8"	460.22	445.09	445.09	314.96	305.19	305.19	305.19	284.43	261.42	371.40
10"	660.95	639.22	639.22	451.57	437.57	437.57	437.57	407.80	374.81	495.22
12"	1,234.47	1,193.88	1,193.88	841.86	815.76	815.76	815.76	760.26	698.76	705.65
Usage (<i>per 100 gallons</i>)										
Below base ^(a)				0.0788	0.0764	0.0764	0.0764	0.0712	0.0654	0.0615
100-125% of base				0.0983	0.0953	0.0953	0.0953	0.0888	0.0816	0.0710
125-150% of base				0.1353	0.1310	0.1310	0.1310	0.1222	0.1123	0.0769
150-200% of base				0.1804	0.1748	0.1748	0.1748	0.1629	0.1497	0.0828
Over 200% of base				0.2365	0.2292	0.2292	0.2292	0.2136	0.0193	0.0888
Usage (<i>per 100 gallons</i>)										
Base ^(b)	0.0796	0.0770	0.0770							
100-125% of base	0.1196	0.1157	0.1157							
125-175% of base	0.1727	0.1670	0.1670							
Over 175% of base	0.2442	0.2362	0.2362							
Water – Outside City Limits										
Service Availability Charge by meter size:										
6"	374.62	362.30	362.30	257.24	249.26	249.26	249.26	232.30	213.51	321.88
8"	598.30	578.63	578.63	409.45	396.75	396.75	396.75	369.76	339.85	482.82
10"	859.24	830.99	830.99	587.03	568.83	568.83	568.83	530.13	487.25	643.77
12"	1,604.82	1,552.05	1,552.05	1,094.42	1,060.48	1,060.48	1,060.48	988.33	908.39	917.34
Usage (<i>per 100 gallons</i>)										
Below base ^(a)				0.1025	0.0993	0.0993	0.0993	0.0925	0.0850	0.0800
100-125% of base				0.1279	0.1239	0.1239	0.1239	0.1155	0.1061	0.0923
125-150% of base				0.1760	0.1705	0.1705	0.1705	0.1589	0.1460	0.1000
150-200% of base				0.2346	0.2273	0.2273	0.2273	0.2118	0.1946	0.1077
Over 200% of base				0.3075	0.2980	0.2980	0.2980	0.2777	0.2552	0.1154
Usage (<i>per 100 gallons</i>)										
Base ^(b)	0.1035	0.1001	0.1001							
100-125% of base	0.1555	0.1504	0.1504							
125-175% of base	0.2245	0.2171	0.2171							
Over 175% of base	0.3174	0.3070	0.3070							
Sewer – Inside City Limits										
Usage (<i>per 100 gallons</i>)	0.2357	0.2075	0.2075	0.1854	0.1760	0.1760	0.1760	0.1751	0.1577	0.1362
Sewer – Outside City Limits										
Service Availability Charge	115.82	101.95	101.95	91.11	86.50	86.50	86.50	86.07	77.54	67.00
Usage (<i>per 100 gallons</i>)	0.2830	0.2491	0.2491	0.2226	0.2113	0.2113	0.2113	0.2102	0.1893	0.1467

(a) Base is defined as 90% of the previous average annual usage. Effective for water billed through November 2010.

(b) Base is defined as 100% of the previous average annual usage.

(c) Effective for water billed beginning December 2010.

San Antonio Water System
Schedule 12 - Irrigation Class Rates

	Fiscal Year									
	2012	2011	2010 ^(c)	2009	2008	2007	2006	2005	2004	2003
Inside City Limits										
Service Availability Charge by meter size ^(a) :										
5/8"	\$9.92	\$9.59	\$9.59	\$9.81	\$9.51	\$9.51	\$9.51	\$8.86	\$8.14	\$8.74
3/4"	14.18	13.70	13.70	13.16	12.75	12.75	12.75	11.88	10.91	11.37
1"	22.68	21.93	21.93	19.21	18.61	18.61	18.61	17.34	15.93	14.81
1-1/2"	43.95	42.50	42.50	35.03	33.94	33.94	33.94	31.63	29.07	23.55
2"	69.48	67.20	67.20	52.83	51.19	51.19	51.19	47.71	43.85	34.44
3"	129.04	124.80	124.80	106.92	103.60	103.60	103.60	96.55	88.74	91.60
4"	214.13	207.09	207.09	176.40	170.93	170.93	170.93	159.30	146.41	136.14
6"	426.86	412.82	412.82	350.03	339.18	339.18	339.18	316.10	290.53	259.71
8"	682.12	659.69	659.69	543.20	526.36	526.36	526.36	490.55	450.87	391.47
10"	979.93	947.71	947.71	755.89	732.45	732.45	732.45	682.62	627.40	536.79
12"	1,830.83	1,770.63	1,770.63	1,191.85	1,154.89	1,154.89	1,154.89	1,076.32	989.26	662.31
Usage <i>(per 100 gallons)</i> ^(b)										
First 12,717 gallons				0.1526	0.1479	0.1479	0.1479	0.1378	0.1266	0.1200
Next 4,488 gallons				0.2290	0.2219	0.2219	0.2219	0.2068	0.1900	0.1900
Over 17,205 gallons				0.3160	0.3062	0.3062	0.3062	0.2854	0.2623	0.2590
Usage <i>(per 100 gallons)</i>										
Standard:										
Zero gallons										
Next 6,732 gallons	0.1613	0.1560	0.1560							
Next 10,473 gallons	0.1935	0.1871	0.1871							
Over 17,205 gallons ^(c)	0.3388	0.3277	0.3277							
Usage <i>(per 100 gallons)</i>										
Seasonal ^(d) :										
Zero gallons										
Next 6,732 gallons	0.1613	0.1560	0.1560							
Next 10,473 gallons	0.2246	0.2172	0.2172							
Over 17,205 gallons ^(c)	0.4650	0.4497	0.4497							
Outside City Limits										
Service Availability Charge by meter size ^(a) :										
5/8"	12.89	12.47	12.47	11.83	11.46	11.46	11.46	10.68	9.81	10.57
3/4"	18.43	17.82	17.82	15.72	15.23	15.23	15.23	14.19	13.04	13.60
1"	29.48	28.51	28.51	22.94	22.23	22.23	22.23	20.72	19.04	17.53
1-1/2"	57.14	55.26	55.26	41.69	40.40	40.40	40.40	37.65	34.60	27.43
2"	90.33	87.36	87.36	63.01	61.06	61.06	61.06	56.91	52.30	39.92
3"	167.76	162.24	162.24	125.31	121.42	121.42	121.42	113.16	104.00	107.34
4"	278.37	269.22	269.22	206.48	200.08	200.08	200.08	186.47	171.38	157.40
6"	554.91	536.66	536.66	409.39	396.70	396.70	396.70	369.71	339.80	298.12
8"	886.76	857.60	857.60	637.69	617.92	617.92	617.92	575.88	529.30	450.40
10"	1,273.92	1,232.03	1,232.03	891.35	863.71	863.71	863.71	804.95	739.84	619.47
12"	2,380.08	2,301.82	2,301.82	1,444.41	1,399.62	1,399.62	1,399.62	1,304.40	1,198.89	770.88
Usage <i>(per 100 gallons)</i> ^(b)										
First 12,717 gallons				0.1982	0.1921	0.1921	0.1921	0.1790	0.1645	0.1560
Next 4,488 gallons				0.2976	0.2884	0.2884	0.2884	0.2688	0.2470	0.2470
Over 17,205 gallons				0.4109	0.3982	0.3982	0.3982	0.3711	0.3410	0.3400
Usage <i>(per 100 gallons)</i>										
Standard:										
Zero gallons	0.2097	0.2028	0.2028							
Next 6,732 gallons	0.2515	0.2432	0.2432							
Next 10,473 gallons	0.4405	0.4260	0.4260							
Over 17,205 gallons ^(c)	0.2097	0.2028	0.2028							
Usage <i>(per 100 gallons)</i>										
Seasonal ^(d) :										
Zero gallons										
Next 6,732 gallons	0.2097	0.2028	0.2028							
Next 10,473 gallons	0.2920	0.2824	0.2824							
Over 17,205 gallons ^(c)	0.6045	0.5846	0.5846							

(a) A portion of the meter charge is billed as conservation fees.

(b) Rate applies to water billed through November 2010.

(c) Rate applies to water billed after November 2010.

(d) Seasonal rate is applied to all billings beginning May 1 and ending on or about September 30 of each year. At all other time the Standard rate is applied.

(e) Includes \$.09 per 100 gallons billed as conservation fees.

San Antonio Water System
Schedule 13 - Other Fees

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Water Supply Fees ^(a) :										
Residential Class				\$0.1529	\$0.1487	\$0.1487	\$0.1487	\$0.1378	\$0.1100	\$0.0844
First 5,985 gallons	\$0.1054	\$0.1023	\$0.1023							
Next 6,732 gallons	\$0.1524	\$0.1480	\$0.1480							
Next 4,488 gallons	\$0.2150	\$0.2087	\$0.2087							
Over 17,205 gallons	\$0.3763	\$0.3653	\$0.3653							
General Class	\$0.1620	\$0.1573	\$0.1573	\$0.1529	\$0.1487	\$0.1487	\$0.1487	\$0.1378	\$0.1100	\$0.0844
Wholesale Class	\$0.1620	\$0.1573	\$0.1573	\$0.1529	\$0.1487	\$0.1487	\$0.1487	\$0.1378	\$0.1100	\$0.0844
Irrigation Class				\$0.1529	\$0.1487	\$0.1487	\$0.1487	\$0.1378	\$0.1100	\$0.0844
First 6,732 gallons	\$0.1620	\$0.1573	\$0.1573							
Next 10,473 gallons	\$0.2150	\$0.2087	\$0.2087							
Over 17,205 gallons	\$0.4081	\$0.3962	\$0.3962							
EAA Fee ^(b)	\$0.03901	\$0.01407	\$0.01841	\$0.01222	\$0.01769	\$0.01352	\$0.01482	\$0.01549	\$0.01226	\$0.01167
State-Imposed TCEQ Fees ^(c)										
Water Connection Fee	\$0.17	\$0.19	\$0.19							
Wastewater Connection Fee	\$0.06	\$0.05	\$0.05							

(a) Per 100 gallons. 2010 rate applies to water usage billed in December 2010. 2009 rate applies to water usage billed for January 2010 through November 2010.

(b) Per 100 gallons. Applies to all billed water. Purpose of fee is to recover fees paid to EAA 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.

(c) Purpose is to recover fees paid to TCEQ. Each fee is assessed monthly to all Residential, General, and Wholesale accounts as well as each apartment account based on the number of units. Annual rate takes into account any cumulative deficit or surplus in the recovery.

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Schedule 14 - Recycled Water Rates

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Edwards Exchange Customers ^(a)										
Service Availability Charge by meter size:										
5/8"	\$9.04	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74
3/4"	11.76	11.37	11.37	11.37	11.37	11.37	11.37	11.37	11.37	11.37
1"	15.31	14.81	14.81	14.81	14.81	14.81	14.81	14.81	14.81	14.81
1-1/2"	24.35	23.55	23.55	23.55	23.55	23.55	23.55	23.55	23.55	23.55
2"	35.61	34.44	34.44	34.44	34.44	34.44	34.44	34.44	34.44	34.44
3"	94.71	91.60	91.60	91.60	91.60	91.60	91.60	91.60	91.60	91.60
4"	140.77	136.14	136.14	136.14	136.14	136.14	136.14	136.14	136.14	136.14
6"	268.54	259.71	259.71	259.71	259.71	259.71	259.71	259.71	259.71	259.71
8"	404.78	391.47	391.47	391.47	391.47	391.47	391.47	391.47	391.47	391.47
10"	555.04	536.79	536.79	536.79	536.79	536.79	536.79	536.79	536.79	536.79
12"	684.83	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	0.0238	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230
In excess of transferred amount	0.0892	0.0917	0.0917	0.0917	0.0917	0.0917	0.0917	0.0917	0.0917	0.0917
Seasonal ^(b) :										
Transferred amount	0.0238	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230
In excess of transferred amount	0.0948	0.0917	0.0917	0.0917	0.0917	0.0917	0.0917	0.0917	0.0917	0.0917
Non-exchange Customers										
Service Availability Charge by meter size:										
5/8"	\$9.04	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74	\$8.74
3/4"	11.76	11.37	11.37	11.37	11.37	11.37	11.37	11.37	11.37	11.37
1"	15.31	14.81	14.81	14.81	14.81	14.81	14.81	14.81	14.81	14.81
1-1/2"	24.35	23.55	23.55	23.55	23.55	23.55	23.55	23.55	23.55	23.55
2"	35.61	34.44	34.44	34.44	34.44	34.44	34.44	34.44	34.44	34.44
3"	94.71	91.60	91.60	91.60	91.60	91.60	91.60	91.60	91.60	91.60
4"	140.77	136.14	136.14	136.14	136.14	136.14	136.14	136.14	136.14	136.14
6"	268.54	259.71	259.71	259.71	259.71	259.71	259.71	259.71	259.71	259.71
8"	404.78	391.47	391.47	391.47	391.47	391.47	391.47	391.47	391.47	391.47
10"	555.04	536.79	536.79	536.79	536.79	536.79	536.79	536.79	536.79	536.79
12"	684.83	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	0.0955	0.0924	0.0924	0.0924	0.0924	0.0924	0.0924	0.0924	0.0924	0.0924
Over 748,000 gallons	0.0975	0.0943	0.0943	0.0943	0.0943	0.0943	0.0943	0.0943	0.0943	0.0943
Seasonal ^(b) :										
First 748,000 gallons	0.1026	0.0992	0.0992	0.0992	0.0992	0.0992	0.0992	0.0992	0.0992	0.0992
Over 748,000 gallons	0.1036	0.1002	0.1002	0.1002	0.1002	0.1002	0.1002	0.1002	0.1002	0.1002

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

(b) Prior to 2012, rate was applied to all billings beginning July 1 and ending on or about October 31 of each year. At all other times the Standard rate was utilized. Beginning in 2012 rate is applied to all billings beginning May 1 and ending on or about September 30 of each year. At all other times the Standard rate is utilized.

San Antonio Water System
Schedule 15 - Impact Fees

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Water										
Flow – All Areas	\$1,247.00	\$1,247.00	\$1,247.00	\$1,098.00	\$1,098.00	\$1,098.00	\$1,098.00	\$1,098.00	\$362.00	\$362.00
System Development:										
Low Elevation Service Area	579.00	579.00	579.00	668.00	668.00	668.00	668.00	668.00		
Middle Elevation Service Area	774.00	774.00	774.00	591.00	591.00	591.00	591.00	591.00		
High Elevation Service Area	966.00	966.00	966.00	1,356.00	1,356.00	1,356.00	1,356.00	1,356.00		
Service Level:										
2									125.00	125.00
3									107.00	107.00
4									172.00	172.00
5									104.00	104.00
5A									100.00	100.00
6									149.00	149.00
7									249.00	249.00
8									411.00	411.00
9									490.00	490.00
10									428.00	428.00
11									569.00	569.00
11A									945.00	945.00
11B									1094.00	1094.00
11E									1,163.00	1,163.00
11F									523.00	523.00
12									743.00	743.00
14									791.00	791.00
Wastewater										
Treatment										
Dos Rios/Leon Creek										
Service Area	552.00	552.00	552.00							
Medio Creek	1,379.00	1,379.00	1,379.00							
Upper and Lower Service				453.00	453.00	453.00	453.00	453.00		
Area										
Far West-Medio Service				901.00	901.00	901.00	901.00	901.00		
Areas										
Inner Service Area									142.00	142.00
Outer Service Area									750.00	750.00
Far West – Medio Creek										
Service Area									1,200.00	1,200.00
Far West – Potranca Creek										
Service Area									1,200.00	1,200.00
Far West – Lucas Creek &										
Big Sous Service Area									1,200.00	1,200.00
Collection:										
Medio Creek	582.00	582.00	582.00							
Upper Medina	1,053.00	1,053.00	1,053.00							
Lower Medina	594.00	594.00	594.00							
Upper Collection	1,795.00	1,795.00	1,795.00							
Middle Collection	1,142.00	1,142.00	1,142.00							
Lower Collection	552.00	552.00	552.00							
Lower Service Area				413.00	413.00	413.00	413.00	413.00		
Upper Service Area				691.00	691.00	691.00	691.00	691.00		
Far West – Medio Service				394.00	394.00	394.00	394.00	394.00		
Area										
Far West – Potranco, Big				772.00	772.00	772.00	772.00	772.00		
Sous, & Lucas Service										
Area										
Inner Service Area									366.00	366.00
Outer Service Area									366.00	366.00
Far West – Medio Creek										
Service Area									538.00	366.00
Far West – Potranca Creek										
Service Area									409.00	366.00
Far West – Lucas Creek &										
Big Sous Service Area									366.00	366.00
Life Station:										
Far West – Potranca Creek									363.00	
Service Area										
Far West – Lucas Creek &									363.00	
Big Sous Service Area										
Water Supply – All Areas	1,297.00	1,297.00	1,297.00	1,242.00	1,242.00	1,242.00	1,242.00	1,242.00	852.00	352.00

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	1.5	1.5	1.5	1.5	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

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

Customer	Principal Business	Usage (million gallons)	%	Total Revenue^(a) (in thousands)	%
Fiscal Year Ended December 31, 2012:					
CITY OF SAN ANTONIO	Municipal Entity	540	0.98	\$2,716	1.12
SAN ANTONIO HOUSING AUTHORITY	Public Housing	493	0.89	1,866	0.77
HEB GROCERY	Grocery	468	0.85	1,822	0.75
BEXAR COUNTY	County Government	310	0.56	1,119	0.46
NORTHSIDE INDEPENDENT SCHOOL DISTRICT	School System	256	0.46	1,118	0.46
CPS ENERGY	Public Power Utility	288	0.52	1,019	0.42
SAN ANTONIO INDEPENDENT SCHOOL DISTRICT	School System	161	0.29	792	0.33
MAXIM INTEGRATED PRODUCT INC.	Electronics	238	0.43	765	0.32
UNIVERSITY OF TEXAS AT SAN ANTONIO	University	203	0.37	728	0.30
NORTHEAST INDEPENDENT SCHOOL DISTRICT	School System	162	0.29	721	0.30
Subtotal (10 largest)		3,119	5.64	12,666	5.22
Balance from Other Customers		52,201	94.36	229,963	94.78
Total		55,320	100.00	\$242,629	100.00
Fiscal Year Ended December 31, 2003:					
CITY OF SAN ANTONIO	Municipal Entity	887	1.75	\$1,369	1.04
SAN ANTONIO HOUSING AUTHORITY	Public Housing	556	1.10	698	0.53
HEB GROCERY	Grocery	331	0.65	437	0.33
NORTHSIDE INDEPENDENT SCHOOL DISTRICT	School System	224	0.44	360	0.27
SAN ANTONIO INDEPENDENT SCHOOL DISTRICT	School System	199	0.39	339	0.26
SONY SEMICONDUCTOR	Electronics	357	0.71	327	0.25
AMERICAN OPPORTUNITY FOR HOUSING	Housing Services	242	0.48	321	0.24
PHILIPS SEMICONDUCTORS	Electronics	248	0.49	235	0.18
CPS ENERGY	Public Power Utility	229	0.45	234	0.18
BROOKS AIR FORCE BASE	Military Base	173	0.34	228	0.17
Subtotal (10 largest)		3,446	6.81	4,548	3.45
Balance from Other Customers		47,129	93.19	127,142	96.55
Total		50,575	100.00	\$131,690	100.00

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

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

Customer	Principal Business	Usage (million gallons)	%	Total Revenue (in thousands)	%
Fiscal Year Ended December 31, 2012:					
HEB GROCERY	Grocery	419	0.90	\$1,904	1.20
SAN ANTONIO HOUSING AUTHORITY	Public Housing	491	1.05	1,281	0.81
L & H PACKING COMPANY	Beef Processor	150	0.32	762	0.48
BEXAR COUNTY	County Government	248	0.53	716	0.45
TOYOTA	Automobile Manufacturer	212	0.45	578	0.36
MAXIM INTEGRATED PRODUCT, INC.	Electronics	214	0.46	555	0.35
CITY OF SAN ANTONIO	Municipal Entity	193	0.41	534	0.34
OAK FARMS DAIRY	Dairy Producer	52	0.11	448	0.28
NORTHSIDE INDEPENDENT SCHOOL DISTRICT	School System	145	0.31	392	0.25
AMERICAN OPPORTUNITY FOR HOUSING	Housing Services	147	0.32	383	0.24
Subtotal (10 largest)		2,271	4.87	7,553	4.77
Balance from Other Customers		44,367	95.13	150,841	95.23
Total		46,638	100.00	\$158,394	100.00
Fiscal Year Ended December 31, 2003:					
HEB GROCERY	Grocery	254	0.54	\$1,195	1.47
SAN ANTONIO HOUSING AUTHORITY	Public Housing	523	1.11	786	0.97
SONY SEMICONDUCTOR	Electronics	325	0.69	485	0.60
PHILLIPS SEMICONDUCTORS	Electronics	248	0.53	370	0.46
AMERICAN OPPORTUNITY FOR HOUSING	Housing Services	215	0.46	322	0.40
CITY OF SAN ANTONIO	Municipal Entity	264	0.56	312	0.38
BROOKS AIR FORCE BASE	Military Base	173	0.37	260	0.32
BEXAR COUNTY	County Government	142	0.30	214	0.26
MARRIOTT CORPORATION	Hospitality	120	0.25	205	0.25
SAN ANTONIO INDEPENDENT SCHOOL DISTRICT	School System	129	0.27	200	0.25
Subtotal (10 largest)		2,393	5.08	4,349	5.36
Balance from Other Customers		44,716	94.92	76,785	94.64
Total ^(a)		47,109	100.00	\$81,134	100.00

(a) Excludes Wholesale Wastewater usage and revenues.

San Antonio Water System
Schedule 18 - Ten Largest Customers - Wholesale Wastewater
Current Year and Nine Years Ago

Customer	Principal Business	Total Revenue (in thousands)	%
Fiscal Year Ended December 31, 2012:			
Lackland Air Force Base	Military	\$1,374	20.33
Ft. Sam Houston	Military	1,275	18.86
Leon Valley	Municipal Government	1,070	15.82
Alamo Heights	Municipal Government	1,065	15.75
Bexar County WCID #10	County Government	581	8.60
Balcones Heights	Municipal Government	416	6.15
Kirby	Municipal Government	376	5.56
Olmos Park	Municipal Government	315	4.66
Air Force Village II	Municipal Government	150	2.21
Hollywood Park	Municipal Government	93	1.37
Subtotal (10 largest)		6,715	99.31
Balance from Other Customers		46	0.69
Total		\$6,761	100.00
Fiscal Year Ended December 31, 2003:			
Lackland Air Force Base	Military	\$693	14.77
Ft. Sam Houston	Military	693	14.77
Leon Valley	Municipal Government	561	11.95
Alamo Heights	Municipal Government	581	12.38
Bexar County WCID #10	County Government	339	7.22
Terrell Hills	Municipal Government	338	7.20
Castle Hills	Municipal Government	316	6.73
Kirby	Municipal Government	253	5.39
Balcones Heights	Municipal Government	367	7.82
Brooks Air Force Base	Military	228	4.86
Subtotal (10 largest)		4,369	93.10
Balance from Other Customers		324	6.90
Total		\$4,693	100.00

San Antonio Water System
Schedule 19 - Ratios of Total Outstanding Debt by Type
(\$ in thousands, except debt per customer)

Year	Total Principal Balance Outstanding Debt by Type							Ratio of Total Debt to Gross Revenue	Customers ^(c)	Debt Per Customer (\$)	
	Revenue Bonds ^(a)			Commercial Paper Notes (\$) ^(a)	Notes Payable(\$)	Capital Leases Payable (\$)	Total (\$)				Gross Revenues (\$) ^(b)
	Senior Lien Bonds (\$)	Junior Lien Bonds (\$)	Subordinate Lien Bonds (\$)								
2012	1,605,165	382,645	-	170,745	-	-	2,158,555	444,677	4.85	777,374	2,777
2011	1,507,950	386,280	-	214,930	-	-	2,109,160	424,049	4.97	765,400	2,756
2010	1,483,980	361,005	-	244,650	-	-	2,089,635	372,522	5.61	756,642	2,762
2009	1,395,665	364,035	-	173,650	-	-	1,933,350	369,853	5.23	747,220	2,587
2008	1,138,430	288,095	1,000	261,115	119	-	1,688,759	389,003	4.34	738,728	2,286
2007	1,153,935	244,585	113,990	100,000	571	-	1,613,081	352,160	4.58	724,130	2,228
2006	958,255	208,990	116,265	237,360	991	36	1,521,897	379,372	4.01	704,835	2,159
2005	1,041,400	214,090	118,435	98,000	1,381	71	1,473,377	337,701	4.36	680,822	2,164
2004	822,860	219,035	120,515	238,400	1,697	319	1,402,826	268,333	5.23	657,813	2,133
2003	739,115	186,830	122,500	269,000	2,078	581	1,320,104	247,135	5.34	636,435	2,074

(a) 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.

(b) Gross revenues are defined as operating revenues plus nonoperating revenues. 2009 and prior years have been restated to reclass provision for uncollectible accounts from operating expenses to operating revenues.

(c) Customer connections represent the combined number of billed accounts for water and wastewater services at fiscal year-end.

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San Antonio Water System
Schedule 20 - Pledged Revenue Coverage
(\$ in thousands)

<u>Year</u>	<u>Gross Revenues</u> ^(b)	<u>Operating Expenses</u> ^(c)	<u>Net Available Revenue</u>	<u>Revenue Bond Debt Service</u> ^(a)				<u>Maximum Annual Debt Service Requirements</u>			
				<u>Principal</u>	<u>Interest</u> ^(d)	<u>Total</u>	<u>Coverage</u>	<u>Total Debt</u> ^(e)	<u>Coverage</u>	<u>Senior Lien Debt</u> ^(e)	<u>Coverage</u> ^(f)
2012	\$437,253	\$237,576	199,677	\$44,780	\$80,320	125,100	1.60	138,420	1.44	\$122,816	1.63
2011	417,077	209,058	208,019	39,730	79,534	119,264	1.74	132,226	1.57	112,715	1.85
2010	367,847	226,489	141,358	38,590	77,098	115,688	1.22	127,264	1.11	108,947	1.30
2009	366,753	215,812	150,941	34,900	71,824	106,724	1.41	121,367	1.24	101,917	1.48
2008	384,228	205,486	178,742	27,630	67,810	95,440	1.87	98,840	1.81	86,140	2.08
2007	344,772	185,561	159,211	24,880	69,693	94,573	1.68	102,880	1.55	86,138	1.85
2006	372,193	177,265	194,928	22,415	63,432	85,847	2.27	91,175	2.14	78,373	2.49
2005	331,032	171,853	159,179	16,505	55,542	72,047	2.21	94,992	1.68	78,373	2.03
2004	263,367	152,445	110,922	7,735	52,732	60,467	1.83	84,941	1.31	67,203	1.65
2003	241,228	151,483	89,745	5,515	48,512	54,027	1.66	76,075	1.18	61,511	1.46

- (a) Represents current year debt service payments. Details regarding outstanding debt can be found in the notes to the financial statements. All bonded debt is secured by revenue and is included in these totals.
- (b) Gross Revenues are defined as operating revenues plus nonoperating revenues less revenues from the City Public Service contract, interest on Project Funds and federal subsidy on Build America Bonds. 2009 and prior years have been restated to reclass the provision for uncollectible accounts from operating expenses to operating revenues.
- (c) Operating Expenses reflect operating expenses before depreciation as shown on the Statement of Revenues, Expenses and Changes in Equity.
- (d) Interest reported net of the U.S. federal interest subsidy on the Series 2009B and 2010B Build America Bonds.
- (e) Debt service requirements consist of principal and interest payments net of the U.S. federal interest subsidy on the Series 2009B and 2010B Build America Bonds.
- (f) SAWS bond ordinances require the maintenance of a debt coverage ratio of at least 1.25x the maximum annual debt service on outstanding Senior Lien Obligations in order to issue additional bonds.

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Schedule 21 - Demographic and Economic Statistics
Last Ten Calendar Years

Year	Population ^(a)	Median Age ^(a)	Personal Income ^(a) (thousands of dollars)	Per Capital Personal Income ^(a)	School Enrollment ^(b)	Single Family Housing Permits ^(c)	Employment ^(d)	Unemployment Rate ^(d)
2012	1,359,730	32.7	\$29,038,394	\$21,356	396,718	4,778	959,876	6.5%
2011	1,326,539	32.8	28,421,098	21,425	392,897	4,117	937,125	7.4%
2010	1,319,492	32.1	28,260,879	21,418	387,343	4,896	927,976	7.4%
2009	1,340,549	32.6	28,750,754	21,447	296,328	5,291	906,603	6.6%
2008	1,328,984	32.8	27,653,499	20,808	295,673	5,761	899,062	4.7%
2007	1,312,286	32.6	26,093,495	19,884	291,873	8,707	883,141	4.1%
2006	1,322,900	33.2	26,603,519	20,110	283,393	13,142	872,518	4.6%
2005	1,299,200	32.2	25,386,368	19,540	279,756	14,047	852,165	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%

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

(b) Source: Planning Department, City of San Antonio, Texas. 2001-2009 data includes students age 5 and over. Data since 2010 includes students age 3 and over.

(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, Labor Market Career Information, LAUS MSA 2000-Present, San Antonio/New Braunfels Metropolitan Statistical Area 2000-present.

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. Employment and unemployment rate information is an adjusted yearly average. School enrollment is based on the census at the start of the school year.

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**San Antonio Water System
Schedule 22 - Principal Employers
Current Year and Nine Years Ago**

Employer	2012			2003		
	Employees	Rank	Percentage of Total City Employment⁽¹⁾	Employees	Rank	Percentage of Total City Employment⁽²⁾
Joint Base San Antonio (Lackland, Fort Sam Houston & Randolph)	92,301	1	10.87%	7,407	7	1.00%
United Services Automobile Association	15,000	2	1.77%	13,748	1	1.86%
H.E.B. Food Stores	14,588	3	1.72%			
City of San Antonio	13,573	4	1.60%	9,852	3	1.33%
Northside Independent School District	12,751	5	1.50%	9,868	2	1.34%
North East Independent School District	10,522	6	1.24%	7,810	5	1.06%
Methodist Health Care System	7,747	7	0.91%	7,751	6	1.05%
San Antonio Independent School District	7,000	8	0.82%	7,988	4	1.08%
Baptist Health Systems	6,310	9	0.74%	4,225	10	0.57%
University of Texas Health Science	6,153	10	0.72%	5,102	9	0.69%
SBC Communications (A T & T)				6,000	8	0.81%
Total	185,945		21.89%	79,751		10.79%

Source: Economic Development Division, City of San Antonio, Texas, Book of Lists 2012, and Department of Defense personnel statistics.

(1) Percent based on an Employment Estimate of 849,200 of Non-Farm jobs in the San Antonio-New Braunfels Metropolitan Statistical Area as of January 2012. Figure provided by the Texas Workforce Commission.

(2) Percent based on an Employment Estimate of 739,000 of Non-Farm jobs in the San Antonio Metropolitan Statistical Area as of January 2003. Figure provided by the Texas Workforce Commission.

Table provided courtesy of City of San Antonio Finance Department.

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San Antonio Water System
Schedule 23 - Number of Employees by Functional Group

	Fiscal Year							
	2012	2011	2010	2009	2008	2007	2006	2005
Functional Group								
President/CEO	16	11	12	13	12	10	11	14
Production & Treatment Operations ^(c)	363	353	358	368	341	337	337	347
Distribution & Collection Operations ^{(a) (c)}	482	416	430	435	403	422	414	419
Operation Services ^{(a) (c)}	166	189	178	180	177			
Administrative Services ^(a)						117	115	119
Public Affairs	32	32	32	32	19	21	19	20
Customer Service	222	215	206	210	212	208	201	205
Strategic Resources ^(a)	225	201	189	201	193	116	108	102
Facilities Engineering & Construction ^(a)						188	197	199
Water Resources ^(a)	62	62	54	63	55			
Financial Services ^{(b) (c)}	52	67	69	58	56	55	54	57
Information Services ^(a)	57	57	54	58	56			
Corporate Initiatives ^(a)						64	64	61
Human Resources ^(c)	27	50	49	48	46	44	28	29
Legal ^{(b) (c)}	44	16	16	30	25	26	27	29
	1,748	1,669	1,647	1,696	1,595	1,608	1,575	1,601

In January 2012, SAWS assumed operational control of the former Bexar Metropolitan Water District, now operated as the DSP. Throughout 2012, SAWS begin filling open positions with DSP employees. As a result, SAWS vacancy rate has decreased and the number of employees increased from 2011 to 2012. In accordance with a Board approved policy to allocate shared expenses to the DSP, SAWS allocated the equivalent of 70 full-time employees. The employees presented in this table represent SAWS employees before any allocation to DSP. See "THE DISTRICT SPECIAL PROJECT" herein.

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

(b) In 2010, Contracting Department was moved from Legal to Financial Services.

(c) In 2012, certain functional groups were restructured.

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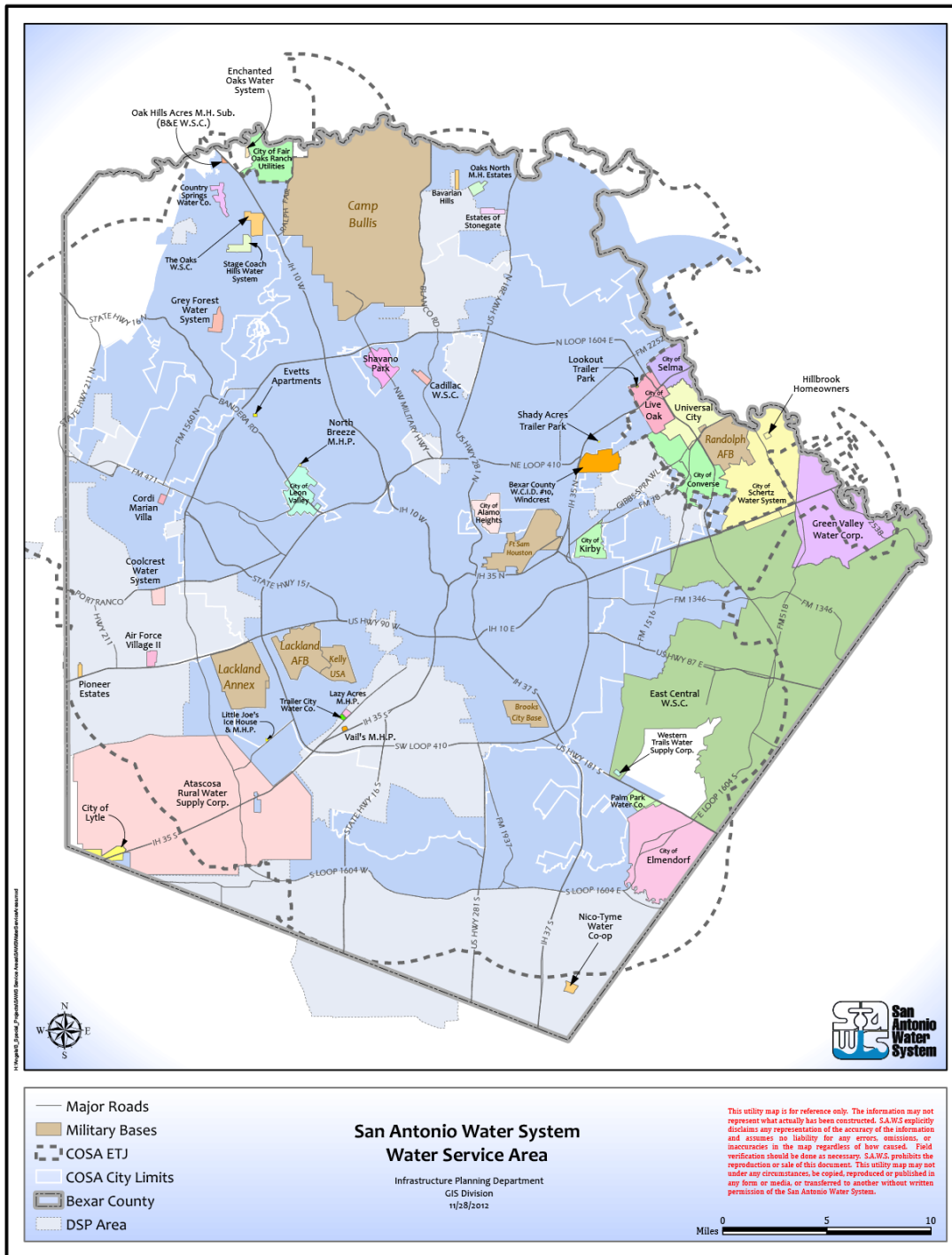
San Antonio Water System
Schedule 24 – Capital Assets
(amounts in thousands)

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Water Delivery	\$1,806,882	\$1,680,136	\$1,621,171	\$1,548,754	\$1,472,040	\$1,349,664	\$1,212,843	\$1,077,840	\$1,042,342	\$1,000,991
Water Supply:										
Water Resources	585,055	556,979	546,491	429,129	353,988	249,278	211,586	166,168	46,048	34,332
Recycle	155,556	152,993	151,640	151,184	149,308	164,414	137,009	126,905	120,114	100,175
Conservation	436	444	441	335	221	262	264	262	259	262
Stormwater	211	179	187	183	161	147	147	147	-	-
Wastewater	1,968,415	1,858,386	1,761,832	1,704,933	1,639,280	1,524,730	1,409,514	1,293,194	1,219,086	1,142,941
Chilled Water and Steam	53,011	52,948	52,957	52,007	50,303	50,169	50,109	47,865	47,137	46,046
Working Capital	-	-	-	-	-	-	3,310	3,861	3,907	6,858
Construction in Progress	571,547	522,438	415,810	427,971	372,607	361,192	372,598	483,201	499,585	428,226
Total assets before	5,141,113									
accumulated depreciation		4,824,503	4,550,529	4,314,496	4,037,908	3,699,856	3,397,380	3,199,443	2,978,478	2,759,831
Accumulated Depreciation	1,369,885	1,271,438	1,187,662	1,140,232	1,070,718	1,002,264	926,251	861,163	798,457	743,691
Net Capital Assets	\$3,771,228	\$3,553,065	\$3,362,867	\$3,174,264	\$2,967,190	\$2,697,592	\$2,471,129	\$2,338,280	\$2,180,021	\$2,016,140

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San Antonio Water System

Map 1 – Map of Water Service Area



San Antonio Water System
Schedule 25 – Operating and Capital Indicators – Water

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Rainfall (Inches)	39.40	17.58	37.39	30.69	13.76	47.25	21.34	16.45	45.34	28.45
Customers/Connections ^(a)	365,099	360,281	356,546	352,059	348,834	344,168	336,434	325,944	315,000	306,363
Water Pumpage (Million Gallons)										
Annual Water Pumped ^(d)	70,338	74,627	69,591	68,191	71,785	63,395	68,411	63,632	53,483	55,033
ASR Recharge ^{(b) (d)}	3,742	3,928	8,319	5,542	3,535	6,582	2,951	4,396	1,800	n/a
ASR Production ^{(b) (d)}	1,446	4,307	550	472	406	141	2,080	305	261	n/a
Annual Pumped for Usage ^(d)	66,596	70,699	61,272	62,649	68,250	56,813	65,460	59,236	51,683	55,033
Average Daily ^(d)	192.2	204.5	190.7	186.8	194.9	169.2	181.8	172.6	145.3	150.8
Maximum Daily ^(d)	264.0	265.6	314.0	273.8	299.0	225.6	280.4	279.3	343.1	304.8
Metered Usage (Million Gallons)	55,320	59,133	52,578	55,295	58,828	49,511	57,724	55,005	49,367	50,575
Available Water Supply (Million Gallons)										
Permitted Edwards Aquifer rights ^(e)	84,822	84,640	85,035	81,923	71,738	69,505	69,505	65,007	67,799	n/a
Non-Edwards supply ^(f)	7,431	6,098	6,132	6,256	6,256	4,171	4,171	1,140	1,140	n/a
Stored in ASR ^{(d) (g)}	30,827	28,531	28,910	21,141	16,071	12,942	6,501	5,630	1,539	n/a
Total water available for production	123,080	119,393	120,077	109,320	94,766	86,768	80,210	71,814	70,541	n/a
Number of Wells in Service	143	139	144	140	136	126	113	102	94	95
Overhead Storage Capacity (Million Gallons)	81.2	81.2	73.9	66.5	65.2	64.2	69.0	60.0	64.8	53.5
Total Storage Capacity (Million Gallons)	183.7	184.1	180.8	166.2	165.0	164.0	166.0	142.0	161.5	145.0
Miles of Water Main Installed	57	78	106	97	161	167	143	103	90	109
Miles of Water Main Replaced and Abandoned	22	26	36	33	32	19	22	23	17	20
Miles of Water Main in Place	5,022	4,988	4,936	4,866	4,802	4,673	4,525	4,404	4,324	4,251
Water Main Breaks ^(c)	2,128	3,397	1,475	3,212	2,594	1,392	3,073	2,577	1,305	1,480
New Services Installed	7,520	4,725	4,208	3,590	7,565	17,274	13,903	12,730	10,759	10,626
Fire Hydrants Installed (Net of Hydrants removed)	348	451	516	644	951	1,040	752	521	574	654
Fire Hydrants in Place	27,914	27,566	27,115	26,599	25,955	25,004	23,964	23,212	22,691	22,117

(a) Number of customers at end of fiscal year.

(b) SAWS opened its Aquifer Storage & Recovery (ASR) facility in 2004. Prior to this time, all water pumped was pumped for usage.

(c) Amount reported is for the calendar year.

(d) Amounts have been revised from previously published data.

(e) 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 44% during drought conditions.

(f) 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.

(g) Represents net amount stored in ASR (Recharge - Net production).

San Antonio Water System
Schedule 26 – Monthly Residential Service Charges for Ten Major Texas Cities – Water

CITY	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Arlington										
6000 Gallons	\$19.49	\$19.49	\$19.47	\$18.99	\$18.91	\$17.44	\$16.43	\$15.76	\$15.03	\$15.03
9000 Gallons	\$25.55	\$25.55	\$25.53	\$24.84	\$24.70	\$22.48	\$21.11	\$21.13	\$20.52	\$20.52
Austin										
6000 Gallons	\$26.16	\$26.16	\$20.34	\$19.18	\$17.93	\$16.93	\$16.21	\$14.88	\$13.50	\$13.50
9000 Gallons	\$35.40	\$35.40	\$28.68	\$27.04	\$25.22	\$24.22	\$23.11	\$21.75	\$19.80	\$19.80
Corpus Christi ⁽¹⁾										
6000 Gallons	\$30.55	\$28.97	\$27.76	\$25.54	\$25.34	\$23.44	\$22.46	\$20.67	\$19.95	\$19.95
9000 Gallons	\$48.76	\$45.67	\$43.30	\$39.10	\$38.62	\$33.98	\$32.58	\$30.01	\$28.98	\$28.98
Dallas										
6000 Gallons	\$18.58	\$17.62	\$16.72	\$16.16	\$15.50	\$14.68	\$13.87	\$12.15	\$11.60	\$11.60
9000 Gallons	\$29.23	\$27.67	\$26.17	\$25.16	\$23.90	\$22.39	\$20.80	\$18.00	\$17.21	\$17.21
El Paso ^{(2),(3)}										
6000 Gallons	\$17.01	\$16.53	\$16.53	\$16.53	\$16.53	\$15.27	\$14.67	\$14.69	\$13.90	\$13.90
9000 Gallons	\$22.99	\$22.34	\$22.34	\$22.34	\$22.34	\$20.15	\$19.53	\$19.39	\$16.01	\$16.01
Ft. Worth										
6000 Gallons	\$23.32	\$22.33	\$22.25	\$21.75	\$20.45	\$19.71	\$19.71	\$19.70	\$18.32	\$18.32
9000 Gallons	\$34.55	\$33.08	\$32.92	\$32.42	\$30.52	\$29.51	\$29.51	\$27.69	\$25.62	\$25.62
Houston										
6000 Gallons	\$27.78	\$25.51	\$23.65	\$21.91	\$20.85	\$20.49	\$19.94	\$18.60	\$18.11	\$18.11
9000 Gallons	\$40.62	\$37.30	\$34.60	\$30.67	\$29.19	\$28.71	\$27.95	\$26.10	\$25.19	\$25.19
Lubbock										
6000 Gallons	\$45.00	\$40.02	\$40.02	\$34.02	\$23.41	\$20.20	\$20.99	\$20.39	\$19.81	\$19.81
9000 Gallons	\$57.00	\$48.03	\$48.03	\$43.99	\$30.67	\$26.47	\$26.48	\$25.73	\$25.00	\$25.00
Plano										
6000 Gallons	\$22.55	\$20.50	\$20.50	\$19.35	\$16.71	\$16.41	\$15.29	\$14.57	\$13.58	\$13.58
9000 Gallons	\$29.18	\$26.53	\$26.53	\$25.05	\$21.63	\$21.15	\$19.79	\$18.86	\$17.51	\$17.51
San Antonio (Standard) ⁽²⁾										
6000 Gallons	\$21.67	\$19.59	\$19.85	\$22.11	\$21.81	\$21.56	\$21.64	\$20.22	\$17.46	\$15.70
9000 Gallons	\$31.53	\$28.44	\$28.83	\$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.

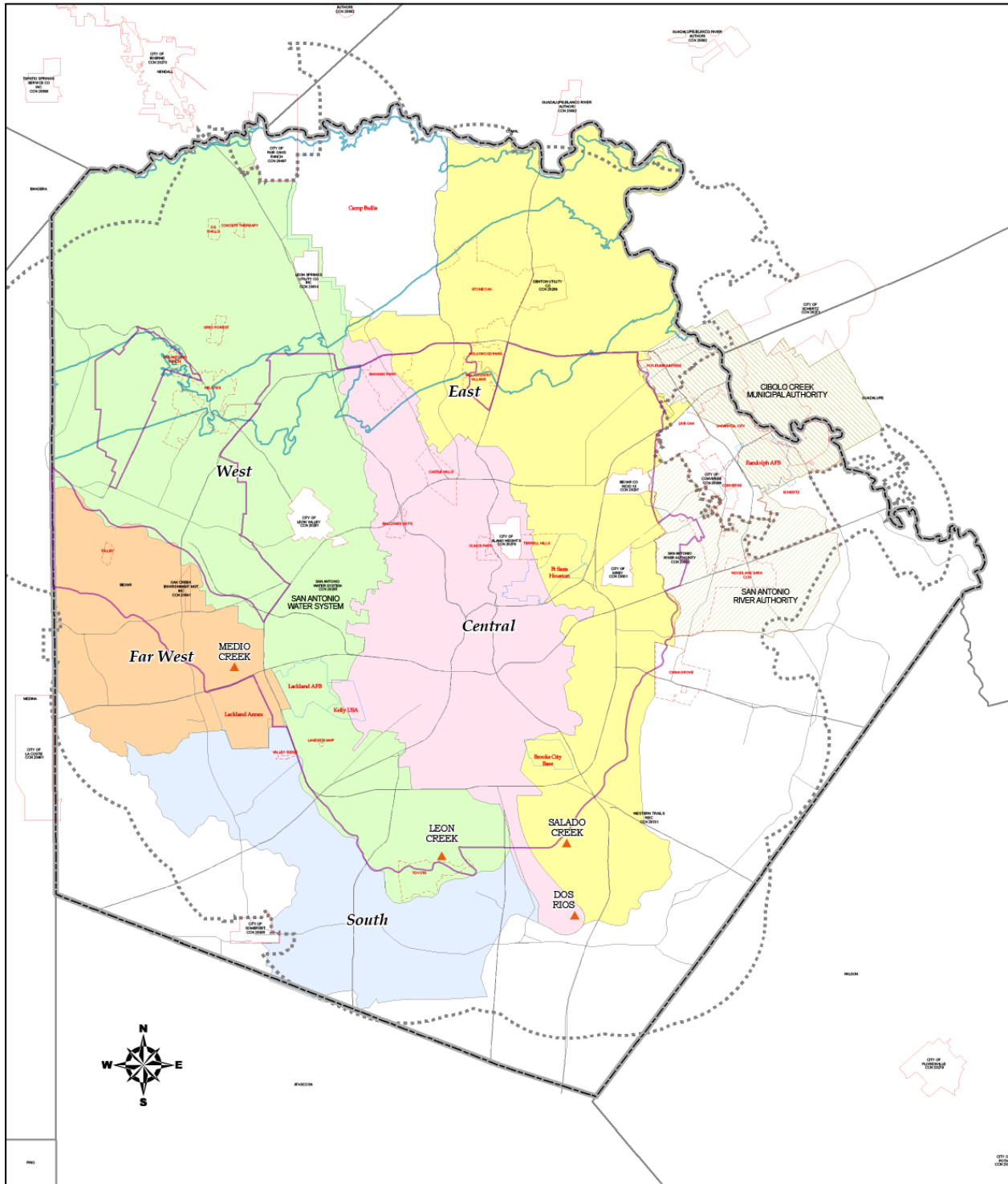
(1) Includes Raw Water Pass Through Charge of \$0.856 per 1,000 gallons.

(2) Assumes Standard rates and includes Water Supply Fee.

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

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



BOUNDARIES Bexar County Line Incorporated Towns and Cities City of San Antonio's ETJ Line Edwards Recharge Zone	SEWERSHEDS SERVICE AREAS Central East Far West South West	Recycle Water Treatment Plants By Others By SAWS SAN ANTONIO RIVER AUTHORITY (SARA) CIBOLO CREEK MUNICIPAL AUTHORITY	SAN ANTONIO WATER SYSTEM'S WASTEWATER CCN INFRASTRUCTURE PLANNING DEPARTMENT GIS MAPPING DIVISION 06/16/2010	 0 8,300 16,600 24,900 Feet
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San Antonio Water System
Schedule 27 – Operating and Capital Indicators – Wastewater

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Customers/Connections ^(a)	412,275	405,119	400,096	395,161	389,894	379,962	368,401	354,878	342,813	330,072
Effluent Volumes For Major Facilities (million gallons per day)										
Dos Rios										
Permit Flow	125.00	125.00	125.00	125.00	125.00	125.00	125.00	125.00	125.00	125.00
Average Annual Flow	79.04	74.97	86.47	74.37	76.53	93.34	64.00	59.58	61.16	56.53
Maximum Monthly Average Flow	87.01	76.63	103.66	89.36	81.43	131.98	74.37	73.98	78.74	65.65
Leon Creek										
Permit Flow	46.00	46.00	46.00	46.00	46.00	46.00	46.00	46.00	46.00	46.00
Average Annual Flow (two outfalls)	38.62	35.07	38.83	34.99	34.71	40.26	32.63	34.48	35.34	33.81
Maximum Monthly Average Flow (two outfalls)	43.77	36.46	45.30	64.74	38.62	55.49	34.28	41.79	42.40	36.18
Medio Creek										
Permit Flow	16.00	16.00	16.00	16.00	16.00	8.50	8.50	8.50	8.50	8.50
Average Annual Flow	7.29	6.83	7.53	6.32	5.87	6.94	5.13	5.21	5.60	5.53
Maximum Monthly Average Flow	8.14	6.97	8.71	7.45	6.57	10.51	5.63	6.58	6.63	7.09
Salado ^(b)										
Permit Flow	n/a	n/a	n/a	n/a	n/a	n/a	46.00	46.00	46.00	46.00
Average Annual Flow	n/a	n/a	n/a	n/a	n/a	n/a	11.38	33.80	35.86	33.24
Maximum Monthly Average Flow	n/a	n/a	n/a	n/a	n/a	n/a	21.11	40.40	44.00	36.39
Total										
Permit Flow	187.00	187.00	187.00	187.00	187.00	179.50	225.50	225.50	225.50	225.50
Average Annual Flow	124.95	116.87	132.83	115.68	117.11	140.54	113.14	133.07	137.96	129.11
Maximum Monthly Average Flow	138.92	120.06	157.67	161.55	126.62	197.98	135.39	162.75	171.77	145.31
Amount Treated Annually (millions of gallons)	49,055	49,918	48,151	51,987	50,347	49,218	53,268	49,287	49,593	49,669
Amount Treated Peak Day (millions of gallons)	199	160	258	194	174	294	169	212	297	201
Miles of Sewer Main Installed	37	45	33	84	125	137	132	74	76	122
Miles of Sewer Main In Place ^(c)	5,200	5,163	5,118	5,085	5,001	4,877	4,739	4,607	4,533	5,088
Number of Manholes Installed	856	1,080	659	1,514	2,922	2,775	2,661	1,538	1,504	1,686
Number of Manholes in Place	98,136	97,280	96,200	95,541	94,027	91,105	88,330	85,669	84,131	67,277
Number of Lift Stations	159	159	158	164	162	167	164	150	150	150

(a) Number of customers at end of fiscal year.

(b) The Salado treatment plant was closed in August 2006 and all wastewater flows diverted to the Dos Rios treatment facility.

(c) 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 28 – Monthly Residential Service Charges for Ten Major Texas Cities – Wastewater

CITY	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Arlington										
6000 Gallons	\$28.03	\$27.37	\$26.89	\$25.97	\$25.29	\$23.10	\$22.41	\$19.52	\$18.88	\$18.88
9000 Gallons	\$38.02	\$37.03	\$36.31	\$35.03	\$34.05	\$31.05	\$30.15	\$26.78	\$26.32	\$26.32
Austin										
6000 Gallons	\$54.30	\$50.35	\$48.77	\$46.28	\$44.34	\$42.18	\$37.19	\$31.72	\$27.62	\$27.62
9000 Gallons	\$81.06	\$75.49	\$73.22	\$69.47	\$66.66	\$63.72	\$56.18	\$48.79	\$42.41	\$42.41
Corpus Christi										
6000 Gallons	\$43.21	\$43.21	\$40.80	\$35.95	\$34.15	\$28.91	\$27.35	\$26.77	\$25.99	\$25.99
9000 Gallons	\$57.69	\$57.69	\$54.47	\$48.01	\$45.60	\$38.61	\$36.52	\$35.75	\$34.70	\$34.70
Dallas										
6000 Gallons	\$33.00	\$31.70	\$29.99	\$29.33	\$28.63	\$27.07	\$25.55	\$22.19	\$21.01	\$21.01
9000 Gallons	\$47.40	\$45.50	\$43.01	\$42.11	\$41.20	\$38.86	\$36.71	\$31.67	\$30.19	\$30.19
El Paso										
6000 Gallons	\$15.68	\$15.22	\$15.22	\$15.22	\$15.22	\$14.21	\$13.65	\$12.76	\$11.83	\$11.83
9000 Gallons	\$20.93	\$20.31	\$20.31	\$20.31	\$20.31	\$18.97	\$18.21	\$16.87	\$15.66	\$15.66
Ft. Worth										
6000 Gallons	\$26.84	\$26.27	\$26.27	\$25.67	\$25.67	\$24.63	\$24.63	\$24.63	\$22.39	\$22.39
9000 Gallons	\$37.70	\$36.86	\$36.86	\$36.26	\$36.26	\$34.70	\$34.70	\$34.70	\$31.33	\$31.33
Houston										
6000 Gallons	\$34.15	\$31.38	\$29.09	\$24.84	\$22.67	\$22.29	\$21.70	\$21.22	\$18.42	\$18.42
9000 Gallons	\$54.40	\$49.98	\$46.34	\$36.69	\$33.95	\$33.39	\$32.50	\$31.33	\$27.63	\$27.63
Lubbock										
6000 Gallons	\$27.50	\$24.30	\$24.30	\$22.10	\$15.97	\$14.76	\$13.96	\$13.96	\$12.53	\$12.53
9000 Gallons	\$34.25	\$30.45	\$30.45	\$28.25	\$21.46	\$19.83	\$18.97	\$18.97	\$17.03	\$17.03
Plano										
6000 Gallons	\$33.54	\$33.54	\$33.54	\$33.54	\$27.95	\$27.10	\$25.30	\$24.11	\$23.57	\$23.57
9000 Gallons	\$46.32	\$46.32	\$46.32	\$46.32	\$38.60	\$37.24	\$34.96	\$33.32	\$32.57	\$32.57
San Antonio										
6000 Gallons	\$21.70	\$19.12	\$19.10	\$17.02	\$16.17	\$16.17	\$16.17	\$16.08	\$14.48	\$12.57
9000 Gallons	\$29.54	\$26.02	\$26.00	\$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.

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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 rate 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 revised rate structure went into effect on November 1, 2010.

The System recently proposed additional rate adjustments for each of its water, wastewater, and water supply systems for fiscal year 2013, which adjustments are projected to increase the average residential bill by 8.4% and generate approximately \$22.6 million in additional annual revenue. The City Council approved the rate adjustment on February 7, 2013, with the System's Board approving the rate adjustment on February 8, 2013. The revised rates became effective on or about March 1, 2013. On September 25, 2013, SAWS announced its plan to seek water and wastewater rate increases, with the first such increase to be effective in 2014 and the second in early 2015. SAWS currently anticipates that these rate increase requests will be presented to City Council in November 2013.

Residential Water Service (Effective for Consumption on or about March 1, 2013)

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"	\$ 7.14
3/4"	10.01
1"	15.75
1-1/2"	30.09
2"	47.28
3"	87.44
4"	144.78
6"	288.17
8"	460.22
10"	660.95
12"	1,234.47

MONTHLY VOLUME CHARGE

<u>Usage Blocks</u>	<u>Rate Per 100 Gallons</u>	
	<u>Standard*</u>	<u>Seasonal*</u>
First 5,985	\$ 0.0948	\$ 0.0948
Next 6,732	0.1372	0.1492
Next 4,488	0.1935	0.2219
Over 17,205	0.3388	0.4597

* 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"	\$ 9.29
3/4"	13.02
1"	20.47
1-1/2"	39.12
2"	61.48
3"	113.68
4"	188.23
6"	374.62
8"	598.30
10"	859.24
12"	1,604.82

MONTHLY VOLUME CHARGE

<u>Usage Blocks</u>	<u>Rate Per 100 Gallons</u>	
	<u>Standard*</u>	<u>Seasonal*</u>
First 5,985	\$ 0.1234	\$ 0.1234
Next 6,732	0.1784	0.1940
Next 4,488	0.2516	0.2885
Over 17,205	0.4405	0.5975

* 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 March 1, 2013)

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		MONTHLY VOLUME CHARGE	
<u>Meter Size</u>	<u>Service Availability Charge</u>	<u>Usage Blocks, Gallons</u>	<u>Rate Per 100 Gallons</u>
5/8"	\$ 9.92	Base*	\$0.1148
3/4"	14.18	>100-125% of Base	0.1372
1"	22.68	>125-175% of Base	0.1924
1-1/2"	43.95	>175% of Base	0.2818
2"	69.48		
3"	129.04		
4"	214.13		
6"	426.86	* The Base Use is defined as 100% of the Annual Average Consumption.	
8"	682.12		
10"	979.93		
12"	1,830.83		

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		MONTHLY VOLUME CHARGE	
<u>Meter Size</u>	<u>Service Availability Charge</u>	<u>Usage Blocks, Gallons</u>	<u>Rate Per 100 Gallons</u>
5/8"	\$ 12.89	Base*	\$0.1492
3/4"	18.43	>100-125% of Base	0.1783
1"	29.48	>125-175% of Base	0.2501
1-1/2"	57.14	>175% of Base	0.3662
2"	90.33		
3"	167.76		
4"	278.37		
6"	554.91	* The Base Use is defined as 100% of the Annual Average Consumption.	
8"	886.76		
10"	1,273.92		
12"	2,380.08		

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Wholesale Water Service
(Effective for Consumption on or about March 1, 2013)

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

<u>Meter Size⁽¹⁾</u>	<u>Service Availability Charge</u>
6"	\$ 288.17
8"	460.22
10"	660.95
12"	1,234.47

MONTHLY VOLUME CHARGE

<u>Usage Blocks, Gallons</u>	<u>Rate Per 100 Gallons</u>
Base*	\$0.0796
>100-125% of Base	0.1196
>125-175% of Base	0.1727
>175% of Base	0.2442

* 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

<u>Meter Size⁽¹⁾</u>	<u>Service Availability Charge</u>
6"	\$ 374.62
8"	598.30
10"	859.24
12"	1,604.82

MONTHLY VOLUME CHARGE

<u>Usage Blocks, Gallons</u>	<u>Rate Per 100 Gallons</u>
Base*	\$0.1035
>100-125% of Base	0.1555
>125-175% of Base	0.2245
>175% of Base	0.3174

* 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".

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Irrigation Service Fee
(Effective for Consumption on or about March 1, 2013)

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"	\$ 9.92
3/4"	14.18
1"	22.68
1-1/2"	43.95
2"	69.48
3"	129.04
4"	214.13
6"	426.86
8"	682.12
10"	979.93
12"	1,830.83

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	0.1613	0.1613
Next 10,473	0.1935	0.2246
Over 17,205	0.3388	0.4650

* 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"	\$ 12.89
3/4"	18.43
1"	29.48
1-1/2"	57.14
2"	90.33
3"	167.76
4"	278.37
6"	554.91
8"	886.76
10"	1,273.92
12"	2,380.08

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	0.2097	0.2097
Next 10,473	0.2515	0.2920
Over 17,205	0.4440	0.6045

* 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.

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Recycled Water Service – Edwards Exchange Customers
(Effective for Consumption on or about March 1, 2013)

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"	\$ 9.04	Transferred Amount	\$ 0.0238	\$ 0.0238
3/4"	11.76	All in Excess of Transferred	0.0892	0.0948
1"	15.31	Amount		
1-1/2"	24.35			
2"	35.61			
3"	94.71			
4"	140.77			
6"	268.54			
8"	404.78			
10"	555.04			
12"	684.83			

* 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 – Non-Edwards Exchange Customers
(Effective for Consumption on or about March 1, 2013)

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"	\$ 9.04	First 748,000	\$ 0.0955	\$ 0.1026
3/4"	11.76	Over 748,000	\$ 0.0975	\$ 0.1036
1"	15.31			
1-1/2"	24.35			
2"	35.61			
3"	94.71			
4"	140.77			
6"	268.54			
8"	404.78			
10"	555.04			
12"	684.83			

* 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.

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Water Supply Fee
(Effective for Consumption on or about March 1, 2013)

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	\$0.1080
	Next 6,732	0.1562
	Next 4,488	0.2204
	Over 17,205	0.3857
General	Base*	\$0.1661
	>100-125% of Base	0.1661
	>125-175% of Base	0.1661
	>175% of Base	0.1661
Wholesale	Base*	\$0.1661
	>100-125% of Base	0.1661
	>125-175% of Base	0.1661
	>175% of Base	0.1661
Irrigation	0 Gallons	\$0.0000
	Next 6,732	0.1661
	Next 10,473	0.2204
	Over 17,205	0.4183

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

Residential Sewer Service
(Effective for Consumption on or about March 1, 2013)

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) - \$11.49. Over 1,496 gallons, \$0.3047 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 \$32.00 per month.

OUTSIDE CITY LIMITS ("OCL")

Monthly Service Availability Charge (includes first 1,496 gallons) - \$13.81. Over 1,496 gallons, \$0.3656 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 \$38.41 per month.

General Class Sewer Service
(Effective for Consumption on or about March 1, 2013)

INSIDE CITY LIMITS ("ICL")

Monthly Service Availability Charge (includes first 1,496 gallons) - \$11.49. Over 1,496 gallons, \$0.3047 per 100 gallons.

OUTSIDE CITY LIMITS ("OCL")

Monthly Service Availability Charge (includes first 1,496 gallons) - \$13.81. Over 1,496 gallons, \$0.3656 per 100 gallons.

**Wholesale Sewer Service
(Effective for Consumption on or about March 1, 2013)**

INSIDE CITY LIMITS ("ICL")

Wholesale: \$0.2749 Monthly Volume Charge per 100 gallons of contributed wastewater. (\$2.06 per 100 cubic feet)

OUTSIDE CITY LIMITS ("OCL")

Wholesale: \$134.93 Monthly Service Availability Charge plus \$0.3297 Monthly Volume Charge per 100 gallons of contributed wastewater. (\$2.47 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 Water Service Interconnect 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;
2. The System's meter fee for standby service;
3. Additional standby charges of 10 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 MAY 31, 2011)

On May 19, 2011, 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 10-year period of 2011-2020. 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 LUAP and CIP must be updated at least every five (5) years. The previous impact fees for water delivery, water supply and wastewater were approved by the City Council in 2006.

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 10 years and CIP costs associated with providing service to that new demand. The amended LUAP for 2011-2020 projects 80,343 new water EDUs and 107,075 new wastewater EDUs. The pro-rata cost of existing and future capital improvements projects to serve the 2011-2020 growth is estimated to be \$504.6 million as set forth in the amended CIP.

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Based on the 10-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	\$ 1,297
Water Delivery	
Flow	\$ 1,247
System Development	
High Elevation	\$ 966
Middle Elevation	\$ 774
Low Elevation	\$ 579
Wastewater	
Treatment	
Medio Creek	\$ 1,379
Dos Rios/Leon Creek	\$ 552
Collection	
Medio Creek	\$ 582
Upper Medina	\$ 1,053
Lower Medina	\$ 594
Upper Collection	\$ 1,795
Middle Collection	\$ 1,142
Lower Collection	\$ 552

EDWARDS AQUIFER AUTHORITY PERMIT FEE

Ordinance No. 87042 provides for the establishment and assessment of a pass-through charge of the Edwards Aquifer Authority Permit Fee to all System water customers. The purpose of the fee is to recover fees paid to the Edwards Aquifer Authority for permitted water rights. The annual fee takes into account any cumulative deficit or surplus in the recovery, number of Edwards Aquifer Authority water rights and projected water sales (in gallons) for the year.

<u>Year</u>	<u>EAA Fee</u> <u>(per 100 gallons)</u>
2005	\$0.01549
2006	0.01482
2007	0.01352
2008	0.01769
2009	0.01222
2010	0.01841
2011	0.01407
2012	0.01719
2012*	0.03901
2013	0.03425

* Increased April 1, 2012 to include a \$50/acre-foot fee to support funding for the Edwards Aquifer Authority Habitat Conservation Plan Program. (see "THE SAN ANTONIO WATER SYSTEM – Edwards Aquifer Management Plan").

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY (TCEQ) FEE

The Texas Commission on Environmental Quality imposes certain fees on the System, which is applied to all residential, commercial, and wholesale accounts as well as each apartment account based on the number of units. The annual fee takes into account any cumulative deficit or surplus in the recovery.

<u>Service Type (Monthly Fee)</u>	<u>TCEQ Pass-Through Fee</u>	
	<u>Water Connection Fee</u>	<u>Wastewater Connection Fee</u>
2010	\$0.19	\$0.05
2011	0.19	0.05
2012	0.17	0.06
2013	0.17	0.05

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. The Federal Safe Drinking Water Act requires the United States Environmental Protection Agency (the "EPA") to regulate a wide variety of contaminants that may be present in drinking water, including volatile organic chemicals ("VOCs"), 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 the EPA to establish a schedule for developing regulations regarding the contaminants. There are several phases in the 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 several 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, the 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.

Additionally, on February 13, 2013, EPA finalized revisions to its Total Coliform Rule, imposing requirements that will take effect in April 2014.

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 Clean Water Act 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 Texas Pollutant Discharge Elimination System (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. On October 27, 2011, the Office of Water and the Office of Enforcement and Compliance Assurance issued a Memorandum on Achieving Water Quality Through Integrated Municipal Stormwater and Wastewater Plans. The memorandum outlines the development of an integrated planning approach framework to help EPA work with local governments towards cost-effective decisions and solutions regarding the implementation of NPDES related obligations. The framework will identify: (1) the essential components of an integrated plan; (2) steps for identifying municipalities that might make the best use of such an approach; and (3) how best to implement the plans with state partners under the Clean Water Act permit and enforcement programs. On June 5, 2012, the EPA issued its Integrated Municipal Stormwater and Wastewater Planning Approach document. This document encourages the EPA Regions to work with the states in their regions to implement integrated planning that will assist municipalities on their critical paths to achieving health and water quality objectives of the Clean Water Act by identifying efficiencies in implementing requirements that arise from distinct wastewater and stormwater programs.

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. The EPA notified the System during 2007 of concerns regarding reported sewer overflows under the TPDES permits. The EPA's concerns and the System's response are discussed under "LITIGATION AND REGULATORY MATTERS – SAWS Litigation and 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, civil 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 \$25,000 per day effective September 1, 2011 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, the City 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.

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. On March 10, 2009, Texas Governor Rick Perry submitted a list of 27 counties in the State, including Bexar County, that should be designated as nonattainment. The final designations were put on hold while the EPA worked on revising the standard even further downward.

On January 6, 2010, the EPA formally proposed a regulation that would lower the primary NAAQS for ozone to a level within a range of 0.060 ppm and 0.070 ppm. The EPA postponed issuing a final rule revising the ozone NAAQS standards from August 31, 2010 to December 31, 2010. At the end of 2010, the EPA postponed the final rule until July 2011. On September 2, 2011, President Obama requested that the EPA withdraw their draft of the NAAQS revision; as a result, the ozone NAAQS will not be revised until 2013. On September 22, 2011, the EPA issued a memorandum stating it would designate areas as nonattainment under the 2008 ozone standard of 0.075 ppm, starting with the recommendations states made in 2009 and updating them with the most current, certified air quality data. On October 31, 2011, Governor Perry submitted a revised list of counties in the State that should be designated as nonattainment based on certified monitoring data for years 2008-2010. Unlike the Governor's 2009 recommendation, the revised list did not include Bexar County. In April 2012 the EPA issued final designations for the 2008 ground level ozone standard and, consistent with the Governor's revised recommendation, Bexar County was designated unclassifiable/attainment. Therefore, it is likely that an ozone nonattainment designation for Bexar County will not occur until after the standard is revised again in 2013. In conjunction with the revised NAAQS, the EPA has proposed separate rules to address monitoring the new standard. Generally, the proposal from the EPA would require a greater number of EPA-approved monitors in both urban and non-urban areas and longer ozone monitoring seasons in many states. For Texas specifically, the proposal calls for a year-round monitoring throughout the State.

If at some future date a standard is adopted in the range proposed by the EPA in 2010, San Antonio likely 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. 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 was considering comments received on the proposed monitoring requirements and has stated that it expects to issue a final rule in coordination with the final rule on ozone standards. There has been no announcement concerning whether these rule revisions will be stayed with the withdrawal of the proposed ozone rule.

Any State plan formulated to reduce ground-level ozone resulting from rule adoptions similar to EPA's 2010 rule proposal 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 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 would be required to meaningfully impact an area's ground-level ozone reading. 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 System 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, 2012, the amount of \$26,055,132 is included as a component of the reserve for claims liability. The estimated liability, including an estimate of incurred but not reported claims, is recorded in the Insurance Reserve Fund. The status of such litigation ranges from early discovery stage to various levels of appeal of judgments both for and against the City. The City intends to defend vigorously against the lawsuits; including the pursuit of all appeals; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the outcome of such lawsuits.

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

The City provides the following updated information related to the lawsuits:

Kopplow Development, Inc. v. City of San Antonio. Plaintiff contends that the construction of a regional stormwater detention facility was an inverse condemnation of its property by increasing the flood plain elevation on its property. The City also filed a statutory condemnation to acquire an easement involving Plaintiff's property to construct and maintain part of the facility. This matter was tried in July 2008 with a favorable ruling to Plaintiff; but the City's motion for new trial was granted. After a retrial, the jury awarded approximately \$600,000 to Plaintiff for the inverse condemnation and statutory condemnation. The City and Plaintiff have appealed. The Fourth Court of Appeals issued its opinion affirming the trial court's ruling awarding Plaintiff \$4,600 as compensation for the land taken, but reversed the other portion of the judgment for the remainder of the damages. Plaintiff's motion for rehearing was denied on December 29, 2010. Plaintiff filed its brief on the merits in October 2011 and the City filed its reply in December of 2011. On March 8, 2012, the Supreme Court issued their opinion, reversing the Fourth Court's opinion and remanding the matter back to State district court for further proceedings consistent with their opinion. The City's Motion for Rehearing was denied in June 2013 and the parties are now awaiting a briefing schedule from the Fourth Court of Appeals.

KGME, Incorporated v. City of San Antonio. Plaintiff entered into a contract with the City to provide construction services. The parties determined that work on portions of the contract had become impracticable and further work would cease. Plaintiff sued for breach of contract and violations of the Prompt Payment Act. Damages could exceed \$250,000. The City filed a plea to the jurisdiction, which was denied by the trial court. The Fourth Court of Appeals issued its opinion on February 16, 2011, affirming the trial court's denial of the City's plea to the jurisdiction. The case was remanded back to state court. This case is set for trial on November 12, 2013.

Abilmelch Garcia v. City of San Antonio. Plaintiff claims he was operating his wheelchair at the intersection of East Commerce and Soledad when he was struck by a City of San Antonio Waste Management truck. As a result, he alleges serious and permanent bodily injuries, including loss of both legs. Plaintiff sued under the Texas Tort Claims Act and for Violation of Section 552.003 of the Texas Transportation Code (failure to yield right-of-way to a pedestrian). Plaintiff sued for an unknown amount of money for damages to include past and future medical expenses, physical pain, mental anguish and physical impairment which allegations exceed \$250,000. Damages are capped by the Texas Tort Claims Act at \$250,000. This case is set for trial on March 3, 2014.

Maria Elena Rodriguez v. City of San Antonio. Plaintiffs sued under the Texas Tort Claims Act for negligence, gross negligence, and wrongful death alleging that a San Antonio Police Officer negligently struck and killed the driver, Plaintiff Davila, in a motor vehicle accident on Loop 1604 on March 7, 2010. Plaintiff Rodriguez was riding as a passenger with Plaintiff Davila. Plaintiff Rodriguez allegedly sustained injuries to both knees and her back, and alleges damages in excess of \$250,000. Damages are capped by the Texas Tort Claims Act at \$250,000. This matter was set for trial in February of 2012. After unsuccessfully seeking another continuance of the trial, Plaintiff non-suited the case and refiled as a new matter a week later. Additionally, Plaintiff Rodriguez has filed a separate lawsuit against the manufacturer of the automobile in which she was a passenger. This lawsuit is now set for trial on November 4, 2013.

Barbara Webb, et. al. v. City of San Antonio. Plaintiffs sued under the Texas Tort Claims Act for injuries sustained in a motor vehicle accident. A San Antonio Police Officer was en route to an emergency call when a vehicle turned into the street in front of her. The officer swerved to avoid that vehicle and lost control of her car, moving into the oncoming traffic. The patrol vehicle struck Plaintiffs' car head on. Plaintiff suffered life threatening injuries. This case is in the discovery stages. Damages could reach \$250,000. In May 2013, an insurance company covering one of the non-City defendants was declared insolvent and entered into bankruptcy pleadings. This case has been automatically stayed pending resolution of the bankruptcy proceedings.

Melissa Hopkins, et. al. v. William Karman, et. al. Plaintiff's decedent was the victim of armed-robbery. A San Antonio Police Officer arrived on the scene. Shots were exchanged with suspects and Plaintiffs' decedent was killed. Plaintiffs filed suit against the officer and the City alleging violations of civil rights under 42 U.S.C. §1983. Damages could exceed \$250,000. In June 2013, the Court granted summary judgment in favor of the City and the defendant officers, dismissing all claims. Plaintiffs have filed an appeal to the Fifth Circuit.

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

Valemas, et. al. v. City of San Antonio (Valemas II). Valemas and subcontractor L. Payne performed construction work for the City on W.W. White Road, but there have been issues with subsidence. The City withheld payment of the final invoice and retainage payments, totaling approximately \$400,000.00. Plaintiffs also allege delay damages. The City accepted the completed project but requires proof of payment to all subs and vendors prior to releasing final payment. The City denies delay damages are owing. This case is not currently set for trial.

L. Payne Construction v. City of San Antonio. Plaintiff was a subcontractor to Valemas, Inc. on a construction contract for work on Clark Avenue in San Antonio. Plaintiff alleges that it did not receive final payment and that it is entitled to delay damages in excess of \$500,000. This case is set for trial on February 3, 2014.

Silverado Brothers v AT&T, et. al. Plaintiff contracted to perform street and sidewalk work for City. In contract, City indicated that utility lines had been identified and marked. When construction began, it was discovered that information from AT&T as to line location was incorrect. Work was delayed while AT&T's contractor, Bay Builders, re-located lines. When work commenced, it was discovered that lines had not been properly relocated, and work was again delayed. Plaintiff originally filed suit against AT&T and Bay Builders for \$800,000 in delay damages. Plaintiffs amended to include City as responsible party, based on representations that lines would be properly marked. Bay Builders was dismissed from suit on a motion for summary judgment. AT&T has settled with Plaintiff. Plaintiff asserts a claim of \$600,000 against the City, which the City denies. This case is currently set for trial on November 4, 2013.

Shavonda Bailey, et. al. v City of San Antonio, et. al. Defendant San Antonio police officers were involved in an altercation with Plaintiffs' decedent, Pierre Abernathy, requiring the use of tasers. Mr. Abernathy suffered an episode of "excited delirium" and died. Plaintiffs sued the City and one identified and six unidentified police officers under 42 U.S.C. Section 1983, alleging excessive use of force. This case was recently filed with the United States District Court, but has not yet been served on any Defendant.

Anthony Ortega, et. al. v. City of San Antonio, et. al. A San Antonio police officer was involved in a motor vehicle accident while allegedly in pursuit of a stolen vehicle. Plaintiffs' decedent, Laura Zepeda, was killed as a result of the incident. This lawsuit was recently filed and served on the City.

SAWS LITIGATION AND POTENTIAL LITIGATION

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 various other liability claims. The amount of damages in some 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. SA-11-CA-1007-JRN; Hanford Southport, LLC v. City of San Antonio, Patrick O'Connor, in his Official Capacity and in his Individual Capacity, The San Antonio Water Service, Brice Moczygemba, P.E., Pape Dawson Engineers, Inc. and Pipelayers, Inc.

This suit seeks to enjoin SAWS and its contractor from removal of trees and woodlands in connection with SAWS Southwest Bexar Sewer Pipeline Project (f/k/a Medina River Sewer Outfall Project) and asserts claims for damages. The Plaintiff alleges that the permit issued for the sewer line project was issued based on fraudulent representations of SAWS' consultants and employees and that the landowner was denied due process in issuance of the permit to allow the trees to be removed. Plaintiff seeks actual damages of \$3,545,000 for unnecessary destruction of

woodlands; punitive damages; and interest, attorney fees and court costs. The case was originally filed in the 150th District Court of Bexar County, Texas but was removed to Federal Court. The originally sought injunction was not granted and the trees have since been cleared. On March 27, 2013, the Court granted the Plaintiff's Amended Motion for Leave to file the Third Amended Original Complaint and signed an Order denying all other pending motions and ordered mediation. The parties could not agree to resolve the dispute in mediation. SAWS filed its Alternative Dispute Resolution Report with the Court on August 30, 2013.

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 32-mile long Southwest Bexar Sewer Pipeline Project (formerly known as the Medina River Sewer Outfall Project). SAWS appraised value of the property was \$419,600.00. The landowner proffered an opinion of value for the easement in the amount of \$8,494,000.00. A hearing on the case was held with the Special Commissioners appointed by the Probate Court on October 11, 2010, who awarded a value to the landowner of \$502,222.00. SAWS deposited the award in the registry of the court. The landowner withdrew the award, thereby waiving any jurisdictional challenges, and limiting review only to the damages in the case, to which the landowner objected. The bench trial commenced on March 29, 2011, and concluded on April 8, 2011. On December 9, 2011, the Judge issued a final judgment rejecting the landowner's arguments and assessing a valuation of the easement in the amount of \$601,625.00. On January 6, 2012, the landowner filed a notice of appeal with the Court of Appeals for the Fourth Appellate District of Texas in San Antonio. On November 7, 2012, after oral argument was heard, the Court of Appeals for the Fourth Appellate District of Texas in San Antonio affirmed the trial court decision. The landowner filed a petition for review with the Supreme Court of Texas on January 15, 2013. The Texas Supreme Court denied the petition for review. On July 30, 2013, the landowner filed a Writ of Certiorari of Review in the Supreme Court of the United States. SAWS filed its Brief in Opposition on September 4, 2013.

Cause No. 2012-ED-0025; City of San Antonio, acting by and through the San Antonio Water System vs. Texas Dorado Properties, Ltd., and Southern Acres Properties, Ltd., In the Probate Court No. 1 of Bexar County, Texas.

This is a condemnation case involving a 0.764 acre permanent easement and 0.0534 acre temporary construction easement in connection with the SAWS Regional Carrizo Project: Water Delivery Pipeline. SAWS' appraised value of the property is \$186,100.00. The landowner has not agreed with SAWS' appraisal, but has not yet obtained his own appraisal. The landowner has granted SAWS a possession and use agreement. The Special Commissioner's hearing occurred on October 31, 2012 and the Special Commissioner awarded the amount of \$528,188.00. On November 26, 2012, SAWS timely objected to the award. On December 17, 2012, SAWS deposited the award amount (less prior payment to landowner for the possession and use agreement) in order to maintain possession of the easement. On September 26, 2013, the parties negotiated a settlement in the amount of \$478,188, subject to approval by the Board.

Cause No. 2012-ED-0013; City of San Antonio, acting by and through the San Antonio Water System vs. Mary Jo Hauser, Trustee for the John James Survey 73 Cemetery Association, In the Probate Court No. 1 of Bexar County, Texas.

This is a condemnation case involving a 1.583 acre permanent easement and 0.896 of an acre temporary construction easement in connection with the SAWS Regional Carrizo Project: Water Delivery Pipeline. SAWS' appraised value of the property is \$215,000.00. The landowner's assessment of value prior to the hearing was \$5.2 million. The Special Commissioner's hearing occurred on June 18, 2012. The landowner proffered an opinion of value of \$21 million. The Special Commissioner rejected the landowner's valuation, and awarded a value of \$225,000. SAWS has deposited the award into the registry of the court. The landowner has objected to the award, so the case will proceed to trial in District Court.

Cause No. 2012-ED-0044, City of San Antonio acting by and through the San Antonio Water System vs. Adera Cerri Properties, LLC, in the Probate Court No. 2 of Bexar County, Texas.

This is a condemnation case involving a 0.500 acre permanent booster station easement and a 0.173 acre permanent water line easement in connection with the SAWS Crescent Park Booster Station Project. SAWS appraised value of the taking is \$217,837.00. The landowner offered an appraised value of \$743,000. A Special Commissioner's hearing occurred on August 29, 2013. The Special Commissioner awarded a valuation of \$637,842.27. The Board approved payment of the award at its meeting on September 10, 2013.

Cause No. 2013-ED-0020, City of San Antonio acting by and through the San Antonio Water System vs. Applewhite 1604 Partners, LP, et. al, in the Probate Court No. 2 of Bexar County, Texas.

This is a condemnation case in connection with SAWS' Water Resources Integration Project Pipeline, an approximately 45-mile pipeline project in western Bexar County. SAWS' is seeking to acquire a 13.214 acre permanent water line easement. SAWS' current appraised value of the easement is \$106,606. The landowner has not yet obtained an appraisal, but their last request for compensation was in the amount of \$330,350. This suit was filed on September 16, 2013. SAWS' attorneys will move to have Special Commissioners appointed and a date set for a Special Commissioners' hearing.

Cause No. 2010-CI-07444, Debra Nicholas v. San Antonio Water System, in the 57th Judicial District Court, Bexar County, Texas.

The lawsuit arose after the elimination of Plaintiff's position as an Assistant Vice President (AVP) during a 2009 reorganization of the San Antonio Water System. The suit alleged two causes of action: (1) retaliation, predicated on Plaintiff's claim that she had in 2006 counseled the Vice President for whom she later worked, related to comments from two non-subordinate female employees; and (2) failure to hire Plaintiff for several positions within SAWS following the elimination of her AVP position. Prior to trial, Plaintiff had previously declined to mediate the case when it was filed at EEOC. Following discovery, SAWS filed a motion for summary judgment on all of the allegations, and partial judgment was

granted in favor of SAWS regarding two (2) of the failure to hire claims. The case proceeded to trial on February 27, 2012. The testimony concluded on March 7, 2012, and the case was submitted to the jury, which returned a unanimous verdict on March 9, 2012, which found that (1) SAWS had retaliated against Plaintiff, because of her opposition to conduct that may have violated the Texas Labor Code by eliminating her position; and (2) SAWS failed to hire her as manager of external relations. Plaintiff elected to recover under the first jury finding. On May 3, 2012, the trial court entered final judgment for \$1,265,125, consisting of \$958,943 in damages and \$306,182 in attorney's fees, interest and court costs. Motion for New Trial and Motion for Judgment Notwithstanding the Verdict were filed on May 29, 2012, and both motions were overruled. SAWS filed an appeal in the Texas Fourth Court of Appeals on December 10, 2012. Oral argument occurred on May 15, 2013. On July 18, 2013, the Texas Fourth Court of Appeals ordered the parties to mediation, which occurred on September 25, 2013. The parties were unable to resolve the dispute in mediation and now await a final opinion of the Fourth Court of Appeals.

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 due to the occurrence of sanitary sewer overflows. The EPA subsequently referred the matter to the DOJ for an enforcement action. In October 2007, EPA/DOJ and SAWS entered into a tolling agreement that precludes the running of any applicable statutes of limitation that might otherwise bar a claim in anticipation that the parties would engage in settlement negotiations. The tolling agreement was extended on seventeen occasions, with the Seventeenth Tolling Agreement expiring on July 22, 2013. Since 2007, SAWS has engaged in settlement negotiations with the EPA and the DOJ to resolve the allegations. On June 4, 2013, the Board approved a Consent Decree between SAWS and the United States of America and the State of Texas to resolve this enforcement action. SAWS signed the Consent Decree on June 5, 2013, and the Consent Decree was subsequently executed by the United States of America and the State of Texas and was lodged in the United States District Court for the Western District of Texas on July 23, 2013 in Civil Action No. 5:13-cv-00666. On July 31, 2013, the United States of America published notice of the lodging of the Consent Decree in the Federal Register. The Consent Decree was subject to a public comment period that expired on August 29, 2013. Only one entity provided comments to the Department of Justice. After consideration of the comments received, on September 13, 2013, the United States of America filed its Motion for Entry of Consent Decree, requesting the Court to approve the Consent Decree by signing and entering it. The Consent Decree was signed and entered by the Court on October 15, 2013. During the course of the Consent Decree negotiations, SAWS increased its level of investment in the wastewater collection system with the intent to decrease the number of sanitary sewer overflows. Over the five year period 2008 – 2012, SAWS' operating and capital expenditures associated with the reduction of sewer overflows averaged approximately \$60 million per year. The cost to perform the requirements of the Consent Decree are anticipated to be approximately \$500 million more than the total of the average annual expenditures SAWS would have made in its sewer system to reduce sanitary sewer overflows during the 10 to 12 year term of the Consent Decree. The Consent Decree requires that SAWS pay a civil penalty of \$2.6 million. An accrual of the amount of the civil penalty is included in Accrued Claims Payable at both December 31, 2011 and December 31, 2012. See Note G in "APPENDIX B – EXCERPTS FROM THE SAN ANTONIO WATER SYSTEM COMPREHENSIVE ANNUAL FINANCIAL REPORT".

Applications of the San Antonio Water System for Permits to Produce and Transport Groundwater from the Carrizo Aquifer in Gonzales County, Texas; Before the Gonzales County Underground Water Conservation District.

For a description of this matter, see "THE SAN ANTONIO WATER SYSTEM – Carrizo Aquifer Projects" herein.

TAX MATTERS

TAX EXEMPTION

The delivery of the Bonds is subject to the opinion of Fulbright & Jaworski LLP of San Antonio, Texas, a member of Norton Rose Fulbright, and Escamilla & Poneck, LLP, Co-Bond Counsel ("Co-Bond Counsel"), to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereafter described, corporations. The statute, regulations, rulings, and court decisions on which such opinions are based are subject to change. The form of the opinion of Co-Bond Counsel concerning the excludability of interest on the Bonds for federal income tax purposes is attached hereto as APPENDIX E.

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

In rendering the foregoing opinion, Co-Bond Counsel will rely upon the Sufficiency Certificate of the Co-Financial Advisors as to the defeasance of the Refunded Commercial Paper and upon the certifications of the City made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Ordinance by the City subsequent to the issuance of the Bonds. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage "profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above Co-Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Co-

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

TAX CHANGES

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

ANCILLARY TAX CONSEQUENCES

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

TAX ACCOUNTING TREATMENT OF DISCOUNT BONDS

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

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

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

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

TAX ACCOUNTING TREATMENT OF PREMIUM BONDS

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

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

RATINGS

The Junior Lien Obligations (including the Bonds) are rated “AA” by Fitch, “Aa2” by Moody’s, and “AA” by S&P. 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 ratings 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 Ratings to Global Scale Ratings. As a result, the System’s ratings were recalibrated to “AA” from “AA-” on its Junior Lien Obligations. The System filed a Material Events Notice with the MSRB on May 11, 2010 to reflect the ratings recalibration. S&P, in connection with the City’s issuance of its Water System Junior Lien Revenue Refunding Bonds, Series 2013B (No Reserve Fund) earlier in 2013, upgraded the rating of the Junior Lien Obligations from “AA-” to “AA” for credit-related reasons. The System filed a Material Events Notice with the MSRB on March 20, 2013 regarding this rating change. 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. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

Due to the ongoing uncertainty regarding the economy and debt of the United States of America, including, without limitation, the general economic conditions in the country and the implementation of the Budget Control Act of 2011 (including what is commonly referred to as ‘Sequestration’ thereunder), and other political and economic developments that may affect the financial condition of the United States government, the United States debt limit, and the bond ratings of the United States and its instrumentalities, obligations issued by state and local governments, such as the Bonds, could be subject to a rating downgrade (as evidenced by Moody’s placement of the City’s “Aaa” ad valorem tax-backed credit rating on negative outlook because of perceived indirect linkage of its local economy to the United States government). Additionally, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, including the Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City, acting by and through SAWS (who has accepted such responsibility by resolution of the Board adopted on September 10, 2013), 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 an “obligated person” with respect to the Bonds, within the meaning of the Securities and Exchange Commission’s Rule 15c2-12 (the “Rule”). Under the agreement, SAWS, on behalf of the City, will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the MSRB through its EMMA system where it will be available free of charge to the general public at www.emma.msrb.org.

ANNUAL REPORTS

SAWS 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 SAWS of the general type included in this Official Statement under the sections DEBT INFORMATION and SAWS STATISTICAL SECTION, and in APPENDIX B. SAWS will update and provide this information within six months after the end of each fiscal year ending in and after 2012.

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 through EMMA or filed with the United States Securities and Exchange Commission (the “SEC”), as permitted by the Rule. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, SAWS 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 SAWS may be required to employ from time to time pursuant to State law or regulation.

SAWS’ current fiscal year end is December 31. Accordingly, it must provide updated information by June 30 in each year, unless SAWS changes its fiscal year. If SAWS changes its fiscal year, it will file notice of such change with the MSRB.

NOTICE OF CERTAIN EVENTS

SAWS will also provide timely notices of certain events to the MSRB. SAWS will provide notice in a timely manner not in excess of 10 business days after the occurrence of the event of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City or SAWS; (13) the consummation of a merger, consolidation, or acquisition

involving the City or SAWS or the sale of all or substantially all of the assets of the City or SAWS, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material. As used above in clause (12), the phrase “bankruptcy, insolvency, receivership or similar event” means the appointment of a receiver, fiscal agent or similar officer for the City or SAWS in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City or SAWS, or if such jurisdiction has been assumed by leaving the governing body and officials or officers of the City or SAWS in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City or SAWS. Neither the Bonds nor the Ordinance make any provision for liquidity enhancement, debt service reserves as additional security for the Bonds, or credit enhancement. In addition, SAWS will provide timely notice of any failure by SAWS to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

AVAILABILITY OF INFORMATION

Effective July 1, 2009 (the “EMMA Effective Date”), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by SAWS in accordance with the City’s 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 secured by System revenues issued prior to the EMMA Effective Date, SAWS remains obligated to make annual required filings, as well as notices of material events, under its continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information depository (the “SID”). Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas (the “MAC”) had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA’s website simultaneously with such posting. Until the City receives notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the City has determined, in reliance on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to their continuing disclosure agreements entered into prior to the EMMA Effective Date.

LIMITATIONS AND AMENDMENTS

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

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 or SAWS, 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 or SAWS (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 Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the City so amends the agreement, it has agreed that SAWS, on behalf of the City, shall 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, SAWS has complied in all material respects with all continuing disclosure agreements made by the City for which SAWS has agreed to comply on the City’s behalf, in accordance with the Rule.

On May 11, 2010, the City, by and through SAWS, 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. On March 20, 2013, the City, by and through SAWS, filed a Material Events Notice regarding S&P’s recent upgrade to its Senior Lien Obligations and Junior Lien Obligations. See “RATINGS” herein.

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 and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. Co-Bond Counsel has reviewed the information appearing in this Official Statement under the captions "PLAN OF FINANCING – Refunded Commercial Paper," "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), "SECURITY FOR THE BONDS," "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except under the caption "Compliance with Prior Undertakings" as to which no opinion is expressed), "OTHER INFORMATION - Registration and Qualification of Bonds for Sale," "OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas," and "OTHER INFORMATION - Legal Matters," (except for the last sentence of the first paragraph of such subsection, as to which no opinion is expressed), "APPENDIX D - SELECTED PROVISIONS OF THE 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 opinions 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 by Langley & Banack, Incorporated, San Antonio, Texas, and for the Underwriters by McCall, Parkhurst & Horton L.L.P. and Shelton & Valadez, P.C., both of San Antonio, Texas, Co-Counsel for the Underwriters (whose legal fees are 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 SAWS 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

Public Financial Management, Inc. 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. Public Financial Management 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 price indicated on the inside front cover of this Official Statement, less an underwriting discount of \$308,365, 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.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

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.

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MISCELLANEOUS

The Ordinance also approved 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

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SCHEDULE I

SCHEDULE OF REFUNDED COMMERCIAL PAPER

<u>Maturity Date</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate (%)</u>	<u>Accrued Interest (\$)</u>	<u>Total (\$)</u>
11/07/2013	26,120,000.00	0.12	4,980.69	26,124,980.69
11/07/2013	4,000,000.00	0.09	295.89	4,000,295.89
01/08/2014	22,000,000.00	0.15	16,364.38	22,016,364.38
				<u>52,141,640.96</u>

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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CITY OF SAN ANTONIO, TEXAS
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

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

Population and Location

The 2010 Decennial Census (“2010 Census”), prepared by the United States Census Bureau (“U.S. Census Bureau”), found a City population of 1,327,407. For the 2010 San Antonio population, it was determined that the U.S. Census Bureau had erroneously assigned 35 census blocks to the City that are actually outside of the City limits. The revised 2010 San Antonio population is 1,326,539.

The City’s Information Technology Services Department estimates the City’s population to be 1,386,547 in 2013. The U.S. Census Bureau ranks the City as the second largest in the State of Texas (the “State”) and the seventh largest in the United States (“U.S.”).

The City is the county seat of Bexar County. Bexar County had a population of 1,714,773 according to the 2010 Census. The City’s Information Technology Services Department estimates Bexar County’s population to be 1,825,113 and the San Antonio-New Braunfels Metropolitan Statistical Area (“MSA”) population to be 2,291,769 in 2013. The City is located in south central Texas approximately 80 miles south of the State capital in Austin, 165 miles northwest of the Gulf of Mexico, and approximately 150 miles from the U.S./Mexico border cities of Del Rio, Eagle Pass, and Laredo.

The following table provides the population of the City, Bexar County, and the San Antonio-New Braunfels MSA¹ for the years shown:

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

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

² As of June 2003, the U.S. Office of Management and Budget redefined the MSA by increasing the number of counties from four to eight: Atascosa, Bandera, Kendall, and Medina Counties were added to its mainstays of Bexar, Comal, Guadalupe, and Wilson Counties. (The 2000 figure reflects the new 2003 redefined eight-county area.) As of December 2009, New Braunfels, Texas qualified as a new principal city of the San Antonio MSA, and the MSA was re-titled San Antonio-New Braunfels MSA.

³ Provided by the 2010 Decennial Census.

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

Area and Topography

The area of the City has increased through numerous annexations and now contains approximately 467 square miles. The topography of San Antonio is generally hilly with heavy black to thin limestone soils. There are numerous streams fed with underground spring water. The average elevation is 795.5 feet above mean sea level.

Three-Year Annexation Plan Process

Through both full and limited purpose annexations, the City has grown from its original size of 36 square miles to its current area, encompassing 467 square miles, and having a tax year 2012 net taxable assessed value of \$71.8 billion.

By City Charter (defined below) and State law, City Council (defined below) has the power to annex territory by passage of an ordinance following an extensive open public process. State law mandates that municipalities planning to annex prepare an Annexation Plan that specifically identifies the areas that may be annexed and that no annexation may occur until the third anniversary of the date such plan was adopted. There are minor exceptions to the State law that allow for exemptions from the formal Three-Year Annexation Plan process, such as for property owner-initiated annexation.

At the present time, the City does not have an Annexation Plan. The City Council adopted a new Annexation Policy in February 2013 and intends to create an Annexation Program in 2013 that would outline potential areas for future placement in an Annexation Plan.

Governmental Structure

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

City Charter

The City may only hold an election to amend its City Charter every two years. Since its adoption, the City Charter has been amended on eight separate occasions including: November 1974, January 1977, May 1991, May 1997, November 2001, May 2004, November 2008, and May 2012.

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

The City Charter currently provides that the City fill vacancies on its City Council by a majority vote of the remaining members of the Council. By ordinance, the City Council established an application and review process to provide guidelines for the selection and appointment process in that regard.

On February 16, 2012, City Council called a Special Election on the question of whether or not the City Charter should be amended to allow filling City Council vacancies by special election rather than appointment, when more than 270 days remain in the unexpired council term, and to allow the City Council to appoint a temporary City Council member until the special election is held. Additionally, it allows City Council to fill vacancies with 270 days or less remaining by majority vote. The measure passed by a majority vote at an election held on May 12, 2012 and the City Charter was amended to reflect the change.

Services

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

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

Electric and gas services to the San Antonio area are provided by CPS Energy (“CPS”), an electric and gas utility owned by the City that maintains and operates certain utilities infrastructure. This infrastructure includes a 21 generating unit electric system and the gas system that serves the San Antonio area. CPS’ operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. CPS is obligated to transfer a portion of its revenues to the City. CPS revenue transfers to the City for the City’s fiscal year ended September 30, 2012 were \$288,096,190. (See “San Antonio Electric and Gas Systems” herein.)

Water services to most of the City are provided by the San Antonio Water System (“SAWS”), San Antonio’s municipally-owned water supply, water delivery, and wastewater treatment utility. SAWS is in its 20th year of operation as a separate, consolidated entity. SAWS’ operating and debt service requirements for capital improvements are paid from revenues received from charges to its customers. SAWS is obligated to transfer a portion of its revenues to the City. SAWS revenue transfers to the City for the City’s fiscal year ended September 30, 2012 were \$11,210,108. (See “San Antonio Water System” herein.)

On January 28, 2012, by operation of legislation passed by the 82nd Texas legislature and popular vote held on November 8, 2011, the City, acting by and through SAWS, assumed the Bexar Metropolitan Water District. (See “San Antonio Water System – Bexar Metropolitan Water District” herein.)

Economic Factors

The City facilitates a favorable business environment that supports economic diversification and growth. San Antonio’s economic base is composed of a variety of industries, including convention and tourism, healthcare and bioscience, government employment, automotive manufacturing, information security, financial services, oil and gas, all with growing international trade. Support for these economic activities is demonstrated in the City’s commitment to ongoing infrastructure improvements and development, and investment in a growing and dedicated work force. This commitment and San Antonio’s continued status as one of the top leisure and convention destinations in the country support a strong and growing economy.

San Antonio's rate of unemployment fares well when compared to the State and nation. The San Antonio-New Braunfels MSA unemployment rate decreased to 6.0% in March 2013, down from 6.1% in February 2013. The Texas unadjusted (actual) unemployment rate decreased to 6.3% in March 2013, down from 6.4% reported in February 2013. The nation's unadjusted (actual) unemployment rate decreased to 7.6% in March 2013, down from 8.1% in February 2013.

Total nonfarm employment in the San Antonio-New Braunfels MSA for March 2013 was 887,400. Government, trade, transportation, and utilities, and education and health services represent the largest employment sectors in the San Antonio-New Braunfels MSA.

Healthcare and Bioscience Industry

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

Health Care. The 900-acre South Texas Medical Center (the "Medical Center") has over 50 medically related treatment, education, and research facilities. There are several nursing facilities and more than 20 medical professional office buildings. Other support activities include banks, post office, power plant, pharmacies, and housing facilities. Approximately 300 acres are held for future expansion. Approximately 27,386 Medical Center employees provided care for over 5.38 million outpatients and over 104,276 inpatients. Physical plant values, not adjusted for inflation, representing the original investments in physical facilities and equipment (less depreciation) represent approximately \$2.679 billion. Capital projects planned for the Medical Center total approximately \$1.031 billion.

Central to the Medical Center is the University of Texas Health Science Center at San Antonio (the "UT Health Science Center"), located on more than 100 acres in the heart of the Medical Center. A total of 4,400 students (including residents and fellows) are enrolled in the UT Health Science Center's five schools – the School of Allied Health Sciences, the Dental School, the Graduate School of Biomedical Sciences, the Medical School, and the School of Nursing. The UT Health Science Center has nearly 2 million square feet of education, research, treatment and administrative facilities. The UT Health Science Center employs approximately 5,500 persons with a total annual operating budget of approximately \$740 million, supporting six campuses in San Antonio, Laredo, Harlingen, and Edinburg. The UT Health Science Center also oversees the federally funded Regional Academic Health Center in the Rio Grande Valley with facilities in Harlingen, McAllen, Brownsville, and Edinburg.

The UT Health Science Center is one of the country's leading health sciences universities, and ranks in the top 3% of all institutions worldwide receiving federal funding from the National Institute of Health (NIH). In FY 2012, UT Health Science Center received \$85 million in grant funding. The university's schools of medicine, nursing, dentistry, health professions, and graduate biomedical sciences have produced 28,726 graduates since inception.

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

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

On February 2, 2012, City Council authorized an economic development incentive package for the Metropolitan Methodist Hospital Expansion, including a \$120,000 grant for the creation of 40 jobs located in the City's Downtown area. Methodist Healthcare System is proposing a \$43.6 million expansion of their intensive care unit located at 1310 McCullough Avenue. The project will be constructed in two phases and includes the following: Phase 1, an investment of \$36.9 million in real and personal property; construction of a 65,000 square foot facility that includes 24 Intensive Care Unit ("ICU") beds and their respective support facilities that would enable the relocation of existing laboratory facilities and allow for the expansion of the endoscopy facilities; the creation of 30 new full-time jobs; and Phase 2, construction of 12 additional ICU beds and their respective support facilities, and the creation of five full-time jobs.

Two major hospital systems are combining efforts to build a freestanding children's hospital in San Antonio. The Children's Hospital of Philadelphia ("CHOP"), along with Vanguard Health Systems ("Vanguard"), the parent company of Baptist Health System, have been chosen by leaders of the UT Health Science Center and Bexar County's University Health System to form a partnership where Vanguard would invest \$350 million to build up to a 250-bed hospital, while CHOP would provide its well renowned expertise in pediatric care. Along with Vanguard and CHOP, UT Health Science Center will bring to the partnership a network of pediatric services throughout the region from its faculties from

the UT Medicine San Antonio who will offer both general and specialty care to children and adolescents. The faculty members from the school will also lead medical students, residents, and fellows in instruction and cutting-edge research.

Biomedical Research and Development. Research and development are important areas that strengthen San Antonio's position as an innovator in the biomedical field.

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

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

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

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

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

The University of Texas at San Antonio ("UTSA") houses a number of research institutes. The Neuroscience Research Center, which is funded by \$6.3 million in ongoing grants, is tasked with training students in research skills while they perform basic neuroscience research on subjects such as aging and Alzheimer's disease. UTSA is also a partner in Morris K. Udall Centers of Excellence for Parkinson's Disease research, which provides research for the causes and treatments of Parkinson's disease and other neurodegenerative disorders. A joint partnership between UTSA, the UT Health Science Center, and the participation of Texas Biomed and the Southwest National Primate Research Center, have resulted in the formation of the San Antonio Institute of Cellular and Molecular Primatology ("SAICMP"). The focus of the SAICMP is the study of primate stem cells and early embryos to develop nonhuman model systems for studies of primate stem cells and their applications to regenerative medicine, as well as to develop methods of primate transgenesis and to facilitate other investigations of primate embryology and biogenesis. The South Texas Center for Emerging Infectious Diseases ("STCEID") was established to focus State and national attention on UTSA in the fields of molecular microbiology, immunology, medical mycology, virology, microbial genomics, vaccine development, and biodefense. One of the major areas of emphasis at STCEID is on the pathogenic mechanisms of emerging infectious diseases.

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

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

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

entrepreneurs with proven track records, the City seeks to support commercialization of intellectual property in San Antonio, creating more jobs, investment, and entrepreneurs.

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

In June 2011, the City approved an Economic Development Grant through the SAEDC to assist in funding the construction of the UT Health Science Center South Texas Research Facility (the "STRF"). This action also authorized the SAEDC to enter into an Economic Development Agreement with UT Health Science Center. The City, through the SAEDC, has committed funding in the amount of \$3.3 million over three years with the potential to receive repayment of the principal amount plus a return on its investment through acquiring a percentage equity interest in UT Health Science Center start-up companies over a ten-year period.

The STRF is a state-of-the-art \$200 million research building. The project is expected to be a significant economic generator for the community, creating over 150 new high-paying research and scientific jobs. The facility will primarily house the Institute of Integration of Medicine and Science, which will be the home for the \$26 million National Institutes of Health Clinical and Translational Science Awards program. The facility will also house other core research programs on cancer, diseases affecting the elderly, disorders such as stroke, diabetes in children and adults, and the engineering of new body tissues to cure diseases in partnership with the military.

The City's \$3.3 million investment in the STRF at UT Health Science Center will greatly enhance the university's research capabilities by increasing opportunities for growing local entrepreneurs and companies, helping attract top tier researchers and scientists, demonstrating an investment in the City's local institutions and talent, and providing opportunities to leverage other research, such as military medicine.

The \$3.3 million investment also provides the City the opportunity to leverage its investment through the SAEDC, which was created by the City as a nonprofit corporation in May 2010. Through the SAEDC, the City can invest in economic development projects and take out an equity position in a project to potentially achieve a return on the public's investment. The UT Health Science Center has agreed to enter into an Economic Development Agreement with the SAEDC and provide the SAEDC, over ten years, a 15% interest in any equity position (e.g., founders shares of stock) taken by the university in start-up companies formed through the discovery of intellectual property owned by the university. The SAEDC could then potentially receive a return on its investment up to a cap of \$4,000,000 (the \$3,300,000 principal amount plus an additional \$700,000 return) during the term of the agreement from the university's distribution to the SAEDC based on its equity interest in start-up companies as those companies are acquired or go public.

Also through the SAEDC, the City invested \$300,000 in assisting Innovative Trauma Care, Inc. ("ITC") to establish its first U.S.-based operations in San Antonio to market, sell, and distribute the ITClamp, which entered into an economic development agreement with ITC on August 30, 2012. The device is a wound clamp designed to control severe bleeding within seconds of application. In exchange for financial assistance, ITC has agreed to provide the City, through its SAEDC, an equity interest in the parent company's stock. ITC will add high-paying jobs in the targeted SA2020 Bioscience and Healthcare industry, and will also bring its life-saving device to the world, from San Antonio.

Military Health Care. San Antonio's military healthcare facilities have positively impacted the City for decades. Many military medical transformations came to a close in 2011 as a result of the BRAC 2005 legislation.

Historically, BAMC at Fort Sam Houston was known as a hospital and an Army Unit, but the BAMC name is now specifically the unit that commands Army medical activity in San Antonio. BAMC's medical facilities include SAMMC, Center for the Intrepid, Fort Sam Houston Primary Care Clinic, McWethy Troop Medical Clinic, Taylor Burk Clinic at Camp Bullis, and the Schertz Medical Home. These BAMC facilities have a total workforce of over 7,500 personnel.

The renowned hospital known as BAMC became SAMMC in September 2011 and has expanded to 2.1 million square feet due to BRAC 2005 legislation. SAMMC is the largest inpatient medical facility in the DoD, the only DoD Burn Center, and the only DoD Level 1 Trauma Center in the U.S. SAMMC hosts Centers of Excellence for amputee care, burn care, and breast imaging and contains dedicated inpatient units for bone marrow transplant, maternal-child and neonatal intensive care; as well as pediatric, burn, cardiac and psychiatric care. On any given day at SAMMC, the emergency department averages 174 visits and admits approximately five civilian emergencies, four babies are born and 238 inpatient beds are occupied.

Wilford Hall Ambulatory Surgical Center ("WHASC") at Lackland Air Force Base ("Lackland") is the largest in the DoD with more than 40 outpatient clinics. The facility is manned by more than 2,600 personnel and provides primary and specialty care; outpatient surgery; a sleep center; a contingency aeromedical staging facility; and eye, hearing and diabetes centers of excellence. A new 651,684 square foot Ambulatory Surgical Center is currently under construction at Lackland and is scheduled to open in 2015. It is part of the \$824 million recapitalization of the Basic Training Complex and replacement of the old Wilford Hall facility.

The San Antonio Military Health System (“SAMHS”) oversees the healthcare delivery of 230,000 DoD beneficiaries in the San Antonio metropolitan region. Healthcare services are provided by the SAMMC and the WHASC. The SAMHS treatment facility manages a total combined budget of over \$839 million and contributes over \$138 million annually in inpatient/outpatient private sector care expenses.

Previously, all U.S. Army combat medic training was conducted at Fort Sam Houston. As a result of BRAC 2005, all military enlisted combat medic training is now undertaken at the new Medical Education and Training Campus at JBSA-Fort Sam Houston.

San Antonio received a new medical research mission due to BRAC 2005. BRAC 2005 transformed the U.S. Army Institute of Surgical Research (“USAISR”) into a tri-service Battlefield Health and Trauma (“BHT”) Research Institute that has been operating at Fort Sam Houston since August 2010. The BHT is composed of the USAISR, Naval Medical Research Unit San Antonio and the Air Force Dental Evaluation and Consultation Service. This new research facility is adjacent to the SAMMC and was created to remove redundancy and create a synergy in combat casualty care research.

Audie L. Murphy Memorial Veterans Hospital, located in the Medical Center, is an acute care facility and supports a nursing home, the Spinal Cord Injury Center, an ambulatory care program, the Audie L. Murphy Research Services, dedicated to medical investigations, and the Frank Tejeda Veterans Administration Outpatient Clinic, serving veterans located throughout South Texas. The two military medical care facilities and the Veterans Hospital collaborate in a variety of ways, including clinical research and the provision of medical care to military veterans.

Finance Industry

The largest private sector employer in the industry is United Services Automobile Association (“USAA”). On March 5, 2013, USAA announced plans to expand and add up to 1,000 jobs. The expansion is due to a more than 20 percent increase in customer base in the past three years. The company has about 9.4 million customers, comprised of military members, veterans and their families. While this sector is led by USAA, San Antonio is home to other insurance company headquarters such as Catholic Life and GPM Life, as well as being the home to many regional operations centers for many health care insurers. Insurers with substantial regional operations centers in San Antonio include Allstate Insurance Company (“Allstate”), Nationwide Mutual Insurance Company (“Nationwide”), Caremark, United Health, and PacifiCare.

After considering Little Rock, Tulsa, and Raleigh, Nationwide established a new regional corporate headquarters location in San Antonio in October 2009. Nationwide, headquartered in Columbus, Ohio, is a national insurance provider with 34,000 employees, and had \$20 billion in revenues in 2011. With its announcement to expand in San Antonio, Nationwide committed to retaining 932 current employees and creating an additional 838 new jobs. Phase I of the project involved a consolidation of existing operations into an existing facility, and \$3 million in new personal property improvements. Nationwide has broken ground on Phase II of its investment in San Antonio with an \$89 million corporate campus.

On March 29, 2011, San Antonio Mayor Julián Castro and Bexar County Judge Nelson Wolff joined Nationwide officials in commemorating the start of construction on the company’s new 300,000 square foot sales and service operations center that, once completed, would house 800 new employees, in addition to 1,000 employees that are being consolidated from its four existing locations. Company officials also awarded \$80,000 to local charities in San Antonio at the event. The new facility was expected to be completed by December 31, 2012; however, on September 27, 2012, the City and Nationwide officials inaugurated the grand opening of this new 300,000 square foot facility which is located in the master-planned Westover Hills community, near the intersection of Hyatt Resort Drive and State Highway 151 on the City’s far west side.

On February 9, 2010, Allstate announced its decision to locate a customer operations center, invest \$12 million, and create 600 new full-time jobs in San Antonio. The core function of this operations center will support direct sales calls and selling additional insurance products to existing clients. Allstate is the nation’s largest publicly held personal lines insurer. Allstate employs an estimated 70,000 agents and support staff nationwide. In 2011, the company ranked 89th on the list of Fortune 500 companies, with annual revenues exceeding \$31 billion. Allstate’s main lines of insurance include automobile, property, life, and retirement and investment products. Allstate has two other sales support centers located in Northbrook, Illinois (its headquarters) and Charlotte, North Carolina. As of December 2012, Allstate reported that it employs 319 employees at its San Antonio operations center and eventually expects the center will employ 600 employees, who will sell Allstate products and provide service to the company’s customers.

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

Hospitality Industry

The City’s diversified economy includes a significant sector relating to the hospitality industry. A 2012 Economic Impact Report of San Antonio’s Hospitality Industry (representing 2011 data) found that the hospitality industry has an economic impact of more than \$12 billion. The estimated annual payroll for the industry is \$2.23 billion, and the industry employs more than 112,000 people.

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

Tourism. The list of attractions in the San Antonio area includes, among many others, the Alamo and other sites of historic significance, the River Walk, and two major theme parks, SeaWorld San Antonio and Six Flags Fiesta Texas. San Antonio attracted 28 million

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

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

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

Calendar Year	Hotel Occupancy ¹	Revenue per Available Room (RevPAR) ¹	Room Nights Sold ¹	Convention Attendance ²	Convention Room Nights ²	Convention Delegate Expenditures (Millions) ^{2, 3}
2003	63.8%	\$54.07	6,535,974	429,539	613,747	\$387.0
2004	64.4	55.80	6,669,644	491,287	621,640	510.5
2005	68.8	63.06	7,283,824	503,601	699,932	523.3
2006	69.1	69.43	7,439,783	467,426	736,659	485.8
2007	66.3	69.90	7,397,123	455,256	647,386	473.1
2008	64.6	70.82	7,669,475	563,164	691,525	607.5
2009	57.1	55.94	7,167,603	399,408	660,736	474.5
2010	59.3	57.02	7,768,002	535,400	736,325	636.1
2011	61.3	58.08	8,236,019	499,171	637,593	593.0
2012	63.5	60.79	8,651,826	449,202	635,829	533.7

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

² Reflects only those conventions hosted by the CVB.

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

Source: San Antonio Convention and Visitors Bureau.

Military Industry

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

Joint Base, and its 200 mission partners, represent a significant component of the City's economy providing an annual economic impact, when combined with other DoD contracts and contractors, military retirees, veterans, and direct and indirect jobs, of over \$27 billion for the City. In addition, the property of Brooks Air Force Base ("Brooks AFB"), a fourth major military installation, was transferred from the U.S. Air Force to the City-created Brooks Development Authority ("BDA") in 2002, as part of the Brooks City-Base Project ("Brooks City-Base"). Furthermore, the military is still leasing over two million square feet of space at Port San Antonio (the "Port"), which is the former Kelly Air Force Base that was closed in 2001.

One of the other significant events brought about by BRAC 2005 is the realignment of medical facilities resulting in a major positive impact on military medicine in San Antonio, with \$3.2 billion in construction and the addition of over 10,000 jobs at the JBSA complex.

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

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

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

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

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

JBSA-Lackland AFB is home to the 37th Training Wing, situated on 9,700 acres, all within the city limits of San Antonio. According to a recent Economic Impact Analysis, over 53,000 military, civilian, student, contractors and military dependents work, receive training, or utilize JBSA-Lackland services. On an annual basis, JBSA-Lackland is expected to graduate 86,000 trainees per year. Construction is moving ahead on two new Airman Training Complexes as part of a \$900 million East Campus Project. Each Training Complex will house up to 1,200 trainees and includes dining halls and classroom facilities. A third Training Complex is currently under construction and a fourth Training Complex is also on track to be built in this comprehensive construction project to replace the older facilities by the end of FY 2017.

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

Adjacent and contiguous to JBSA-Lackland is the Port, where the Air Force maintains a significant presence. The Air Force and the Port jointly utilize the Kelly Field runway for military and commercial airfield operations. The Air Force continues to lease over 54 facilities, which consist of 800,000 square feet of space and over 270 acres. The largest Air Force leaseback is at Building 171, a 460,000 square foot facility previously closed from the 1995 Base Realignment and Closure of Kelly AFB. Approximately 7,000 Air Force and other DoD employees work at this and other facilities on the Port in this post-BRAC 2005 era.

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

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

The BRAC 2005 growth supported the City's economic development strategy to promote development in targeted areas of the City, to leverage military installation economic assets to create jobs, and to assist the City's military installations in reducing base support operating costs.

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

Science Center, and the USAISR. The NTI coordinates resources from the institutions to most effectively treat the trauma victims and their families. The NTI received \$3.8 million in grants in FY 2010; however, due to Congress' termination of the federal budget "earmark" methodology, NTI has not received further grants, but is still active in its primary mission.

In 2005, the San Antonio community put in place organizations and mechanisms to assist the community and the military with the BRAC 2005 and other military-related issues. The Military Transformation Task Force ("MTTF") is a City, Bexar County, and Greater San Antonio Chamber of Commerce organization which provides a single integrated voice from the community to the military. The MTTF is formed of several committees each dedicated to working with the community and military on the BRAC 2005 actions and post-BRAC 2005 actions.

In January 2007, the City established the Office of Military Affairs ("OMA") as the single point of contact for the City on military related issues. The mission of OMA is to work with the military to sustain and enhance mission readiness, develop and institutionalize relations to strengthen a community-military partnership, and to provide an official formalized point of contact for the military on issues of common concern. OMA provides staff support to the MTTF and works closely with each MTTF committee in order to facilitate their work. OMA is also working with the local military bases to address compatible land-use issues around the installations in order to enhance mission readiness. Finally, the City and the military have established the Community-Military Advisory Council. This Council will provide a mechanism for local government, business, and military leaders to address issues of common concern.

In 2008, OMA introduced the Growth Management Plan as one of the responses to the growth brought about by the BRAC 2005 actions, and it clearly laid out the partnership between the San Antonio community and the military. One example of the partnership is the City's effort to gather over \$30 million in resources and funding from bond proceeds, City funding, federal earmarks, and grants to provide significant infrastructure improvements around Fort Sam Houston. The premier project is the reconstruction and widening of Walters Street, a primary entrance to Fort Sam Houston. This project is scheduled for completion in summer of 2013. This project is complex, since it is the center segment of a cooperative effort joining the already completed Texas Department of Transportation ("TxDOT") improvements on IH-35 to a new, high security gate entrance that is presently being built by Fort Sam Houston. An even more unique project is the City's construction of a much improved bridge over Salado Creek on Binz Engleman Road, which was actually built on federal property and was gifted to the military upon completion in June of 2012. Other key projects include intersection improvements on Harry Wurzbach Road between the Fort Sam Houston Gate and Rittiman Road, and the construction of a new bridge on Rittiman Road, west of IH-35. The City is also expending significant funding to support development along Walters Street by improving utilities, installing a new water line and improving numerous side streets in that area. All these improvements should be complete by the summer of 2013. The City was also selected by the DoD's Office of Economic Adjustment to receive an award of \$25 million in federal funds to construct new ramp connectors between IH-35 and Loop 410 near SAMMC. This initiative with TxDOT will greatly improve traffic flow and safety for personnel seeking access to the medical facility area.

Currently, DoD is the community's largest employer, supporting the employment of over 189,000 people; with an economic impact of \$27.7 billion annually. JBSA alone directly employs 92,000 and has a total economic impact of \$11.6 billion in payroll, contract expenditures, and value of jobs created. Over 55,000 military retirees reside in San Antonio and receive over \$1.5 billion in annual benefit payments. The BRAC 2005 program in San Antonio concluded in 2011, but the construction momentum continues. Multiple projects are planned from FY 2012 through FY 2015. The value of the proposed construction projects during this time period is anticipated to average between \$200 to \$300 million per year.

Other Major Industries

Aerospace. According to the Economic Impact Study commissioned by the Greater San Antonio Chamber of Commerce in 2010, the aerospace industry's annual economic impact to the City was about \$5.4 billion. This industry provides approximately 13,616 jobs, with employees earning total annual wages of over \$678 million. The aerospace industry continues to expand as the City leverages its key aerospace assets, which include San Antonio International Airport, Stinson Municipal Airport, the Port, JBSA-Randolph, JBSA-Lackland, and training institutions. Many of the major aerospace industry participants such as Boeing, Lockheed Martin, General Electric, Pratt & Whitney, Raytheon, Cessna, San Antonio Aerospace – a division of Singapore Technologies, Southwest Airlines, American Airlines, Delta Air Lines, United Airlines, US Airways, FedEx, UPS, and others, have significant operations in San Antonio. The aerospace industry in San Antonio is diversified with continued growth in air passenger service, air cargo, maintenance, repair, overhaul, and general aviation.

In February 2011, Southwest Airlines ("SWA") finalized its acquisition of AirTran Holdings, Inc. for \$1.4 billion in cash and stock. The acquisition provided SWA with a presence in 37 new cities, including Hartsfield-Jackson Atlanta International Airport (AirTran's main hub) and two AirTran customer service centers in Orlando, Florida and Atlanta, Georgia. As of March 1, 2012, SWA and AirTran are operating under a single operating certificate. Following this acquisition, SWA began discussions with City staff about its intent to consolidate customer service operations in San Antonio or at one or more of their other customer service centers.

In 1981, SWA opened its customer services and support center in San Antonio. This facility currently accommodates the existing workforce of 478 employees, but could not expand to include the additional 322 employees SWA planned to hire. Therefore, SWA began exploring other sites in San Antonio to accommodate a potential consolidation and growth. Other expansion sites SWA considered included Orlando, Florida, Atlanta, Georgia, Oklahoma City, Oklahoma, and Phoenix, Arizona. In order to retain and expand the SWA customer support operations and jobs in San Antonio, the City offered the following financial incentives to SWA: (1) a cash grant of \$440,000 payable over two years with an initial payment of \$220,000 upon receipt of a certificate of occupancy and execution of a long-term lease in a new facility and a second payment of \$220,000 upon SWA demonstrating it has retained/created a minimum of 800 total jobs at its new facility; and (2) a grant of approximately \$141,649 payable over ten years based on SWA's annual payment of personal property taxes. In exchange for these incentives, SWA has agreed to create up to 800 jobs at the project site. On March 8, 2012, City Council approved an ordinance authorizing the City to enter into this economic development program grant agreement with SWA.

In early 2012, Boeing announced that its San Antonio facility would gain 300 to 400 workers and maintenance responsibilities for the nation's executive fleet due to a decision to close a Wichita, Kansas plant. The aircraft maintenance and support work moving to San Antonio will include improvements to the nation's fleet of executive jets, including Air Force One, the Boeing 747's that transport the President of the United States, and the jets that transport the Vice President, Cabinet members, and other government officials.

In early 2011, Boeing began bringing a number of the 787 Dreamliner and 747-8 aircraft to its facilities at the Port for follow-on analysis and refurbishment. Boeing will be bringing in this additional workload over a three to five year period. This additional commercial aircraft maintenance, repair and overhaul workload will create an additional 800 aerospace jobs above the current 1,500 employed by Boeing in San Antonio. This commercial aircraft work will require the workforce to obtain significant training on the latest high-tech airplane leading to building a stronger, Federal Aviation Administration ("FAA") certified aerospace workforce in San Antonio. In 2011, Boeing invested an additional \$14 million in its San Antonio operations to accommodate this workload. The first 787 arrived in March 2011 for refurbishment and the 747-8 arrived in May 2011.

Applied Research and Development. The Southwest Research Institute ("SwRI") is one of the original and largest independent, nonprofit, applied engineering and physical sciences research and development organizations in the U.S., serving industries and governments around the world in the engineering and physical sciences field. SwRI has contracts with the FAA, General Electric, Pratt & Whitney, and other organizations to conduct research on many aspects of aviation, including testing synthetic jet fuel, developing software to assist with jet engine design, and testing turbine safety and materials stability. SwRI occupies 1,200 acres and provides nearly two million square feet of laboratories, test facilities, workshops, and offices for approximately 3,000 scientists, engineers, and support personnel. SwRI's total revenue for FY 2012 was \$584 million, with net income of about \$36 million and total payroll of more than \$240 million.

Information Technology. The information technology ("IT") industry plays a major role in San Antonio. The economic impact of IT and cyber business already measures in the billions (\$10 billion in 2010, with conservative estimates of growth to \$15 billion by 2015). The industry itself is both large and diverse, including IT and Internet-related firms that produce and sell IT products. San Antonio is particularly strong in information security. In fact, San Antonio is recognized as a national leader in this vital field, with the U.S. Air Force's Air Intelligence Agency, a large and growing National Security Agency presence, and the Center for Infrastructure Assurance and Security at UTSA.

San Antonio boasts some of the most sophisticated uses of IT in the world, even though much of that advanced usage remains undisclosed for security reasons. After all, the community is home to a large concentration of military and intelligence agencies charged with the missions of intelligence, surveillance and reconnaissance, information operations and network defense, attack and exploitation. Prominent activities in cyber warfare, high tech development, acquisition and maintenance are found among the Air Intelligence Agency, Joint Information Operations Warfare Command, NSA / CSS Texas, 67th Network Warfare Wing, Air Force Information Operations Center, and Cryptology Systems Group.

The Center for Infrastructure Assurance and Security (the "CIAS") at UTSA is one of the leading research and education institutions in the area of information security in the country. The CIAS has established partnerships with major influential governmental and non-governmental organizations such as the DoD, Department of Homeland Security, and the United States Secret Service. The CIAS has also been actively involved with sector-based Information Sharing and Analysis Centers' security preparedness exercises for organizations in critical infrastructures.

Chevron U.S.A. Inc. ("Chevron") has selected San Antonio as the site for the construction of a 130,000 square foot data center to consolidate all of its North American data center operations. On June 23, 2011, City Council approved the execution of a Tax Abatement Agreement with Chevron. The proposed data center involves a capital investment of over \$335 million over ten years and will create 17 new jobs that pay approximately \$60,000 annually in the targeted industry of IT. Chevron plans to construct this data center on a 33.82 acre site in Westover Hills, located at 5200 Rogers Road, adjacent to the Microsoft data center, and commence operations in January 2014.

Sigma Solutions ("Sigma") is a local IT company specializing in advanced IT infrastructure solutions, advising, implementing, and maintaining enterprise data centers. Established in 1992 and headquartered in San Antonio, Sigma has grown from its four original employees to over 100 employees at seven locations throughout the U.S., including Austin, Dallas, Houston, Tulsa, Oklahoma City, and New Orleans. Sigma informed the Economic Development Department ("EDD") staff of a potential relocation to Austin due to a pending acquisition of the company by Pivot Acquisitions Corporation ("Pivot"). Pivot's U.S.-based headquarters is located in Austin and therefore was considering relocating Sigma headquarters to Austin. To retain Sigma, City Council authorized financial incentives on August 30, 2012 in an amount not to exceed \$500,000 payable over three years. Sigma in return will retain 40 existing jobs and create 20 new jobs in the targeted IT industry at a leased space at 425 Soledad located in the inner city.

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

Manufacturing Industry. Toyota Motor Corporation ("Toyota"), one of the largest manufacturing employers in San Antonio with an estimated workforce of 2,850, expanded its local production in 2010, adding the production of the Tacoma truck at its manufacturing facility in San Antonio. Toyota shifted its Tacoma manufacturing from Fremont, California to San Antonio, creating an additional 1,000 new jobs and investing \$100 million in new personal property, inventory, and supplies. Toyota and its 21 on-site suppliers, located on San Antonio's south side, have created 3,000 jobs and retained 2,900 jobs through 2012, bringing the total number of jobs supporting Toyota's production of Tundra and Tacoma vehicles to approximately 6,000, with an annual impact of \$1.7 billion.

NBTY Manufacturing Texas, LLC (“NBTY”) is the largest vertically integrated manufacturer of nutritional supplements in the United States. The company manufactures, wholesales, and retails more than 25,000 products including vitamins, minerals, herbs, and sports drinks. The company sells its goods through pharmacies, wholesalers, supermarkets, and health food stores around the world. NBTY is owned by the investment firm, The Carlyle Group, which purchased 100% of the firm’s publicly traded shares on October 1, 2010. NBTY was considering an expansion of its vitamin manufacturing operations at 4266 Dividend – the site of the former Judson-Atkinson Candies, Inc., which closed its operations in November 2011. NBTY was also considering other potential sites in Long Island, New York and Hazelton, Pennsylvania. To attract NBTY to San Antonio, the City offered the company a cash grant of \$200,000 over four years and the annual reimbursement of ad valorem taxes paid on new real and personal property improvements over 10 years not to exceed \$201,546 for a total cumulative grant of up to \$401,546. Based on the City’s offer of incentives, NBTY has indicated its intent to expand in San Antonio, create 65 new jobs, occupy the former Judson-Atkinson facility, and invest \$6 million in improvements. NBTY also intends to offer employment to former Judson Candy Factory employees by hiring the former plant director to connect with former employees with production experience with the existing manufacturing equipment. City Council approved the agreement on April 12, 2012.

Xenex Healthcare Services LLC (“Xenex”), formerly headquartered in Austin, Texas, manufactures a patented mobile disinfection machine to decontaminate patient care environments. Xenex is an early stage company selling its disinfection machines to hospitals around the country. On May 31, 2012, City Council authorized an economic development grant of \$150,000 from the Economic Development Incentive Fund to Xenex contingent upon Xenex relocating its headquarters and operations from Austin to San Antonio and creating 27 jobs over two years. Xenex relocated the company to San Antonio in 2012.

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

Glazer’s Wholesale Drug Company (“Glazer’s”), headquartered in Dallas, is one of the largest beverage distributors in the U.S. The company represents a wide variety of wine, spirits, malt beverage, and non-alcoholic suppliers in 11 states and employs over 6,000 people. Glazer’s has operated in San Antonio since 1940 and is currently located at 3030 Aniol Street, where it employs 125 people. Glazer’s has requested an amendment to a Tax Abatement Agreement with the City, dated August 19, 2010, to reflect a new investment of over \$32 million in real and personal property at a new facility purchased by Glazer’s, and creation of 100 new jobs and retainment of 350 jobs, for a total of 450 jobs to be located at the new facility. Glazer’s has also purchased an additional 9.37 acres of City-owned land adjacent to the previous 35-acre purchase to accommodate the larger facility. City staff has negotiated to sell the additional land for \$399,999 plus a \$75,000 charitable donation by Glazer’s to the City for the benefit of targeted area redevelopment, such as the West side, with payments of \$25,000 over each of the three years from 2014 to 2016. City Council approved the amendment on February 2, 2012.

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

In June 2010, CPS and UTSA announced a ten-year, \$50 million agreement to position San Antonio as a national leader in green technology research. The agreement will establish the Texas Sustainable Energy Research Institute at UTSA. Dr. Les Shephard, the USAA Robert F. McDermott Distinguished Chair in Engineering at UTSA, will head the institute formerly known as the Institute for Conventional, Alternative and Renewable Energy. This research institute will work with other academic and research entities with robust green programs including the SwRI as well as the Mission Verde Center, a City partnership that includes the Alamo Colleges and the Texas A&M University Texas Engineering Experiment Station. It also has an active military establishment looking to address specific energy needs. CPS will invest \$50 million over ten years in the UTSA Institute beginning in 2011.

The City continues to maximize the municipally-owned CPS utility to develop investment and employment in San Antonio. Through a combination of power purchase agreements and local economic development incentives, the City and CPS are steadily securing jobs, investment, and enhancing university research and development in the area of renewable energy.

As of January 2013, CPS’ renewable energy capacity totals more than 1,113.5 MW in service with another 404 MW under contract and in varying levels of project development. The Los Vientos 200.1 MW wind farm achieved commercial operation on December 31, 2012. CPS additionally has under contract a 4 MW landfill gas generation project scheduled for commercial operation in mid-2013, and most recently, the agreement with OCI Solar Power for 400 MW of solar generated electricity from facilities to be built and operational by 2017. CPS has one of the most aggressive renewable energy programs in Texas with a renewable capacity under contract totaling 1,517.5 MW.

On June 20, 2011, CPS and the City announced the expansion of five companies into the area directly related to renewable energy and energy efficiency technologies. These firms were: Consert, GreenStar, ColdCar USA, Summit Power, and SunEdison. Since that time, these companies have begun implementing their commitments to San Antonio. Recent developments include the following:

- A signed memorandum of understanding has now been converted into a finalized contract with Summit Texas Clean Energy ("STCE"). STCE will provide CPS with 200 MW of clean-coal electricity. STCE is expected to create 1,500 to 2,000 West Texas construction jobs in addition to opening a customer relations office in San Antonio by mid 2013. The STCE team is continuing to work towards securing project financing for the STCE.
- Three separate purchase power contracts have been signed with SunEdison that will bring approximately 30 MW of renewable solar energy to CPS. CPS will provide about 60% of the long-term capital for development of the project by prepaying for a portion of the anticipated electrical output. SunEdison will utilize these funds to reduce the interest cost of the project. These uniquely structured contracts, a first in the solar industry, will ultimately provide CPS ratepayers with more than \$32 million in energy savings over the next 25 years. The two 20 MW solar farm projects on approximately 200 acres at the SAWS Dos Rios Water Recycling Center are operational. All three solar facilities are online and operational since early summer of 2012.
- GreenStar, a manufacturer of LED streetlights, has moved into a new manufacturing space in the Alamo Downs area. Initially, the company is employing 53 people in its San Antonio location. At the end of September 2011, the first shipment containing 100 LED lights was delivered to CPS. A total of 25,000 LED streetlights will be installed throughout the City over the next several years.
- Consert relocated its corporate headquarters from North Carolina to San Antonio and has hired 52 employees. Consert has installed its innovative energy management technology in over 5,100 homes in the San Antonio area with more being installed each week.
- ColdCar USA continues to actively seek a manufacturing facility site in San Antonio. In November 2011, ColdCar USA delivered its first all electric refrigeration truck to Ft. Collins, Colorado.
- On January 11, 2012, OCI Solar Power and Nexolon were selected by CPS to build one of the country's largest solar projects, a 400-megawatt solar power manufacturing plant in San Antonio, resulting in an investment of more than \$100 million. This solar project is the largest in the nation and will catapult Texas into the top five U.S. solar producing states. CPS reached an agreement with OCI to build the 400 megawatt solar energy project, and entered into a 25-year Power Purchase Agreement (PPA) on July 23, 2012. The PPA with CPS requires OCI to ensure the following: (1) establishment of an "anchor" facility to manufacture solar energy related products and one or more manufacturing facilities for multiple components of the solar energy value chain, such as racking systems; (2) investment of at least \$100 million for the proposed "anchor" facility; and (3) the creation of at least 800 total solar energy related jobs with an annual payroll of \$30 million. One of OCI's partners, Nexolon will initially create 404 solar manufacturing jobs toward meeting the total job requirement and both companies plan to establish their U.S. corporate headquarters in San Antonio, with OCI creating 76 corporate jobs and Nexolon creating 40 corporate jobs.

Inner City Development

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

Argo Group US, Inc. ("Argo") moved its insurance operations from Menlo, California to San Antonio in 2001 and maintains its U.S. corporate headquarters in San Antonio. In 2007, Argo merged with PXRE Group Ltd., a Bermuda-based property reinsurer, and established its international headquarters in Bermuda. Argo has about 1,300 employees worldwide in eight countries, including 17 offices in 12 states, with annual revenues of approximately \$1.3 billion. Argo is currently located at 10101 Reunion Place and was considering relocation of its San Antonio operations to other sites within San Antonio, as well as to sites in other U.S. cities. In order to retain these good-paying corporate headquarters jobs in San Antonio, the City offered Argo free parking at the St. Mary's garage for ten years valued at approximately \$2,850,120 for up to 300 parking spaces. In exchange for this financial incentive, Argo has located over 200 jobs at the IBC Centre building at 175 E. Houston Street and has agreed to retain these jobs at this location for the ten-year term of the agreement. Argo also agreed to meet the City's minimum wage requirements and pay an average annual salary of at least \$50,000. These incentives were approved by City Council on September 15, 2011.

HVHC Inc. ("HVHC") established its headquarters in San Antonio in 1988 and currently employs 440 at its headquarters facility downtown with plans to add another 100 jobs over the next two years. HVHC operates the third largest optical retail sector in the U.S. under several brand names, such as Visionworks. The company currently operates over 540 retail stores in 36 states and plans to grow to 1,000 stores in the next five years. City staff met with representatives of the company in December 2010 as part of the community's Business Retention and Expansion program administered through the City's contract with the Economic Development Foundation. During this meeting, City staff learned the company planned to relocate from its current facility at 11103 West Avenue and was considering a consolidation and expansion of its operations at either another site in San Antonio or in other Texas cities, including Dallas and Austin. In order to retain the company's operations and headquarters in San Antonio, the City offered the following financial incentives to HVHC: (1) a cash grant of \$1,050,000 payable over two years at \$3,000 per job created/retained, and (2) approximately \$2,923,200 in parking subsidies in the St. Mary's garage over ten years, to include free parking for up to 350 employees for five years and parking at a 60% discount for up to 350 employees for another five years. In exchange for these financial incentives, HVHC agreed to: (1) retain its operations and corporate headquarters in San Antonio; (2) relocate 265 corporate jobs to the IBC Centre building on Houston Street no later than March 31, 2012, which the company complied with by providing payroll

documentation on March 29, 2012; (3) relocate its vision care benefits subsidiary, Davis Vision, from Latham, New York to San Antonio; (4) add 85 new jobs for a total of 350 jobs at the IBC Centre no later than December 31, 2012; (5) meet the City's minimum wage requirements in the Tax Abatement Guidelines; and (6) pay an annual average salary of at least \$50,000. These incentives were approved by City Council on September 1, 2011.

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

On June 21, 2012, City Council adopted the Center City Housing Incentive Policy which will provide greater incentives to housing projects within the targeted growth areas identified in the City's Downtown Strategic Framework Plan. The policy encourages historic rehabilitation, adaptive reuse, brownfield redevelopment, and transit oriented development; rewards good urban design; and encourages mixed use and mixed income redevelopment. The policy is an as-of-right housing incentive system which applies to multi-family rental and for sale housing projects within the Inner City Reinvestment Policy Target Area. Eligible projects will receive City fee waivers, SAWS fee waivers, and real property tax reimbursement grants for new residential development and residential conversions in the Center City, in order to normalize land values and provide greater certainty and speed of approvals to developers. Additionally, Inner City Incentive Fund loans and mixed use development forgivable loans will be awarded based on the terms outlined in the policy which will vary based on the geographic location of the housing project with projects located within the Urban Core receiving a higher grant amount per housing unit than projects in other target growth areas. As of March 1, 2013, 14 project applications have been received, four of which have executed incentive agreements which will produce 257 new housing units in the Center City.

Port San Antonio

The Port is a logistics-based industrial platform on the 1,900-acre site of the former Kelly Air Force Base. It was created by the Texas Legislature in 2001 following the closure of the base and tasked with redeveloping and managing the property to ensure that it continues serving as an economic engine for the region. Though created by the local government, the Port is self-sustaining and operates like a business – receiving its income from the properties it leases, services it provides, and reinvesting profits into further development of the property.

The Port is the region's single largest real estate management and leasing firm, overseeing 12.9 million square feet of facilities and logistics assets that include an industrial airport, Kelly Field, SKF, and a 350-acre railport, East Kelly Railport. The entire site is contained within a foreign-trade zone, FTZ #80-10, and has quick road connections to Interstate Highways 35, 10 and 37.

The Port redevelopment efforts to date have attracted almost 80 customers to its site, including aerospace, logistics and military/governmental organizations. These customers employ more than 14,000 workers and generate over \$4 billion in regional economic activity each year. The Port has received numerous recognitions for its innovative work, including being named Redevelopment Community of the Year in 2010 by the Association of Defense Communities. A regional sustainability leader since 2009, two of the Port's newly developed properties have been LEED-certified by the U.S. Green Building Council.

Fourteen of the Port's customers are aerospace-related firms, including industry leaders Boeing, Lockheed Martin, StandardAero, Chromalloy, Gore Design Completions ("Gore"), and Pratt & Whitney. Of the 14,000 workers at the Port, about 5,000 are employed in the aerospace sector.

The Port reached important milestones in 2011, positioning it and its customers for further growth as an important economic engine for the region.

In the aerospace sector, Boeing's Port facility ushered in a new era of commercial projects in the past year. The company, which has been operating at Kelly Field since 1998 with a focus on maintenance, repair, and overhaul of military aircraft, welcomed its first 787 Dreamliner in the spring of 2011. The airplane is one of four scheduled to undergo change incorporation (electronics and software upgrades) at the Port before final completion and delivery to customers worldwide. In addition, the first of six new 747-8 tankers arrived at Boeing's Port facility in 2011 where they, too, will undergo change incorporation through 2013.

Similarly, Gore, which is North America's largest outfitter of custom interiors for wide body jets and the third largest company of its type in the world, has been steadily growing since its arrival at the Port in 2005. In 2010, Gore added over 100,000 square feet to its hangar and workshop facilities at Kelly Field, giving it the necessary room to deliver luxury interiors for a Boeing 767 and its first Boeing 777 completion to foreign heads of state in 2011. Without breaking momentum, the company took in two new aircraft to keep it busy through 2012 – further cementing its position as a global industry leader.

Elsewhere at the Port, efforts to upgrade a 450,000 square foot office facility known as Building 171 continued in 2011. The facility accommodates 11 Air Force agency headquarters and 3,000 personnel. Since 2009, the Port has managed over \$60 million in upgrades to the property to meet new Anti-Terrorism Force Protection standards that ensure the safety of its occupants and the sensitive work that takes place

within. In 2012, the completion of final bays will allow the 24th Air Force-Cyber Command to become the final occupant of the building. There, the unit will lead operations to defend the Air Force's information systems worldwide against the new frontier in warfare-cyber attacks.

Four properties adjacent to Building 171 are also undergoing upgrades managed by the Port to support Air Force expansion within a single 70-acre containment area. Buildings 178, 179 and 200, measuring a combined 218,000 square feet, provide additional offices and specialized space for important servers and other computer equipment, including those utilized by the 24th Air Force-Cyber Command.

In 2010, the Port also completed a \$10 million upgrade to a former World War II era warehouse, which now comprises 85,000 square feet of modern office space. The building allowed ACS, a Xerox Company and Port customer since 2000, to relocate from a 45,000 square foot space it previously occupied into its new facility as it grew its workforce from 400 to over 800 employees throughout 2010 and 2011. The company provides business support services to private and governmental customers, including serving as the State Disbursement Unit for Texas child support payments.

Looking ahead in 2013, the Port will reach an important milestone as two road construction phases begun in 2011 are completed later in the year. Starting on the Port's northwest entrance, where 36th Street intersects with Growdon Road, and stretching for almost a mile to the south until it intersects with Billy Mitchell Boulevard, the new 36th Street extension creates an enhanced route inside the Port. The 36th Street Project will improve overall access to the Port and open 150 acres at Kelly Field for the development of new air-served facilities.

The new sites opened by the 36th Street extension will enable the construction of new hangars and workshops that can support an additional 8,000 new jobs in that part of the Port alone – further positioning the region as an important and thriving aerospace center. The project is headed by the City's Capital Improvement Management Services Department. Additional project partners include the Metropolitan Planning Organization, CPS, SAWS, and TxDOT.

Brooks City-Base

Brooks City-Base continues to foster the development of its business and technology center on the south side of San Antonio through its aggressive business attraction and retention efforts. Recognized as one of the most innovative economic development projects in the United States, Brooks City-Base is a 1,200 acre campus with approximately 250 acres available for immediate development. The U.S. Air Force ceased all operations at Brooks City-Base on September 15, 2011.

Since the project's inception, more than 2,400 jobs have been created with an average salary of \$48,000. More than \$300 million in real estate development has occurred on campus, with another \$170 million in projects being planned and constructed at Brooks City-Base through 2016.

Brooks Development Authority ("BDA") encouraged economic growth noting the following projects:

- VMC Consulting expands its center at Brooks City-Base creating 600 additional jobs to support San Antonio client base.
- Brooks City-Base is working to restore Hangar 9 and maintain its historical presence on campus.
- Spine and Pain Center of San Antonio, PLLC signed a ten-year lease agreement with BDA. The center opened its doors with approximately 9,622 rentable square feet.
- The Landings at Brooks City-Base completed the first phase of construction on a 300 unit multi-family apartment complex. The development is owned by the BDA and the NRP Group is the co-developer.
- The City completed construction of its new Fire and Police Emergency Dispatch Center, a state-of-the-art communications facility located across from the City's Emergency Operations Center and replaced the 9-1-1 center located at the police headquarters downtown.
- BDA finalized a land sale to Head and Neck, a medical facility, to establish a 20,000 square foot medical office building on the Brooks City-Base Campus.
- On June 27, 2011, the Mission Trail Baptist Hospital, located on 28 acres at Brooks City-Base, opened its doors. This facility consists of three stories, with the capability of adding additional floors and square footage as needed. It currently employs 567 people.

To continue fostering economic activities on the south side of San Antonio, BDA has leveraged resources in the following ways:

- BDA applied for designation as an EB-5 Regional Center in July 2011, and was granted its first EB-5 Regional Center Designation in October 2012. Receiving Regional Center designation will benefit BDA from an influx of foreign capital, which may improve its financial operations and capital projects.
- BDA was awarded \$1.9 million from the State Energy Conservation Office ("SECO") for energy saving upgrades to eight buildings and 163 residential housing units. The SECO loans were obtained by BDA for energy saving upgrades to various residential housing units, new chiller systems for various buildings, replacement of heating, ventilation, and air conditioning systems associated with Buildings 160 and 170, and upgrades to Buildings 532, 570, 775, and 150, for installation of rooftop solar panels and the replacement of the HVAC system.

On December 13, 2012, City Council designated Brooks City-Base as a Reinvestment Zone in accordance with State statute for the purpose of the Nexolon project. A Reinvestment Zone designation to the Brooks City-Base site will contribute to the retention and expansion of

primary employment and attract major investment in the zone. The City also provided Nexolon a tax abatement and an economic development grant incentive. In turn, Nexolon has decided to locate its solar panel manufacturing operations and its U.S. corporate headquarters at Brooks City-Base. Nexolon has also agreed to support the creation and sustainment of a renewable energy and advanced manufacturing workforce through a \$500,000 contribution to the Alamo Colleges over five years. These funds will be used by the Alamo Colleges to continue its efforts to develop a customized curriculum and training program to support the development of a renewable energy workforce.

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

Growth Indices

San Antonio Electric and Gas Customers

For the Month of December	Electric Customers	Gas Customers
2003	602,185	306,591
2004	617,261	308,681
2005	638,344	310,699
2006	662,029	314,409
2007	681,312	319,122
2008	693,815	320,407
2009	706,235	321,984
2010	717,109	324,634
2011	728,344	328,314
2012	741,566	330,945

Source: CPS.

SAWS Average Customers per Fiscal Year

Fiscal Year Ended December 31	Water Customers ¹
2003	303,917
2004	311,556
2005	320,661
2006	331,476
2007	341,220
2008	346,865
2009	350,859
2010	355,085
2011	358,656
2012	362,794

¹ Average number billed, excluding SAWS irrigation customers.

Source: SAWS.

Construction Activity

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

Calendar Year	Residential Single Family		Residential Multi-Family ¹		Other ²	
	Permits	Valuation	Permits	Valuation	Permits	Valuation
2003	6,771	\$521,090,684	141	\$2,738,551	13,813	\$1,041,363,980
2004	7,434	825,787,434	206	7,044,283	14,695	1,389,950,935
2005	8,207	943,804,795	347	5,221,672	20,126	1,772,959,286
2006	7,301	890,864,655	560	13,028,440	19,447	1,985,686,296
2007	4,053	617,592,057	29	4,715,380	13,268	2,343,382,743
2008	2,588	396,825,916	13	2,033,067	9,637	2,634,745,310
2009	2,084	311,309,870	50	5,692,447	6,933	1,684,823,866
2010	1,976	307,406,128	10	1,612,057	5,702	1,320,800,279
2011	1,663	260,602,240	2	445,000	5,128	1,723,212,400
2012	2,001	330,367,267	29	4,240,304	5,192	1,876,833,267

¹ Includes two-family duplex projects.

² Includes commercial building permits, commercial additions, improvements, extensions, and certain residential improvements.

Source: City of San Antonio, Department of Development Services.

Total Municipal Sales Tax Collections – Ten Largest Texas Cities

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

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

Source: State of Texas, Comptroller's Office.

Education

There are 15 independent school districts within Bexar County with a combined enrollment of 322,217 encompassing 43 high schools, 71 middle/junior high schools, 264 early education/elementary schools, 20 magnet schools, and 65 alternative schools as of October 2012. There are an additional 24 charter school districts with 72 open enrollment charter schools at all grade levels. In addition, Bexar County has 95 accredited private and parochial schools at all education levels. Generally, students attend school in the districts in which they reside. There is currently no busing between school districts in effect. The seven largest accredited and degree-granting universities, which include a medical school, a dental school, a law school, and five public community colleges, had combined enrollments of 118,515 for fall 2012.

Sources: Texas Education Agency; and Texas Higher Education Coordinating Board.

Employment Statistics

The following table shows current nonagricultural employment estimates by industry in the San Antonio-New Braunfels MSA for the period of March 2013, as compared to the prior periods of February 2013 and March 2012, respectively.

Employment by Industry

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

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

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

Unemployment Information (all estimates in thousands)

San Antonio-New Braunfels MSA ¹	March 2013	February 2013	March 2012
Civilian Labor Force	1,023.7	1,017.6	1,023.7
Number of Employed	962.0	955.4	956.0
Number of Unemployed	61.7	62.2	67.7
Unemployment Rate (%)	6.0	6.1	6.6
Texas (Actual) ¹	March 2013	February 2013	March 2012
Civilian Labor Force	12,686.1	12,662.1	12,548.7
Number of Employed	11,885.8	11,845.7	11,671.8
Number of Unemployed	800.3	816.4	876.9
Unemployment Rate (%)	6.3	6.4	7.0
United States (Actual) ¹	March 2013	February 2013	March 2012
Civilian Labor Force	154,512.0	154,727.0	154,316.0
Number of Employed	142,698.0	142,228.0	141,412.0
Number of Unemployed	11,815.0	12,500.0	12,904.0
Unemployment Rate (%)	7.6	8.1	8.4

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

San Antonio Electric and Gas Systems

History and Management

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

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

The CPS Board is vested with all of the powers of the City with respect to the management and operation of the EG Systems and the expenditure and application of the revenues therefrom, including all powers necessary or appropriate for the performance of all covenants, undertakings, and agreements of the City contained in the bond ordinances, except regarding rates, condemnation proceedings, and issuances of bonds, notes, or commercial paper. It is empowered to appoint and employ all officers and employees and must obtain and keep in force a

“blanket” type employees’ fidelity and indemnity bond (also known as commercial crime bond) covering losses in the amount of not less than \$100,000.

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

Citizens Advisory Committee

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

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

Service Area

The CPS electric system serves a territory consisting of substantially all of Bexar County and small portions of the adjacent counties of Comal, Guadalupe, Atascosa, Medina, Bandera, Wilson, and Kendall. Certification of this service area has been approved by the Public Utility Commission of Texas (the “PUCT”). CPS is currently the exclusive provider of retail electric service within this service area, including the provision of electric service to some U.S. military installations located within the service area that own their distribution facilities. Until and unless the City Council and the CPS Board exercise the option to opt-in to retail electric competition (called “Texas Electric Choice” by the PUCT), CPS has the sole right to provide retail electric services in its service area.

In addition to the area served at retail rates, CPS currently sells wholesale electricity to the Floresville Electric Light & Power System, the City of Hondo, and the City of Castroville. In 2013, CPS began selling wholesale electricity to the City of Boerne, the Central Texas Electric Cooperative, and the Kerrville Public Utility Board. In 2016, CPS will also begin selling wholesale electricity to the City of Seguin. From time to time, CPS also enters into partial supply arrangements with various municipally-owned utilities and cooperatives. CPS continues to seek additional opportunities to enter into wholesale electric power agreements. The requirements under the existing wholesale agreements are firm energy obligations of CPS.

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

CPS also has franchise agreements with 30 incorporated communities in the CPS service area. These franchise agreements permit CPS to operate its facilities in the cities’ streets and public ways in exchange for a franchise fee of 3% on electric and natural gas revenues earned within their respective municipal boundaries. CPS is also a party to separate agreements with the cities of Castroville and Lytle to operate and maintain their gas systems through September 2013 and December 2013, respectively.

Retail Service Rates

Under the Texas Public Utility Regulatory Act (“PURA”), significant original jurisdiction over the rates, services, and operations of “electric utilities” is vested in the PUCT. In this context, “electric utility” means an electric investor-owned utility (“IOU”). Since the deregulation aspects of Senate Bill 7, which were adopted by the Texas Legislature in 2001 (“SB 7”) and became effective on January 1, 2002, the PUCT’s jurisdiction over IOU companies primarily encompasses only the transmission and distribution functions. PURA generally excludes municipally-owned utilities (referred to individually as a “Municipal Utility” and collectively as the “Municipal Utilities”), such as CPS, from PUCT jurisdiction, although the PUCT has jurisdiction over electric wholesale transmission rates. Under the PURA, a Municipal Utility has exclusive jurisdiction to set rates applicable to all services provided with the exception of electric wholesale transmission activities and rates. Unless and until the City Council and CPS Board choose to opt-in to electric retail competition, CPS’ retail service electric rates are subject to appellate, but not original, rate regulatory jurisdiction by the PUCT in areas that CPS serves outside the City limits. To date, no such appeal to the PUCT of CPS’ retail electric rates has ever been filed. CPS is not subject to the annual PUCT gross receipts fee payable by electric utilities.

The Railroad Commission of Texas (“RRCT”) has significant original jurisdiction over the rates, services, and operations of all natural gas utilities in Texas. Municipal Utilities such as CPS are generally excluded from regulation by the RRCT, except in matters related to natural gas safety. CPS’ retail gas services outside the City are subject to appellate, but not original, rate regulatory jurisdiction, by the RRCT. To date, no such appeal to the RRCT of CPS’ retail gas rates has ever been filed.

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

On March 1, 2010, a 7.5% electric base rate increase and an 8.5% gas base rate increase became effective. The 4.2% bill impact included a reduction in fuel costs resulting from the JKS 2 plant. CPS expects to continue to periodically seek electric and gas base rate increases that are intended to maintain debt coverage, debt to equity, and liquidity ratios. CPS anticipates seeking a rate increase in early 2014.

CPS offers a monthly contract for renewable energy service under Rider E15. A rider to the Super Large Power (“SLP”) rate, the Economic Incentive Rider E16, became effective March 10, 2003 and offers discounts off the SLP demand charge for up to four years for new or added load of at least ten MW.

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

Transmission Access and Rate Regulation

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

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

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

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

Response to Competition

As of January 2013, CPS’ renewable energy capacity totals 1,113.0 MW in service with another 404 MW under contract and in varying levels of project development. CPS additionally has under contract a 4 MW landfill gas generation project scheduled for commercial operation in mid-2013, and most recently, the agreement with OCI Solar Power for 400 MW of solar generated electricity from facilities to be built and operational by 2018. CPS has one of the most aggressive renewable energy programs in Texas with a renewable capacity under contract totaling 1,517.0 MW.

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

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

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

Electric System

Generating Plants. CPS operates 19 non-nuclear electric generating units, four of which are coal-fired and 15 of which are gas-fired. Some of the gas-fired generating units may also burn fuel oil, providing greater fuel flexibility and reliability. CPS also owns a 40% interest in South Texas Project's ("STP") two nuclear generating Units 1 and 2. The nuclear units supplied 32.9% of the electric system's native load for the fiscal year ending January 31, 2013.

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

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

CPS annually conducts an assessment of generation resource options to meet its expected future electric and gas requirements. This assessment includes updates to fuel prices, wholesale electric market forecasts, and updates to its electric peak demand forecast, which incorporate the most recent economic, demographic and historical demand data for the CPS service territory. Additionally, this assessment includes updated demand reductions due to the STEP energy efficiency and conservation program.

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

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

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

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

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

Until DOE is able to fulfill its responsibilities under the NWP, the NWP has provisions directing the NRC to create procedures to provide for interim storage of used nuclear fuel at the site of a commercial nuclear reactor. On August 31, 2000, in *Maine Yankee Atomic Power Company, et. al. v. US*, the United States Court of Appeals for the Federal Circuit affirmed that the DOE has breached its obligations to commercial nuclear power plant owners for failing to live up to its obligations to dispose of used nuclear fuel. Subsequent to that decision, the DOE has settled with certain commercial nuclear power plant owners and agreed to provide funds to pay for storage costs while the DOE

continues to develop a permanent high-level waste repository. In early February 2013, STPNOC, on behalf of the owners of STP, entered into a similar settlement with the DOE. Under the terms of the settlement, the DOE will reimburse STP for certain costs, such as for the design and construction of an independent spent fuel storage installation ("ISFSI" also known as "Dry Cask Storage"), that will be incurred in continuing onsite storage of all of its used nuclear fuel. As with similar settlements throughout the nuclear industry, the settlement will expire at the end of calendar year 2013. STPNOC and its outside counsel are working to determine the likelihood, timing, and expected duration of an extension to the settlement.

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

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

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

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

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

Distribution System. The distribution system is currently supplied by 81 substations, which are strategically located on the high voltage 138 kV transmission system. The central business district of the City is served by nine underground networks, each consisting of four primary feeders operated at 13.8 kV, transformers equipped with network protectors, and both a 4-wire 120/208 volt secondary grid system and a 4-wire 277/480 volt secondary spot system. This system is well-designed for both service and reliability. Approximately 7,682 circuit miles (three-

phase equivalent) of overhead distribution lines are included in the distribution system. These overhead lines also carry secondary circuits and street lighting circuits. The underground distribution system consists of 362 miles of three-phase equivalent distribution lines, 83 miles of three-phase downtown network distribution lines, and 4,231 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground residential distribution systems.

Gas System

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

Distribution System. The gas distribution system consists of 286 pressure regulating stations and approximately 5,155 miles of mains. The system consists of 2 to 30-inch steel mains and 1-1/4 to 8-inch high-density polyethylene (plastic) mains. The distribution system operates at pressures between 9 psig and 274 psig. All steel mains are coated and cathodically protected to mitigate corrosion. Critical areas of the distribution system are designated critical pressure regulating stations and isolation valves are remotely controlled by SCADA.

Implementation of New Accounting Policies

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

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

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

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

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

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

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

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

Recent Financial Transactions

On November 10, 2011, CPS issued \$50.9 million of Revenue Refunding Bonds, New Series 2011 to refund \$57.4 million of Revenue Refunding Bonds, New Series 2002.

On March 29, 2012, CPS issued \$521.0 million of Taxable New Series 2012 Revenue Bonds to purchase the Rio Nogales natural gas power generation plant.

On June 28, 2012, CPS issued \$655.4 million of Revenue Refunding Bonds, New Series 2012 to refund \$716.3 million of Revenue Bonds, New Series 2005 and 2006A, and Revenue Refunding Bonds, New Series 2005A.

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

CPS Historical Net Revenues and Coverage

	Fiscal Years Ended January 31, (Dollars in Thousands)				
	2009	2010	2011	2012	2013
Gross Revenues ¹	\$2,191,323	\$1,981,103	\$2,099,240	\$2,296,138	\$2,207,863
Maintenance & Operating Expenses ²	1,408,35	1,205,189	1,233,286	1,411,334	1,375,027
Available For Debt Service	<u>\$ 782,970</u>	<u>\$ 775,914</u>	<u>\$ 865,954</u>	<u>\$ 884,804</u>	<u>\$ 832,836</u>
Actual Principal and Interest Requirements:					
Senior Lien Obligations ^{3, 4}	<u>\$ 309,855</u>	<u>\$ 332,540</u>	<u>\$ 357,054</u>	<u>\$ 363,339</u>	<u>\$ 366,474</u>
Junior Lien Obligations ⁵	<u>\$ 11,190</u>	<u>\$ 6,987</u>	<u>\$ 10,774</u>	<u>\$ 22,372</u>	<u>\$ 23,256</u>
Actual Coverage-Senior Lien	2.53x	2.33x	2.43x	2.44x	2.27x
Actual Coverage-Senior and Junior Liens	2.44x	2.29x	2.35x	2.29x	2.14x
Pro Forma MADS Coverage					
Senior Lien Obligations ⁶	2.09x	2.07x	2.31x	2.36x	2.22x
Senior and Junior Lien Obligations ⁷	1.81x	1.79x	2.00x	2.04x	1.92x

¹ Calculated in accordance with the CPS bond ordinances.

² Certain amounts in prior years have been reclassified to conform to the current year presentation.

³ Net of accrued interest where applicable.

⁴ Includes a reduction of \$5.0 million, \$14.5 million, \$15.6 million, and \$15.6 million for the fiscal years ending 2010, 2011, 2012, and 2013 respectively, related to the direct subsidy for the Build America Bonds. Also, takes into account the effects of Sequestration.

⁵ Includes a reduction of \$2.5 million, \$10.5 million, and \$10.5 million for the fiscal years ending 2011, 2012, and 2013, respectively, related to the direct subsidy for the Taxable Junior Lien Series 2010A direct subsidy Build America Bonds and Taxable Junior Lien Series 2010B direct subsidy Build America Bonds. Also, takes into account the effects of Sequestration.

⁶ Maximum annual debt service on Senior Lien Obligations.

⁷ Maximum annual debt service on Senior Lien Obligations and the Junior Lien Obligations; maximum annual debt service on the Junior Lien Obligations that are variable rate obligations calculated at the highest permissible rate during the reporting period.

The Airport System

General

The San Antonio International Airport (the “Airport” or “SAT”), located on a 2,600-acre site that is adjacent to Loop 410 freeway and U.S. Highway 281, is eight miles north of the City’s downtown business district. The Airport consists of three runways with the main runway measuring 8,502 feet and able to accommodate up to and including Group V passenger aircraft. Its two terminal buildings contain 24 second-level gates. Presently, the following domestic air carriers provide scheduled service to San Antonio: AirTran (a wholly-owned subsidiary of Southwest Airlines), American Airlines, Delta Air Lines, Southwest Airlines, United Airlines, and US Airways, as well as associated affiliates of certain of the aforementioned air carriers. Interjet, VivaAerobus, AeroMexico and associated affiliates, are Mexican air carriers that provide passenger service to Mexico. Mexicana filed for bankruptcy protection and ceased service to the Airport in August 2010 and is in the process of seeking a recapitalization and restructuring from an investor group. Interjet was awarded temporary route authority for the Mexico City-San Antonio route until the bankruptcy is resolved. Interjet, which entered the San Antonio market on December 1, 2011, also flies to Toluca, Mexico. Aeromexico flies to and from San Antonio and Mexico City and Monterrey, Mexico. VivaAerobus began San Antonio-Monterrey service on November 8, 2011. AirTran began service to Mexico City and Cancun on May 24, 2012.

The Airport is classified as a medium hub facility by the FAA. A “medium hub facility” is defined as a facility that enplanes between 0.25% and 0.50% of all passengers enplaned on certificated route air carriers in all services in the 50 states, the District of Columbia, and other designated territorial possessions of the United States. According to Airports Council International – North America (“ACI-NA”), an airport industry group, the Airport ranked 46th based on total U.S. passenger traffic for calendar year 2011. For the calendar year ended December 31, 2012, the Airport enplaned approximately 4.1 million passengers. Airport management has determined that approximately 91% of the Airport’s domestic passenger traffic is origination and destination in nature, which is important because it demonstrates strong travel to and from the City independent from any one airline’s hubbing strategies. A variety of services is available to the traveling public from approximately 245 commercial businesses, which lease facilities at the Airport and Stinson Municipal Airport (“Stinson” and, together with the Airport, the “Airport System”).

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

Stinson, located on 300 acres approximately 5.2 miles southeast of the City’s downtown business district, was established in 1915, and is one of the country’s first municipally owned airports. It is the second oldest continuously operating airport in the U.S. and is the FAA’s designated general aviation reliever airport to the Airport. The Airport Master Plan for Stinson, which was initiated in March 2001 to facilitate the development of Stinson and to expand its role as a general aviation reliever to the Airport, is essentially complete. A \$4.8 million terminal expansion project was completed in FY 2009. Stinson now has approximately 31,000 square feet of concession, administrative, education, and corporate aviation space in the terminal building. Stinson also completed the extension of Runway 9-27; the useable runway length is now 5,000 feet. The additional runway length will allow Stinson to serve additional corporate aircraft under all conditions. The terminal expansion, along with a runway extension and other infrastructure improvements, will allow for the growth of existing tenants as well as create opportunities for new businesses to locate at Stinson.

A contract to update the Master Plan for Stinson was awarded on February 17, 2011 and a Notice to Proceed was issued on March 30, 2011. The updated Master Plan for Stinson was approved by City Council on November 15, 2012.

Capital Improvement Plan

The proposed six-year (FY 2013 – FY 2018) Capital Improvement Plan (the “CIP”) totals approximately \$345 million, which is comprised of certain projects including the design and construction of a consolidated rental car facility, airfield improvements, land acquisition, residential acoustical treatment, road improvements, aircraft apron expansion, and cargo improvements.

The CIP consists of the following:

Terminal Facilities

- Terminal A Renovation and Renewal. This project is to renovate and renew Terminal A through the redevelopment of building infrastructure, interior updates, and wayfinding devices.
- Terminal A Campus IT Modernization. This project will implement IT improvements for both Terminal A and initial Outside Plant Infrastructure work.
- Passenger Loading Bridges. Includes the purchase and installation of passenger loading bridges, preconditioned air, and 400Hz electrical power and potable water for the aircraft gates in Terminal A.
- Supporting projects. Landscaping and roadway signage improvements and other wayfinding.
- Central Utility Plant. Decommissioning and demolition of the former central utility plant.

Airfield Improvements

- Runway 22 and Taxiway “N”. This project extends Runway 22 and Taxiway “N” a distance of 1,000 feet in support of increased air traffic and to enhance the Airport’s capacity.
- Runway 12R Reconstruction. This project reconstructs primary Runway 12R, including new shoulders and updated lighting. This project will also provide an extension to allow the decoupling of the runway from Runway 4/22 to improve aircraft operational safety.
- Taxiway G Reconstruction – Phase I. Phased to minimize construction impacts on airport operations, Phase I provides the reconstruction of the southeastern section of Taxiway G, from Runway 4/22 to Taxiway A. This project is dependent upon completion of a Pavement Management Study that may result in a reprioritization of projects.
- Perimeter Road Reconstruction. This project provides for the design and phased reconstruction of critical areas of the perimeter road.

Acoustical Treatment Program

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

Aircraft Apron

- Apron Improvements. A project that includes aircraft parking apron to support Terminal B, and the demolition and relocation of utilities located underneath the existing Terminal B apron and to build a portion of the west aircraft parking area.

Other Projects

- Consolidated Rental Car Facility. This project provides a consolidated rental car facility, which centralizes Airport rental car operators into a single facility.
- Support Service Building. Provides for the construction of an administrative office facility to house the Airport System staff.
- Outside Plant Campus IT Ring. This project will complete the Outside Plant Communication Ring around the campus.
- Other Capital Projects. Miscellaneous projects at the Airport and at Stinson.

The anticipated sources of funding for the CIP are as follows:

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

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

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

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

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

On October 1, 2007, the City began collecting a \$4.50 PFC (less a \$0.11 air carrier collection charge) per qualifying enplaned passenger. The City has received PFC “impose and use” authority, meaning that it may impose the PFC and use the resultant PFC Revenues for all projects, contemplated to be completed using proceeds of the Parity PFC Bonds. As of January 31, 2013, the City has collected \$138,709,151 in PFC Revenues since authority to impose and collect the PFC was received. The estimated PFC collection expiration date is June 1, 2028.

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

- Replace Remain Overnight (RON) Apron
- Implement Terminal Modifications
- Reconstruct Perimeter Road
- Construct New Terminal B
- Acoustical Treatment Program
- Construct Elevated Terminal Roadway
- Upgrade Central Utility Plant
- Construct Apron – Terminal Expansion
- Install Utilities – Terminal Expansion
- Replace Two Aircraft Rescue and Fire Fighting Vehicles
- Conduct Environmental Impact Statement
- Reconstruct Terminal Area Roadway
- Install Noise Monitoring Equipment

- Install Terminal and Airfield Security Improvements
- Install Airfield Electrical Improvements
- PFC Development and Administration Costs

CFC Projects. On March 8, 2012, the City Council authorized the Airport to impose the collection of a \$4.50 per transaction day Customer Facility Charge (“CFC”) for rental car customers to pay for all costs and expenses associated with the planning, financing, and construction and certain other costs for a Consolidated Rental Car Facility (the “ConRAC”) to open in three to five years. The CFC is being collected on all car rentals at the Airport as of April 1, 2012. The ConRAC project cost is estimated at \$128 million. CFC will initially be applied on a Pay-As-You-Go basis for interim wayfinding to rental car locations, conceptual design and validation, negotiation of business terms, and design up to the construction of the ConRAC. Bonds supported by the CFC are expected to be issued once the construction bids have been received and will be used to finance the construction and other costs associated with the ConRAC. As of January 31, 2013, the City has received \$7,485,008 in CFC Revenues since authority to impose and collect the CFC was received.

Airport Operations

Direct supervision of airport operations is managed by the Department of Aviation (the “Department”). The Department is responsible for: (1) managing, operating, and developing the Airport System and any other airfields that the City may control in the future; (2) negotiating leases, agreements, and contracts; (3) computing and supervising the collection of revenues generated by the Airport System under its management; and (4) coordinating aviation activities under the FAA.

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

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

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

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

The passage of the Aviation and Transportation Security Act in November of 2001, created the Transportation Security Administration (“TSA”). The Department has worked closely with the TSA to forge a higher level of security for the traveling public. TSA employs about 300 individuals at the Airport System to meet the federal security requirements.

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

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

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

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

	Fiscal Year Ended September 30				
	2008	2009	2010	2011	2012
Gross Revenues ¹ :	\$65,187,888	\$62,180,333	\$64,045,889	\$83,288,806	\$90,163,733
Airline Rental Credit	<u>5,040,274</u>	<u>4,165,260</u>	<u>4,178,122</u>	<u>0</u>	<u>0</u>
Adjusted Gross Revenues	\$70,228,162	\$66,345,593	\$68,224,011	\$83,288,806	\$90,163,733
Expenses	<u>(41,585,794)</u>	<u>(39,743,093)</u>	<u>(39,873,764)</u>	<u>(44,480,164)</u>	<u>(47,048,746)</u>
Net Income	<u>\$28,642,368</u>	<u>\$26,602,500</u>	<u>\$28,350,247</u>	<u>\$38,808,642</u>	<u>\$43,114,987</u>

¹ As reported in the City's audited financial statements.

Source: City of San Antonio, Department of Finance.

Total Domestic and International Enplaned Passengers - San Antonio Airport

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

Calendar <u>Year</u>	<u>Total</u>	Increase/ <u>(Decrease)</u>	Percent (%) <u>Change</u>
2003	3,250,741	---	---
2004	3,498,972	248,231	7.64
2005	3,713,792	214,820	6.14
2006	4,002,903	289,111	7.78
2007	4,030,571	27,668	0.69
2008	4,167,440	136,869	3.40
2009	3,905,439	(262,001)	(6.29)
2010	4,022,070	116,631	2.99
2011	4,071,781	49,711	1.24
2012	4,103,364	31,583	0.78

Source: City of San Antonio, Department of Aviation.

Total Enplaned and Deplaned International Passengers - San Antonio Airport

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

Calendar <u>Year</u>	<u>Total</u>	Increase/ <u>(Decrease)</u>	Percent (%) <u>Change</u>
2003	159,576	---	---
2004	191,254	31,678	19.85
2005	185,992	(5,262)	(2.75)
2006	199,138	13,146	7.07
2007	197,585	(1,553)	(0.78)
2008	177,219	(20,366)	(10.31)
2009	139,286	(37,933)	(21.40)
2010	136,970	(2,316)	(1.66)
2011	182,031	45,061	32.90
2012 ¹	421,718	239,687	131.67

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

Source: City of San Antonio, Department of Aviation.

Air Carrier Landed Weight - San Antonio Airport

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

Calendar <u>Year</u>	<u>Total</u>	Increase/ <u>(Decrease)</u>	Percent (%) <u>Change</u>
2003	5,391,301	---	---
2004	5,416,555	25,254	0.47
2005	5,650,228	233,673	4.31
2006	5,946,232	296,004	5.24
2007	6,098,276	152,044	2.56
2008	6,209,192	110,916	1.82
2009	5,487,537	(721,655)	(11.62)
2010	5,632,203	144,666	2.64
2011	5,707,294	75,091	1.33
2012	5,811,513	104,219	1.83

Source: City of San Antonio, Department of Aviation.

* * *

APPENDIX B
EXCERPTS FROM THE
SAN ANTONIO WATER SYSTEM
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended December 31, 2012

Padgett Stratemann & Co., L.L.P., auditor for SAWS, has not been engaged to perform, and has not performed, since the date of its report and/or audited data included herein, any procedures on the financial statements addressed in that report and/or audited data. Further, Padgett Stratemann & Co., L.L.P. also has not performed any procedures relating to this Official Statement.

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, 2012, 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.

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Independent Auditor's Report

To the Board of Trustees
San Antonio Water System
San Antonio, Texas

Report of the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the San Antonio Water System ("SAWS"), a component unit of the City of San Antonio, Texas, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise SAWS' basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of SAWS, as of December 31, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Post Employment Benefit Plans – Schedules of Funding Progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2013 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 of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SAWS' internal control over financial reporting and compliance.

Padgett, Stratemann + Co., LLP

Certified Public Accountants
April 22, 2013

Management's Discussion and Analysis

This Management Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and provides a narrative overview and analysis of financial activities and performance as detailed in the San Antonio Water System (SAWS) Annual Financial Report for the fiscal year ending December 31, 2012. Please read it in conjunction with SAWS' financial statements including the notes to the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- SAWS' net position increased by \$95.5 million during 2012.
- Operating revenues increased from \$418.1 million in 2011 to \$438.5 million in 2012 largely as a result of a rate increase that went into effect in January 2012.
- Taking advantage of the historically low interest rate environment and SAWS strong credit ratings, SAWS refunded nearly \$305 million of outstanding bonds, reducing future debt service payments by more than \$74 million.
- At the end of 2012, SAWS maintained unrestricted cash and investments of \$184 million with an additional \$38.4 million cash and investments restricted as a reserve equal to two months of budgeted operation and maintenance expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

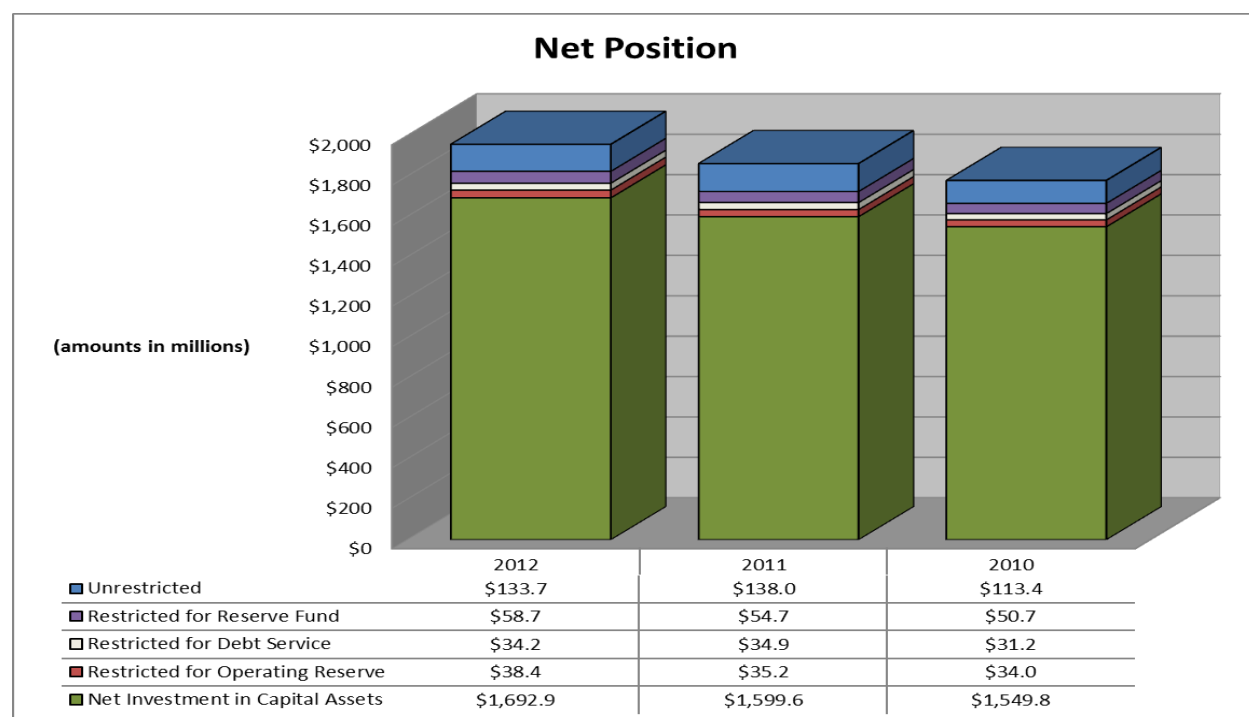
MD&A is intended to serve as an introduction to the basic financial statements, which are comprised of the following components:

- *Statements of Net Position* - present information on all of SAWS' assets, deferred outflow of resources and liabilities as of the end of each calendar year, with the net amount reported as SAWS' net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of SAWS is improving or deteriorating.
- *Statements of revenues, expenses and changes in net position* - present information showing how SAWS' net position 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.
- *San Antonio Water System Fiduciary Funds Statements of Net Position* - present information on SAWS single-employer postretirement benefit plans' assets and liabilities, with the difference between the two reported as net position held in trust for pension and other postemployment benefits.
- *San Antonio Water System Fiduciary Funds Statements of Changes in Net Position* - present information showing how the fiduciary funds' net position changed during the years presented on an accrual basis.
- *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.
- *Required Supplemental Information* - Information is presented concerning SAWS' progress in funding its obligations to provide pension and other postemployment benefits to its employees.

FINANCIAL ANALYSIS – FINANCIAL POSITION

CONDENSED NET POSITION				2012-2011		2011-2010	
	As of December 31,			Increase	%	Increase	%
(amounts in thousands)	2012	2011	2010	(Decrease)	Change	(Decrease)	Change
Current assets	\$ 379,071	\$ 371,150	\$ 317,419	\$ 7,921	2%	\$ 53,731	17%
Capital assets, net	3,771,228	3,553,065	3,362,867	218,163	6%	190,198	6%
Other non-current assets	227,574	238,949	333,788	(11,375)	(5%)	(94,839)	(28%)
Total Assets	4,377,873	4,163,164	4,014,074	214,709		149,090	
Deferred outflows of resources	19,746	18,380	5,575	1,366	7%	12,805	230%
Total Assets and Deferred Outflows of Resources	4,397,619	4,181,544	4,019,649	216,075	5%	161,895	4%
Current liabilities	162,048	152,150	132,205	9,898	7%	19,945	15%
Non-current liabilities	2,277,631	2,166,954	2,108,383	110,677	5%	58,571	3%
Total Liabilities	2,439,679	2,319,104	2,240,588	120,575	5%	78,516	4%
Net Position:							
Net investment in capital assets	1,692,909	1,599,612	1,549,777	93,297	6%	49,835	3%
Restricted	131,324	124,785	115,865	6,539	5%	8,920	8%
Unrestricted	133,707	138,043	113,419	(4,336)	(3%)	24,624	22%
Total Net Position	\$ 1,957,940	\$ 1,862,440	\$ 1,779,061	\$ 95,500	5%	\$ 83,379	5%

Net Position: Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of SAWS is improving or deteriorating. SAWS' net position increased \$95.5 million from 2011 to 2012 and increased \$83.4 million from 2010 to 2011.



The largest portion of SAWS' net position reflects its net investment in capital assets. SAWS' net investment in capital assets represents the carrying value of capital assets and capital related deferred outflows of resources, less capital related borrowings. Any cash and investment amounts restricted for construction purposes are also reflected in these totals. The \$93.3 million increase from 2011 to 2012 reflects \$81.8 million of capital contributions from developers as well as the funding of 2012 capital expenditures with renewal and replacement funds, offset by depreciation expense for the year. The \$49.8 million increase from 2010 to 2011 reflects \$59.5 million of capital contributions from developers and funding of 2011 capital expenditures with non-debt funds, offset by 2011 depreciation expense.

Funds that have been restricted for a specific purpose by legally enforceable legislation and bond covenants are classified as restricted net position. The components of restricted net position include funds Restricted for Operating Reserve, Restricted for Debt Service and Restricted for Reserve Fund.

As of December 31, 2012, \$38.4 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 equal to two months of the annual maintenance and operations budget. The amount of cash and investments restricted for this purpose will vary from year to year with any changes in the budgeted level of maintenance and operations expense.

Additionally, \$34.2 million of cash and investments was restricted for debt service purposes at December 31, 2012. The cash and investments, net of restricted liabilities that was restricted for debt purposes decreased \$7 million from 2011 to 2012 despite an increase in the debt outstanding due primarily to the impact of bonds refunded during 2012. The amount restricted for debt purposes increased by \$3.7 million from 2010 to 2011 as a result of increases in the annual debt service requirements resulting from debt issued in 2011.

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. Due to downgrades in the credit ratings of certain of these surety policy providers during 2008 and 2009, SAWS has been required to make deposits into its Reserve Fund. Additional deposits to the Reserve Fund were also required as a result of debt issued without surety policies since 2008. SAWS may use bond proceeds to make the required deposits related to new debt issued. SAWS made cash deposits to the Reserve Fund totaling \$3.7 million in both 2011 and 2012. Bond proceeds were also used to deposit an additional \$5.4 million in 2011 and \$10.7 million in 2012. 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 meet the requirements of the bond ordinance. As of December 31, 2012 additional deposits to the Reserve Fund of \$9.4 million will be required over the next three 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' net position is unrestricted and may be used for any allowable purpose as outlined in Ordinance 75686. Unrestricted net position decreased \$4.3 million from 2011 to 2012 as transfers to the Reserve Fund and capital expenditures paid with renewal and replacement funds exceeded the amount of funds provided by operations during the year. In 2011, funds provided by operations exceeded the transfers to the Reserve Fund and capital expenditures paid with non-debt sources, resulting in an increase in unrestricted net position of \$24.6 million from 2010.

FINANCIAL ANALYSIS – REVENUES, EXPENSES AND CHANGES IN NET POSITION

During 2012, SAWS' net position increased by \$95.5 million which consisted of income before capital contributions of \$13.7 million and capital contributions of \$81.8 million. In 2011, SAWS' net position increased by \$83.5 million which consisted of income before capital contributions of \$23.9 million and capital contributions of \$59.5 million.

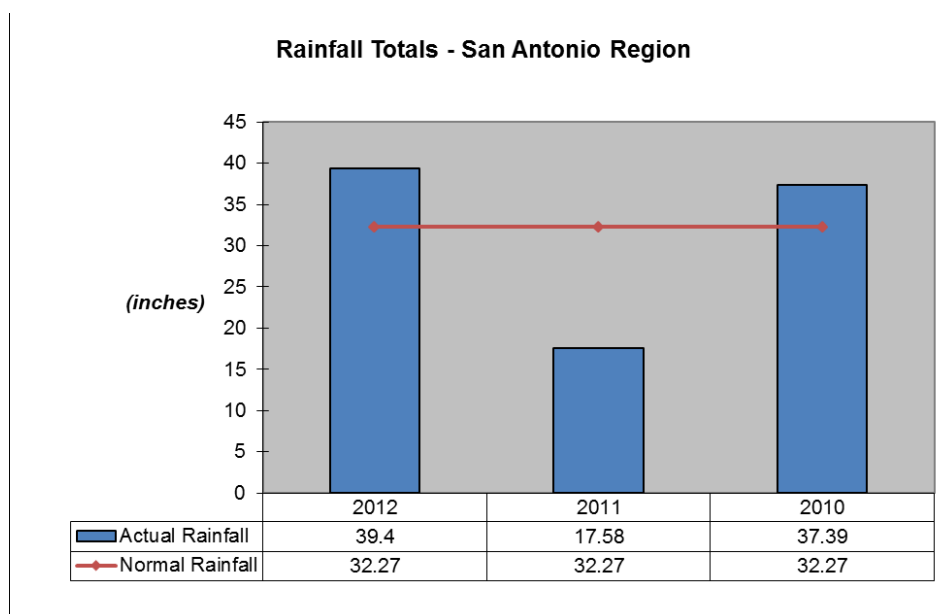
CONDENSED REVENUES, EXPENSES AND CHANGES IN NET POSITION INFORMATION							
(amounts in thousands)	As of December 31,			2012-2011		2011-2010	
	2012	2011	2010	Increase (Decrease)	% Change	Increase (Decrease)	% Change
Operating revenues							
Water delivery system	\$ 121,078	\$ 125,188	\$ 106,864	\$ (4,110)	(3%)	\$ 18,324	17%
Water supply system	136,704	130,755	117,402	5,949	5%	13,353	11%
Wastewater system	168,368	150,520	132,408	17,848	12%	18,112	14%
Chilled water and steam system	12,378	11,631	12,223	747	6%	(592)	(5%)
Total operating revenues	438,528	418,094	368,897	20,434	5%	49,197	13%
Non-operating revenues	6,149	5,955	3,625	194	3%	2,330	64%
Total Revenues	444,677	424,049	372,522	20,628	5%	51,527	14%
Operating expenses							
Salaries and fringe benefits	\$ 125,295	\$ 127,816	\$ 121,523	\$ (2,521)	(2%)	\$ 6,293	5%
Contractual services	100,165	66,900	82,708	33,265	50%	(15,808)	(19%)
Materials and supplies	23,966	24,868	20,320	(902)	(4%)	4,548	22%
Other charges	21,790	21,756	36,883	34	0%	(15,127)	(41%)
Less costs capitalized to							
construction in progress	(33,640)	(32,282)	(34,945)	(1,358)	4%	2,663	(8%)
Depreciation expense	103,034	98,374	107,761	4,660	5%	(9,387)	(9%)
Total operating expenses	340,610	307,432	334,250	33,178	11%	(26,818)	(8%)
Non-operating expenses							
Amortization of debt issuance costs	1,783	1,809	2,081	(26)	(1%)	(272)	(13%)
Other finance charges	2,934	2,881	2,936	53	2%	(55)	(2%)
Interest expense	74,782	77,751	76,805	(2,969)	(4%)	946	1%
Gain on sale of capital assets	(430)	(773)	(392)	343	(44%)	(381)	97%
Payments to City of San Antonio	11,161	10,926	9,565	235	2%	1,361	14%
Payments to other entities	122	124	124	(2)	(2%)	-	0%
Total non-operating expenses	90,352	92,718	91,119	(2,366)	(3%)	1,599	2%
Total Expenses	430,962	400,150	425,369	30,812	8%	(25,219)	(6%)
Increase/(decrease) in net position							
before capital contributions	13,715	23,899	(52,847)	(10,184)	(43%)	76,746	(145%)
Capital Contributions	81,785	59,480	53,300	22,305	38%	6,180	12%
Change in Net Position	95,500	83,379	453	12,121	15%	82,926	18306%
Net Position, beginning of year	1,862,440	1,779,061	1,778,608	83,379	5%	453	0%
Net Position, end of year	\$ 1,957,940	\$ 1,862,440	\$ 1,779,061	\$ 95,500	5%	\$ 83,379	5%

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 increased from \$418.1 million in 2011 to \$438.5 million in 2012. Due to above average rainfall during 2012, water usage decreased 6.5% from 2011 to 2012. The impact of lower usage was more

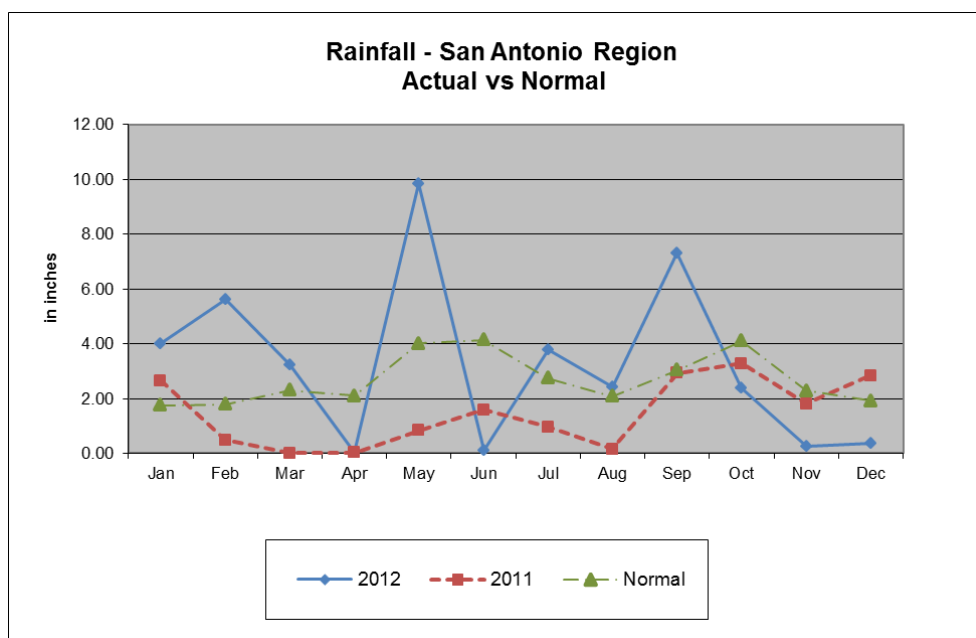
than offset by the 7.9% average rate increase that went into effect at the beginning of 2012 and average customer growth of 1.5% during the year.

Operating revenues increased from \$368.9 million in 2010 to \$418.1 million in 2011. During 2011, Texas experienced one of the worst drought years in its recorded history. Lack of rainfall and extremely high temperatures during the summer months resulted in a 12.5% increase in water usage between 2010 and 2011. This increased water usage, average customer growth of 1.2% and the impact of an average rate increase of 6.5% that went into effect in November 2010 contributed to the increase in operating revenues from 2010.

The Water Delivery core business is responsible for the actual distribution of water from its source to the customer's premises. Operating 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. Water Delivery operating revenues decreased \$4.1 million or 3.3% to \$121.1 million in 2012 primarily as a result of decreased water usage, offset by customer growth and a 3.4% increase in Water Delivery rates. Conversely, below normal rainfall during 2011 contributed to an increase in Water delivery operating revenues of \$18.3 million between 2010 and 2011. Even though restrictions were imposed on outdoor water use during much of the year as a result of the drought, SAWS sold a record amount of water during 2011. Customer growth and a rate increase of 2.2% also contributed to the increase in revenue from 2010.



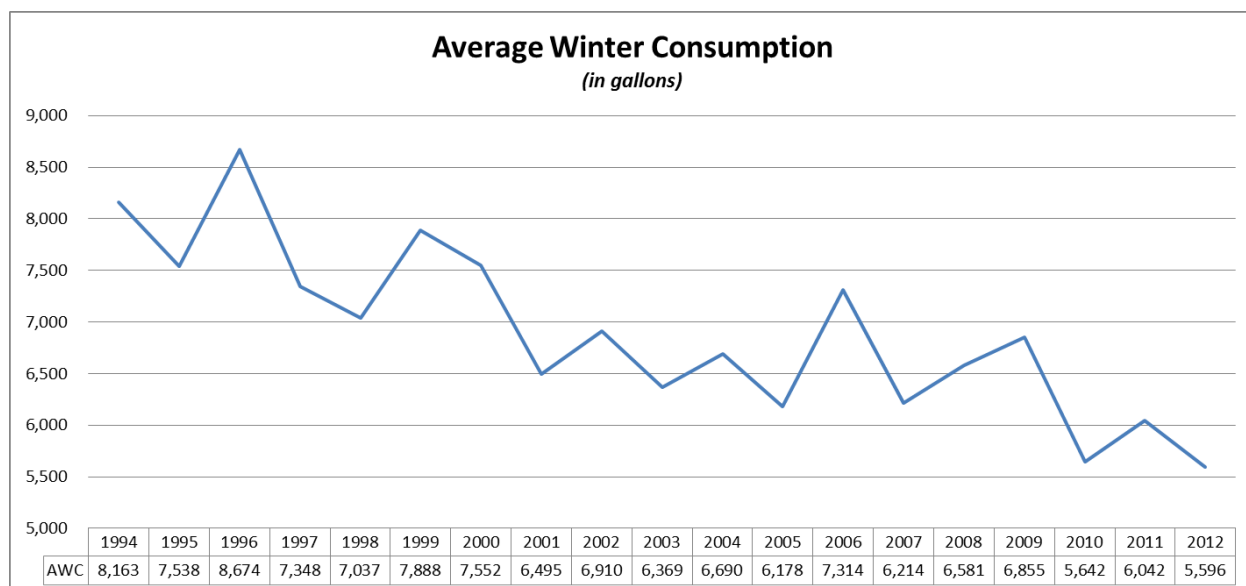
During 2012, rainfall exceeded normal levels by 22% and was more than double the rainfall during 2011. Most of rain in 2012 came during the peak usage period (May-September). Rainfall during that period was more than 3.5 times normal levels. This above average rainfall helped to alleviate the severe drought conditions that plagued the region in 2011. Rainfall for 2011 was just slightly more than half the normal amount for the year. Through the first eight months of 2011 only 7.4 inches had fallen, which was 70% below normal for that period.



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 2000, SAWS implemented a separate funding mechanism, known as the Water Supply Fee, for water supply development and water quality protection. Also included in Water Supply operating revenues are a pass-through fee designed to recoup the annual fees paid to the Edwards Aquifer Authority (EAA) for permitted water rights, meter fees and volumetric charges to customers utilizing recycled water for industrial or irrigation purposes, and allocated portions of water delivery revenues designed to fund residential and commercial conservation programs and debt service associated with water and supply and recycle projects in progress prior to implementation of a separate water supply fee. In 2012, Water Supply operating revenues increased \$5.9 million or 4.5% to \$136.7 million. In 2012, EAA increased permit fees paid by non-agricultural users by nearly 80% due to the development of a Habitat Conservation Plan designed to protect the region from the threat of environmental lawsuits and federal control of the region's largest water source, the Edwards Aquifer. As a result, SAWS recouped an additional \$11.7 million from its customers between 2011 and 2012 through a pass-through fee. The increase in the pass-through fee, customer growth, and a 3% increase in Water Supply rates more than offset the impact of decreased water usage. In 2011, operating revenues increased \$13.4 million or 11% to \$130.8 million. The impact of increased water usage, customer growth and a 2.9% increase in rates more than offset the \$1.6 million decrease in the EAA pass-through fee in 2011.

The collection and treatment of wastewater is the primary function of the Wastewater core business. Approximately 60% of Wastewater operating revenues are generated by residential customers. The residential portion of Wastewater operating 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 each year 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 18 years.

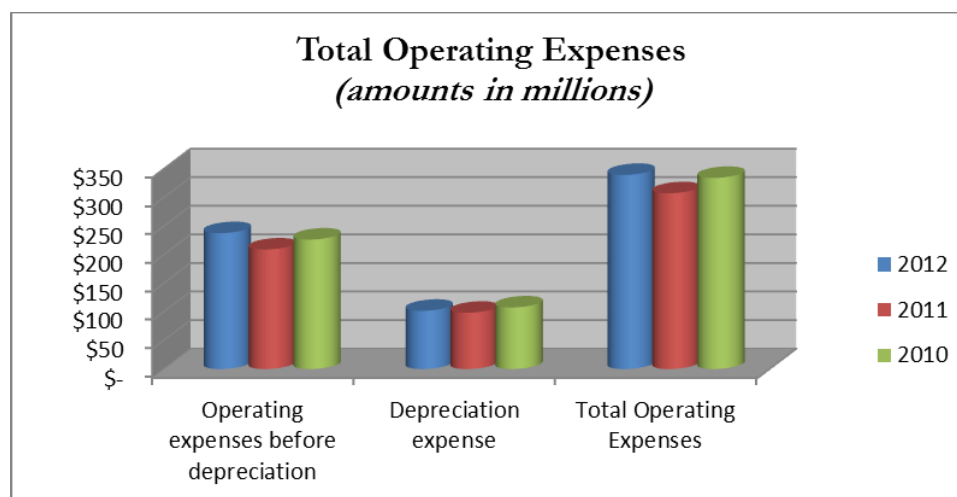


Wastewater operating revenues increased \$17.8 million or 11.9% to \$168.4 million in 2012. The 13.6% increase in Wastewater rates and customer growth more than offset the impact of a decrease in the AWC in 2012. Above average rainfall during the winter averaging period resulted in a 7.4% decrease in the AWC that went into effect in April 2012, bringing the AWC to its lowest level in SAWS history. Wastewater operating revenues were \$150.5 million for 2011, an increase of \$18.1 million or 14% from 2010. Due to below normal rainfall during the winter averaging period, the AWC that went into effect in April 2011 increased 7% from the 2010 AWC. The impact of the increase in the AWC, customer growth and an 11.9% wastewater rate increase contributed to the growth in operating revenue in 2011.

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. Operating revenues for this core business increased \$.7 million or 6.4% from 2011 due to an increase in chilled water usage. Operating revenues declined \$.6 million or 5% from 2010 due to the loss of the Brooks City Base contract, which was discontinued in 2010.

Non-operating revenues: Non-operating revenues, which primarily represent interest income earned on investments and the federal interest subsidy on SAWS Build America Bonds (BABs), increased \$.2 million due to an increase in the average yield on investments. The average investment balance decreased from \$511.1 million in 2011 to \$477.7 million in 2012 while the average yield on SAWS's portfolio increased from .23% in 2011 to .33% in 2012. Non-operating revenues increased \$2.3 million during 2011 primarily due to the federal subsidy related to the BABs issued in November 2010. The increase in the BABs subsidy more than offset lower average yields on investments. The average investment balance decreased slightly from \$513 million in 2010 to \$511.1 million in 2011 while the average yield on SAWS's portfolio decreased from .33% in 2010 to .23% in 2011.

Operating Expenses: Total 2012 operating expenses of \$340.6 million increased \$33.2 million or 10.8% from 2011 levels primarily due to the recovery during 2011 of costs associated with a water supply agreement with the Lower Colorado River Authority (LCRA).



During 2012, SAWS' salary and benefit related costs decreased \$2.5 million or 2% over the prior year. This decrease is due in part to a reduction in SAWS medical and retirement benefit costs resulting from steps implemented during 2011 to slow or reduce the historic growth in these benefit costs.

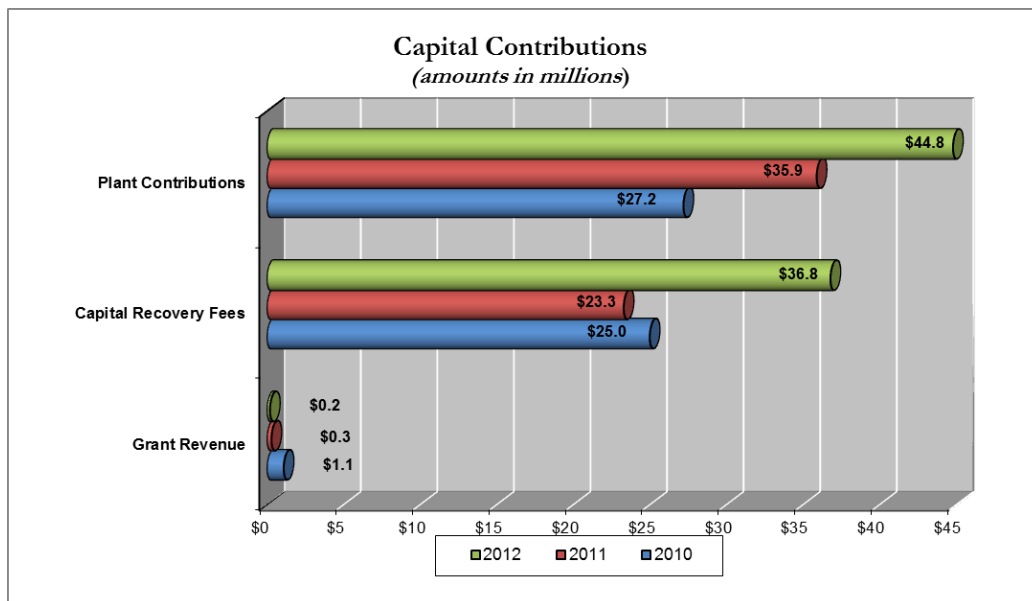
Contractual services increased \$33.3 million in 2012 primarily as a result of a recovery of costs during 2011 related to a water supply agreement with LCRA. In November 2011, SAWS settled its lawsuit with LCRA and recorded a \$28.1 million credit to contractual services. This settlement is discussed in more detail in Note E to the financial statements. Additionally, fees paid to EAA during 2012 for permitted water rights increased \$12.2 million while maintenance and production costs were lower due to the temporary improvement in drought conditions during the year.

In 2012, depreciation expense increased \$4.7 million or 4.7% to \$103 million due to the addition of \$263.4 million in depreciable assets.

Total operating expenses were \$307.4 million in 2011, a decrease of \$26.8 million or 8% from 2010. SAWS' salary and benefit related costs increased \$6.3 million in 2011 as the result of an increase in medical and retirement costs. Contractual services, material and supplies decreased as the recovery from LCRA more than offset the impact of extreme drought conditions during the year on maintenance and production costs. Other charges decreased \$15.1 million between 2010 and 2011 due to a decrease in write offs of impaired capital assets and a decrease in retiree healthcare costs. Write offs related to capital asset impairments were \$3.8 million in 2011 compared to \$13.3 million in 2010. Due to changes made in cost sharing and eligibility requirements for SAWS' post-retirement healthcare (OPEB) plan as well as the adoption of a plan to begin funding the OPEB obligation, the annual required contribution for this plan decreased \$5 million in 2011. In 2011, depreciation expense was \$98.4 million, a decrease of \$9.4 million or 9% from 2010. While \$170.8 million in depreciable assets were added during 2011 to utility plant in service, 2010 depreciation expense included a \$13.4 million one-time adjustment to fully depreciate assets eliminated due to a closure of SAWS' Salado Creek Wastewater Treatment Plant.

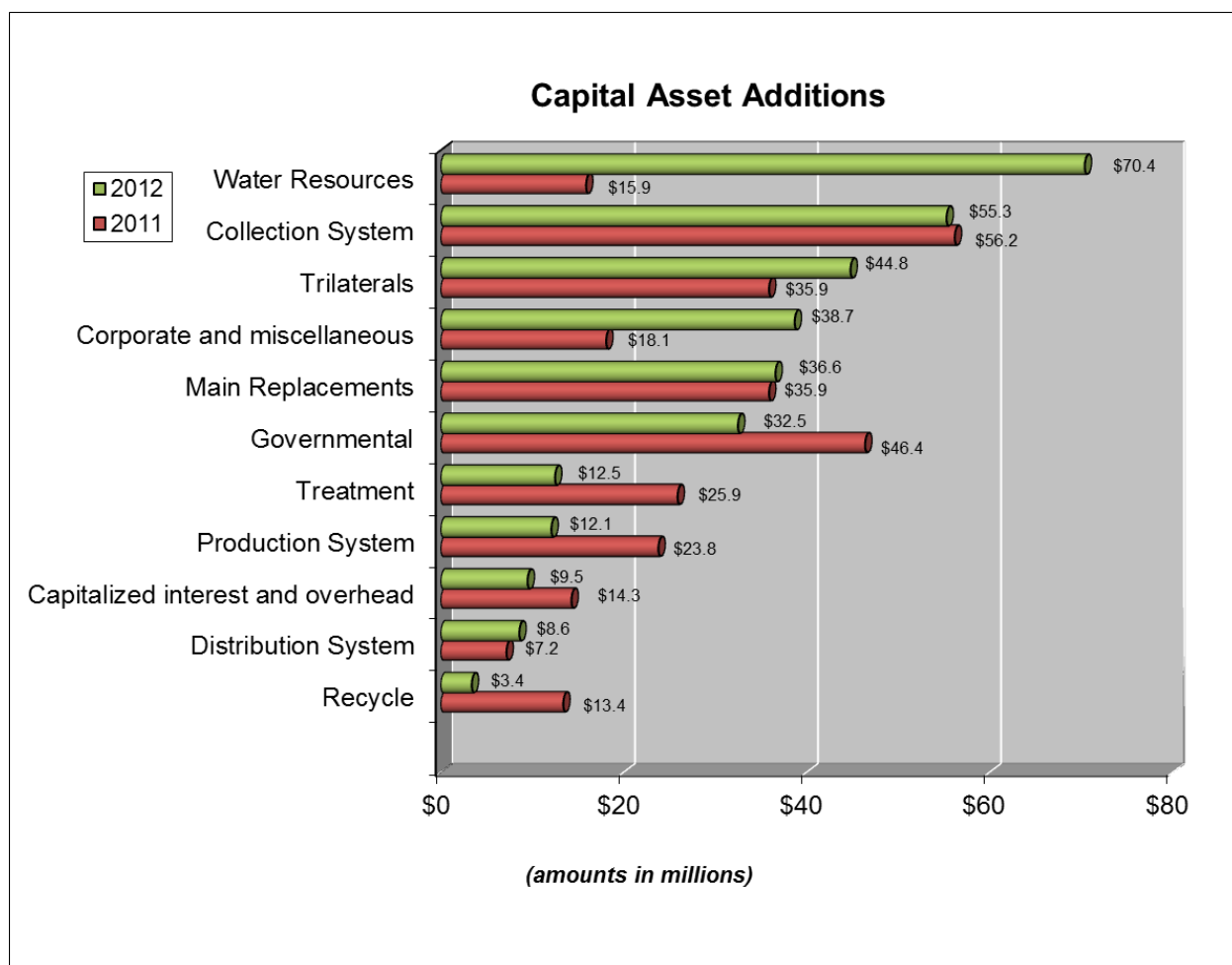
Non-operating Expenses: 2012 non-operating expenses decreased \$2.4 million or 2.6% from 2011 primarily due to a decrease in interest expense. While the average debt outstanding increased 3.8%, the average cost of debt before capitalized interest decreased from 4.27% in 2011 to 3.89% in 2012 as a result of debt savings achieved through the refunding of nearly \$305 million in bonds in 2012 and more than \$165 million bonds in 2011. During 2011, non-operating expenses increased \$1.6 million or 1.8% from 2010 as increased revenues resulted in higher payments to the City of San Antonio and increased interest expense associated with higher borrowing levels was only partially offset by the savings from the debt refunded in 2011.

Capital Contributions: Capital contributions for 2012 totaled \$81.8 million and represent an increase of \$22.3 million from 2011. In 2011, capital contributions totaled \$59.5 million, an increase of \$6.2 million from 2010. Development activity began to pick up in 2011 as the economy began to recover with the gradual easing of tight credit markets. As a result, infrastructure donated by developers increased in 32% in 2011 and 25% in 2012. Capital recovery fees increased 58% in 2012 as result of an increase in the fees charged to new customers that went into effect in June 2011 as well as the increase in customer growth. Capital recovery fees decreased slightly from 2011 due to a slight reduction in customer growth.



CAPITAL ASSET ACTIVITY

During 2012 SAWS' total capital assets (net of accumulated depreciation) grew from \$3.6 billion to \$3.8 billion, while during 2011, net capital assets increased from \$3.4 billion to \$3.6 billion. Capital asset additions were \$324.4 million in 2012 and \$293 million in 2011. 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 \$309 million as of December 31, 2012. For further detail information on capital assets, refer to Note F.

LONG-TERM DEBT ACTIVITY

In February 2012, SAWS issued \$225.3 million of senior lien revenue refunding bonds. The proceeds of these bonds were used to refund \$265.9 of the outstanding Series 2002 senior lien bonds and pay the cost of issuance. In April 2012, SAWS issued \$31.9 million of junior lien revenue refunding bonds. The proceeds of these bonds were used to refund the Series 2001, 2001-A, 2002 and 2002-A junior lien bonds and pay the cost of issuance. In August 2012, SAWS issued \$19.6 million junior lien revenue bonds under Texas Water Development Board programs. The proceeds of the bonds were used to finance capital improvements and pay the cost of issuance. In October 2012, SAWS issued \$163.4 million in senior lien revenue refunding bonds. The proceeds were used to refund \$175 million of outstanding commercial paper and pay the cost of issuance.

During the course of the year, SAWS also issued \$133.7 million in new commercial paper notes which 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 April 2011, SAWS issued \$46.6 million of senior lien revenue refunding bonds. The proceeds of these bonds were used to refund \$50.2 million of the outstanding Series 2001 bonds and pay the cost of issuance. In August 2011, SAWS issued \$24.6 million of junior lien revenue bonds and \$18.1 million of junior lien revenue and refunding bonds under Texas Water Development Board programs. The proceeds of these bonds were used to pay the cost of issuance, refund \$2 million of outstanding commercial paper and finance capital improvements. In October 2011, SAWS issued \$165.1 million of revenue refunding bond. The proceeds of these bonds were used to pay the cost of issuance and refund \$34.6 million of the Series 2002 bonds, \$80.5 million of the Series 2002-A bonds and \$60 million of outstanding commercial paper. SAWS also issued \$35 million in new commercial paper notes which were used to finance capital improvements.

In September 2012, Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Rating Service reaffirmed SAWS' credit ratings as indicated below. SAWS' high quality credit ratings are based on its large and diverse service area, sound financial management, long-term planning of water supply and infrastructure needs, and competitive water and sewer rates. SAWS' commercial paper ratings were updated in October 2012 based on new revolving credit agreements with Bank of Tokyo-Mitsubishi UFJ, Ltd., acting through its New York branch, and Wells Fargo Bank, N.A. For additional information on the commercial paper program, refer to Note I.

BOND AND COMMERCIAL PAPER RATINGS				
	Senior Lien Debt	Junior Lien Debt	Tax-Exempt Commercial Paper	
			Series A	Series B
Fitch Ratings	AA+	AA	F1	F1+
Moody's Investors Service, Inc.	Aa1	Aa2	P-1	P-1
Standard & Poor's Ratings Service	AA	AA-	A-1+	A-1+

SAWS' bond ordinance requires the maintenance of a debt coverage ratio of at least 1.25x the current annual debt service on outstanding senior lien debt. As of December 31, 2012 and 2011, SAWS was in compliance with the terms and provisions of the ordinances and documents related to its outstanding bonds and commercial paper.

FINANCIAL RATIOS			
	2012	2011	2010
Current Year Debt Coverage‡:			
Senior Lien Debt	2.11x	2.28x	1.60x
All Debt	1.60x	1.74x	1.22x
Maximum Annual Debt Coverage‡:			
Senior Lien Debt	1.63x	1.85x	1.30x
All Debt	1.44x	1.57x	1.11x
Equity (<i>equity / total liabilities + equity</i>)	44.5%	44.5%	44.3%
‡ Debt service is net of federal interest subsidy.			

ECONOMIC OUTLOOK FOR THE FUTURE

In January 2013, the San Antonio City Council approved an average rate increase of 8.4% for most services provided by SAWS effective March 1, 2013. This rate adjustment was needed to provide additional funding to address aging infrastructure issues, support continued development of additional water supplies, reduce sanitary sewer overflows and meet other operational requirements. Customer growth has been somewhat steady during the last three years despite a weak economy and high unemployment levels. During 2012 customer connections grew 1.5% compared to 1.2% during 2011 and 1.3% during 2010. The San Antonio region is positioned to see slightly elevated growth levels during the next few years. 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

This Annual Financial Report is provided to our citizens, customers, investors and creditors as a general overview of SAWS' financial condition and results of operation with a general explanation of the factors affecting the finances of the organization. It is provided to demonstrate SAWS' accountability for the revenues it collects and the expenditures it makes for the services provided. 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.

BASIC FINANCIAL STATEMENTS

San Antonio Water System
STATEMENTS OF NET POSITION
(amounts in thousands)

	December 31,	
	2012	2011
CURRENT ASSETS		
Unrestricted Current Assets		
Cash and cash equivalents	\$ 132,273	\$ 118,636
Investments	51,694	69,413
Accounts receivable, net of allowances for uncollectible accounts	54,985	46,356
Other current assets	9,271	9,317
Total unrestricted current assets	248,223	243,722
Restricted Current Assets:		
Cash and cash equivalents	16,146	11,698
Investments	114,702	115,730
Total restricted current assets	130,848	127,428
Total Current Assets	379,071	371,150
NONCURRENT ASSETS		
Unrestricted Noncurrent Assets		
Unamortized debt issuance costs	17,528	17,680
Accounts receivable, non current	6,985	7,985
Restricted Noncurrent Assets:		
Cash and cash equivalents	27,785	41,983
Investments	175,276	171,301
Capital Assets:		
Utility plant in service	4,261,006	4,003,201
Less allowance for depreciation	1,369,885	1,271,438
	2,891,121	2,731,763
Land, water rights and other intangible assets	308,560	298,864
Construction in progress	571,547	522,438
Total capital assets (net of accumulated depreciation)	3,771,228	3,553,065
Total Noncurrent Assets	3,998,802	3,792,014
TOTAL ASSETS	4,377,873	4,163,164
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging derivatives	19,746	18,380
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 4,397,619	\$ 4,181,544

The accompanying notes to financial statements form an integral part of this statement.

San Antonio Water System
STATEMENTS OF NET POSITION (continued)
(amounts in thousands)

	December 31,	
	2012	2011
LIABILITIES		
Current Liabilities To Be Paid From Unrestricted Assets		
Accounts payable	\$ 34,884	\$ 29,156
Accrued vacation payable	5,516	4,576
Accrued payroll and benefits	2,158	1,556
Accrued claims payable	9,956	10,565
Sundry payables and accruals	1,044	1,338
Total unrestricted current liabilities	53,558	47,191
Current Liabilities To Be Paid From Restricted Assets		
Accrued interest payable	13,661	12,871
Payables under construction contracts	35,279	35,767
Customers' deposits	9,265	8,701
Commercial paper notes	2,970	2,840
Revenue bonds payable within one year	47,315	44,780
Total restricted current liabilities	108,490	104,959
Total Current Liabilities	162,048	152,150
Noncurrent Liabilities		
Accrued vacation payable	2,562	2,919
Unfunded postemployment benefits	82,910	81,234
Derivative instrument	25,149	24,171
Commercial paper notes	167,775	212,090
Revenue bonds payable after one year, net of unamortized premiums, discounts and deferred losses on refunding	1,999,235	1,846,540
Total Noncurrent Liabilities	2,277,631	2,166,954
TOTAL LIABILITIES	2,439,679	2,319,104
NET POSITION		
Net investment in capital assets	1,692,909	1,599,612
Restricted for operating reserve	38,389	35,227
Restricted for debt service fund	34,254	34,862
Restricted for reserve fund	58,681	54,696
Unrestricted	133,707	138,043
TOTAL NET POSITION	\$ 1,957,940	\$ 1,862,440

The accompanying notes to financial statements form an integral part of this statement.

San Antonio Water System
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For the Years Ended December 31,
(amounts in thousands)

OPERATING REVENUES	2012	2011
Water delivery system	\$ 121,078	\$ 125,188
Water supply system	136,704	130,755
Wastewater system	168,368	150,520
Chilled water and steam system	12,378	11,631
Total operating revenues	438,528	418,094
OPERATING EXPENSES		
Salaries and fringe benefits	125,295	127,816
Contractual services	100,165	66,900
Material and supplies	23,966	24,868
Other charges	21,790	21,756
Less costs capitalized to construction in progress	(33,640)	(32,282)
Total operating expenses before depreciation	237,576	209,058
Depreciation expense	103,034	98,374
Total operating expenses	340,610	307,432
Operating income	97,918	110,662
NONOPERATING REVENUES		
Interest earned and miscellaneous	6,149	5,955
NONOPERATING EXPENSES		
Amortization of debt issuance costs	1,783	1,809
Other finance charges	2,934	2,881
Interest expense	74,782	77,751
Gain on sale of capital assets	(430)	(773)
Payments to the City of San Antonio	11,161	10,926
Payments to other entities	122	124
Total nonoperating expenses	90,352	92,718
Increase in net position, before capital contributions	13,715	23,899
Capital contributions	81,785	59,480
CHANGE IN NET POSITION	95,500	83,379
NET POSITION, BEGINNING OF YEAR	1,862,440	1,779,061
NET POSITION, END OF YEAR	\$ 1,957,940	\$ 1,862,440

The accompanying notes to financial statements form an integral part of this statement.

San Antonio Water System
STATEMENTS OF CASH FLOWS
For the years ended December 31,
(amounts in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 426,446	\$ 416,881
Cash paid to vendors for operations	(129,404)	(94,613)
Cash paid to employees for services	(102,026)	(99,977)
Net cash provided by operating activities	<u>195,016</u>	<u>222,291</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments to the City of San Antonio	(7,867)	(8,003)
Payments to other entities	(120)	(126)
Net cash used for noncapital financing activities	<u>(7,987)</u>	<u>(8,129)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets	588	1,175
Proceeds from developers for plant construction	36,761	23,263
Proceeds from grants	267	741
Payment to employees for construction of plant	(20,409)	(19,524)
Payment to vendors for construction of plant	(13,232)	(12,758)
Payments for acquisition of equipment and furniture	(10,766)	(14,224)
Payments for acquisition of property and plant	(220,433)	(191,322)
Proceeds from commercial paper	133,655	35,000
Payment for retirement of commercial paper	(2,840)	(2,720)
Proceeds from revenue bonds	29,574	45,499
Payment for retirement of revenue bonds	(41,740)	(39,730)
Payment of interest on commercial paper	(472)	(628)
Payment of interest on revenue bonds	(88,416)	(87,679)
Payment for bond related expenses	(3,851)	(2,345)
Payment for bank charges	(3,105)	(2,211)
Net cash used for capital and related financing activities	<u>(204,419)</u>	<u>(267,463)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(583,860)	(586,955)
Maturity of investments	596,969	716,423
Interest income and other	8,168	6,421
Net cash provided by investing activities	<u>21,277</u>	<u>135,889</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,887	82,588
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	<u>172,317</u>	<u>89,729</u>
CASH AND CASH EQUIVALENTS, AT END OF YEAR	<u><u>\$ 176,204</u></u>	<u><u>\$ 172,317</u></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>2012</u>	<u>2011</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENTS OF CASH FLOWS TO STATEMENT OF NET POSITION		
Cash and Cash Equivalents		
Unrestricted	\$ 132,273	\$ 118,636
Restricted		
Current	16,146	11,698
Noncurrent	27,785	41,983
	<u>\$ 176,204</u>	<u>\$ 172,317</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income	\$ 97,918	\$ 110,662
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash revenues from City of San Antonio	(3,296)	(2,923)
Provision for uncollectible accounts	3,800	2,811
Charge-off of prior year construction expenditures to operating expense	2,211	3,791
Depreciation expense	103,034	98,374
Change in assets and liabilities:		
Increase in accounts receivable	(11,459)	(10,444)
Increase in other current assets	(309)	(337)
Increase in accounts payable	595	3,180
Increase in accrued vacation payable	583	882
Increase in accrued payroll and benefits	602	306
Increase/(Decrease) in claims payables	(609)	1,252
Increase/(Decrease) in sundry payables and accruals	(294)	703
Increase in unfunded postemployment benefits	1,676	13,932
Increase in customers' deposits	564	102
Total adjustments	<u>97,098</u>	<u>111,629</u>
Net cash provided by operating activities	<u>\$ 195,016</u>	<u>\$ 222,291</u>

NONCASH CAPITAL AND FINANCING ACTIVITIES

Plant contributions received from developers	\$ 44,787	\$ 35,872
Bond proceeds deposited into an escrow account for purposes of refunding:		
Revenue Bonds	\$ 304,890	\$ 165,315
Commercial Paper	\$ 175,000	\$ 62,000

San Antonio Water System Fiduciary Funds
STATEMENTS OF NET POSITION
(amounts in thousands)

	December 31,	
	2012	2011
	<hr/>	<hr/>
ASSETS		
Cash and cash equivalents	\$ 80	\$ -
Investments	122,812	92,010
	<hr/>	<hr/>
TOTAL ASSETS	122,892	92,010
LIABILITIES	-	-
NET POSITION HELD IN TRUST FOR PENSION AND OTHER POST EMPLOYMENT BENEFITS	<hr/> \$ 122,892 <hr/>	<hr/> \$ 92,010 <hr/>

STATEMENTS OF CHANGES IN NET POSITION
For the years ended December 31,
(amounts in thousands)

	2012	2011
	<hr/>	<hr/>
ADDITIONS		
Employer contributions	\$ 22,396	\$ 9,171
Investment income	12,432	2,713
	<hr/>	<hr/>
Total additions	34,828	11,884
DEDUCTIONS		
Pension payments	3,921	3,412
Administrative expenses	25	-
	<hr/>	<hr/>
Total deductions	3,946	3,412
	<hr/>	<hr/>
NET INCREASE IN NET POSITION	30,882	8,472
NET POSITION AT BEGINNING OF YEAR	92,010	83,538
	<hr/>	<hr/>
NET POSITION AT END OF YEAR	<hr/> \$ 122,892 <hr/>	<hr/> \$ 92,010 <hr/>

The accompanying notes to financial statements form an integral part of these statements.

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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). Management and control of SAWS is vested in the SAWS Board of Trustees consisting of the Mayor of San Antonio and six members who are appointed by the San Antonio City Council. The City Council must approve all changes in SAWS rates and any debt issued by 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.

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.

The fiduciary financial statements include two fiduciary funds related to SAWS employee benefit plans: the San Antonio Water System Retirement Plan (SAWSRP) and the San Antonio Water System Retiree Health Trust (OPEB Trust). SAWSRP is a single-employer defined benefit pension plan. The plan is governed by the San Antonio Water System which may amend plan provisions, and which is responsible for the management of plan assets. OPEB Trust is a trust established under the provisions of the Internal Revenue Code of 1986 Section 115. SAWS will periodically make contributions to OPEB Trust in order to prefund SAWS liabilities associated with post-retirement medical and life insurance benefits provided to SAWS employees and retirees.

SAWS has no component units, however, the operations of SAWS as reported herewith are included as a discretely presented component unit of the City of San Antonio.

Basis of Accounting: The financial statements of SAWS are prepared using the accrual basis of accounting with the economic resources measurement focus as prescribed by the Governmental Accounting Standards Board (GASB). SAWS operates as a proprietary fund and applies all applicable GASB pronouncements and presents its financial statements in accordance with the GASB Codification of Governmental Accounting and Financial Reporting Standards. Under this approach, all assets and liabilities of SAWS are reported in the statement of net position, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

NOTES TO FINANCIAL STATEMENTS

In 2012, SAWS implemented the following new GASB pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The provisions of this Statement had no impact on SAWS in 2012.
- GASB Statement No. 61, *Financial Reporting Entity: Omnibus*. The objective of this Statement is to amend GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* in order to better meet user needs and to address reporting issues that have arisen since the issuance of those statements. Specifically this statement modifies previously existing requirements for the assessment of potential component units of a financial reporting entity. No component units of SAWS were identified as a result of the guidance provided in this Statement.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued prior to November 30 1989 by the Financial Accounting Standards Board, the Accounting Principles Board and the American Institute of Certified Public Accountants. Prior to the issuance of this Statement, SAWS applied the pronouncements codified in this Statement and therefore the implementation of this Statement had no impact on SAWS in 2012.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This statement provides financial reporting guidance for deferred outflows and inflows of resources and identifies net position as the residual of all other elements presented in a statement of financial position. SAWS Statement of Net Position as of December 31, 2012 and 2011 has been presented in accordance with the guidance provided by this Statement

The fiduciary fund financial statements are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefit payments and plan expenses are recognized when due and payable in accordance with the terms of the plan.

Recognition of Revenues: Revenues are recorded as services are provided. Customers’ meters are read and bills are prepared monthly based on billing cycles. SAWS uses historical information to estimate and record earned revenue not yet billed.

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

NOTES TO FINANCIAL STATEMENTS

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 include costs 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: Approximately 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 at the time of purchase and all bank certificates of deposit 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. Under the provisions of GASB Statement No. 31, money market investments, including

NOTES TO FINANCIAL STATEMENTS

US Treasury and agency obligations, with a remaining maturity at time of purchase of one year or less are reported at amortized cost. Investments other than money market investments are reported at fair value which is based on quoted market prices or quotes from bond broker dealers.

Accounts Receivable: Accounts receivable are recorded at the invoiced amounts plus an estimate of unbilled revenue receivable. The allowance for uncollectible accounts is management's best estimate of the amount of probable credit losses based on account delinquencies and historical write-off experience. Account balances are written off against the allowance when it is probable the receivable will not be recovered. SAWS wrote off account balances totaling \$3.8 million in 2012 and \$2.8 million in 2011. A provision to increase the allowance for uncollectible accounts is recorded as an offset to operating revenue. The provision for uncollectible accounts was \$3.8 million in 2012 and \$2.8 million in 2011.

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 Statement of Net Position 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. Included in capital assets are intangible assets, which consist of purchased water rights and land easements, costs associated with acquiring additional Certificates of Convenience and Necessity (CCN) related to new service areas and development costs for internally generated computer software. Overhead consists of internal costs that are clearly related to the acquisition of capital assets. Assets acquired through capital leases are recorded on the cost basis and included in utility plant in service. Assets acquired through contributions, such as those from developers, are recorded at estimated fair market value at date of donation. Maintenance, repairs, and minor renewals are charged to operating expense; major plant replacements are capitalized. Capital assets are depreciated and property under capital lease is amortized on the straight-line method. This method is applied to all individual assets except distribution mains and intangible assets. Groups of mains are depreciated on the straight-line method using rates estimated to fully depreciate the costs of the asset group over their estimated average useful lives. Intangible assets not considered to have indefinite useful lives are amortized over their estimated useful life. Capital assets are tested for impairment when a significant unexpected decline in its service utility occurs. The following table shows an estimated range of useful lives used in providing for depreciation of capital assets:

NOTES TO FINANCIAL STATEMENTS

Structures and improvements	25 - 50	years
Pumping and purification equipment	10 - 50	years
Distribution and transmission system	17.5 - 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
Intangible assets (definite useful life)	20	years

Capitalized Interest: Interest expense during the construction period is capitalized as part of the cost of capital assets.

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 Net Position, after non-operating revenues (expenses), when eligibility requirements are met.

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 excess capacity of the infrastructure contributed. These credits may only be used to offset future capital recovery fees owed by the developer. At December 31, 2012, SAWS had granted \$22.4 million in unused capital recovery fee credits to developers. The use of these capital recovery fee credits is conditional based on type of development and in certain instances, time requirements and geographic restrictions.

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

NOTES TO FINANCIAL STATEMENTS

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.

Derivative Instruments: SAWS is a party to an interest rate swap agreement which serves to hedge interest rates on a portion of SAWS' variable rate debt. The agreement qualifies as a derivative instrument in accordance with GASB Statements No. 53 and 64. Using the methodology set forth in those GASB Statements, the interest rate swap agreement has been deemed an effective hedge. As a result, hedge accounting is used to account for the changes in the fair value of the swap agreement.

The SAWSRP's investments in separate accounts held at The Principal Financial Group may use derivatives as part of their investment strategy. These accounts are comingled pools, rather than individual securities.

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 (the City Ordinance) 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; (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.

Payments to the City's General Fund: The City Ordinance requires SAWS to make payments to the City each month after making all other payments required by the City Ordinance. The amount of the payment is determined by City Council from time to time and cannot exceed 5%. Currently SAWS pays 2.7% of Gross Revenues to the City. Payments to the City are reported as non-operating expense in the Statement of Revenues, Expenses and Changes in Net Position.

Reuse Contract: SAWS has a contract with CPS Energy, the city owned electricity and gas utility, for the provision of reuse water. According to the City Ordinance, the revenues derived from the contract have been

NOTES TO FINANCIAL STATEMENTS

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 the City Ordinance 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, the federal subsidy of interest on Build America Bonds and earnings on funds deposited in the Project Fund and Reserve Fund until the Reserve Fund contains the required reserve amount.

No Free Service: The City Ordinance also provides for no free services except for municipal fire-fighting purposes.

NOTE C – SAN ANTONIO WATER SYSTEM DISTRICT SPECIAL PROJECT

In May 2011, the Texas Legislature passed Senate Bill 341 (SB 341) calling for an election by Bexar Metropolitan Water District (BexarMet) ratepayers to vote on the dissolution of BexarMet and consolidation with SAWS. At that time, BexarMet provided water service to approximately 92,000 customers in Bexar County and several surrounding counties. Many of BexarMet's customers were also SAWS wastewater customers. The election was held in November 2011 and the BexarMet ratepayers voted in favor of dissolution. Preclearance of the election results by the United States Department of Justice was received on January 27, 2012.

SAWS, acting by and through the City of San Antonio, has taken action to accommodate the assumption of BexarMet in accordance with the requirements and specifications of SB 341. In October 2011, the City Council adopted Ordinance No. 2011-10-20-0845 (District Special Project Ordinance) creating a "special project", as authorized by SB 341 and pursuant to SAWS senior lien bond ordinances. In accordance with the District Special Project Ordinance, on January 28, 2012 all assets, liabilities, rights, duties and obligations of BexarMet were transferred to an entity known as the San Antonio Water System District Special Project (SAWS DSP). Management and control of SAWS DSP is vested in the SAWS Board of Trustees (Board), however, in accordance with the District Special Project Ordinance, SAWS DSP is not a part of SAWS. Instead, SAWS DSP will be reported as a discrete component unit of the City of San Antonio until full integration with SAWS has been completed. Full integration with SAWS will be considered to have occurred when the rates paid by SAWS DSP customers for water service are the same as those paid by SAWS customers and no SAWS DSP debt remains outstanding. In accordance with the District Special Project Ordinance, SAWS DSP will not materially and adversely interfere with the operation of SAWS but will be fully integrated into SAWS' system by January 2017. If requested, the Texas Commission on Environmental Quality (TCEQ) may approve a maximum three year extension of the deadline for full integration.

NOTES TO FINANCIAL STATEMENTS

In accordance with the District Special Project Ordinance, the Board may allocate assets and expenses between SAWS and SAWS DSP to ensure that all activities and transactions are properly stated in the books and records of each entity. During 2012, SAWS recognized \$3.6 million in operating revenue from SAWS DSP for wholesale water provided by SAWS to SAWS DSP. Additionally, SAWS allocated \$6.3 million in operating expenses to SAWS DSP representing the cost of SAWS resources utilized to facilitate the operation of the SAWS DSP system during 2012.

In August 2012, SAWS purchased the water treatment plant owned by Bexar Metropolitan Water Development Corporation (BMWDC), a component unit of SAWS DSP. The purchase price of \$18.7 million was used to extinguish BMWDC's outstanding debt after which BMWDC was dissolved. The plant is utilized to treat water permitted to SAWS DSP and SAWS DSP is responsible for all operating and capital replacement costs associated with the plant. In addition, SAWS recognized \$80,000 in non-operating revenue from SAWS DSP for the use of the treatment plant by SAWS DSP for the period August 2012 through December 2012.

NOTE D - DEPOSITS AND INVESTMENTS

San Antonio Water System:

Deposits: As of December 31, 2012, SAWS' funds are deposited in demand and savings accounts or certificates of deposit at Frost Bank, SAWS' general depository bank. Additionally, funds have been deposited in certificates of deposit at BBVA-Compass Bank and JPMorgan Chase Bank. As required by state law, all SAWS' deposits are fully collateralized and/or are covered by federal depository insurance. At December 31, 2012, 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, 2012, the bank balance of SAWS' demand and savings accounts was \$49,620,000 and the reported amount was \$47,273,000 which included \$30,000 of cash on hand. As of December 31, 2011, the bank balance of SAWS' demand and savings accounts was \$47,173,000 and the reported amount was \$34,848,000 which included \$30,000 of cash on hand. Certificates of deposit totaled \$75,000,000 at December 31, 2012 and \$80,000,000 at December 31, 2011.

Investments: As of December 31, 2012, investments include securities issued by the United States government and its agencies and instrumentalities along with funds held in escrow. Securities issued by the U.S. government and its agencies and instrumentalities are held in safekeeping by SAWS' depository bank, Frost Bank and registered as securities of SAWS. Funds held in escrow are Money Market Funds managed by Frost Bank, Bank of New York Mellon, U.S. Bank and Wells Fargo Bank and are invested in securities issued by the U.S. government or by U.S. Agencies.

NOTES TO FINANCIAL STATEMENTS

SAWS had the following investments and remaining maturities at December 31, 2012 and 2011:

December 31, 2012 (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. Treasury Securities	\$ 9,979	\$ 32,400	\$ -	\$ -	\$ 42,379	\$ 42,368
U.S. Agency Discount Notes	-	61,062	-	-	61,062	61,056
U.S. Agency Coupon Notes	137,981	33,114	28,947	38,215	238,257	238,249
Money Market Funds held in Escrow:						
Bank of New York Mellon	10,662	-	-	-	10,662	10,662
Frost Bank	29,583	-	-	-	29,583	29,583
U.S. Bank	2,568	-	-	-	2,568	2,568
Wells Fargo Bank	11,117	-	-	-	11,117	11,117
	<u>\$ 201,890</u>	<u>\$ 126,576</u>	<u>\$ 28,947</u>	<u>\$ 38,215</u>	<u>\$ 395,628</u>	<u>\$ 395,603</u>

December 31, 2011 (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. Treasury Securities	\$ 8,829	\$ -	\$ -	\$ -	\$ 8,829	\$ 8,829
U.S. Agency Discount Notes	56,005	32,842	-	-	88,847	88,838
U.S. Agency Coupon Notes	92,821	81,670	66,974	17,292	258,757	258,777
Money Market Funds held in Escrow:						
Frost National Bank	35,868	-	-	-	35,868	35,868
U.S. Bank	10,489	-	-	-	10,489	10,489
Wells Fargo Bank	11,112	-	-	-	11,112	11,112
	<u>\$ 215,124</u>	<u>\$ 114,512</u>	<u>\$ 66,974</u>	<u>\$ 17,292</u>	<u>\$ 413,902</u>	<u>\$ 413,913</u>

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. At December 31, 2012 and 2011 SAWS investment maturities as a percent of the portfolio were as follows:

Maturities	December 31,	
	2012	2011
Zero to 90 days	51%	52%
91 to 180 days	32%	28%
181 to 365 days	7%	16%
More than one year	10%	4%

NOTES TO FINANCIAL STATEMENTS

Credit Risk: In accordance with its investment policies, SAWS manages exposure to credit risk by limiting its investments in long-term obligations of other states and cities to those with a credit rating of “A” or better. Additionally, any short-term investments require a rating of at least “A-1” or “P-1”. As of December 31, 2012 and 2011, SAWS held no direct investments with a credit rating below “AA+”.

	Rating	<i>(amount in thousands)</i>			Investment Policy
Credit Rating	Agency	Carrying Value	Market Value	Allocation	Limit
December 31, 2012					
A-1+ / AAA	S&P	\$ 114,986	\$ 114,992	29.1%	Max. = 100%
AA+	S&P	280,617	280,636	70.9%	Max. = 100%
Total Portfolio		<u>\$ 395,603</u>	<u>\$ 395,628</u>	<u>100.0%</u>	
December 31, 2011					
A-1+ / AAA	S&P	\$ 146,307	\$ 146,316	35.3%	Max. = 100%
AA+	S&P	267,606	267,586	64.7%	Max. = 100%
Total Portfolio		<u>\$ 413,913</u>	<u>\$ 413,902</u>	<u>100.0%</u>	

Concentration of Credit Risk: SAWS’ investment policy does not limit the amount it may invest in U.S. Treasury securities, government-guaranteed securities, or government-sponsored entity securities. However, in order to manage its exposure to concentration of 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 20% of the total investment portfolio on any non-government issuer unless it is fully collateralized.

At December 31, 2012 and 2011, the following investments in any one organization that represent more than five percent of total SAWS investments are:

SAWS	December 31,	
	2012	2011
Federal Home Loan Bank	30%	26%
Federal National Mortgage Association	7%	21%
Federal Home Loan Mortgage Corporation	16%	21%

NOTES TO FINANCIAL STATEMENTS

The following is a reconciliation of deposits and investments disclosed in this note to the amounts presented for cash and investments in the Statements of Net Position for 2012 and 2011:

<i>(amounts in thousands)</i>	December 31,	
	2012	2011
Reported amounts in note for:		
Deposits, including certificates of deposit	\$ 122,273	\$ 114,848
Investments	395,603	413,913
Total Deposits & Investments	<u>\$ 517,876</u>	<u>\$ 528,761</u>
Totals from Balance Sheets:		
Cash and Cash Equivalents:		
Unrestricted	\$ 132,273	\$ 118,636
Restricted - current	16,146	11,698
Restricted - noncurrent	27,785	41,983
Total cash and cash equivalents	<u>176,204</u>	<u>172,317</u>
Investments:		
Unrestricted	51,694	69,413
Restricted - current	114,702	115,730
Restricted - noncurrent	175,276	171,301
Total investments	<u>341,672</u>	<u>356,444</u>
Total Cash, Cash Equivalents and Investments	<u>\$ 517,876</u>	<u>\$ 528,761</u>

San Antonio Water System Retirement Plan (SAWSRP):

At December 31, 2011 and 2012 the SAWSRP held no deposits and had the following investments:

<i>(amounts in thousands)</i>	2012	2011
Principal Bond and Mortgage Separate Account	\$ 35,363	\$ 32,754
Large Cap S&P 500 Index Separate Account	74,864	59,256
	<u>\$ 110,227</u>	<u>\$ 92,010</u>

It is the policy of the SAWSRP to invest approximately 60% of its assets in equity securities and the remainder in fixed income securities. The SAWSRP investments are not automatically rebalanced, however, contributions to the plan are invested in a manner to adhere to the investment policy. The Principal Bond and Mortgage Separate Account is unrated. Its effective duration was 5.32 years at December 31, 2012 and 4.94 years at December 31, 2011.

NOTES TO FINANCIAL STATEMENTS

San Antonio Water System Retiree Health Trust (OPEB Trust):

The OPEB Trust was established in March 2012. At December 31, 2012 the OPEB Trust held no deposits and had the following investments:

(amounts in thousands)

Cash and Cash Equivalents:	
Money Market Account	\$ 80
Investments:	
Stock Mutual Funds	8,874
Bond Mutual Funds	3,711
	<u>\$ 12,665</u>

It is the policy of the OPEB Trust to invest 50% - 70% of its assets in equity securities, 25% - 50% in fixed income securities and 0% - 5% in cash. OPEB Trust utilizes an investment manager to make recommendations as to the appropriate target portfolio weightings among major asset classes. Additionally, the investment manager has full discretionary authority to buy, hold, and sell investments subject to the guidelines as defined in the OPEB Trust's investment policy. Investments in mutual funds traded on national or international exchanges are valued at the last reported sales price. Investments in the trust at December 31, 2012 are unrated. The effective duration of the bond mutual funds was 6.65 years at December 31, 2012.

NOTE E – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2012 and 2011:

<i>(amounts in thousands)</i>	2012	2011
Current:		
Receivable from customers	\$ 29,574	\$ 26,588
Unbilled revenue	23,202	20,294
Receivable from SAWS DSP	3,158	-
Receivable from other governmental agencies	1,371	1,779
Less: Allowance for uncollectible accounts	<u>(2,320)</u>	<u>(2,305)</u>
	54,985	46,356
Noncurrent:		
Receivable from other governmental agencies	<u>6,985</u>	<u>7,985</u>
Total accounts receivable	<u>\$ 61,970</u>	<u>\$ 54,341</u>

NOTES TO FINANCIAL STATEMENTS

In November 2011, SAWS Board approved a settlement agreement with the Lower Colorado River Authority (LCRA) in connection with a lawsuit filed by SAWS in 2009. The terms of the settlement required LCRA to pay SAWS \$30 million and terminated the agreement between SAWS and LCRA to develop a water supply project. \$18.8 million of the settlement amount was paid in December 2011 and the remaining \$11.2 million is to be paid in eight annual installments of \$1.4 million each beginning November 1, 2012. Because the settlement payments represent a partial return of study period costs paid by SAWS during the period 2002 through 2009, SAWS recorded the present value of the total payments to be received of \$28.1 million as a credit to operating expense during 2011. The discounted value of the payments to be received from LCRA in the future is reported in accounts receivable, of which \$7 million is classified as noncurrent at December 31, 2012. Additionally, in connection with this settlement, SAWS wrote off \$2.7 million of capital assets impaired as a result of terminating this water supply project. This write off is discussed further in Note F.

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NOTES TO FINANCIAL STATEMENTS

NOTE F – CAPITAL ASSETS

A summary of capital asset activity for the year ended December 31, 2012 is as follows:

<i>(amounts in thousands)</i>	December 31, 2011	Increases	Transfers	Decreases	December 31, 2012
Capital Assets, not being depreciated:					
Land	\$ 93,331	\$ -	\$ 1,640	\$ -	\$ 94,971
Water rights purchased	205,163	-	8,056	-	213,219
Other intangible assets	370	-	-	-	370
Construction in progress	522,438	292,456	(241,136)	2,211	571,547
Total capital assets, not being depreciated/amortized	821,302	292,456	(231,440)	2,211	880,107
Capital assets, being depreciated					
Structures and improvements	504,963	12,653	38,155	886	554,885
Pumping and purification equipment	146,376	158	6,430	496	152,468
Distribution and transmission system	1,667,250	2,439	114,898	3,405	1,781,182
Treatment facilities	1,524,826	-	63,167	-	1,587,993
Equipment and machinery	116,314	13,932	8,683	31	138,898
Furniture and fixtures	5,052	48	-	-	5,100
Computer equipment	13,293	2,085	81	762	14,697
Software	23,780	630	26	-	24,436
Other intangible assets	1,347	-	-	-	1,347
Total capital assets being depreciated/amortized	4,003,201	31,945	231,440	5,580	4,261,006
Less accumulated depreciation					
Structures and improvements	(120,137)	(11,420)	-	(497)	(131,060)
Pumping and purification equipment	(34,175)	(3,718)	-	(450)	(37,443)
Distribution and transmission system	(482,560)	(40,245)	-	(2,849)	(519,956)
Treatment facilities	(550,058)	(33,666)	-	-	(583,724)
Equipment and machinery	(56,965)	(9,955)	-	(31)	(66,889)
Furniture and fixtures	(4,338)	(200)	-	-	(4,538)
Computer equipment	(7,192)	(2,300)	-	(760)	(8,732)
Software	(15,912)	(1,463)	-	-	(17,375)
Other intangible assets	(101)	(67)	-	-	(168)
Total accumulated depreciation	(1,271,438)	(103,034)	-	(4,587)	(1,369,885)
Total capital assets, being depreciated/amortized	2,731,763	(71,089)	231,440	993	2,891,121
Capital assets, net	\$ 3,553,065	\$ 221,367	\$ -	\$ 3,204	\$ 3,771,228

NOTES TO FINANCIAL STATEMENTS

A summary of capital asset activity for the year ended December 31, 2011 is as follows:

<i>(amounts in thousands)</i>	December 31, 2010	Increases	Transfers	Decreases	December 31, 2011
Capital Assets, not being depreciated:					
Land	\$ 82,055	\$ -	\$ 11,528	\$ 252	\$ 93,331
Water rights purchased	205,179	-	-	16	205,163
Other intangible assets	370	-	-	-	370
Construction in progress	415,810	279,660	(169,060)	3,972	522,438
Total capital assets, not being depreciated/amortized	703,414	279,660	(157,532)	4,240	821,302
Capital assets, being depreciated					
Structures and improvements	485,454	25	19,484	-	504,963
Pumping and purification equipment	143,187	68	3,121	-	146,376
Distribution and transmission system	1,620,288	2,532	47,156	2,726	1,667,250
Treatment facilities	1,444,176	-	80,650	-	1,524,826
Equipment and machinery	107,176	8,526	3,229	2,617	116,314
Furniture and fixtures	5,052	-	-	-	5,052
Computer equipment	20,557	1,896	71	9,231	13,293
Software	19,878	239	3,821	158	23,780
Other intangible assets	1,347	-	-	-	1,347
Total capital assets being depreciated/amortized	3,847,115	13,286	157,532	14,732	4,003,201
Less accumulated depreciation					
Structures and improvements	(109,866)	(10,271)	-	-	(120,137)
Pumping and purification equipment	(30,636)	(3,539)	-	-	(34,175)
Distribution and transmission system	(448,036)	(37,250)	-	(2,726)	(482,560)
Treatment facilities	(516,897)	(33,161)	-	-	(550,058)
Equipment and machinery	(50,752)	(8,748)	-	(2,535)	(56,965)
Furniture and fixtures	(4,124)	(214)	-	-	(4,338)
Computer equipment	(13,838)	(2,561)	-	(9,207)	(7,192)
Software	(13,513)	(2,529)	-	(130)	(15,912)
Other intangible assets	-	(101)	-	-	(101)
Total accumulated depreciation	(1,187,662)	(98,374)	-	(14,598)	(1,271,438)
Total capital assets, being depreciated/amortized	2,659,453	(85,088)	157,532	134	2,731,763
Capital assets, net	\$ 3,362,867	\$ 194,572	\$ -	\$ 4,374	\$ 3,553,065

NOTES TO FINANCIAL STATEMENTS

Asset Impairment: SAWS periodically reviews its capital assets for possible impairment. As part of SAWS' capital improvement program, SAWS incurs costs to design capital improvement projects. These costs are included in capital assets as Construction in Progress. Periodically the actual construction of these projects may not occur due to changes in plans. Once it has been determined that construction will not proceed, any capitalized costs are charged off to operating expenses.

Design and other project costs were charged off totaling \$2.2 million in 2012 and \$4 million in 2011. \$2.7 million of the amount charged off in 2011 related to the design of assets to be constructed in connection with a water project with the LCRA. In conjunction with a settlement of SAWS' lawsuit against LCRA, this water project was cancelled and the design costs were written off.

NOTE G – 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. Changes in the liability amount for 2012 and 2011 were as follows:

<i>(amounts in thousands)</i>						
Year Ended	Balance at Beginning of Year	Current-Year Accruals	Payments	Balance at End of Year	Estimated Due Within One Year	
December 31, 2012	\$ 7,495	\$ 6,099	\$ (5,516)	\$ 8,078	\$ 5,516	
December 31, 2011	\$ 6,613	\$ 5,458	\$ (4,576)	\$ 7,495	\$ 4,576	

Risk Management:

Health Care Benefits:

SAWS provides health care benefits to eligible employees and retirees through a self-insured plan that includes medical, prescription drug and dental benefits. The payment of claims associated with these benefits is handled by third party administrators. Plan participants contribute a portion of the cost of providing these benefits through payroll deductions or monthly premiums, annual deductibles and other co-payments. SAWS was self-insured for the first \$200,000 of medical claims per person during 2012 and 2011.

Other Risks:

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.

NOTES TO FINANCIAL STATEMENTS

Claims that exceed the self-insured retention limit are covered through SAWS' comprehensive commercial insurance program. For the years ended December 31, 2012 and 2011, there were no reductions in insurance coverage from the previous year. Settled claims during the last three years have not exceeded the insurance coverage in any year.

The claims liability for health care benefits and other risks, including incurred but not reported claims, is based on the estimated ultimate cost of settling the claims. Changes in the liability amount for the last two fiscal years were as follows:

<i>(amounts in thousands)</i>						
Year Ended	Balance at Beginning of Year	Current-Year Accruals	Payments	Balance at End of Year	Estimated Due Within One Year	
December 31, 2012	\$ 10,565	\$ 23,506	\$ (24,115)	\$ 9,956	\$ 9,956	
December 31, 2011	\$ 8,526	\$ 24,691	\$ (22,650)	\$ 10,565	\$ 10,565	

NOTE H – DERIVATIVE INSTRUMENT

In 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.

Objective of the Interest Rate Swap: 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. In August 2008, SAWS used commercial paper notes to redeem \$110,615,000 of the \$111,615,000 outstanding principal of the Series 2003 Bonds due to unfavorable market conditions relating to the ratings downgrade of the 2003 Bond insurer, MBIA Insurance Corporation. In 2009, SAWS redeemed the remaining \$1 million of the Series 2003 Bonds through the issuance of additional commercial paper. The interest rate swap agreement was not terminated upon the redemption of the 2003 Bonds and instead serves as an off-market hedge for that portion of the commercial paper notes outstanding which pertain to the redemption of the 2003 Bonds. SAWS currently intends to maintain a portion of its outstanding commercial paper in amounts matching the notional amounts of the swap. SAWS did not recognize any economic gain or loss as a result of this refunding since the debt service requirements of the commercial paper notes are expected to closely match the debt service requirements of the refunded debt. At December 31, 2012 \$100,970,000 of commercial paper notes are hedged by the interest rate swap agreement.

NOTES TO FINANCIAL STATEMENTS

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 2008, JPMorgan Chase & Co. announced its acquisition of The Bear Stearns Companies Inc., the parent of Bear Stearns FPI. 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 remainder of outstanding Series 2003 Bonds to be redeemed, while maintaining the swap agreement as an obligation to all parties. The amendment provides for the conditional release of MBIA's swap insurance policy upon the occurrence of certain future events.

The combination of commercial paper notes and a floating-to-fixed swap creates a synthetic fixed-rate of 4.18%. The synthetic fixed-rate protects against the potential of rising interest rates.

Fair Value: The swap had a negative fair value of approximately \$25.1 million at December 31, 2012 and \$24.2 million at December 31, 2011. This value was calculated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These net payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

The swap agreement meets the criteria of an effective hedge under GASB Statement 53 and therefore qualifies for hedge accounting treatment. Since the fair value is negative, the fair value is recorded as a non-current liability in the Statement of Net Position. Changes in the swap's fair value are recorded as a deferred outflow of resources. At the time the 2003 Bonds were redeemed in 2008, the fair value of the swap was \$6.2 million. The deferred outflow at the time of redemption was included in the carrying value of the 2003 Bonds and resulted in a loss on redemption of \$6.2 million. This loss is being amortized over the remaining life of the 2003 Bonds.

Credit Risk: SAWS was not exposed to credit risk on its outstanding swap at December 31, 2011 and 2012 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 Aa3 by Moody's Investors Services, A+ by Standard and Poor's, and A+ by Fitch Ratings as of December 31, 2012. The amended swap agreement contains a credit

NOTES TO FINANCIAL STATEMENTS

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 \$100,970,000 of variable-rate debt hedged by the swap is outstanding in commercial paper notes with current maturities of approximately 100 days. As previously noted, SAWS intends to reissue the commercial paper notes in amounts matching the notional amounts of the swap.

Swap Payments and Associated Debt: As of December 31, 2012, debt service requirements of the hedged commercial paper notes and net swap payments, assuming current interest rates remain the same, are as detailed in the following table. 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.

NOTES TO FINANCIAL STATEMENTS

Pay-Fixed, Receive-Variable Interest Rate Swap Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments <i>(amounts in thousands)</i>				
Year	Principal	Interest Paid on Debt	Interest Rate Swap, Net	Total
2013	\$ 2,970	\$ 190	\$ 4,009	\$ 7,169
2014	3,105	184	3,885	7,174
2015	3,245	178	3,755	7,178
2016	3,395	172	3,620	7,187
2017	3,550	165	3,478	7,193
2018 - 2022	20,320	713	15,032	36,065
2023 - 2027	25,405	493	10,386	36,284
2028 - 2032	31,740	217	4,580	36,537
2033	7,240	5	98	7,343
Total	<u>\$ 100,970</u>	<u>\$ 2,317</u>	<u>\$ 48,843</u>	<u>\$ 152,130</u>

NOTE I – LONG TERM DEBT

REVENUE BONDS

On February 29, 2012, SAWS issued \$225,255,000 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2012. The proceeds from the sale of the bonds were used to (i) refund \$265,885,000 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2002 (the “Series 2002 Bond”), and (ii) pay the cost of issuance. The refunding of the Series 2002 Bonds reduced total debt service payments over the next seventeen years by approximately \$71.0 million and resulted in an economic gain of approximately \$56.4 million.

On April 11, 2012, SAWS issued \$31,890,000 City of San Antonio, Texas Water System Junior Lien Revenue Refunding Bonds, Series 2012 (No Reserve). The proceeds from the sale of the bonds were used to (i) refund the City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2001; the City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2001-A; the City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2002; and the City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2002-A; (together the “Refunded Bonds”) and (ii) pay the cost of issuance. The refunding of the Refunded Bonds reduced total debt service payments over the next eleven years by approximately \$3.4 million and resulted in an economic gain of approximately \$3.0 million.

NOTES TO FINANCIAL STATEMENTS

On August 28, 2012, SAWS issued \$19,630,000 City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2012 through the Texas Water Development Board. The bonds were sold under the State Revolving Fund (SRF) Program. The proceeds from the sale of the bonds were used to (i) finance capital improvement projects which qualify under the Texas Water Development Board program and (ii) pay the cost of issuance. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On October 2, 2012, SAWS issued \$163,435,000 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2012A. The proceeds from the sale of the bonds were used to (i) refund \$175,000,000 in outstanding commercial paper notes and (ii) pay the cost of issuance. The bonds are secured together with other currently outstanding Senior Lien Obligations solely by a lien on a pledge of net revenues. There was no economic gain or loss on this transaction.

Senior Lien Water System Revenue Bonds, comprised of Series 2004, Series 2005, Series 2007, Series 2009, Series 2009A, Series 2009B, Series 2010B, Series 2011, Series 2011A, Series 2012, and Series 2012A outstanding in the amount of \$1,605,165,000 at December 31, 2012, are collateralized by a senior lien and pledge of the gross revenues of SAWS after deducting and paying the current expenses of operation and maintenance of SAWS and maintaining a two-month operating reserve for such expenses. Interest rates range from 1.457% to 6.220%, exclusive of any federal interest subsidy on the Series 2009B and 2010B Build America Bonds.

Junior Lien Water System Revenue Bonds, comprised of Series 2003, Series 2004, Series 2004-A, Series 2007, Series 2007A, Series 2008, Series 2008A, Series 2009, Series 2009A, Series 2010, Series 2010A, Series 2011, Series 2011A, Series 2012 (No Reserve Fund), and Series 2012 outstanding in the amount of \$382,645,000 at December 31, 2012, 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 0.000% to 5.000%.

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax exempt borrowing rates. The Treasury requires payment for each issue every five years. The estimated liability is updated annually for all tax-exempt issuances or changes in yields until such time payment of the calculated liability is due. A liability is recorded once payment appears to be probable. As of December 31, 2012, SAWS has no arbitrage rebate liability associated with any outstanding bonds.

The following tables summarize transactions of the revenue bonds for the years ended December 31, 2012 and 2011:

NOTES TO FINANCIAL STATEMENTS

<i>(amounts in thousands)</i>	Balance Jan. 1, 2012	Additions/ Transfers	Reductions/ Amortization	Balance Dec. 31, 2012	Due Within One Year
Bonds Payable	\$ 1,894,230	\$ 440,210	\$ 346,630	\$ 1,987,810	\$ 47,315
Less Deferred Amounts:					
Unamortized premium	37,757	71,932	9,367	100,322	
Unamortized discount	(33,148)	28,342	(219)	(4,587)	
Unamortized losses	(7,519)	(33,240)	(3,764)	(36,995)	
Total deferred amounts	(2,910)	67,034	5,384	58,740	-
Total Bonds Payable, Net	<u>\$ 1,891,320</u>	<u>\$ 507,244</u>	<u>\$ 352,014</u>	<u>\$ 2,046,550</u>	<u>\$ 47,315</u>

<i>(amounts in thousands)</i>	Balance Jan. 1, 2011	Additions/ Transfers	Reductions/ Amortization	Balance Dec. 31, 2011	Due Within One Year
Bonds Payable	\$ 1,844,985	\$ 254,290	\$ 205,045	\$ 1,894,230	\$ 44,780
Less Deferred Amounts:					
Unamortized premium	19,783	21,944	3,970	37,757	
Unamortized discount	(27,909)	(7,741)	(2,502)	(33,148)	
Unamortized losses	(10,515)	2,449	(547)	(7,519)	
Total deferred amounts	(18,641)	16,652	921	(2,910)	-
Total Bonds Payable, Net	<u>\$ 1,826,344</u>	<u>\$ 270,942</u>	<u>\$ 205,966</u>	<u>\$ 1,891,320</u>	<u>\$ 44,780</u>

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>							
<u>Year Ended</u> <u>December 31,</u>	<u>Senior Lien</u>				<u>Junior Lien</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate Subsidy†</u>	<u>Net Interest</u>	<u>Principal</u>	<u>Interest</u>	
2013	\$ 27,210	\$ 78,882	\$ 4,006	\$ 74,876	\$ 20,105	\$ 10,746	
2014	29,165	76,890	3,997	72,893	20,635	10,226	
2015	30,415	75,609	3,969	71,640	21,180	10,021	
2016	31,740	74,209	3,920	70,289	24,070	9,742	
2017	36,070	72,613	3,863	68,750	24,545	9,055	
2018 - 2022	227,215	334,215	18,234	315,981	108,785	34,392	
2023 - 2027	326,375	265,068	15,865	249,203	66,920	21,653	
2028 - 2032	281,485	186,926	12,650	174,276	41,335	13,515	
2033 - 2037	387,045	106,598	6,283	100,315	36,450	6,927	
2038 - 2042	228,445	18,620	734	17,886	18,620	894	
	<u>\$ 1,605,165</u>	<u>\$ 1,289,630</u>	<u>\$ 73,521</u>	<u>\$ 1,216,109</u>	<u>\$ 382,645</u>	<u>\$ 127,171</u>	

† Federal interest rate subsidy on Build America Bonds is utilized to pay interest on those bonds but is reported as nonoperating revenue.

NOTES TO FINANCIAL STATEMENTS

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.

The City has covenanted in the Ordinance authorizing the commercial paper program (the “Note Ordinance”) the issuance of “City of San Antonio, Texas Water System Commercial Paper Notes, Series A” (the “Series A Notes”), the issuance of “City of San Antonio, Texas Water System Commercial Paper Notes, Series B” (the “Series B Notes”), and the maintenance at all times of credit facilities with banks or other financial institutions which would provide available borrowing capacity sufficient to pay the principal of the commercial paper program. The credit facility is maintained under the terms of a revolving credit agreement.

The issuance of commercial paper is further supported by the following agreements and related participants:

- Dealer Agreements with Goldman, Sachs & Co., J.P. Morgan Securities Inc., and Ramirez & Co., Inc.
- A Revolving Credit Agreement with Bank of Tokyo-Mitsubishi UFJ, Ltd., acting through its New York branch, supporting the Series A Notes in the amount of \$250,000,000.
- A Revolving Credit Agreement with Wells Fargo Bank, N.A, supporting the Series B Notes in the amount of \$150,000,000.
- 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. The capacity of the combined revolving credit agreements is \$400 million and the agreements expire on October 5, 2015.

Commercial paper notes of \$170,745,000 are outstanding as of December 31, 2012. Of this balance, \$100,970,000 relates to the refunding of the Series 2003 Bonds; \$18,655,000 relates to the purchase of a water treatment plant from Bexar Metropolitan Water Development Corporation; while the remaining \$51,120,000 proceeds were used solely for financing of capital improvements. Interest rates on the notes outstanding at December 31, 2012 range from 0.16% to 0.20% and maturities range from 57 to 124 days. The outstanding notes had an average rate of 0.19% and averaged 99 days to maturity.

SAWS intends to reissue maturing commercial paper, in accordance with the terms of the revolving credit agreement, and ultimately refund such maturities with proceeds from the issuance of long-term revenue bonds. Consistent with this intent, and since SAWS has the available \$400 million revolving credit agreement described above, SAWS has classified nearly all outstanding commercial paper notes as long-term debt. In accordance with

NOTES TO FINANCIAL STATEMENTS

the amortization schedule of the interest rate swap agreement discussed in Note H, SAWS intends to redeem \$2,970,000 of commercial paper in 2013. Therefore, this portion of outstanding commercial paper is classified as a current liability.

The following table summarizes transactions of the commercial paper program for the years ended December 31, 2012 and 2011:

<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, 2012	<u>\$ 214,930</u>	<u>\$ 133,655</u>	<u>\$ 177,840</u>	<u>\$ 170,745</u>	<u>\$ 2,970</u>
Year Ended December 31, 2011	<u>\$ 244,650</u>	<u>\$ 35,000</u>	<u>\$ 64,720</u>	<u>\$ 214,930</u>	<u>\$ 2,840</u>

INTEREST EXPENSE

The following table shows the amount of interest incurred on bonds and commercial paper, interest capitalized in connection with SAWS' capital improvement program, amortization of discounts, premiums and losses on bond refundings and net interest expense for the years ended December 31, 2012 and 2011:

	Interest on Bonds and Commercial Paper	Interest Capitalized	Amortization of Discount/Premium/ Losses	Net Interest Expense
Year Ended December 31, 2012	<u>\$ 89,306</u>	<u>\$ (9,140)</u>	<u>\$ (5,384)</u>	<u>\$ 74,782</u>
Year Ended December 31, 2011	<u>\$ 89,696</u>	<u>\$ (11,024)</u>	<u>\$ (921)</u>	<u>\$ 77,751</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 legally 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

NOTES TO FINANCIAL STATEMENTS

SAWS' financial statements. At December 31, 2012, there were no bonds outstanding that were considered legally defeased.

NOTE J - CONTINGENCIES AND COMMITMENTS

Water Agreements

As of December 31, 2012, 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 2013 and others continuing until 2022. Some of the leases include price escalations and the average annual cost per acre foot ranges from \$115 to \$140. The future commitments under these leases are as follows:

<i>(dollars in thousands)</i>						
	2013	2014	2015	2016	2017	Thereafter
Edwards Aquifer - lease payments	\$ 3,534	\$ 2,947	\$ 2,953	\$ 2,857	\$ 2,999	\$ 11,609
Edwards Aquifer - acre feet leased	30,676	24,933	24,733	23,157	23,157	82,812

SAWS also has various commitments relating to the purchase of water supplies under a wholesale water contract with the Guadalupe Blanco River Authority (GBRA) and three other agreements for water supplied from the Trinity Aquifer. All water provided under these contracts is subject to availability.

Under a contract with GBRA, SAWS will receive between 4,000 and 10,000 acre feet of water annually during the years 2013-2037 at prices ranging from \$904 to approximately \$1,377 per acre foot. SAWS has an option to extend this contract until 2077 under new payment terms.

Under a contract with the Massah Development Corporation, SAWS has a minimum take or pay commitment to purchase 100 acre-feet per month or 1,200 acre-feet per year of raw water from the Lower Glen Rose/Cow Creek formations of the Trinity Aquifer in northern Bexar County at prices ranging from \$591 to \$847 per acre foot. This agreement expires in 2025 and SAWS has an option to extend the contract for 10 years.

Under a contract with Sneckner Partners, Ltd., SAWS has a take or pay commitment to purchase 1,500 acre-feet of water annually from the Trinity Aquifer at a minimum annual cost of \$225 per acre-foot through 2020. SAWS has an option to extend the contract through 2026. As part of this contract, SAWS agreed to make quarterly defined payments for any residential customers that are connected to the system within a defined geographical area that begin taking water service from SAWS. SAWS began making these payments during 2012 as the area has begun to experience some development. While it is impossible to estimate the exact amount of any potential future payments associated with this provision of the agreement, management estimate of this potential contingent

NOTES TO FINANCIAL STATEMENTS

liability is less than \$5 million.

In July 2012, SAWS entered into an agreement with Water Exploration Company, Ltd. (WECO) to purchase groundwater produced by WECO from the Trinity Aquifer. In connection with this agreement, two water purchase agreements between SAWS DSP and WECO were terminated. The new agreement has a term of 15 years, with two optional 5 year extensions. The purchase obligation is limited to 3,750 acre-feet during the first twelve months of the agreement. Beginning in July 2013 SAWS is obligated to purchase up to 17,000 acre-feet per year in monthly increments not to exceed 1,417 acre-feet if water is available to be produced. SAWS only pays for delivered water meeting all state and federal drinking water standards. Pumping by WECO may not reduce the Trinity Aquifer below 600 feet Mean Sea Level at test wells on the tracts. The price paid for the raw water is \$685 per acre-foot until January 2014, when the price increases to \$880 per acre-foot. The cost will escalate annually thereafter by the greater of two percent or the percentage increase in the Producer Price Index for Commodities Finished Goods.

A summary of estimated payments under these water purchase commitments is provided in the following table. The summary does not assume the extension of any of these water purchase agreements. As with any estimate, the actual amounts paid could differ materially.

<i>(dollars in thousands)</i>						
	2013	2014	2015	2016	2017	Thereafter
Purchased water payments - firm	\$ 5,009	\$ 5,106	\$ 5,205	\$ 5,544	\$ 5,644	\$ 114,303
Acre feet purchased - firm	6,700	6,700	6,700	6,700	6,700	93,500
Purchased water payments - variable	\$ 6,349	\$ 9,460	\$ 13,164	\$ 13,638	\$ 13,920	\$ 193,167
Acre feet purchased - variable	8,475	12,850	15,525	15,500	15,500	187,050

In July 2010, SAWS was granted a permit by the Gonzales County Underground Water Conservation District (the District) to produce 11,688 acre feet from the Carrizo Aquifer. Although initially contested by third parties, SAWS permit was finalized in May 2012 upon a ruling of the 13th District Court of Appeals. SAWS has entered into 23 separate agreements to produce up to a maximum of 11,688 acre feet of water from the Carrizo Aquifer. SAWS is currently making minimum water payments under the terms of these agreements until such time as the necessary infrastructure to produce and transport the water has been completed. Minimum water payments range from 20% - 30% of the applicable water rate assuming full production of the contracted water rights. Once water production begins, SAWS must make payments equal to the greater of the applicable water rate for the actual water produced or the minimum water payment due under the agreement. These agreements remain in force indefinitely as long as SAWS continues to make payments in accordance with the terms of the agreements. SAWS expects to begin producing water under these agreements in 2014. The minimum water payments due under these agreements are estimated to be \$847,000 in 2013 assuming no water is produced and payments for producing the

NOTES TO FINANCIAL STATEMENTS

full amount of permitted water in 2014 are estimated to be \$1,155,000. The agreements include annual price escalations based on the average of the increase in the Consumer Price Index and Producers Price Index.

Other Contingencies and Commitments

SAWS is also committed under various contracts for completion of construction or acquisition of utility plant totaling approximately \$309 million as of December 31, 2012. Funding of this amount will come from excess revenues, contributions from developers, restricted assets and available commercial paper capacity.

In connection with a desalination injection well permit obtained by SAWS from the Texas Commission on Environmental Quality (TCEQ), SAWS has an obligation to plug the injection well once the well is no longer in service. At December 31, 2012, SAWS has recorded a liability of \$198,000 related to this post-closure obligation.

In March 2007, SAWS was orally notified by Region 6 of the EPA of alleged failures to comply with the Clean Water Act due to the occurrence of sanitary sewer overflows. The EPA subsequently referred the matter to the United States Department of Justice (the “DOJ”) for an enforcement action. In October 2007 EPA/DOJ and SAWS entered into a tolling agreement that precludes the running of any applicable statutes of limitation that might otherwise bar a claim in anticipation that the parties would engage in settlement negotiations. The tolling agreement has been extended on fifteen occasions, with the Fifteenth Tolling Agreement currently set to expire on June 10, 2013. Since 2007, SAWS has engaged in settlement negotiations with the EPA and the DOJ to resolve the allegations. Negotiations with the EPA/DOJ are ongoing and may conclude during the first half of calendar year 2013. During the course of these negotiations, SAWS has increased its level of investment in the wastewater collection system with the intent to decrease the number of sanitary sewer overflows. Over the five year period 2008 – 2012, SAWS operating and capital expenditures associated with the reduction of sewer overflows averaged approximately \$60 million per year. While these negotiations are still ongoing, SAWS expects that any settlement, consent decree, or enforcement action will result in the imposition of a civil penalty as well as operating and capital expenditure requirements in excess of current levels. An accrual of the estimated civil penalty is included in Accrued Claims Payable at both December 31, 2011 and December 31, 2012. SAWS currently estimates the total incremental cost of the additional capital improvements and other actions that may be required to settle this matter to be approximately \$500 million, phased in over an estimated ten to twelve year term, should a settlement agreement or consent decree between SAWS and EPA/DOJ be approved. The total final costs may significantly differ from SAWS’ estimate, and will depend on the course of action ultimately agreed upon between SAWS and EPA/DOJ or ordered by a Federal District Court if the parties are unable to settle the matter.

NOTE K - PENSION AND RETIREMENT PLANS

SAWS’ pension 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.

NOTES TO FINANCIAL STATEMENTS

Plan Descriptions

Texas Municipal Retirement System: SAWS provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system.

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 writing to TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.tmr.com.

The plan provisions that have been adopted by SAWS are within the options available in the governing state statutes of TMRS. Plan provisions for SAWS for the 2011 and 2012 plan years were as follows:

Employee deposit rate	3.0%
Matching ratio (SAWS to employee)	1 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, any/20
Updated Service Credit	100% Repeating
Annuity increase (to retirees)	70% of CPI Repeating

San Antonio Water System Retirement Plan: The San Antonio Water System Retirement Plan (SAWSRP) is a single-employer defined benefit pension plan, which serves as a supplement to TMRS and Social Security. SAWS has delegated to Principal Financial Group the authority to manage certain plan assets and administer the payment of benefits. The financial statements for SAWSRP are included in this financial report as a fiduciary fund.

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. An employee is automatically 100% vested upon attainment of age 65 or upon becoming totally and permanently disabled.

NOTES TO FINANCIAL STATEMENTS

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. 1.20% 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.

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.

Plan Membership

Membership in TMRS and SAWSRP as of their respective actuarial valuation dates is summarized below:

	TMRS		SAWSRP	
	12/31/2011	12/31/2010	1/1/2012	1/1/2011
Active employees	1,616	1,609	1,617	1,609
Retirees and beneficiaries currently receiving benefits	870	833	561	517
Inactive members	372	404	414	403
Total	2,858	2,846	2,592	2,529

Funding Policies

TMRS: Under the state law governing TMRS, SAWS' contribution rate is determined annually by the actuary using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percentage of payroll from year to year.

NOTES TO FINANCIAL STATEMENTS

The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually. The prior service contribution rate amortizes the unfunded actuarial liability over the applicable period for SAWS. Both the normal costs and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

SAWS contributes to the TMRS Plan at the actuarially determined rate. Both the employees and SAWS make monthly contributions. 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 2012 contribution rate is based on the December 31, 2010 valuation results. The actuarially determined rate for 2011 employer contributions was 5.87%. Due to a significant increase in the employer contribution rate resulting from a change in funding method adopted by TMRS in 2007, SAWS actual contributions for 2011 were based on a TMRS approved phase-in rate of 4.64% of employee compensation. In 2012, the actuarially determined rate for employer contributions was reduced to 4.18% of employee compensation due to a restructuring of TMRS' internal account structure. This restructuring transferred certain assets and liabilities from TMRS accounts to SAWS accounts within the TMRS system related to retired employees' accumulated contributions. Employee contributions to the plan for both 2011 and 2012 were equal to 3% of compensation.

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 do not make contributions to the plan. Any obligation with respect to SAWSRP shall be paid by SAWS. Investment expenses, including investment manager and custodial services, are funded through investment earnings. Administrative expenses, including actuarial and consultant services, are funded through investment earnings and/or contributions.

Annual Pension Cost and Net Pension Obligation

The following table summarizes SAWS' annual pension cost and net pension obligation for the years ended December 31, 2012 and 2011.

NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost (amounts in thousands)

	Year Ended December 31,			
	2012		2011	
	TMRS	SAWSRP	TMRS	SAWSRP
Annual required contributions:				
SAWS	\$ 3,641	\$ 10,396	\$ 4,967	\$ 9,171
Plan members	2,613	-	2,538	-
Interest on net pension obligation	237	-	173	-
Adjustment to annual required contribution	(204)	-	(143)	-
Total annual pension cost	6,287	10,396	7,535	9,171
Contributions made	6,254	10,396	6,464	9,171
Increase in net pension obligation	33	-	1,071	-
Net pension obligation beginning of year	3,384	-	2,313	-
Net pension obligation end of year	\$ 3,417	\$ -	\$ 3,384	\$ -

The following table provides three year trend information for each of SAWS' defined benefit plans.

Three Year Trend Information

Plan	Year Ended December 31,	Annual Pension Cost (APC) (in thousands)	Percentage of APC Contributed	Net Pension Obligation (in thousands)
TMRS	2012	\$ 6,287	99%	\$ 3,417
	2011	7,535	86%	3,384
	2010	7,229	83%	2,313
SAWSRP	2012	\$ 10,396	100%	\$ -
	2011	9,171	100%	-
	2010	7,849	100%	-

Actuarial Methods and Assumptions

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The following table summarizes the actuarial methods and assumptions used in the most recent actuarial valuation for each of SAWS' defined benefit plans.

NOTES TO FINANCIAL STATEMENTS

Actuarial Methods and Assumptions

	TMRS	SAWSRP
Actuarial Valuation Date	12/31/2011	1/1/2012
Actuarial Cost Method	Projected Unit Credit	Entry Age Normal - Frozen Initial Liability
Amortization Method	Level Percent of Payroll	Level Dollar
Remaining Amortization Period	30 Years - Closed	30 Years - Closed
Asset Valuation Method	10 year Smoothed Market	Smoothed Market Value (4 years)
Actuarial Assumptions:		
Investment Rate of Return	7.0%	7.5%
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 and Funding Progress

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, 2011	\$ 125,424	\$ 149,640	\$ 24,216	84%	\$ 84,611	29%
SAWSRP	January 1, 2012	\$ 90,496	\$ 144,552	\$ 54,056	63%	\$ 85,394	63%

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 projected salary increases. 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.

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

The financial information for SAWSRP is reported in the fiduciary funds statements. SAWSRP does not issue separately issued financial statements. A summary of the plan's financial statements for the years ended December 31, 2012 and 2011 is presented in the following tables.

San Antonio Water System Retirement Plan Net Position

<i>(amounts in thousands)</i>	December 31,	
	2012	2011
Assets		
Investments	\$ 110,227	\$ 92,010
Liabilities	-	-
Net position held in trust for pension benefits	<u>\$ 110,227</u>	<u>\$ 92,010</u>

San Antonio Water System Retirement Plan Changes in Net Position For the year ended December 31,

<i>(amounts in thousands)</i>	2012	2011
Additions		
Employer Contributions	\$ 10,396	\$ 9,171
Investment Income	<u>11,742</u>	<u>2,713</u>
Total additions	22,138	11,884
Deductions		
Pension payments	<u>3,921</u>	<u>3,412</u>
Increase in net position	18,217	8,472
Net position at beginning of year	92,010	83,538
Net position at end of year	<u>\$ 110,227</u>	<u>\$ 92,010</u>

NOTES TO FINANCIAL STATEMENTS

NOTE L – OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

In addition to providing pension benefits described in Note K, 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 may also purchase coverage for their spouse at group rates partially subsidized by SAWS. After age 65, healthcare benefits under the plan are supplemental to Medicare benefits.

The following is the participant summary as of January 1, 2011 (the most recent actuarial valuation date):

Active employees	1,620
Retired employees	684
Total	<u>2,304</u>

Funding Policy

The contribution requirements of plan members and SAWS are established and may be amended by the SAWS Board of Trustees. Prior to 2012, SAWS funded all obligations arising under these plans on a pay-as-you-go basis. In March 2012, SAWS established the OPEB Trust and contributed \$12 million to the trust. Funds in the trust must be used for the exclusive purpose of providing benefits to eligible retirees and their dependents. SAWS intends to make subsequent annual contributions to the OPEB Trust in accordance with a plan that results in fully funding the actuarially determined annual required contributions for these benefits over a period of time.

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, 2012, plan members receiving benefits contributed \$570,000. In addition to the \$12 million contributed to the OPEB Trust in 2012, SAWS contributed the remainder of the pay-as-you-go cost of \$6,753,000. For the year ended December 31, 2011, plan members receiving benefits contributed \$395,000 while SAWS contributed the remainder of the pay-as-you-go cost of \$6,840,000. In 2011, the SAWS Board of Trustees approved increases in the required contributions by plan members beginning in 2012. These increases will be phased in over eight years. The expected long-term impact of these increases will result in the plan members eventually contributing one-third of the annual premiums for retiree health insurance.

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 30 year open 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, 2012 and 2011:

<i>(amounts in thousands)</i>	Year Ended December 31,	
	2012	2011
Annual Required Contribution (ARC)	\$ 21,619	\$ 20,722
Interest on net OPEB obligation	3,698	3,087
Adjustment to ARC	(4,921)	(4,108)
Annual OPEB costs	20,396	19,701
Contributions made	\$ (18,753)	\$ (6,840)
Increase in net OPEB obligation	1,643	12,861
Net OPEB obligation at beginning of year	77,850	64,989
Net OPEB obligation at end of year	<u>\$ 79,493</u>	<u>\$ 77,850</u>

SAWS' annual OPEB cost and the percentage cost contributed to the plan for the three years ended December 31, 2012, 2011 and 2010 were as follows:

Year Ended December 31,	Annual OPEB Cost <i>(amounts in thousands)</i>	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation <i>(amounts in thousands)</i>
2012	\$ 20,396	91.9%	\$ 79,493
2011	\$ 19,701	34.7%	\$ 77,850
2010	\$ 25,124	24.5%	\$ 64,989

Funded Status

Although SAWS contributed \$12 million to the OPEB Trust in 2012, as of the date of the last actuarial valuation no contributions had been made to a trust. The funded status of SAWS' OPEB plan as of the last actuarial valuation performed as of January 1, 2011 is as follows:

NOTES TO FINANCIAL STATEMENTS

Actuarial Valuation Date	Value of Assets (in thousands) (a)	Liability (AAL) (in thousands) (b)	AAL (UAAL) (in thousands) (b-a)	Funded Ratio (a/b)	Payroll (in thousands) (c)	Percent of Covered Payroll ((b-a)/c)
January 1, 2011	\$ -	\$ 242,388	\$ 242,388	-	\$ 83,505	290%

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.

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.

The financial information for the OPEB Trust is reported in the fiduciary funds statements. The OPEB Trust does not issue separately issued financial statements. A summary of the plan's financial statements for the year ended December 31, 2012 is presented in the following tables.

San Antonio Water System OPEB Trust
Net Position
December 31, 2012
(amounts in thousands)

Assets	
Cash and cash equivalents	\$ 80
Investments	12,585
Total Assets	12,665
Liabilities	-
Net position held in trust for pension benefits	\$ 12,665

NOTES TO FINANCIAL STATEMENTS

San Antonio Water System OPEB Trust
Changes in Net Position
For the year ended December 31, 2012
(amounts in thousands)

Additions	
Employer Contributions	\$ 12,000
Investment Income	<u>690</u>
Total additions	12,690
Deductions	
Administrative expenses	<u>25</u>
Increase in Net Position	12,665
Net position at beginning of year	-
Net position at end of year	<u><u>\$ 12,665</u></u>

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 SAWS' OPEB plan.

Actuarial Methods and Assumptions

Actuarial Valuation Date	January 1, 2011
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar
Remaining Amortization Period	30 Years - Open
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		Year Beginning January 1	Annual Rate of Increase	
	Pre-Medicare Medical	Medicare Eligible Medical		Pre-Medicare Medical	Medicare Eligible Medical
2011	10.0%	7.2%	2020	7.1%	5.8%
2012	9.7%	7.0%	2021	6.8%	5.6%
2013	9.4%	6.9%	2022	6.4%	5.4%
2014	9.0%	6.7%	2023	6.1%	5.3%
2015	8.7%	6.6%	2024	5.8%	5.1%
2016	8.4%	6.4%	2025	5.5%	5.0%
2017	8.1%	6.2%	2026	5.1%	4.8%
2018	7.7%	6.1%	2027	4.8%	4.7%
2019	7.4%	5.9%	2028	4.5%	4.5%

NOTE M – SUBSEQUENT EVENTS

On February 21, 2013, the San Antonio City Council approved three ordinances authorizing SAWS to issue additional bonds. The first ordinance authorizes SAWS to issue \$2,975,000 City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2013 to be sold to the Texas Water Development Board through the Clean Water State Revolving Fund Program. The proceeds of the bonds are to be used to finance certain qualified capital improvement projects and pay the cost of issuance. The second ordinance authorizes SAWS to issue \$50,000,000 City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2013A to be sold to the Texas Water Development Board through the Water Infrastructure Fund Program. The proceeds of the bonds are to be used to finance certain qualified capital improvement projects and pay the cost of issuance. The third ordinance authorizes SAWS to issue \$99,265,000 City of San Antonio, Texas Water System Junior Lien Revenue Refunding Bonds, Series 2013B (No Reserve Fund). The proceeds of the bonds are to be used to refund the City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2003; advance refund the City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2004; and pay the cost of issuance. The refunding is projected to reduce SAWS' total debt service payments over the next 21 years by approximately \$16.7 million.

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			Funded Ratio (a/b)	Covered Payroll (in thousands) (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
	Value of Assets (in thousands) (a)	Accrued Liability (AAL) (in thousands) (b)	Unfunded AAL (UAAL) (in thousands) (b-a)			

Texas Municipal Retirement System:

December 31, 2011	\$	125,424	\$	149,640	\$	24,216	84%	\$	84,611	29%
December 31, 2010	\$	116,123	\$	140,565	\$	24,442	83%	\$	83,660	29%
December 31, 2009	\$	68,756	\$	107,311	\$	38,555	64%	\$	81,821	47%

San Antonio Water System Retirement Plan:

January 1, 2012	\$	90,496	\$	144,552	\$	54,056	63%	\$	85,394	63%
January 1, 2011	\$	83,320	\$	128,700	\$	45,380	65%	\$	83,505	54%
January 1, 2010	\$	77,365	\$	112,263	\$	34,898	69%	\$	82,923	42%
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, 2011	\$	-	\$	242,388	\$	242,388	-	\$	83,505	290%
January 1, 2009	\$	-	\$	297,259	\$	297,259	-	\$	75,270	395%
January 1, 2007	\$	-	\$	200,083	\$	200,083	-	\$	69,288	289%

San Antonio Water System
REQUIRED SUPPLEMENTARY INFORMATION – (Unaudited)
Post Employment Benefit Plans
Schedules of Funding Progress

Year Ended	Annual		Net
December 31,	Pension/	Percentage	Pension/OPEB
	OPEB Cost	Contributed	Obligation
	<i>(in thousands)</i>		<i>(in thousands)</i>

San Antonio Water System Retirement Plan:

2012	\$	10,396	100%	\$	-
2011		9,171	100%		-
2010		7,849	100%		-
2009		6,035	100%		-
2008		4,891	100%		-
2007		4,710	100%		-

Other Post Employment Benefit Plan:

2012	\$	20,396	92%	\$	79,493
2011		19,701	35%		77,850
2010		25,124	25%		64,989
2009		25,365	23%		46,027
2008		18,461	28%		26,546
2007		17,696	25%		13,217

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APPENDIX C

SAWS INTERIM FINANCIAL REPORT JUNE 30, 2013

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San Antonio Water System
Summary of Revenues, Expenses and Changes in Equity – Unaudited
(All amounts in millions)

	Quarter Ended		12 Months Ended	
	June 30		June 30	
	2013	2012 ^(a)	2013	2012 ^(a)
Revenues				
Water Supply	\$ 32.5	34.0	139.8	128.9
Water Delivery	29.4	30.5	122.2	121.2
Wastewater	50.6	42.2	178.6	160.8
Chilled Water & Steam	3.2	3.1	12.6	11.7
Total operating revenues	115.7	109.8	453.2	422.6
Non-operating revenue	2.3	2.6	5.8	6.2
Total revenues	118.0	112.4	459.0	428.8
Expenses				
Operating and maintenance	56.3	56.4	238.5	212.0
Depreciation expense	27.4	25.2	108.0	100.5
Interest and debt related	20.7	18.9	80.4	80.5
Transfer to City of San Antonio	3.0	2.8	11.6	11.0
Other	(0.5)	(0.0)	(0.7)	(0.7)
Total expenses	106.9	103.3	437.9	403.3
	11.1	9.1	21.1	25.5
Income (Loss) before capital contributions	18.8	17.8	79.0	74.0
Capital Contributions	29.9	26.9	100.1	99.5
Change in Net Position	1,952.7	1,855.6	1,882.5	1,783.0
Beginning Net Position, as restated ^(a)	\$ 1,982.6	1,882.5	1,982.6	1,882.5
Ending Net Position	\$ 32.5	34.0	139.8	128.9

^(a) Amounts have been restated due to adoption of Government Accounting Standards Board Statements No. 63 and 65.

San Antonio Water System – District Special Project
Summary of Revenues, Expenses and Changes in Equity – Unaudited
(All amounts in millions)

	Quarter Ended	12 Months Ended
	June 30, 2013	June 30, 2012 ^(a)
Revenues		
Operating Revenues	\$ 16.7	\$ 71.2
Non-operating revenue	-	0.1
Total revenues	16.7	71.3
Expenses		
Operating and maintenance	11.4	45.9
Depreciation expense	2.7	10.6
Interest and debt related	2.4	10.5
Other	-	(0.8)
Total expenses	16.5	66.2
	0.2	5.1
Income (Loss) before capital contributions	1.5	5.4
Capital Contributions	1.7	10.5
Change in Net Position	86.6	77.8
Beginning Net Position, as restated ^(a)	\$ 88.3	\$ 88.3
Ending Net Position	\$ 16.7	\$ 71.2

^(a) Amounts have been restated due to adoption of Government Accounting Standards Board Statements No. 63 and 65.

San Antonio Water System
Summary of Balance Sheet Information – Unaudited
(All amounts in millions)

	June 30	
	2013	2012 ^(a)
<i>Assets</i>		
Current Assets	\$ 345.2	\$ 326.6
Noncurrent Assets	260.6	253.0
Capital Assets, Net	3,837.8	3,612.4
Total revenues	4,443.6	4,192.0
<i>Deferred Outflows</i>	48.9	57.2
<i>Liabilities</i>		
Current Liabilities	135.3	122.4
Long Term Debt, Net	2,374.6	2,244.3
Total Liabilities	2,509.9	2,366.7
<i>Net Position</i>		
Net Investment in Capital Assets	1,750.4	1,661.4
Restricted	111.8	102.3
Unrestricted	120.4	118.8
Total Net Position	\$ 1,982.6	\$ 1,882.5

^(a) Amounts have been restated due to adoption of Government Accounting Standards Board Statements No. 63 and 65.

San Antonio Water System – District Special Project
Summary of Balance Sheet Information – Unaudited
(All amounts in millions)

	June 30	
	2013	2012 ^(a)
<i>Assets</i>		
Current Assets	\$ 37.7	\$ 34.0
Noncurrent Assets	20.1	15.0
Capital Assets, Net	276.7	279.7
Total revenues	334.5	328.7
<i>Deferred Outflows</i>	4.9	5.3
<i>Liabilities</i>		
Current Liabilities	18.6	17.7
Long Term Debt, Net	232.5	238.5
Total Liabilities	251.1	256.2
<i>Net Position</i>		
Net Investment in Capital Assets	66.3	58.6
Restricted	7.7	7.5
Unrestricted	14.3	11.7
Total Net Position	\$ 88.3	\$ 77.8

^(a) Amounts have been restated due to adoption of Government Accounting Standards Board Statements No. 63 and 65.

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APPENDIX D

SELECTED PROVISIONS OF THE ORDINANCE

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SELECTED PROVISIONS OF THE ORDINANCE

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

SECTION 9: Definitions. For all purposes of this Ordinance (as defined below), except as otherwise expressly provided or unless the context otherwise requires: (i) the terms defined in this Section have the meanings assigned to them in this Section, and certain terms used in Sections 36 and 51 of this Ordinance have the meanings assigned to them in such Sections, and all such terms include the plural as well as the singular; (ii) all references in this Ordinance to designated “Sections” and other subdivisions are to the designated Sections and other subdivisions of this Ordinance as originally adopted; and (iii) the words “herein”, “hereof”, and “hereunder” and other words of similar import refer to this Ordinance as a whole and not to any particular Section or other subdivision.

A. The term *Additional Junior Lien Obligations* shall mean (i) bonds, notes, warrants, certificates of obligation or other obligations hereafter issued by the City payable wholly or in part from and equally and ratably secured, together with the currently outstanding Junior Lien Obligations, by a junior and inferior lien and pledge of the Net Revenues of the System, that is junior and inferior to the lien on and pledge thereof securing the payment of the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City, all as further provided in Section 21 of this Ordinance, and (ii) any obligations issued to refund the foregoing that are payable from and secured by a junior lien on and pledge of the Net Revenues of the System as determined by the City Council in accordance with any applicable law.

B. The term *Additional Senior Lien Obligations* shall mean (i) any bonds, notes, warrants, certificates of obligation, or other evidences of indebtedness 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 21 of this Ordinance and which are equally and ratably secured solely by a prior and first lien on and pledge of the Pledged Revenues of the System and (ii) any obligations hereafter issued to refund any of the foregoing if issued in a manner so as to be payable from and secured by a prior and first lien on and pledge of the Pledged Revenues as determined by the City Council in accordance with applicable law.

C. The term *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.

D. The term *Authorized Officials* shall mean any of the Mayor, the City Clerk, the City Manager, the City's Chief Financial Officer, the President/Chief Executive Officer of the Board and/or the Senior Vice President/Chief Financial Officer of the Board.

E. The term *Average Annual Debt Service Requirements* shall mean that average amount which, at the time of computation, will be required to pay the Debt Service Requirements on the Bonds when due (either at Stated Maturity or mandatory redemption) and derived by dividing the total of such Debt Service Requirements by the number of Fiscal Years then remaining before Stated Maturity of such Bonds. For 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 shall be excluded in making the aforementioned computation.

F. The term *Board* shall mean the Board of Trustees of the System created and described in Section 40 of this Ordinance.

G. The term *Bond Fund* shall mean the special Fund or account created and established by the provisions of Section 13 of this Ordinance.

H. The term *Bonds* shall mean the \$79,350,000 "CITY OF SAN ANTONIO, TEXAS WATER SYSTEM JUNIOR LIEN REVENUE AND REFUNDING BONDS, SERIES 2013E (NO RESERVE FUND)", dated October 1, 2013, authorized by this Ordinance.

I. The term *City* shall mean the City of San Antonio, Texas, located in the State of Texas and, where appropriate, the City Council of the City.

J. The term *Closing Date* shall mean the date of physical delivery of the Initial Bond(s) for the payment in full by the Purchaser.

K. The term *CPS Contract* shall mean 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.

L. The term *Credit Agreement* shall mean 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.

M. The term *Credit Facility* shall mean (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 (provided that, at such time that the Previously Issued Junior Lien Obligations issued prior to January 1, 2010 are no longer Outstanding, the requirement of a credit rating in the highest general category shall no longer be of any effect); 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.

N. The term *Debt* shall mean

(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.

O. The term *Debt Service Requirements* shall mean as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the City as of such date or in such period for the payment of

the principal of, premium, if any, and interest (to the extent not capitalized) on such obligations; assuming, in the case of obligations without a fixed numerical rate, that such obligations bear interest calculated by assuming (i) that the interest rate for every 12-month period on such bonds is equal to the rate of interest reported in the most recently published edition of *The Bond Buyer* (or its successor) at the time of calculation as the “Revenue Bond Index” or, if such Revenue Bond Index is no longer being maintained by *The Bond Buyer* (or its successor) at the time of calculation, such interest rate shall be assumed to be 80% of the rate of interest then being paid on United States Treasury obligations of like maturity and (ii) that the principal of such bonds is amortized such that annual debt service is substantially level over the remaining stated life of such bonds, and further assuming in the case of obligations required to be redeemed or prepaid as to principal prior to Stated Maturity, the principal amounts thereof will be redeemed prior to Stated Maturity in accordance with the mandatory redemption provisions applicable thereto.

P. The term *Depository* shall mean one or more official depository banks of the Board.

Q. The term *Designated Financial Officer* shall mean the President/Chief Executive Officer of the Board, the Senior Vice President/Chief Financial Officer of the Board, or such other financial or accounting official of the Board so designated by the City Council.

R. The term *District Special Project* means the Special Project created by the City pursuant to Ordinance No. 2011-10-20-0845 adopted by the City Council on October 20, 2011 for the purpose of assuming and operating the former Bexar Metropolitan Water District until integrated with the System.

S. The term *Engineer* shall mean 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 and such individual, firm, or corporation may be employed by, or may be an employee of, the City or the Board.

T. The term *Fiscal Year* shall mean the twelve month accounting period used by the Board in connection with the operation of the System, currently ending on December 31 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.

U. The term *Government Securities* means direct obligations of, including obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, which are non-callable prior to their stated maturities and which may be United States Treasury Obligations such as the State and Local Government Series and may be in book-entry form; however, when the Previously Issued Junior Lien Obligations issued on or before June 3, 1999, are no longer Outstanding, the term Government Securities, as used herein, shall mean (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; (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; or (iv) any additional securities and obligations hereafter authorized by the laws of the State of Texas as eligible for use to accomplish the discharge of obligations such as the Bonds.

V. The term *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 36, 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 Construction 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 Bond 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, the Junior Lien Obligations, the Bonds, the Subordinate Lien Obligations, or 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.

W. The term *Holder or Holders* shall mean the registered owner, whose name appears in the Security Register, for any Bond.

X. The term *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.

Y. The term *Interest Payment Date* shall mean the date semiannual interest is payable on the Bonds, being May 15 and November 15 of each year, commencing May 15, 2014, while any of the Bonds remain Outstanding.

Z. The term *Junior Lien Obligations* shall mean the Previously Issued Junior Lien Obligations, the Junior Lien Obligations-No Reserve Fund, and any Additional Junior Lien Obligations (whether issued as Junior Lien Obligations-No Reserve Fund or Reserve Fund-Secured Junior 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 so as to be payable from and equally and ratably secured by a junior lien on and pledge of the Net Revenues of the System.

AA. The term *Junior Lien Obligations–No Reserve Fund* shall mean the

(1) “City of San Antonio, Texas Water System Junior Lien Revenue Refunding Bonds, Series 2012 (No Reserve Fund)” dated April 1, 2012, in the original principal amount of \$31,890,000;

(2) “City of San Antonio, Texas Water System Junior Lien Revenue Refunding Bonds, Series 2013B (No Reserve Fund)”, dated May 1, 2013, in the original principal amount of \$82,855,000;

(3) Upon issuance, the Series 2013F Bonds;

(4) Upon issuance, the Bonds; and

any Additional Junior Lien Obligations hereafter issued that are not additionally secured by a lien on and pledge of the Reserve Fund.

BB. The term *Maintenance and Operating Expenses* shall mean 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.

CC. The term *Net Revenues* shall mean Gross Revenues of the System, with respect to any period, after deducting the System’s Maintenance and Operating Expenses during such period.

DD. The term *Ordinance* shall mean this ordinance adopted by the City Council on September 19, 2013.

EE. The term *Outstanding*, when used in this Ordinance with respect to Bonds shall mean 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 38 of this Ordinance by the irrevocable deposit with the Paying Agent/Registrar, or an authorized escrow agent, of money or Government Obligations, or both, in the amount necessary to fully pay the principal of, premium, if any, and interest thereon to maturity or redemption, as the case may be, provided that, if such Bonds are to be redeemed, notice of redemption thereof shall have been duly given pursuant to this Ordinance or irrevocably provided to be given to the satisfaction of the Paying Agent/Registrar, or waived; and

(3) those Bonds that have been mutilated, destroyed, lost, or stolen and for which replacement Bonds have been registered and delivered as provided in Section 32 of this Ordinance.

FF. The term *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.

GG. The term *Previously Issued Junior Lien Obligations* shall mean (i) the outstanding and unpaid obligations of the City that are payable solely from and equally and ratably secured by a junior and inferior lien on and pledge of the Pledged Revenues of the System, identified as follows:

(1) “City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2004”, dated July 1, 2004 (the *Series 2004 Bonds*), in the original principal amount of \$10,635,000;

(2) “City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2004-A”, dated July 1, 2004, (the *Series 2004-A Bonds*), in the original principal amount of \$26,365,000;

(3) “City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2007”, dated December 15, 2006 (the *Series 2007 Bonds*), in the original principal amount of \$8,070,000;

(4) “City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2007A”, dated December 15, 2006(the *Series 2007A Bonds*), in the original principal amount of \$35,375,000;

(5) “City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2008”, dated May 15, 2008, in the original principal amount of \$30,000,000;

(6) “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2008A”, dated May 15, 2008, in the original principal amount of \$23,260,000;

(7) “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2009”, dated November 1, 2009, in the original principal amount of \$54,300,000;

(8) “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;

(9) “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;

(10) “City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2010A”, dated December 1, 2010 (the *Series 2010 Refunding Bonds*), in the original principal amount of \$17,930,000;

(11) “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2011”, dated May 15, 2011, in the original principal amount of \$24,550,000;

(12) “City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2011A”, dated May 15, 2011, in the original principal amount of \$18,095,000;

(13) “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2012”, dated August 1, 2012, in the original principal amount of \$19,630,000;

(14) “City of San Antonio, Texas Junior Lien Revenue Bonds, Series 2013A”, dated April 1, 2013, in the original principal amount of \$50,000,000;

(15) Upon issuance, the Series 2013C Bonds; and

(16) Upon issuance, the Series 2013D 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 junior and inferior lien on and pledge of the Net Revenues of the System as determined by the City Council in accordance with any applicable law.

HH. The term *Prudent Utility Practice* shall mean 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.

II. The term *Purchaser* shall mean the initial purchaser or purchasers of the Bonds named in Section 33 of this Ordinance.

JJ. The term *Rating Agency* shall mean any nationally recognized securities rating agency which has assigned a rating to the Senior Lien Obligations.

KK. The term *Required Reserve Amount* shall mean the amount required to be deposited and maintained in the Reserve Fund under the respective City ordinances authorizing the issuance of each series of Reserve Fund–Secured Junior Lien Obligations.

LL. The term *Required Reserve Fund Deposits* shall mean the monthly deposits, if any, required to be deposited and maintained in the Reserve Fund under the respective City ordinances authorizing the issuance of each series of Reserve Fund–Secured Junior Lien Obligations.

MM. The term *Reserve Fund-Secured Junior Lien Obligations* shall mean the Previously Issued Junior Lien Obligations and any Additional Junior Lien Obligations hereafter issued that are secured by a parity lien on and pledge of the Reserve Fund and specifically excluding the Junior Lien Obligations–No Reserve Fund.

NN. The term *Reserve Fund* shall mean the special fund of the City known as the “City of San Antonio, Waterworks and Sewer System Junior Lien Bond Reserve Fund” established and maintained pursuant to the terms and provisions of the respective City ordinances authorizing the issuance of each series of Reserve Fund-Secured Junior Lien Obligations.

OO. The term *Senior Lien Obligations* 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 2004”, dated May 15, 2004 in the original principal amount of \$84,700,000 (the *Series 2004 Bonds*);

(2) “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;

(3) “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; and

(4) “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;

(5) “City of San Antonio, Texas Water System Revenue Bonds, Series 2009A”, dated November 1, 2009 in the original principal amount of \$12,250,000;

(6) “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;

(7) “City of San Antonio, Texas Water System Revenue Bonds, Taxable Series 2010B (Direct Subsidy–Build America Bonds)”, dated November 15, 2010 in the original principal amount of \$110,000,000;

(8) “City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2011”, dated March 15, 2011 in the original principal amount of \$46,555,000;

(9) “City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2011A”, dated August 15, 2011 in the original principal amount of \$165,090,000;

(11) “City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2012”, dated February 1, 2012 in the original principal amount of \$225,255,000; and

(12) “City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2012A”, dated September 1, 2012 in the original principal amount of \$163,435,000;

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.

PP. The term *Series 1992 Bonds* shall mean 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 Ordinance No. 75686 that are no longer outstanding.

QQ. The term *Series 2013C Bonds* shall mean the “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2013C”, dated October 1, 2013, in the original principal amount not to exceed \$26,370,000, authorized pursuant to a City ordinance adopted by the City Council on September 19, 2013, issued as Additional Junior Lien Obligations that are Reserve Fund-Secured Junior Lien Obligations, and sold to the Texas Water Development Board under its Drinking Water State Revolving Fund program.

RR. The term *Series 2013D Bonds* shall mean the “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2013D”, dated October 1, 2013, in the original principal amount not to exceed \$60,100,000, authorized pursuant to a City ordinance adopted by the City Council on September 19, 2013, issued as Additional Junior Lien Obligations that are Reserve Fund-Secured Junior Lien Obligations, and sold to the Texas Water Development Board under its Clean Water State Revolving Fund program.

SS. The term *Series 2013F Bonds* shall mean the “City of San Antonio, Texas Water System Variable Rate Junior Lien Revenue and Refunding Bonds, Series 2013F (No Reserve Fund)”, dated October 1, 2013, in the original principal amount, when combined with the Bonds, not to exceed \$185,000,000, authorized pursuant to a City ordinance adopted by the City Council on September 19, 2013, issued as Additional Junior Lien Obligations that are Junior Lien Obligations – No Reserve Fund for the purpose of financing system improvements, refunding outstanding commercial paper notes, and paying costs of their issuance.

TT. The term *Special Project* shall mean, to the extent permitted by law, any water, sewer, wastewater reuse, 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 and which includes the District Special Project.

UU. The term *Stated Maturity* shall mean the annual principal payments of the Bonds payable on May 15 of each year, as set forth in Section 2 of this Ordinance.

VV. 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 21 of the Ordinance, identified as follows:

- (1) “City of San Antonio, Texas Water System Commercial Paper Notes, Series A” and “City of San Antonio, Texas Water System Commercial Paper Notes, Series B”, authorized in the aggregate principal amount of \$500,000,000, and including

the currently outstanding Commercial Paper Notes and Loan Notes (each as defined in the ordinance authorizing the issuance of such series of 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.

WW. The term *System* shall mean 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.

SECTION 11: Rates and Charges. For the benefit of the Holders of the Bonds 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 currently outstanding Junior 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 all Maintenance and Operating Expenses, or any expenses required by statute to be a first claim on and charge against the Gross Revenues of the System;

B. To produce Pledged Revenues, together with any other lawfully available funds, sufficient to satisfy the rate covenant contained in the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations and to pay the principal of and interest on the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City and the amounts required to be deposited in any reserve or contingency fund or account created for the payment and security of the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured solely by a prior and first lien on an pledge of the Net Revenues of the System;

C. To produce Net Revenues, together with any other lawfully available funds, to pay the principal of and interest on the currently outstanding Junior Lien Obligations as the same become due and payable and to deposit the amounts required to be deposited in any special fund or account created and established for the payment and security of the 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 secured solely by a junior lien on and pledge of the Net Revenues of the System;

D. To produce Net Revenues, together with any other lawfully available funds, to pay the principal of and interest on the currently outstanding Subordinate Lien Obligations and any Additional Subordinate 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 or account created and established for the payment and security of the currently outstanding Subordinate Lien Obligations and any Additional Subordinate Lien Obligations, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured, in whole or in part, by a subordinate lien on and pledge of the Net Revenues of the System;

E. To produce Net Revenues, together with any other lawfully available funds, to pay 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 or account created and established for the payment and security of any Inferior Lien Obligations hereafter issued by the City, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured by a lien on and pledge of the Net Revenues of the System in accordance with applicable law;

F. To produce Net Revenues, together with any other lawfully available funds, to fund the transfers as permitted by the provisions of Section 15 of this Ordinance; and

G. To pay, together with any other lawfully available funds, any other legally incurred Debt payable from the Net Revenues of the System and/or secured by a lien on the System.

SECTION 12: System Fund. The City hereby covenants, agrees, and reaffirms that the Gross Revenues of the System shall be deposited, as collected and received, into a separate Fund or 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 of the System 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 special funds and accounts created and established for the payment, security and benefit

of the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City.

- THIRD: to the payment of the amounts required to be deposited into the special funds and accounts created and established for the payment, security and benefit of the currently outstanding Junior Lien Obligations, and any Additional Junior Lien Obligations hereafter issued by the City.
- FOURTH: to the payment of the amounts that must be deposited in any special funds and accounts 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.
- FIFTH: to the payment of the amounts that must be deposited in any special funds and accounts created and established for the payment, security, and benefit of any Inferior Lien Obligations hereafter issued by the City.
- SIXTH: to the payment of the amounts to be transferred to the City's General Fund as provided in Section 15 hereof and into the Renewal and Replacement Fund created and established by Section 16 hereof.

Any Net Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other City purpose now or hereafter permitted by law and the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations.

SECTION 13: Bond Fund; Excess Bond Proceeds. For purposes of providing funds to pay the principal of and interest on the currently outstanding Junior Lien Obligations as the same become due and payable, the City agrees to maintain, at the Depository, a separate and special Fund or account to be created and known as the "City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2013E Interest and Sinking Fund" (the *Bond Fund*). The City covenants that there shall be deposited by the Designated Financial Officer into the Bond Fund prior to each principal and Interest Payment Date from the available Net Revenues an amount equal to one hundred percent (100%) of the amount required to fully pay the interest on and the principal of the currently outstanding Junior Lien Obligations then falling due and payable, such deposits to pay maturing principal and accrued interest on the currently outstanding Junior Lien Obligations to be made in substantially equal monthly installments on or before the tenth day of each month, beginning on or before the tenth day of the month next following the delivery of the Bonds to the Purchaser. If the Net Revenues in any month are insufficient to make the required payments into the Bond Fund, then the amount of any deficiency in such payment shall be added to the amount otherwise required to be paid into the Bond Fund in the next month.

The required monthly deposits to the Bond Fund for the payment of principal of and interest on the currently outstanding Junior Lien Obligations shall continue to be made as hereinabove provided until such time as (i) the total amount on deposit in the Bond Fund and Reserve Fund is equal to the amount required to fully pay and discharge all outstanding Junior

Lien Obligations (principal and interest) or, (ii) the Junior Lien Obligations are no longer Outstanding.

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

SECTION 14: Reserve Fund. For the benefit of the Reserve Fund-Secured Junior Lien Obligations and not the Junior Lien Obligations–No Reserve Fund (which includes the Bonds), the City has heretofore established and now maintains the Reserve Fund. The Reserve Fund is maintained pursuant to the provisions of the respective City ordinances authorizing the issuance of the Reserve Fund-Secured Junior Lien Obligations. Though the Reserve Fund does not secure the Bonds or the other Junior Lien Obligations–No Reserve Fund, the City hereby acknowledges and affirms its rights duties, and obligations with respect to the Reserve Fund included in the respective City ordinances authorizing the issuance of the Reserve Fund-Secured Junior Lien Obligations.

The City hereby acknowledges, reserves and confirms its right to issue Additional Junior Lien Obligations as Junior Lien Obligations–No Reserve Fund, being obligations not benefited by the additional pledge of the Reserve Fund, provided that such Additional Junior Lien Obligations issued as Junior Lien Obligations–No Reserve Fund are not sold to the Texas Water Development Board. In such instance, those Additional Junior Lien Obligations issued as Junior Lien Obligations–No Reserve Fund shall be (i) designated as such by including the parenthetical “(No Reserve Fund)” to the style of the subject obligations in all related transaction documentation (including, but not limited to, the City ordinance authorizing the issuance of such Additional Junior Lien Obligations and the Form of Bond therefor) to clearly distinguish such Additional Junior Lien Obligations from those Junior Lien Obligations that are Reserve Fund–Secured Junior Lien Obligations and (ii) excluded from all calculations identified in and requirements of this Section and other applicable sections of any ordinance authorizing the issuance of Additional Junior Lien Obligations concerning amounts at any time required to be deposited to and held in the Reserve Fund. Any disclosure or similar document used to market and sell Additional Junior Lien Obligations issued as Junior Lien Obligations–No Reserve Fund shall clearly indicate that the holders of such Additional Junior Lien Obligations shall have no right to or claim on the funds at any time held in the Reserve Fund.

SECTION 15: 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 16, 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 Fifth of Section 12 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 (formerly Texas Revised Civil Statutes Annotated Article 1113a, as

amended). The amount so transferred shall be net of all amounts owed by the City to the Board for the utility services described in Section 25E 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 16 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 16: 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 15B, 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 15 (prior to the deduction of any charges for utility services provided pursuant to Section 25E) 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 15, 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 15 has been transferred to the City's General Fund. Thereafter, all surplus Net Revenues shall be deposited to the Renewal and Replacement Fund.

SECTION 17: Deficiencies - Excess Net Revenues.

A. If on any occasion there shall not be sufficient Net Revenues of the System (after making all payments pertaining to the currently outstanding Senior Lien Obligations or any Additional Senior Lien Obligations hereafter issued by the City) to make the required deposits into the Bond Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available unallocated Net Revenues of the System, 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 or accounts during such month or months.

B. Subject to making the required deposits to the Bond Fund and the Reserve Fund when and as required by this Ordinance, or any ordinance authorizing the issuance of any Additional Junior Lien Obligations (as applicable), or the payments required by the provisions of the ordinances authorizing the issuance of the currently outstanding Subordinate Lien Obligations and any Additional Subordinate Lien Obligations hereafter issued by the City and any Inferior Lien Obligations hereafter issued by the City, the excess Net Revenues of the System may be used by the City for any lawful purpose in accordance with the provisions of the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations.

SECTION 18: Payment of Bonds. While any of the Bonds are outstanding, any Designated Financial Officer or Authorized Official shall cause to be transferred to the Paying Agent/Registrar therefor, from funds on deposit in the Bond 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 Bonds 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 Bonds at the close of the business day next preceding the date a debt service payment is due on the Bonds.

SECTION 21: Issuance of Additional Senior Lien Obligations, Additional Junior Lien Obligations, Additional Subordinate Lien Obligations, and Inferior Lien Obligations. The City hereby expressly reserves the right to hereafter issue bonds, notes, warrants, certificates of obligation, or similar obligations, payable, wholly or in part, as appropriate, from and secured by a pledge of and lien on the Net Revenues of the System with the following priorities, without limitation as to principal amount, but subject to any terms, conditions, or restrictions applicable thereto under existing ordinances, laws, or otherwise:

A. Additional Senior Lien Obligations payable from and equally and ratably secured by a first and prior lien on and pledge of the Pledged Revenues of the System upon satisfying each of the conditions precedent contained in the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations;

B. Additional Junior Lien Obligations (except for Additional Junior Lien Obligations that are insured by a municipal bond insurance policy, which need not satisfy the provisions of paragraph B(2) or B(3) hereof), payable from and equally and ratably secured by a junior and inferior lien on and pledge of the Net Revenues of the System, upon satisfying each of the following conditions precedent:

(1) the Chief Financial Officer of the City (or other official of the City having primary responsibility for the fiscal affairs of the City) shall have executed a certificate stating that (i) except for a refunding to cure a default, or the deposit of a portion of the proceeds of any Additional Junior Lien Obligations to satisfy the City's obligations under this Ordinance, the City is not then in default as to any covenant, obligation, or agreement contained in any ordinance or other proceedings relating to any obligations of the City payable from and secured by a lien on and pledge of the Net Revenues of the System and (ii) all payments into all special funds or accounts created and established for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Net Revenues of the System have been duly made and that the amounts on deposit in such special funds or accounts are the amounts then required to be deposited therein;

(2) with respect to Additional Junior Lien Obligations sold to the Texas Water Development Board (the *TWDB*) that are not insured by a municipal bond insurance policy, the City has secured from a Certified Public Accountant a certificate or opinion to the effect that, according to the books and records of the City, the Net Revenues of the System, for the preceding Fiscal Year or for any 12 consecutive months out of the 18 months immediately preceding the month the ordinance authorizing the Additional Junior Lien Obligations is adopted, are at least equal to one and one-fourth (1-1/4) times the average annual requirement for the payment of principal of and interest on all outstanding Junior Lien Obligations after giving effect to the Additional Junior Lien Obligations then proposed. In making a determination of the Net Revenues, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior to the last day of the period for which Net Revenues are to be determined and, for purposes of satisfying the above Net Revenues test, make a pro forma determination of the Net Revenues for the period of time covered by his certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion;

(3) with respect to Additional Junior Lien Obligations sold to any other entity other than the *TWDB* and that are not insured by a municipal bond insurance policy, the City has secured from a Certified Public Accountant a certificate or opinion to the effect that, according to the books and records of the City, the Net Revenues of the System, for the preceding Fiscal Year or for any 12 consecutive months out of the 18 months immediately preceding the month the ordinance authorizing the Additional Junior Lien Obligations is adopted, are at least equal to the average annual requirement for the payment of principal of and interest on all outstanding Junior Lien Obligations after giving effect to the Additional Junior Lien Obligations then proposed. In making a determination of the Net Revenues, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior to the last day of the period for which Net Revenues are to be determined and, for purposes of satisfying the above Net Revenues test, make a pro forma determination of the Net Revenues for the period of time covered by his certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion;

(4) the ordinance authorizing the issuance of the Additional Junior Lien Obligations provides for deposits to be made to the Bond Fund in amounts sufficient to pay the principal of and interest on such Additional Junior Lien Obligations as the same mature; and

(5) the ordinance authorizing the issuance of the Additional Junior Lien Obligations that are Reserved Fund–Secured Junior Lien Obligations provides that the amount to be accumulated and maintained in the Reserve Fund shall be in an amount equal to not less than the Average Annual Debt Service Requirements for the payment of the Junior Lien Obligations then outstanding, inclusive of the changes in the amount resulting from the issuance of the proposed Additional Junior Lien Obligations that are Reserved Fund–Secured Junior Lien Obligations, and provides that any additional amount to be maintained in the Reserve Fund shall be accumulated within sixty (60) months from the date the Additional Junior Lien Obligations that are Reserved Fund–Secured Junior Lien Obligations are delivered; provided, however, that no such requirement as it relates to additional amounts to be deposited to the Reserve Fund shall be applicable to, or serve as a condition to the issuance of, Additional Junior Lien Obligations that are or will be Junior Lien Obligations–No Reserve Fund.

C. Additional Subordinate Lien Obligations secured by a subordinate and inferior lien on and pledge of the Net Revenues upon satisfying each of the conditions precedent contained in the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations, outstanding Subordinate Lien Obligations, or this Ordinance, as appropriate.

D. Inferior Lien Obligations secured by a lien on and pledge of the Net Revenues of the System upon satisfying each of the conditions precedent contained in the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations or this Ordinance.

SECTION 22: 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 23: Maintenance of System - Insurance. The City covenants and agrees that while the Junior 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, shall be retained for the benefit of the Holders of the Bonds 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 24: Records and Accounts - Annual Audit. The City covenants, agrees, and affirms its covenants that so long as any of the Bonds remain outstanding, it 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 Chapter 1502, as amended, Texas Government Code, 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 (and in no event later than 120 days after) the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Expenses incurred in making the annual audit of the operations of the System are to be regarded as Maintenance and Operating Expenses.

SECTION 25: Special Covenants. The City hereby further covenants that:

A. It has the lawful power to pledge the Net Revenues supporting the Bonds and has lawfully exercised this power under the laws of the State of Texas, including the power existing under Chapter 1207 and Chapter 1371, and Chapter 1502, as amended, Texas Government Code, and the City's Home Rule Charter;

B. The Bonds shall be equally and ratably secured by a junior lien on and pledge of the Net Revenues of the System in a manner that one Bond shall have no preference over any other Bond;

C. Other than for the payment of the currently outstanding Senior Lien Obligations, Junior Lien Obligations, and the Subordinate Lien Obligations, the Net Revenues of the System 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, the City will not sell, lease, or encumber the System or any substantial part thereof (except as provided in Section 21 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 15; and

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 other than those owned by the City, and the operation of any such systems by anyone other than the City is hereby prohibited.

SECTION 26: Limited Obligations of the City. The Bonds are limited, special obligations of the City payable from and equally and ratably secured solely by a junior lien on and pledge of the Net Revenues of the System, 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 27: Security of Funds. All money on deposit in the Funds or accounts 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 or accounts shall be used only for the purposes permitted by this Ordinance.

SECTION 28: Remedies in Event of Default. In addition to all the rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in the payments to be made to the Bond Fund or Reserve Fund, or (b) defaults in the observance or performance of any other of the covenants, conditions, or obligations set forth in this Ordinance, the Holders of any of the Bonds shall be entitled to seek a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body of the City and other officers of the City to observe and perform any covenant, condition, or obligation prescribed in this Ordinance.

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 39: Ordinance a Contract; Amendments - Outstanding Bonds. 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, binding on the City and its successors and assigns, and it shall not be amended or repealed by the City so long as any Bond remains Outstanding except as permitted in this Section. The City may, without the consent of or notice to any Holders, from time to time and at any time, amend this Ordinance in any manner not detrimental to the interests of the Holders, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the City may, with the written consent of Holders holding a majority in aggregate principal amount of the Bonds then Outstanding affected thereby, amend, add to, or rescind any of the provisions of this Ordinance; provided that, without the consent of all Holders

of Outstanding Bonds, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, 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, or (3) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission.

SECTION 40: 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 Heriberto "Berto" Guerra currently serving a term ending May 31, 2014, Willie A. Mitchell, currently serving a term ending 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 (Mr. Anguiano remains in such position until his reappointment, or his replacement, is appointed by the City Council), Samuel E. Luna, Elizabeth M. Provencio, and Louis E. Rowe all currently serving terms ending May 31, 2013 (each of which will remain in their current positions until their reappointment, or their replacement is appointed, by the City Council). 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 a 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 cause such person to 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 40, 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 the System's 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 flow of funds 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.

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APPENDIX E

FORM OF CO-BOND COUNSEL'S OPINION

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Fulbright & Jaworski LLP
300 Convent Street, Suite 2100
San Antonio, Texas 78205

Escamilla & Poneck, LLP
700 North St. Mary's, Suite 850
San Antonio, Texas 78205

FINAL

IN REGARD to the authorization and issuance of the "City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2013E (No Reserve Fund)" (the *Bonds*), dated October 1, 2013, in the aggregate principal amount of \$79,350,000, 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 2014 through 2030, unless 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. Capitalized terms used herein without definition shall have the meaning ascribed thereto in the Ordinance.

WE HAVE SERVED AS 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, the defeasance and discharge of the City's obligations being refunded by certain proceeds of the Bonds, and with respect to the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes 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 utility 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 including the Ordinance, the Paying Agent/Registrar Agreement between the City and U.S. Bank National Association, Dallas, Texas, and the Escrow Deposit Letter (the *Escrow Agreement*) between the City and U.S. Bank National Association, Dallas, Texas, as escrow agent (the *Escrow Agent*), the certification (the *Sufficiency Certificate*) of Public Financial Management, Inc., as co-financial advisors to SAWS (defined below), of the sufficiency of cash and investments deposited with the Escrow Agent; and a resolution adopted by the Board of Trustees (the *Board*) of the San Antonio Water System (SAWS); (2) customary certifications and opinions of officials of the City and SAWS; (3) certificates executed by officers of the City and SAWS relating to the expected use and investment of proceeds of the Bonds and certain other funds of the City and SAWS, and to certain other facts within the knowledge and control of the City and SAWS; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the City, 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 OUR OPINION that the Escrow Agreement has been duly authorized, executed, and delivered by the City and, assuming due authorization, execution, and

Legal Opinion of Fulbright & Jaworski LLP of San Antonio, Texas, a member of Norton Rose Fulbright, and Escamilla & Poneck, LLP in connection with the authorization and issuance of “CITY OF SAN ANTONIO, TEXAS WATER SYSTEM JUNIOR LIEN REVENUE AND REFUNDING BONDS, SERIES 2013E (NO RESERVE FUND)”

delivery thereof by the Escrow Agent, is a valid and binding obligation, enforceable in accordance with its terms (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), and that the outstanding obligations refunded and to be discharged, paid, and retired with certain proceeds of the Bonds are regarded as being outstanding for purposes of the ordinance authorizing their issuance only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement, the ordinances authorizing their issuance, and in accordance with the provisions of Chapter 1207, as amended, Texas Government Code. In rendering this opinion, we have relied upon the Sufficiency Certificate as to the sufficiency of cash deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

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, together with the currently outstanding Junior Lien Obligations, solely by a lien on and pledge of the Net Revenues, derived from the operation of the System that is junior and inferior to the lien thereon and pledge thereof securing the payment of the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City, but prior and superior to the lien on and pledge thereof securing the payment of the currently outstanding Subordinate Lien Obligations and any Additional Subordinate Lien Obligations or Inferior Lien Obligations hereafter issued by the City. The Bonds are issued as Junior Lien Obligations—No Reserve Fund and, as such, are not additionally secured by a lien on and pledge of the Reserve Fund. In the Ordinance, the City retains the right to issue Additional Senior Lien Obligations, Additional Junior Lien Obligations, Additional Subordinate Lien Obligations, and Inferior Lien Obligations, 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 SAWS, except with respect to the Net Revenues. The holders 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.

IT IS FURTHER OUR OPINION THAT, assuming continuing compliance after the date hereof by the City and the Board with the provisions of the Ordinance and in reliance upon the Sufficiency Certificate as to the sufficiency of cash deposited with the Escrow Agent pursuant to the Escrow Agreement and upon the representations and certifications of the City and SAWS made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations.

Legal Opinion of Fulbright & Jaworski LLP of San Antonio, Texas, a member of Norton Rose Fulbright, and Escamilla & Poneck, LLP in connection with the authorization and issuance of “CITY OF SAN ANTONIO, TEXAS WATER SYSTEM JUNIOR LIEN REVENUE AND REFUNDING BONDS, SERIES 2013E (NO RESERVE FUND)”

WE CALL YOUR ATTENTION TO THE FACT THAT, with respect to our opinion in clause (2) above, interest on all tax-exempt obligations, such as the Bonds, owned by a corporation will be included in such corporation’s adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a mutual fund, a financial asset securitization investment trust, a real estate mortgage investment conduit, or a real estate investment trust. A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; 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.

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