# OFFICIAL STATEMENT
# DATED MAY 1, 2012

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

*In the opinion of Co-Bond Counsel to the City (each as defined below), assuming compliance with certain covenants by the City, under existing statutes, regulations, published rulings and court decisions existing on the date hereof, interest on the 2012 GARBs and the 2012 PFC Bonds (each as defined below) is excluded from gross income of the holders thereof for federal income tax purposes, except for any holder who is treated pursuant to section 147(a) of the Internal Revenue Code of 1986 (the "Code") as a "substantial user" of the projects refinanced with the proceeds of the 2012 GARBs or the 2012 PFC Bonds or a "related person" to such user. Interest on the 2012 GARBs and the 2012 PFC Bonds will be an item of tax preference, as defined in section 57(a)(5) of the Code, for purposes of determining the alternative minimum tax imposed on individuals and corporations by section 55 of the Code. For further information, see "TAX MATTERS" herein.*

## CITY OF SAN ANTONIO, TEXAS

**$70,135,000**
**AIRPORT SYSTEM**
**REVENUE REFUNDING**
**BONDS,**
**SERIES 2012 (AMT)**

**$25,790,000**
**PASSENGER FACILITY CHARGE**
**AND SUBORDINATE LIEN**
**AIRPORT SYSTEM REVENUE**
**REFUNDING BONDS,**
**SERIES 2012 (AMT)**

CITY OF SAN ANTONIO
AVIATION DEPARTMENT

**Dated: April 15, 2012 (interest accrues from date of delivery)** **Due: July 1, as shown herein**

The $70,135,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2012 (AMT)" (the "2012 GARBs") are being issued by the City of San Antonio, Texas (the "City") pursuant to the laws of the State of Texas, including particularly Chapter 22, as amended, Texas Transportation Code, and Chapters 1207 and 1503, as amended, Texas Government Code (collectively, the "Act"), the City's Home Rule Charter (the "Charter"), a master ordinance adopted by the City Council of the City (the "City Council") on April 19, 2001, as amended by the City Council on March 29, 2012 (collectively, the "Master GARB Ordinance"), and that certain Thirteenth Supplemental Ordinance thereto adopted by the City Council on March 29, 2012, for the purposes described herein. See "THE BONDS – Authority for Issuance" and "PLAN OF FINANCE – Purpose" herein. The 2012 GARBs are special obligations of the City payable solely from and equally and ratably secured by a first lien on and pledge of the Gross Revenues (defined herein) derived by the City from its ownership and operation of the Airport System (defined herein). The 2012 GARBs are issued on parity with certain outstanding bonds of the City that are also payable from and secured by a first lien on and pledge of the Gross Revenues. See "SECURITY FOR THE BONDS AND CERTAIN ORDINANCE PROVISIONS – The 2012 GARBs" herein.

The $25,790,000 "City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Refunding Bonds, Series 2012 (AMT)" (the "2012 PFC Bonds") are being issued by the City pursuant to the laws of the State of Texas, including particularly, the Act, the Charter, a master ordinance adopted by the City Council on March 7, 2002 (the "Master PFC Bond Ordinance"), and a Fifth Supplemental Ordinance thereto (which also will serve as the Fourteenth Supplemental Ordinance to the Master GARB Ordinance) adopted by the City Council on March 29, 2012, for the purposes described herein. See "THE BONDS – Authority for Issuance" and "PLAN OF FINANCE – Purpose" herein. The 2012 PFC Bonds are special obligations of the City payable solely from and equally and ratably secured by: (i) a first lien on and pledge of the PFC Revenues (defined herein), being (primarily) the revenues derived from the collection of a fee imposed upon passengers of an air carrier boarding an aircraft at the San Antonio International Airport (the "Airport") and (ii) a lien on and pledge of the Subordinate Net Revenues (defined herein), being (primarily) the Net Revenues of the City's Airport System that remain after satisfaction of debt service payments and debt service reserve requirements then due on all Parity GARBs (defined herein). The 2012 PFC Bonds are issued on parity with certain outstanding bonds of the City that are also payable from and secured by a first lien on and pledge of the PFC Revenues and a parity lien on the Subordinate Net Revenues. See "SECURITY FOR THE BONDS AND CERTAIN ORDINANCE PROVISIONS – The 2012 PFC Bonds" herein. The 2012 GARBs and the 2012 PFC Bonds are referred to collectively herein as the "Bonds."

The Bonds are dated April 15, 2012, but interest thereon will accrue from their date of initial delivery to the initial purchasers thereof named below (the "Underwriters"), anticipated to occur on or about May 30, 2012. Interest on the Bonds will be payable January 1 and July 1 of each year, commencing January 1, 2013, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued as fully registered obligations in book-entry-only form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of $5,000 or any integral multiple thereof. Purchasers of the Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds. So long as the Securities Depository is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by Wilmington Trust, National Association, Dallas, Texas, as the initial Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners. See "THE BONDS – Book-Entry-Only System" herein.

**NO MORTGAGE OF OR LIEN ON ANY OF THE PHYSICAL PROPERTIES FORMING A PART OF THE AIRPORT SYSTEM, OR ANY OTHER PROPERTY OR FUNDS OF THE CITY, HAS BEEN PLEDGED AS SECURITY FOR THE PAYMENT OF THE BONDS. THE BONDS ARE SPECIAL OBLIGATIONS OF THE CITY, PAYABLE ONLY FROM THOSE REVENUES OF THE AIRPORT SYSTEM PLEDGED AS SECURITY THEREFOR UNDER THE APPLICABLE ORDINANCE. THE TAXING POWER OF NONE OF THE CITY, THE STATE OF TEXAS, NOR ANY POLITICAL SUBDIVISION THEREOF HAS BEEN PLEDGED AS SECURITY FOR THE BONDS.**

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

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*The Bonds are offered for delivery, when, as, and if issued and received by the Underwriters and are subject to the approving opinions of the Attorney General of the State of Texas and the legal opinions of McCall, Parkhurst & Horton L.L.P. and LM Tatum, PLLC, Co-Bond Counsel, both of San Antonio, Texas. See "LEGAL MATTERS" herein. Certain legal matters will be passed upon for the City by the City Attorney, and for the Underwriters by their Co-Counsel, Winstead PC and Shelton & Valadez, P.C., both of San Antonio, Texas. The Bonds are expected to be available for delivery through the services of DTC on or about May 30, 2012.*

**Siebert Brandford Shank & Co., L.L.C.** **FirstSouthwest**

**Citigroup** **Frost National Bank** **Rice Securities, LLC**

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

**CUSIP No. Prefix[1]: 796242**

**$70,135,000 AIRPORT SYSTEM REVENUE REFUNDING BONDS, SERIES 2012 (AMT)**

| Maturity (July 1) | Principal Amount ($) | Interest Rate (%) | Offering Yield (%) | CUSIP No. Suffix[1] |
|---|---|---|---|---|
| 2013 | 3,215,000 | 2.000 | 0.530 | RE7 |
| 2014 | 3,545,000 | 4.000 | 0.950 | RF4 |
| 2015 | 3,700,000 | 4.000 | 1.340 | RG2 |
| 2016 | 3,855,000 | 5.000 | 1.650 | RH0 |
| 2017 | 4,050,000 | 5.000 | 1.870 | RJ6 |
| 2018 | 4,260,000 | 3.500 | 2.130 | RK3 |
| 2019 | 4,420,000 | 3.500 | 2.380 | RL1 |
| 2020 | 4,585,000 | 4.000 | 2.650 | RM9 |
| 2021 | 4,775,000 | 4.000 | 2.900 | RN7 |
| 2022 | 4,980,000 | 4.000 | 3.070 | RP2 |
| 2023 | 5,185,000 | 5.000 | 3.230[2] | RQ0 |
| 2024 | 5,455,000 | 5.000 | 3.410[2] | RR8 |
| 2025 | 5,735,000 | 5.000 | 3.530[2] | RS6 |
| 2026 | 6,030,000 | 5.000 | 3.660[2] | RT4 |
| 2027 | 6,345,000 | 5.000 | 3.730[2] | RU1 |

**$25,790,000 PASSENGER FACILITY CHARGE AND SUBORDINATE LIEN AIRPORT SYSTEM REVENUE REFUNDING BONDS, SERIES 2012 (AMT)**

**Serial Bonds**

| Maturity (July 1) | Principal Amount ($) | Interest Rate (%) | Offering Yield (%) | CUSIP No. Suffix[1] |
|---|---|---|---|---|
| 2013 | 1,135,000 | 2.000 | 0.700 | RV9 |
| 2014 | 1,260,000 | 4.000 | 1.160 | RW7 |
| 2015 | 1,315,000 | 4.000 | 1.570 | RX5 |
| 2016 | 1,375,000 | 5.000 | 1.850 | RY3 |
| 2017 | 1,445,000 | 5.000 | 2.070 | RZ0 |
| 2018 | 1,515,000 | 5.000 | 2.330 | SA4 |
| 2019 | 1,600,000 | 5.000 | 2.580 | SB2 |
| 2020 | 1.680,000 | 5.000 | 2.830 | SC0 |
| 2021 | 1,770,000 | 5.000 | 3.060 | SD8 |
| 2022 | 1,855,000 | 5.000 | 3.220 | SE6 |
| 2023 | 1,960,000 | 5.000 | 3.410[2] | SF3 |
| 2024 | 2,065,000 | 5.000 | 3.600[2] | SG1 |
| 2025 | 2,160,000 | 5.000 | 3.740[2] | SH9 |

**$4,655,000 4.00% Term Bonds due July 1, 2027; Yield 4.080%; CUSIP No. Suffix[(1)] SJ5**

**Redemption.** On July 1, 2022, and on any date thereafter, the Bonds maturing on and after July 1, 2023 may be redeemed prior to their scheduled maturities, at the option of the City, in whole or in part at a price of par, plus accrued interest thereon to the date fixed for redemption. The PFC Term Bonds are also subject to mandatory sinking funds redemption. See “THE BONDS – Redemption” herein.

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

[2] Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on July 1, 2022, the first optional call date for such Bonds, at a redemption price of par plus accrued interest to the redemption date.

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**CITY OF SAN ANTONIO, TEXAS**
**ADMINISTRATION**

**CITY COUNCIL:**

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

1 Councilwoman Jennifer V. Ramos filed to become a candidate for another public office and tendered notice of resignation from her place on the Council on December 15, 2011. At the January 12, 2012 Council meeting, Council appointed Leticia D. Ozuna to fill the vacant Council seat, a position she will hold for the remainder of Ms. Ramos's unexpired term. The City has called an election, to be held on May 12, 2012, seeking an amendment to the City Charter affecting the manner in which future City Council appointments will occur. (See APPENDIX A – City Charter.)

**CITY OFFICIALS:**

| Name | Position | Tenure with City of San Antonio | Tenure in Current Position |
|---|---|---|---|
| Sheryl L. Sculley | City Manager | 6 Years, 6 Months | 6 Years, 6 Months |
| Pat DiGiovanni | Deputy City Manager | 6 Years, 2 Months | 6 Years, 2 Months |
| Erik J. Walsh[1] | Deputy City Manager | 17 Years, 11 Months | 7 Months |
| Peter Zanoni | Assistant City Manager | 15 Years, 1 Month | 2 Years, 6 Months |
| Ed Belmares[2] | Assistant City Manager | 5 Years, 4 Months | 6 Months |
| David Ellison[3] | Assistant City Manager | 10 Months | 4 Months |
| Michael D. Bernard | City Attorney | 6 Years, 6 Months | 6 Years, 6 Months |
| Leticia M. Vacek | City Clerk | 7 Years, 11 Months | 7 Years, 11 Months |
| Ben Gorzell, Jr. | Chief Financial Officer | 21 Years, 6 Months | 1 Year, 9 Months |
| Troy Elliott[4] | Director of Finance | 15 Years, 8 Months | 7 Months |
| Maria Villagomez | Director of Management and Budget | 14 Years, 7 Months | 2 Years, 6 Months |
| Frank R. Miller | Director of Aviation | 2 Years, 11 Months | 2 Years, 11 Months |

1 Promoted to Deputy City Manager effective October 1, 2011. Prior to his promotion, Mr. Walsh served as the City's Assistant City Manager to which he was appointed on February 6, 2006.
2 Hired as Assistant City Manager effective October 17, 2011.
3 Promoted to Assistant City Manager effective March 26, 2012. Prior to his promotion, Mr. Ellison served as the City's Interim Director of Planning and Community Development to which he was hired on July 1, 2011.
4 Promoted to Director of Finance effective October 1, 2011. Prior to his promotion, Mr. Elliott served as the City's Assistant Director of Finance to which he was appointed on September 16, 2006.

**CONSULTANTS AND ADVISORS:**

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

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

## USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

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

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

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

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

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

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

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

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## TABLE OF CONTENTS



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

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**OFFICIAL STATEMENT**
**RELATING TO THE**

**CITY OF SAN ANTONIO, TEXAS**

| **$70,135,000**<br>**AIRPORT SYSTEM REVENUE**<br>**REFUNDING BONDS,**<br>**SERIES 2012 (AMT)** | **$25,790,000**<br>**PASSENGER FACILITY CHARGE**<br>**AND SUBORDINATE LIEN**<br>**AIRPORT SYSTEM REVENUE**<br>**REFUNDING BONDS,**<br>**SERIES 2012 (AMT)** |
|---|---|

# INTRODUCTION

## General

This Official Statement, including the cover page, the Schedule, and Appendices hereto, of the City of San Antonio, Texas (the "City") provides certain information in connection with the sale of the $70,135,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2012 (AMT)" (the "2012 GARBs"), and the $25,790,000 "City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Refunding Bonds, Series 2012 (AMT)" (the "2012 PFC Bonds"). The 2012 GARBs and the 2012 PFC Bonds are referred to collectively herein as the "Bonds." This Official Statement describes the Bonds, the Ordinances (defined herein), and certain other information about the City and its Airport System (defined herein). Defined terms used herein without definition shall have the respective meanings ascribed thereto in the Ordinances. See "EXCERPTS FROM GARB ORDINANCE – Definitions" attached hereto as Appendix B and "EXCERPTS FROM PFC BOND ORDINANCE – Definitions" attached hereto as Appendix C.

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

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

## The Airport System and Capital Improvement Plan

The City's airport system consists of the San Antonio International Airport (the "Airport") and Stinson Municipal Airport ("Stinson") (the Airport and Stinson, collectively, the "Airport System"), both of which are owned by the City and operated by its Department of Aviation (the "Department"). Each series of Bonds will refinance obligations originally issued to finance certain Airport System improvements.

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## PLAN OF FINANCE

### Purpose

*The 2012 GARBs*. The 2012 GARBs are being issued for the purposes of: (i) currently refunding a portion of the City's outstanding indebtedness originally issued to finance Airport System improvements, as identified in Schedule I attached hereto as the "Refunded GARBs" and (ii) paying the costs of issuing the 2012 GARBs.

*The 2012 PFC Bonds*. The 2012 PFC Bonds are being issued for the purposes of: (i) currently refunding a portion of the City's outstanding indebtedness originally issued to finance Airport System improvements, as identified in Schedule I attached hereto as the "Refunded PFC Bonds" and (ii) paying the costs of issuing the 2012 PFC Bonds.

The Refunded GARBs and the Refunded PFC Bonds are collectively referred to herein as the "Refunded Bonds."

### Defeasance of the Refunded Bonds

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

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

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

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

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**Sources and Uses of Funds**

*The 2012 GARBs*. The proceeds from the sale of the 2012 GARBs, along with a contribution from the City, will be applied approximately as follows:

| | |
|---|---|
| Sources of Funds | |
| Principal Amount of the 2012 GARBs | $70,135,000.00 |
| Plus: Original Issue Premium | 7,184,176.50 |
| City Contribution | 2,304,510.89 |
| Total Sources of Funds | $79,623,687.39 |
| | |
| Uses of Funds | |
| Deposit to Escrow Fund | 78,897,021.05 |
| Costs of Issuance (including Underwriters' Discount) | 726,666.34 |
| Total Uses of Funds | $79,623,687.39 |

*The 2012 PFC Bonds*. The proceeds from the sale of the 2012 PFC Bonds will be applied approximately as follows:

| | |
|---|---|
| Sources of Funds | |
| Principal Amount of the 2012 PFC Bonds | $25,790,000.00 |
| Plus: Original Issue Premium | 2,542,248.10 |
| City Contribution | 828,680.89 |
| Total Sources of Funds | $29,160,928.99 |
| | |
| Uses of Funds | |
| Deposit to Escrow Fund | 28,847,257.56 |
| Cost of Issuance (including Underwriters' Discount) | 313,671.43 |
| Total Uses of Funds | $29,160,928.99 |

## THE BONDS

**General Bond Description**

The Bonds are dated as of April 15, 2012 (the "Dated Date"), but interest thereon shall accrue from their date of initial delivery to the Underwriters (anticipated to occur on or about May 30, 2012). Interest on the Bonds is payable on January 1 and July 1 in each year, commencing January 1, 2013, until stated maturity or prior redemption thereof. The Bonds will mature on the dates, in the principal amounts, and will bear interest at the rates set forth in the applicable schedule appearing on the inside cover page of this Official Statement.

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

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

**Authority for Issuance**

*The 2012 GARBs*. The 2012 GARBs are being issued by the City pursuant to the laws of the State of Texas, including particularly Chapter 22, as amended, Texas Transportation Code, and Chapters 1207 and 1503, as amended, Texas Government Code (collectively, the "Act"), the City's Home Rule Charter (the "Charter"), a master ordinance adopted by the City Council of the City (the "City Council") on April 19, 2001, as amended by the City Council on March 29, 2012 (collectively, the "Master GARB Ordinance"), and that certain Thirteenth Supplemental Ordinance thereto adopted by the City Council on March 29, 2012 (such Supplement, along with the Master GARB Ordinance, collectively, the "GARB Ordinance").

*The 2012 PFC Bonds*. The 2012 PFC Bonds are being issued by the City pursuant to the laws of the State of Texas, including particularly the Act, the Charter, a master ordinance adopted by the City Council on March 7, 2002 (the "Master PFC Bond Ordinance"), a Fifth Supplemental Ordinance thereto adopted by the City Council on March 29, 2012, which also will serve as the Fourteenth Supplemental Ordinance to the Master GARB Ordinance (such supplemental ordinances, collectively with the Master GARB Ordinance and the Master PFC Bond Ordinance, the "PFC Bond Ordinance" and, together with the GARB Ordinance, the "Ordinances"; the Ordinances are sometimes referred to herein individually as the "Ordinance").

**Redemption**

*Optional Redemption*. On July 1, 2022, and on any date thereafter, the Bonds maturing on and after July l, 2023 may be redeemed prior to their scheduled maturities, at the option of the City, in whole or in part at a price of par, plus accrued interest thereon to the date fixed for redemption.

*Mandatory Redemption.* The 2012 PFC Bonds maturing on July 1, 2027 (the "PFC Term Bonds") are subject to mandatory redemption prior to maturity in part by lot, at a price equal to the principal amount therof plus accrued interest to the date of redemption, on the dates and in the respective principal amounts shown below:

| Year | Principal Amount ($) |
|---|---|
| 2026 | 2,280,000 |
| 2027* | 2,375,000 |

* Payable at Stated Maturity

The Paying Agent/Registrar must call by lot those maturities, or portions therof, to be redeemed on each mandatory sinking fund redemption date. The principal amount of the 2012 PFC Term Bonds that are subject to the mandatory redemption in any year may be reduced by an amount which, at least 50 days prior to the mandatory sinking fund redemption date, must have been defeased or acquired by the City, and delivered to the Paying Agent/Registrar for cancellation or have been redeemed pursuant to the optional redemption provisions described above and not previously credited to a mandatory sinking fund redemption; provided, however that during any period in which ownership of the PFC Term Bonds is determined only by a book entry at a securities depository for the 2012 PFC Term Bonds, the particular PFC Term Bonds to be called for mandatory redemption will be selected in accordance with the arrangements between the City and the securities depository.

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

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

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

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

**Paying Agent/Registrar**

The initial paying agent/registrar is Wilmington Trust, National Association, Dallas, Texas (the “Paying Agent/Registrar”). In the Ordinances, the City covenants to provide a competent and legally qualified bank, trust company, financial institution, or other entity to act as and perform the services of a paying agent/registrar at all times until the Bonds are duly paid, and the City retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new paying agent/registrar must accept the previous paying agent/registrar’s records and act in the same capacity as the previous paying agent/registrar. Any successor paying agent/registrar, selected at the sole discretion of the City, must be a bank, trust company, financial institution, or other entity duly qualified and legally authorized to serve as a paying agent/registrar for the Bonds. Upon a change in the Paying Agent/Registrar for a series of Bonds, the City is required to promptly cause written notice thereof to be sent to each registered owner of such series of Bonds by U.S. mail, first-class postage prepaid.

**Record Date for Interest Payment**

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

**Transfer, Exchange, and Registration**

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

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

**Defaults and Remedies**

The Ordinances provide that if the City defaults in the payment of principal of or interest on any Bonds or defaults in the performance of any duty or covenant provided by law or in the Ordinances, the owner or owners of a Bond may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, the Ordinances expressly provide that any owner of a Bond may at law or in equity, by suit, action, mandamus, or other proceedings filed in any court of competent jurisdiction, enforce and compel performance of all duties required to be performed by the City under the applicable Ordinance, including the imposition of reasonably required rates and charges for the use and services of the Airport System, the deposit of the respective Airport System revenues pledged as security for the Bonds into the Funds and Accounts as provided in the applicable Ordinance, and the application of such revenues, in the manner required in the applicable Ordinance. The issuance of a writ of mandamus is controlled by equitable principles, so it 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 Ordinances do 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 applicable 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 of the Bonds. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, owners may not be able to bring such a suit against the City for breach of the Bonds or authorizing Ordinance covenants. 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 that of the respective pledges of Airport System revenues securing the Bonds, such provision is subject to judicial discretion. 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 any other remedies available to the registered owners, other than for the enforcement of the respective Airport System revenue pledge securing the applicable series of Bonds, 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 opinions of Co-Bond Counsel will note that all opinions relative to the enforceability of the Ordinances and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

**Book-Entry-Only System**

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

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

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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 issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities bonds. 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 City ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing City and Fixed Income Clearing City, 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 companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+" (negative outlook). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

The City may decide to discontinue the use of the system of book-entry-only transfers through DTC (or a successor depository). In that event, Bonds, as appropriate, 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 (1) all rights of ownership must be exercised through DTC and the Book-Entry-Only System and (2) 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 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, printed Bonds will be issued to the DTC Participants or the owner, as the case may be, and such 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" above.

**Payment Record**

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

## SECURITY FOR THE BONDS AND CERTAIN ORDINANCE PROVISIONS

**The 2012 GARBs**

*Outstanding Parity GARBs.* The 2012 GARBs will be issued as "Additional Parity Obligations" which, upon issuance of the 2012 GARBs and the refunding of the Refunded GARBs, will result in the following series of obligations payable from and secured by a first lien on the Gross Revenues of the Airport System being outstanding (collectively, the "Outstanding GARBs").

| | |
|---|---|
| Airport System Revenue Improvement Bonds, Series 2002 (AMT) | $ 3,190,000 |
| Airport System Forward Refunding Revenue Bonds, Series 2003 (AMT) | 9,745,000 |
| Airport System Revenue Refunding Bonds, Series 2006 (AMT) | 9,145,000 |
| Airport System Revenue Improvement Bonds, Series 2007 (AMT) | 78,370,000 |
| Airport System Revenue Improvement and Refunding Bonds, Series 2010A | 42,220,000 |
| Airport System Revenue Refunding Bonds, Taxable Series 2010B | 20,885,000 |
| Airport System Revenue Refunding Bonds, Series 2012 (AMT) | 70,135,000 |
| Total Outstanding GARBs | $233,690,000 |

The City has reserved the right to issue other Additional Parity Obligations (referred to herein as "Additional Parity GARBs") payable from and secured by a first lien on and pledge of Gross Revenues on a parity with such Outstanding GARBs and in any amount upon satisfaction of certain revenue tests required by the GARB Ordinance. The Outstanding GARBs and any Additional Parity GARBs are referred to herein, collectively, as "Parity GARBs."

*Parity Lien Gross Revenue Pledge.* The 2012 GARBs will be payable from and secured by an irrevocable first lien on and pledge of Gross Revenues on a parity with the other Outstanding GARBs and all other Additional Parity GARBs hereafter issued. "Gross Revenues" include all of the revenues and income of every nature and from whatever source derived by the City (but excluding grants and donations for capital purposes, PFC Revenues (defined herein) or any other similar charges (e.g., Customer Facility Charges, generally referred to in the airport industry as "CFCs") from the operation and/or ownership of the Airport System, including the investment income from the investment or deposit of money in each Fund (except the Project Fund and the Rebate Fund (described herein)) created by the Master GARB Ordinance; provided, however, that if the net rent (excluding ground rent) from any lease is pledged to the payment of principal, interest, reserve, or other requirements in connection with revenue bonds issued by the City to provide special facilities for the Airport System for the lessee (or in connection with bonds issued to refund said revenue bonds), the amount of such net rent so pledged and actually used to pay such requirements does not constitute and is not considered as Gross Revenues, but all ground rent, and any net rent in excess of the amounts so pledged and used, must be deposited in the Revenue Fund (described herein). See "SECURITY FOR THE BONDS AND CERTAIN ORDINANCE PROVISIONS – Other Airport System Debt" herein. Without limiting the generality of the foregoing, the term "Gross Revenues" includes all landing fees and charges, ground rentals, space rentals in buildings and all charges made to concessionaires, and all revenues of any nature derived from contracts or use agreements with airlines and other users of the Airport System and its facilities.

**NO MORTGAGE OF OR LIEN ON ANY OF THE PHYSICAL PROPERTIES FORMING A PART OF THE AIRPORT SYSTEM, OR ANY OTHER PROPERTY OR FUNDS OF THE CITY, HAS BEEN PLEDGED AS SECURITY FOR THE PAYMENT OF THE 2012 GARBS. THE 2012 GARBS ARE SPECIAL OBLIGATIONS OF THE CITY, PAYABLE ONLY FROM A FIRST AND PRIOR LIEN ON AND PLEDGE OF THE GROSS REVENUES OF THE AIRPORT SYSTEM. THE TAXING POWER OF NONE OF THE CITY, THE STATE OF TEXAS, NOR ANY POLITICAL SUBDIVISION THEREOF HAS BEEN PLEDGED AS SECURITY FOR THE 2012 GARBS.**

*GARB Rate Covenant.* The City has covenanted in the Master GARB Ordinance to fix, maintain, enforce, charge, and collect rentals, rates, fees, charges and amounts for the use, operation, services, facilities, and occupancy of the Airport System at levels necessary to produce in each fiscal year Gross Revenues at least sufficient to pay the Operation and Maintenance Expenses during each fiscal year and to provide an amount equal to 1.25 times the Annual Debt Service Requirements (which specifically excludes principal and interest on Parity GARBs paid with capitalized interest and funds of the Airport System other than Gross Revenues) during such fiscal year on all then-outstanding Parity GARBs. If the Airport System becomes liable for any other obligations or indebtedness, the City has covenanted in the Master GARB Ordinance to fix, maintain, enforce, charge, and collect additional rates, fees, charges and amounts for use, occupancy, services, facilities, and operation of the Airport System sufficient to establish and maintain funds for the payment thereof.

*GARB Funds and Accounts.* The following paragraphs briefly describe in summary form the manner in which Gross Revenues are utilized and their priority of payment. For a complete description of the flow of funds as they relate to the 2012 GARBs, see Sections 6 through 12 of the Master GARB Ordinance and Sections 8 and 9 of the Thirteenth Supplemental Ordinance thereto, all of which are included in Appendix B attached hereto.

*Revenue Fund*. All Gross Revenues are credited from day to day as received to the credit of the Revenue Fund. Gross Revenues in the Revenue Fund are deposited to the credit of the other Funds and Accounts described in the Master GARB Ordinance, in the manner and amounts therein provided, and each of such Funds and Accounts has priority as to such deposits in the order as discussed in the following paragraphs.

*GARB Bond Fund*. The GARB Bond Fund will be used solely to pay the principal of, redemption premium (if any), and interest on, as well as any other payments incurred in connection with, Parity GARBs, as the principal of the same matures and such interest and other payments come due. Deposits to the GARB Bond Fund are made on or before the 25$^{th}$ day of each month in approximately equal monthly installments, as will be sufficient, together with any other funds on deposit therein and available for such purpose, to pay the interest or principal and interest scheduled to come due on all the Parity GARBs, or required to be redeemed prior to stated maturity, on the next interest payment date.

*GARB Reserve Fund*. The GARB Reserve Fund is established for the purpose of paying principal of or interest on all Parity GARBs at any time when amounts available in the GARB Bond Fund are insufficient for such purpose, and may also be used to finally retire the last debt service requirements on the Parity GARBs. The GARB Reserve Fund is required to contain an amount of money and investments equal in market value to the Average Annual Debt Service Requirements on all Parity GARBs (the "GARB Required Reserve Amount"). If the combined balance of the cash, investments, and/or amount available for draw under a Credit Facility held therein equals less than the GARB Required Reserve Amount, the Master GARB Ordinance requires that monthly deposits be made to the GARB Reserve Fund in an amount equal to 1/60$^{th}$ of the GARB Required Reserve Amount until such time as the balance of the GARB Reserve Fund equals the GARB Required Reserve Amount.

As of the date of delivery of the 2012 GARBs, the GARB Reserve Fund will have on deposit therein approximately $13,593,100.37 (unaudited), which amount exceeds the GARB Required Reserve Amount of $13,139,459.47 determined on September 30, 2011. The amount on deposit in the GARB Reserve Fund consists of cash and investments (approximately $12,993,100.37) and one reserve fund surety policy provided in 2006 by Assured Guaranty Municipal Corp. (as the legal successor in interest to Financial Security Assurance which originally provided such surety policy) with a maximum amount available to be drawn thereon equal to $600,000.00.

The GARB Required Reserve Amount for all Parity GARBs will decrease upon delivery of the 2012 GARBs to an amount equal to $12,565,658.25 due to the refunding of the Refunded GARBs to achieve debt service savings. Consequently, the Average Annual Debt Service Requirements will not increase, and no additional funds will be required to be deposited into the GARB Reserve Fund, upon the issuance and delivery of the 2012 GARBs. Upon the delivery of the 2012 GARBs, $573,801.22 of the amount on deposit in the GARB Reserve Fund in excess of the GARB Required Reserve Amount will be withdrawn from the GARB Reserve Fund and contributed into the Escrow Fund to refund the Refunded GARBs.

*Operation and Maintenance Account in the Revenue Fund*. All amounts in the Revenue Fund in excess of those required to be made to the credit of the GARB Bond Fund and the GARB Reserve Fund are deemed to constitute, and are designated as, the Operation and Maintenance Account in the Revenue Fund. The amounts in the Operation and Maintenance Account are, first, used to pay all Operation and Maintenance Expenses, and second, transferred to the Subordinated Debt Fund (at the times and in the amounts required by any Supplement to the Master GARB Ordinance authorizing such Subordinated Debt) to provide for the payment of principal, redemption premium, if any, and interest on, and other payments (excluding any Operation and Maintenance Expenses, but including payments to a related debt service reserve fund) incurred in connection with, any Subordinated Debt, including the 2012 PFC Bonds and all other Parity PFC Bonds (defined below). Such payments and transfers described in the preceding sentence have priority over all deposits to the credit of the Capital Improvement Fund as hereinafter provided. No deposit may ever be made to the credit of the Capital Improvement Fund if any such deposit would reduce the amount on hand in the Operation and Maintenance Account to less than the budgeted or estimated Operation and Maintenance Expenses for the ensuing three calendar months.

*Subordinated Debt Fund*. For the sole purpose of paying the principal amount of, redemption premium, if any, and interest on, and other payments (excluding any Operation and Maintenance Expenses, but including payments to a related debt service reserve fund) incurred in connection with Subordinated Debt, the City may create in an ordinance supplementing the Master GARB Ordinance which authorizes the issuance of Subordinated Debt a separate fund designated as the Subordinated Debt Fund. The PFC Bond Fund described herein is considered a Subordinated Debt Fund.

*Capital Improvement Fund*. After making all other required deposits and transfers, if any, to the GARB Bond Fund, the GARB Reserve Fund, the Operation and Maintenance Account in the Revenue Fund, and the Subordinated Debt Fund, the City will transfer the balance remaining in the Operation and Maintenance Account in the Revenue Fund at the end of each Fiscal Year and deposit the same to the credit of the Capital Improvement Fund. The Capital Improvement Fund will be used for the purposes, and with priority of claim thereon, as follows: first, for the payment of principal, interest, and reserve requirements on any Parity GARBs if funds on deposit in the GARB Bond Fund and the GARB Reserve Fund are insufficient to make such payments; second, for the payment of principal, interest, and reserve requirements on Subordinated Debt if funds on deposit in the Subordinated Debt Fund and any related debt service reserve fund are insufficient to make such payments; third, for the purpose of paying the costs of improvements, enlargements, extensions, additions, replacements, repairs, or other capital expenditures related to the Airport System; and fourth, for any other lawful purpose related to the Airport System.

*Rebate Fund*. The Rebate Fund is for the sole benefit of the United States of America and will not be subject to the lien created by the GARB Ordinance or to the claim of any other Person, including the holders of the 2012 GARBs. Amounts deposited to the Rebate Fund, together with any investment earnings thereon, will be held in trust and applied solely as provided in section 148 of the Code (defined herein).

*Additional Parity GARBs*. The City may issue Additional Parity GARBs on parity with all then-outstanding Parity GARBs (including the 2012 GARBs) in accordance with the provisions and upon satisfaction of the requirements set forth in Section 17 of the Master GARB Ordinance, which is included in Appendix B attached hereto. The City may also issue obligations payable, in whole or in part, from the Subordinate Net Revenues on a parity with or subordinate to the 2012 PFC Bonds and all other Parity PFC Bonds under certain situations described in Section 11 of the Thirteenth Supplemental Ordinance to the Master GARB Ordinance, which is included in Appendix C attached hereto.

*Subordinated Debt*. While any Parity GARBs are outstanding and unpaid, the City cannot additionally encumber the Gross Revenues in any manner, except as permitted in the Master GARB Ordinance in connection with its issuance of Additional Parity GARBs, unless said encumbrance is made junior and subordinate in all respect to the liens, pledges, covenants, and agreements of the Master GARB Ordinance and any Supplement authorizing the issuance of any Parity GARBs; provided, however, the right of the City to issue obligations payable from a lien which is subordinated to the first lien on Gross Revenues securing the Parity GARBs, including Subordinated Debt, is specifically recognized and retained. The Outstanding PFC Bonds (defined herein), including the 2012 PFC Bonds, payable from the PFC Revenues (defined herein) and by a first lien on and pledge of the Subordinate Net Revenues, represent the only Subordinated Debt currently outstanding.

**The 2012 PFC Bonds**

*Outstanding PFC Bonds.* The 2012 PFC Bonds will be issued on parity with the following series of bonds payable from and secured by a lien on and pledge of the PFC Bond Pledged Revenues (defined herein), which parity lien bonds (upon issuance of the 2012 PFC Bonds) are referred to herein, collectively, as the "Outstanding PFC Bonds."

| | |
|---|---|
| Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2002 (AMT) | $ 1,165,000 |
| Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2005 (AMT) | 32,635,000 |
| Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2007 (AMT) | 67,650,000 |
| Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement and Refunding Bonds, Series 2010 | 36,375,000 |
| Passenger Facility Charge and Subordinate Lien Airport System Revenue Refunding Bonds, Series 2012 (AMT) | 25,790,000 |
| Total Outstanding PFC Bonds | $163,615,000 |

The City has reserved the right to issue additional obligations payable from the PFC Bond Pledged Revenues on a parity with the Outstanding PFC Bonds in any amount upon satisfaction of certain revenue tests required by the PFC Bond Ordinance (such additional obligations, the "Additional Parity PFC Bonds"). The Outstanding PFC Bonds and any Additional Parity PFC Bonds are referred to herein, collectively, as "Parity PFC Bonds."

*PFC Bond Pledged Revenues.* The 2012 PFC Bonds, together with the other Outstanding PFC Bonds and all other Additional Parity PFC Bonds hereinafter issued, will be payable from and secured by the "PFC Bond Pledged Revenues," herein defined to mean: (1) an irrevocable first lien on and pledge of the PFC Revenues (defined herein), and (2) a lien on and pledge of the Subordinate Net Revenues (which revenues are subordinated to the timely payment of debt service on all Parity GARBs which are then outstanding or subsequently issued) and the payment of Operation and Maintenance Expenses. "PFC Revenues" is defined as all revenues received by the City from the imposition of passenger facility fees or charges on each qualifying passenger of an air carrier or foreign air carrier boarding an aircraft at the Airport in accordance with the provisions of 49 U.S.C. § 40117, as may be amended from time to time, or other applicable federal law. PFC Revenues may only be used to pay approved capital and financing costs and cannot be used to fund Operation and Maintenance Expenses.

"Subordinate Net Revenues" means Net Revenues (as hereinafter defined) of the Airport System remaining after all amounts then required by the Master GARB Ordinance, and any Supplement related thereto, to be transferred to the GARB Bond Fund and the GARB Reserve Fund established by the Master GARB Ordinance to secure Parity GARBs have been made. "Net Revenues" is defined as Gross Revenues after deducting Operation and Maintenance Expenses. "Operation and Maintenance Expenses" includes the reasonable and necessary current expenses of the City paid or accrued in administering, operating, maintaining, and repairing the Airport System. Without limiting the generality of the foregoing, the term "Operation and Maintenance Expenses" includes all costs directly related to the Airport System, that is: (1) collecting Gross Revenues and of making any refunds therefrom lawfully due others; (2) engineering, audit reports, legal, and other overhead expenses directly related to its administration, operation, maintenance, and repair; (3) salaries, wages, and other compensation of officers and employees, and payments to pension, retirement, health and hospitalization funds, and other insurance including self-insurance for the foregoing (which will not exceed a level comparable to airports of a similar size and character); (4) costs of routine repairs, replacements, renewals, and alterations not constituting a capital improvement, occurring in the usual course of business; (5) utility services; (6) expenses of general administrative overhead of the City allocable to the Airport System; (7) equipment, materials and supplies used in the ordinary course of business not constituting a capital improvement, including ordinary and current rentals of equipment or other property; (8) fidelity bonds, or a properly allocable share of the premium of any blanket bond, pertaining to the Airport System or Gross Revenues or any other moneys held hereunder or required hereby to be held or deposited hereunder; and (9) costs of carrying out the provisions of the Master GARB Ordinance, including paying agent's fees and expenses; costs of insurance required thereby, or a properly allocable share of any premium of any blanket policy pertaining to the Airport System or Gross Revenues, and costs of recording, mailing, and publication. To provide further clarification, Operation and Maintenance Expenses do not include the following: (1) any allowances for depreciation; (2) costs of capital improvements; (3) reserves for major capital improvements, Airport System operations, maintenance or repair; (4) any allowances for redemption of, or payment of interest or premium on, Debt; (5) any liabilities incurred in acquiring or improving properties of the Airport; (6) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities to the extent that they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases; (7) liabilities based upon the City's negligence or other grounds not based on contract; and (8) to the extent Federal Payments may not be included as Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to the Federal Payments for such period.

Passenger Facility Charge ("PFC") collection authority was effective on August 29, 2001, and the City began collecting on November 1, 2001 a PFC of $3.00 (less an $0.08 air carrier collection charge) per qualifying passenger enplaned at the Airport pursuant to approval from the Federal Aviation Administration (the "FAA") to fund the approved element of the CIP (defined herein) with PFC Revenues. On October 1, 2007, the City began collecting, as previously approved by the FAA, a PFC of $4.50 (less an $0.11 air carrier collection charge) per qualifying passenger enplaned at the Airport, which represents the current, and the statutory maximum PFC. Absent application for and receipt of an extension, said PFC collection authority is expected to expire upon the City's aggregate collection of $574,569,629 in PFC Revenues, which represents the amount the FAA authorized the City to collect. As of January 2012, the City has collected $118,372,255 (unaudited) in PFC Revenues.

**NO MORTGAGE OF OR LIEN ON ANY OF THE PHYSICAL PROPERTIES FORMING A PART OF THE AIRPORT SYSTEM, OR ANY OTHER PROPERTY OR FUNDS OF THE CITY, HAS BEEN PLEDGED AS SECURITY FOR THE PAYMENT OF THE 2012 PFC BONDS. THE 2012 PFC BONDS ARE SPECIAL OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM A LIEN ON AND PLEDGE OF THE PFC BOND PLEDGED REVENUES. THE TAXING POWER OF NONE OF THE CITY, THE STATE OF TEXAS, NOR ANY POLITICAL SUBDIVISION THEREOF HAS BEEN PLEDGED AS SECURITY FOR THE 2012 PFC BONDS.**

*PFC Bond Budget and Revenue Covenants*. The City has covenanted in the Master PFC Bond Ordinance to prepare an Annual Budget for the Airport System prior to the beginning of each fiscal year. The City has also covenanted and agreed with all holders of the Parity PFC Bonds that each Annual Budget will be prepared in a manner which will indicate that the reasonably expected receipt of PFC Revenues during each fiscal year (together with any funds reasonably expected to be on deposit during such fiscal year in the PFC Revenue Fund or the PFC Bond Capital Improvement Fund from prior fiscal years and available for purposes of acquiring and constructing PFC Eligible Airport-Related Projects), after payment of all costs to acquire and construct PFC Eligible Airport-Related Projects with PFC Revenues during such fiscal year, will provide an amount equal to 1.25 times the Annual Debt Service Requirements during such fiscal year on all then-outstanding Parity PFC Bonds.

In the event any Parity PFC Bonds remain Outstanding and the City is no longer permitted by law to levy and collect a PFC in an amount sufficient to provide revenues to satisfy the aforementioned budget covenant, the City has further covenanted that it will at all times, fix, maintain, enforce, charge, and collect rates, fees, charges, and amounts for the use, occupancy, services, facilities, and operation of the Airport System that will produce in each fiscal year Subordinate Net Revenues in an amount at least equal to 1.10 times the Annual Debt Service Requirements during each fiscal year on all then-outstanding Parity PFC Bonds.

*PFC Bond Funds and Accounts*. The following paragraphs briefly describe in summary form the manner in which PFC Revenues are utilized and their priority of payment. For a complete description of the flow of funds as they relate to the Parity PFC Bonds, see Sections 6 through 10 of the Master PFC Bond Ordinance and Sections **6** and 9 of the Fifth Supplemental Ordinance to the Master PFC Bond Ordinance, all of which are included in Appendix C attached hereto.

*PFC Revenue Fund*. All PFC Revenues are credited as received from day to day to the credit of the PFC Revenue Fund. PFC Revenues held in the PFC Revenue Fund are deposited, on or before the 25th day of each month, to the credit of the other funds and accounts described in the Master PFC Bond Ordinance in the manner, amounts, and order of priority hereinafter described.

*PFC Bond Fund*. The PFC Bond Fund will be used solely to pay the principal of, redemption premium (if any), and interest on, as well as any other payments incurred in connection with, Parity PFC Bonds, as the principal of the same matures and such interest and other payments come due. Deposits to the PFC Bond Fund are made on or before the 25th day of each month in approximately equal monthly installments, in the amount necessary, together with any other funds on deposit therein and available for such purpose, to pay scheduled interest on and/or principal of *outstanding* Parity PFC Bonds required to be redeemed on the next applicable interest payment date.

*PFC Bond Reserve Fund*. The PFC Bond Reserve Fund is established for the purpose of paying principal of or interest on all Parity PFC Bonds at any time when amounts available in the PFC Bond Fund are insufficient for such purpose, and may also be used to finally retire the last debt service requirements on the Parity PFC Bonds. The PFC Bond Reserve Fund is required to contain an amount of money and investments equal in market value to the Average Annual Debt Service Requirements on all Parity PFC Bonds (the "PFC Bond Reserve Fund Requirement"). If the combined balance of the cash, investments, and/or amount available for draw under a Credit Facility held therein equals less than the PFC Bond Reserve Fund Requirement (hereinafter defined), monthly deposits are made to the PFC Bond Reserve Fund in an amount equal to 1/60th of the PFC Bond Reserve Fund Requirement until such time as the balance of the PFC Bond Reserve Fund equals the PFC Bond Reserve Fund Requirement.

As of the date of delivery of the 2012 PFC Bonds, the PFC Bond Reserve Fund will have on deposit therein approximately $9,958,677.31 (unaudited), which amount exceeds the PFC Bond Required Reserve Amount of $9,542,062.93 determined on September 30, 2011. The amount on deposit in the PFC Bond Fund consists of cash and investments (approximately $2,895,598.44) and two separate reserve fund surety policies provided in 2005 and 2007 by Assured Guaranty Municipal Corp. (as the legal successor in interest to Financial Security Assurance which originally provided such surety policies) with a maximum amount available to be drawn thereon equal to $2,685,000.00 and $4,378,078.87, respectively.

The PFC Bond Required Reserve Amount will decrease upon delivery of the 2012 PFC Bonds to an amount equal to $9,347,304.14 due to the refunding of the Refunded PFC Bonds to achieve debt service savings. Consequently, the Average Annual Debt Service Requirements will not increase, and no additional funds will be required to be deposited into the PFC Bond Reserve Fund, upon the issuance and delivery of the 2012 PFC Bonds. Upon the delivery of the 2012 PFC Bonds, $194,758.79 of the amount on deposit in the PFC Bond Reserve Fund in excess of the PFC Bond Reserve Fund Requirement will be withdrawn from the PFC Bond Reserve Fund and contributed into the Escrow Fund to refund the Refunded PFC Bonds.

*Subordinated PFC Bond Debt Fund*. For the sole purpose of paying the principal amount of, redemption premium, if any, and interest on, and other payments incurred in connection with Subordinated PFC Debt, the City may create in an ordinance supplementing the Master PFC Bond Ordinance which authorizes the issuance of Subordinated PFC Debt a separate fund designated as the Subordinated PFC Debt Fund.

*PFC Capital Improvement Fund*. Subject to satisfying the requirements of the Master PFC Bond Ordinance, the City will transfer the balance remaining in the PFC Revenue Fund at the end of each month into the PFC Capital Improvement Fund. The PFC Capital Improvement Fund will be used for the purposes and in the following order of priority: (1) for the payment of principal of, interest on, and debt service reserve requirements relating to any Parity PFC Bonds to the extent funds on deposit in the PFC Bond Fund and the PFC Bond Reserve

Fund, respectively, are insufficient to make such payments; (2) for the payment of principal of, interest on, and debt reserve requirements on Subordinated PFC Debt (if any) to the extent funds on deposit in the Subordinated PFC Debt Fund and any related debt service reserve fund, respectively, are insufficient to make such payments; (3) for the purpose of paying the costs of PFC Eligible Airport-Related Projects; and (4), for any other purpose permitted by applicable state and federal law related to the Airport System.

*Additional Parity PFC Debt*. The City may issue Additional Parity PFC Bonds on a parity with all then-outstanding Parity PFC Bonds (including the 2012 PFC Bonds) in accordance with the provisions and upon satisfaction of the requirements set forth in Section 15 of the Master PFC Bond Ordinance, which is included in Appendix C attached hereto.

*Subordinated PFC Bonds*. While any Parity PFC Bonds are outstanding and unpaid, the City cannot additionally encumber the PFC Revenues in any manner, except as permitted in the Master PFC Bond Ordinance in connection with its issuance of Additional Parity PFC Bonds, unless said encumbrance is made junior and subordinate in all respect to the liens, pledges, covenants, and agreements of the Master PFC Bond Ordinance and any ordinance supplemental thereto authorizing the issuance of any then-outstanding Parity PFC Bonds; provided, however, that the right of the City to issue obligations payable from a lien which is subordinated to the first lien on PFC Revenues securing the Parity PFC Bonds, including Subordinated PFC Debt, is specifically recognized and retained. The City has not issued any Subordinated PFC Debt.

**Other Airport System Debt**

In addition, under the terms of the Ordinances, the City may, from time to time, issue: (1) debt which would be secured by a lien on and pledge of the Subordinate Net Revenues of the Airport System and would be junior and inferior to the pledge of the Gross Revenues securing the Parity GARBs and on a parity with or subordinate to the lien on the Subordinate Net Revenues that further secures the Parity PFC Bonds and (2) Special Facilities Debt to provide Special Facilities related to the Airport System which are separately secured by a pledge of certain rentals derived from the leasing of such Special Facilities.

As of September 30, 2011, the only outstanding Special Facilities Debt were the "City of San Antonio, Texas Special Facilities Airport Revenue Refunding Bonds, Series 1995 (The Cessna Aircraft Company Project)," in the principal amount of $2,800,000.

**Perfection of Security Interest in Revenue Pledges**

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

**Amendments to Ordinances**

*Amendments to GARB Ordinance*. The City has reserved the right to amend the Master GARB Ordinance under the conditions permitted by Section 19 thereof. Certain amendments may be made without the consent of any holders of the Parity GARBs. Other amendments would require the consent of the holders of at least a majority in aggregate principal amount of the Parity GARBs. For a complete description of the manner in which the Master GARB Ordinance may be amended, see Section 19 thereof included in Appendix B attached hereto. In addition, the City has reserved the right to amend the Thirteenth Supplemental Ordinance under the conditions permitted by Section 11 thereof. Certain amendments may be made without the consent of any holders of the 2012 GARBs; other amendments would require the consent of the holders of at least a majority in aggregate principal amount of the 2012 GARBs. For a complete description of the manner in which the Thirteenth Supplemental Ordinance may be amended, see Section 11 thereof included in Appendix B attached hereto.

*Amendments to PFC Bond Ordinance*. The City has reserved the right to amend the Master PFC Bond Ordinance under the conditions permitted by Section 17 thereof. Certain amendments may be made without the consent of any holders of the Parity PFC Bonds. Other amendments would require the consent of the holders of at least a majority in aggregate principal amount of the Parity PFC Bonds. For a complete description of the manner in which the Master PFC Bond Ordinance may be amended, see Section 17 thereof included in Appendix C attached hereto. In addition, the City has reserved the right to amend the Fifth Supplemental Ordinance under the conditions permitted by Section 10 thereof. Certain amendments may be made without the consent of any holders of the 2012 PFC Bonds; other amendments would require the consent of the holders of at least a majority in aggregate principal amount of the 2012 PFC Bonds. For a complete description of the manner in which the Fifth Supplemental Ordinance may be amended, see Section 10 thereof included in Appendix C attached hereto.

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## DEBT SERVICE REQUIREMENTS

**The 2012 GARBs**

The following schedule reflects the total principal and interest requirements on all outstanding Parity GARBs, taking into account the issuance of the 2012 GARBs and the refunding of the Refunded GARBs.

| Fiscal Year Ended 09/30 | Outstanding GARB Debt Services ($)[1] | Less: Refunded GARB Debt Service ($) | 2012 GARBs Principal ($) | 2012 GARBs Interest ($) | 2012 GARBs Total Debt Service ($) | Total GARB Debt Service ($) |
|---|---|---|---|---|---|---|
| 2012 | 25,115,998 | 2,071,171 | | | | 23,044,827 |
| 2013 | 24,909,348 | 7,512,343 | 3,215,000 | 3,328,116 | 6,543,116 | 23,940,121 |
| 2014 | 24,287,823 | 7,518,568 | 3,545,000 | 2,999,950 | 6,544,950 | 23,314,205 |
| 2015 | 21,536,038 | 7,528,293 | 3,700,000 | 2,858,150 | 6,558,150 | 20,565,895 |
| 2016 | 21,546,037 | 7,535,655 | 3,855,000 | 2,710,150 | 6,565,150 | 20,575,532 |
| 2017 | 21,548,317 | 7,540,080 | 4,050,000 | 2,517,400 | 6,567,400 | 20,575,637 |
| 2018 | 21,556,986 | 7,545,993 | 4,260,000 | 2,314,900 | 6,574,900 | 20,585,893 |
| 2019 | 16,587,246 | 7,558,263 | 4,420,000 | 2,165,800 | 6,585,800 | 15,614,783 |
| 2020 | 16,593,509 | 7,566,763 | 4,585,000 | 2,011,100 | 6,596,100 | 15,622,846 |
| 2021 | 16,601,184 | 7,573,475 | 4,775,000 | 1,827,700 | 6,602,700 | 15,630,409 |
| 2022 | 16,617,009 | 7,586,013 | 4,980,000 | 1,636,700 | 6,616,700 | 15,647,696 |
| 2023 | 16,624,021 | 7,593,325 | 5,185,000 | 1,437,500 | 6,622,500 | 15,653,196 |
| 2024 | 16,633,659 | 7,604,888 | 5,455,000 | 1,178,250 | 6,633,250 | 15,662,021 |
| 2025 | 16,639,800 | 7,609,650 | 5,735,000 | 905,500 | 6,640,500 | 15,670,650 |
| 2026 | 16,653,263 | 7,622,088 | 6,030,000 | 618,750 | 6,648,750 | 15,679,925 |
| 2027 | 16,663,438 | 7,635,888 | 6,345,000 | 317,250 | 6,662,250 | 15,689,800 |
| 2028 | 9,029,113 | | | | | 9,029,113 |
| 2029 | 9,029,825 | | | | | 9,029,825 |
| 2030 | 9,028,900 | | | | | 9,028,900 |
| 2031 | 9,030,563 | | | | | 9,030,563 |
| 2032 | 9,029,925 | | | | | 9,029,925 |
| 2033 | 4,474,600 | | | | | 4,474,600 |
| 2034 | 4,452,675 | | | | | 4,452,675 |
| 2035 | 2,807,613 | | | | | 2,807,613 |
| 2036 | 2,809,200 | | | | | 2,809,200 |
| 2037 | 2,810,013 | | | | | 2,810,013 |
| 2038 | 2,809,788 | | | | | 2,809,788 |
| 2039 | 2,808,263 | | | | | 2,808,263 |
| 2040 | 2,810,175 | | | | | 2,810,175 |
| Total | $381,044,329 | $115,602,456 | $70,135,000 | $28,827,216 | $98,962,216 | $364,404,089 |

[1] Includes the Refunded GARBs.

**The 2012 PFC Bonds**

The following schedule reflects the total principal and interest requirements on all outstanding Parity PFC Bonds, taking into account the issuance of the 2012 PFC Bonds and the refunding of the Refunded PFC Bonds.

| Fiscal Year Ended 09/30 | Outstanding PFC Bond Debt Service ($)[1] | Less Refunded PFC Bond Debt Service ($) | 2012 PFC Bonds | | | Total PFC Bond Debt Service ($) |
|---|---|---|---|---|---|---|
| | | | Principal ($) | Interest ($) | Total Debt Service ($) | |
| 2012 | 13,158,400 | 758,775 | | | | 12,399,625 |
| 2013 | 13,156,663 | 2,747,550 | 1,135,000 | 1,285,032 | 2,420,032 | 12,829,145 |
| 2014 | 13,160,588 | 2,746,825 | 1,260,000 | 1,160,450 | 2,420,450 | 12,834,213 |
| 2015 | 13,167,038 | 2,752,075 | 1,315,000 | 1,110,050 | 2,425,050 | 12,840,013 |
| 2016 | 13,168,288 | 2,757,725 | 1,375,000 | 1,057,450 | 2,432,450 | 12,843,013 |
| 2017 | 13,168,713 | 2,758,488 | 1,445,000 | 988,700 | 2,433,700 | 12,843,925 |
| 2018 | 13,175,613 | 2,759,363 | 1,515,000 | 916,450 | 2,431,450 | 12,847,700 |
| 2019 | 13,178,338 | 2,765,063 | 1,600,000 | 840,700 | 2,440,700 | 12,853,975 |
| 2020 | 13,180,325 | 2,768,713 | 1,680,000 | 760,700 | 2,440,700 | 12,852,312 |
| 2021 | 13,185,613 | 2,772,375 | 1,770,000 | 676,700 | 2,446,700 | 12,859,938 |
| 2022 | 13,179,900 | 2,770,788 | 1,855,000 | 588,200 | 2,443,200 | 12,852,312 |
| 2023 | 13,196,088 | 2,778,950 | 1,960,000 | 495,450 | 2,455,450 | 12,872,588 |
| 2024 | 13,199,700 | 2,786,075 | 2,065,000 | 397,450 | 2,462,450 | 12,876,075 |
| 2025 | 13,190,113 | 2,781,900 | 2,160,000 | 294,200 | 2,454,200 | 12,862,413 |
| 2026 | 13,206,738 | 2,791,688 | 2,280,000 | 186,200 | 2,466,200 | 12,881,250 |
| 2027 | 13,210,275 | 2,794,388 | 2,375,000 | 95,000 | 2,470,000 | 12,885,887 |
| 2028 | 10,409,288 | | | | | 10,409,288 |
| 2029 | 10,410,581 | | | | | 10,410,581 |
| 2030 | 10,413,288 | | | | | 10,413,288 |
| 2031 | 7,728,038 | | | | | 7,728,038 |
| 2032 | 7,721,213 | | | | | 7,721,213 |
| 2033 | 2,393,713 | | | | | 2,393,713 |
| 2034 | 2,395,763 | | | | | 2,395,763 |
| 2035 | 2,393,350 | | | | | 2,393,350 |
| 2036 | 2,396,475 | | | | | 2,396,475 |
| 2037 | 2,392,306 | | | | | 2,392,306 |
| 2038 | 2,393,031 | | | | | 2,393,031 |
| 2039 | 2,393,113 | | | | | 2,393,113 |
| 2040 | 2,397,281 | | | | | 2,397,281 |
| Total | $276,719,833 | $42,290,741 | $25,790,000 | $10,852,732 | $36,642,732 | $271,071,824 |

[1] Includes the Refunded PFC Bonds.

## 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 the largest commercial passenger aircraft. Its two terminal buildings contain 24 second-level gates. Presently, the following domestic air carriers provide scheduled service to San Antonio: AirTran (a wholly-owned subsidiary of Southwest Airlines), American, Delta, Frontier (will discontinue service as of May 2012), Southwest, United, 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 will begin 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 45th based on total U.S. passenger traffic for calendar year 2010. For the calendar year ended December 31, 2011, the Airport enplaned approximately 4.1 million passengers. Airport management has determined that approximately 94% of the Airport's 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 are available to the traveling public from approximately 245 commercial businesses which lease facilities at the Airport and Stinson Municipal Airport ("Stinson").

The City updated the Master Plan ("Vision 2050") which was approved by City Council on March 31, 2011 and provides direction for the development of the Airport for five, ten, and twenty years into the future. For the five-year plan, 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 is expected to be completed by the summer of 2012.

**Capital Improvement Plan**

The six-year (FY 2012 – FY 2017) Capital Improvement Plan (the "CIP") totals approximately $394 million, which is comprised of certain projects including the design and construction of a consolidated rental car facility, airfield improvements, parking revenue control system, 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 21 and Taxiway "N." This project extends Runway 21 and Taxiway "N" a distance of 1,000 feet in support of increased air traffic and to enhance the Airport's capacity.
- 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 3/21 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 3/21 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.
- Parking Revenue Control System. This project replaces the existing system with an integrated revenue control system for parking and other ground transportation operations.
- 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.

Subsequent to the 2012-2017 CIP, a Pavement Maintenance Management Study (the "Study") identified additional pavement management priorities. The City is currently working with the FAA to prioritize repavement/reconstruction projects and identify grant funding. As a result of the Study and potential grant funding, the 2012-2017 CIP will need to be reviewed/revised for the next CIP package and may require additional funding.

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

| Funding Sources | Projected Funding ($) |
|---|---|
| **Federal Grants** | |
| Entitlements/General Discretionary | 14,676,984 |
| Discretionary | 65,487,180 |
| **General Discretionary** | |
| Noise Discretionary | 48,000,000 |
| TxDOT Grant | 4,537,499 |
| **Passenger Facility Charges ("PFCs")** | |
| Pay-As-You-Go | 16,931,638 |
| PFC-Secured Bonds | 12,077,500 |
| **Other Funding** | |
| Airport Funds | 53,050,750 |
| Airport Revenue Bonds | 50,974,531 |
| Customer Facility Charge | 128,115,000 |
| **Total** | **393,851,082** |

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

| Improvement | Amount ($) |
|---|---|
| **Airport** | |
| Terminal Facilities | 43,579,531 |
| Airfield Improvements | 114,311,552 |
| Acoustical Treatment Program | 60,000,000 |
| Aircraft Apron | 9,520,000 |
| Consolidated Rental Car Facility | 128,115,000 |
| Other Projects | 29,275,000 |
| **Stinson** | 9,049,999 |
| **Total** | **393,851,082** |

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

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

On October 1, 2007, the City began collecting a $4.50 PFC (less 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 September 30, 2011 the City has collected $116,926,670 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 ("ARFF") Vehicles
- Conduct Environmental Impact Statement
- Reconstruct Terminal Area Roadway
- Install Noise Monitoring Equipment
- Install Terminal and Airfield Security Improvements
- Install Airfield Electrical Improvements
- PFC Development and Administration Costs

*CFC Projects.* On March 8, 2012, the City Council authorized the Airport to impose the collection of a $4.50 per transaction day 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 will be collected on all rentals at the Airport beginning 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, to finance the construction and other costs associated with the ConRAC. The CFC will not be pledged to the Bonds.

**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 which 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 "AAC" or the "Commission"). The Commission's primary purpose is to advise the Department regarding policies, including any noise-related issues affecting the Airport System and air transportation initiatives.

Frank R. Miller, Director of Aviation, has overall responsibility for the management, administration and planning of the Airport System. Mr. Miller has an experienced staff to aid him in carrying out the responsibilities of his position. The principal members of the Department's staff include the Director, the Assistant Aviation Director – Operations, the Assistant Aviation Director – Finance and Administration, and the Assistant Aviation Director – Planning and Development, Construction, and Facilities Maintenance. Brief descriptions of the professional experience of each of the principal members of the Department's executive staff are provided below under "Senior Management."

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

With the completion of the FY 2002 – FY 2012 CIP in November 2010, the Airport has a fully automated baggage screening and handling system that will service both Terminal A and the new Terminal B. This system includes baggage handling equipment, explosive detection screening equipment, and baggage makeup systems. The City entered into an agreement with the TSA for reimbursements up to $386,000 for FY 2010 for the costs associated with the use of Airport police officers at the Airport security screening checkpoints in each terminal. The Department also utilizes five explosive detection canine teams. The Airport police officers, assigned with their dogs, provide additional coverage for detection of explosive materials at the Airport in the baggage pickup areas, terminals, parking, cargo, and aircraft. This program is supported by the TSA with reimbursement to the Airport System at $300,000 for FY 2010. These reimbursements are expected to continue through FY 2013 and thereafter be renegotiated with the TSA.

As of October 1, 2011, the Airport System has approximately 493 authorized positions as follows:

| | | | |
|---|---|---|---|
| Administration | 84 | Parking/GT | 61 |
| Police/Security | 108 | Airport Operations | 48 |
| Fire Rescue | 33 | Stinson Airport | 9 |
| Facilities Maintenance | 150 | | |

**Senior Management**

*Director of Aviation*. Frank R. Miller, an Accredited Airport Executive ("A.A.E."), has over 30 years experience managing airports. He has held the position of Director of Aviation with the City since 2009. He held the position of Airport Director in Pensacola, Florida for 22 years prior to joining the City. He has held similar positions in Juneau, Alaska, and with the Walker Field Airport Authority in Grand Junction, Colorado. Mr. Miller is a member of the Governing Board(s) of ACI-NA and served as the 2011 Board Chair. Mr. Miller is also a member of the Governing Board for ACI-World. Mr. Miller has previously served as Chairman of ACI-NA's Small Airports Committee and served on the ACI-NA Board of Directors in 2000-2001 and 2004-2006. Mr. Miller is a member of the American Association of Airport Executives (the "AAAE") and has served on the AAAE Board of Directors. Mr. Miller is also a member of the Texas Commercial Airports Association and has been elected to serve as Treasurer from 2011-2012. Mr. Miller was Chairman of the Secure Airports for Florida's Economy Council created by the Florida legislature and charged with identifying new and innovative financing sources to help Florida's airports address increasing security and infrastructure needs. Mr. Miller is also a former president of the Southeast Chapter of AAAE and of the Florida Airport Managers Association and a former chair of the Northwest Region of the Continuing Florida Aviation System Planning Process ("CFASPP") and of the statewide CFASPP committee.

*Assistant Aviation Director – Finance and Administration*. Ellen Erenbaum is responsible for Airport System finance, properties, procurement and administration. Ms. Erenbaum has almost 29 years experience in airport management. She has held the position of Assistant Aviation Director since June 2010. Prior to joining the City, she was with the Houston Airport System for 12 years. She also has airport related experience with the Piedmont Triad Airport Authority, KPMG Peat Marwick's Airport Consulting Group, and the City of Atlanta Finance Department. She has participated in the issuance of over $4.0 billion of airport revenue bonds. Ms. Erenbaum is an active member of the ACI-NA Economic Committee and the ACI-NA CFO Forum. Ms. Erenbaum earned a Master of Business Administration in real estate and urban affairs from Georgia State University and a Bachelors of Business Administration in accounting from Oglethorpe University. Ms. Erenbaum is currently a candidate for the International Airport Professional ("IAP") designation.

*Assistant Aviation Director – Planning and Development, Construction, and Facilities Maintenance*. Loyce D. Clark, has accomplished more than 40 years of combined experience in management in the areas of aviation, airport consulting, airport management and development, real estate, property development, planning and regulatory affairs interface. Mr. Clark has held the position of Assistant Aviation Director since January 2011, overseeing Planning and Development, Facilities/Airside Maintenance, Information Technology, Environmental Stewardship, Custodial and Terminal Services. His career includes the founder, President and Owner of Excel Aviation Consulting Service, a small airport consulting firm, a practicing Architect with the firm of Wiseman, Bland, Foster and O'Brian Architects, Apprentice Air Traffic Controller with the Federal Aviation Administration, Manager of Design and Engineering with the Trammell-Crow Corporation, Project Manager and Manager of Properties and Facilities with Federal Express Corporation, and Director of Planning and Development with the Birmingham Airport Authority where he managed over $900 million of capital projects over approximately 20 years. Mr. Clark was successful in the development of many public and private facilities throughout the eastern, southeastern and southwestern United States including 499 facilities with Federal Express Corporation. He has chaired many boards and served in the capacity of president with various private and non-profit boards and private organizations such as Kiwanis International, National YMCA, and Travelers Aid Society. His holds a degree in Architectural Engineering from the West Tennessee Community College and is a Commissioned Kentucky Colonel.

*Assistant Aviation Director – Operations*. Tim O'Krongley, A.A.E., IAP, has held the position of Assistant Aviation Director since 2007. Mr. O'Krongley has over 20 years of experience in airport management and currently oversees the Operations Unit, which includes Security, Communications, Strategic Planning, ARFF, Safety Management System (SMS), Wildlife, Parking/Ground Transportation, Operations, and Stinson. Mr. O'Krongley has also overseen other divisions at the Airport, including Planning and Development, Facilities and Airfield Maintenance, Business Development, Information Technology, and Environmental Stewardship. Prior to his appointment as the Assistant Aviation Director, Mr. O'Krongley was the Airport Manager for Stinson for nine years. During his tenure at Stinson, the Airport experienced the largest growth since World War II, to include an expanded terminal building, a runway extension, a new Master Plan, an increase in the tenant occupancy rate from 50% to 100% and aircraft operations tripled to 165,000 operations per year. Mr. O'Krongley earned his Masters of Science and Bachelors of Science degrees from Embry-Riddle Aeronautical University and is an A.A.E. and an Accredited IAP.

*Airport Advisory Commission*. As stated earlier, the Commission is comprised of 19 members appointed by City Council at-large for staggered two-year terms. Membership on the AAC includes representation from the following: (1) three aviation industry members, including but not limited to, representatives from the military, commercial airlines, national air transportation association, national business aircraft association, aircraft manufacturers, private aircraft pilots, and Airline Pilots Association; (2) six community representatives to include a minimum of four neighborhood associations from neighborhoods located near the Airport, each representing a different association; (3) two travel and tourism industry representatives; and (4) five business community representatives to include one local Chamber of Commerce representative, one taxi cab industry representative, one Airport business – lessee, one Alamo Area Council of Governments representative, and one FAA representative. The purpose of the AAC is to advise the City's Director of Aviation on policies affecting the City's Airport System and air transportation initiatives.

**Fiscal Year 2012 Budget**

*Budgeting*. All departments of the City, including the Airport System, follow the same process for the development of annual budgets.

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

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

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

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

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

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

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

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

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

The Adopted FY 2012 General Fund Budget is balanced and allows for $21.1 million in FY 2012 savings to aid in balancing FY 2013. The FY 2012 Adopted Budget does not include a City property tax rate increase for

2012. In the FY 2012 Adopted Budget, the City's financial reserves are maintained at 9% of General Fund expenditures which reflects the City's commitment to strong financial management.

**Airport Activity**

Tables 1 through 6, all of which have been prepared by the Department, present historical operating performance of the Airport System.

The total domestic and international enplaned passengers at the Airport on a monthly basis, along with year to year percentage changes for each of the last five calendar years are shown as follows:

**Total Domestic and International Enplaned Passengers** **Table 1**

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| January | 290,162 | 300,948 | 282,949 | 286,314 | 291,442 |
| February | 285,310 | 311,028 | 272,587 | 266,241 | 271,345 |
| March | 349,196 | 366,454 | 349,504 | 347,406 | 354,980 |
| April | 339,186 | 348,920 | 327,649 | 342,751 | 337,932 |
| May | 355,372 | 367,490 | 322,411 | 344,753 | 354,245 |
| June | 367,759 | 394,731 | 361,590 | 377,165 | 382,325 |
| July | 373,239 | 407,974 | 375,205 | 398,187 | 384,521 |
| August | 346,453 | 362,433 | 331,789 | 338,102 | 342,832 |
| September | 307,269 | 289,849 | 293,187 | 304,635 | 321,083 |
| October | 345,007 | 349,458 | 332,830 | 349,750 | 350,901 |
| November | 339,335 | 330,126 | 327,352 | 330,582 | 338,426 |
| December | 332,283 | 338,029 | 328,386 | 336,184 | 341,749 |
| Total | 4,030,571 | 4,167,440 | 3,905,439 | 4,022,070 | 4,071,781 |
| Increase (Decrease) Over Prior 12-Month Period | | 136,869 | (262,001) | 116,631 | 49,711 |
| % Increase (Decrease) Over Prior 12-Month Period | | 3.40% | (6.29%) | 2.99% | 1.24% |

*The remainder of this page is intentionally left blank.*

The total enplanements at the Airport by airline, by designated calendar year, are shown below:

**Domestic and International Enplaned Passengers by Airline** **Table 2**

| Airlines | 2007 | | 2008 | | 2009 | | 2010 | | 2011 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Number** | **% Total** | **Number** | **% Total** | **Number** | **% Total** | **Number** | **% Total** | **Number** | **% Total** |
| Aerolitoral | 14,387 | 0.36 | 21,607 | 0.52 | 9,784 | 0.25 | 22,890 | 0.57 | 28,862 | 0.71 |
| Aeroméxico | 24,692 | 0.61 | 14,220 | 0.34 | 3,736 | 0.10 | 106 | 0.00 | 44,181 | 1.08 |
| AirTran | -- | -- | 67,367 | 1.62 | 120,839 | 3.09 | 135,917 | 3.38 | 115,315 | 2.83 |
| America West [1] | 30,380 | 0.75 | -- | -- | -- | -- | -- | -- | -- | -- |
| American | 795,217 | 19.73 | 754,666 | 18.11 | 706,179 | 18.08 | 724,228 | 18.01 | 691,986 | 16.99 |
| American Eagle | 14,352 | 0.36 | -- | -- | -- | -- | -- | -- | 18,809 | 0.46 |
| Atlantic Southeast | 38,728 | 0.96 | 26,942 | 0.65 | 20,535 | 0.53 | -- | -- | 36,128 | 0.89 |
| Chautauqua | 5,997 | 0.15 | 6,743 | 0.16 | 13,871 | 0.35 | -- | -- | -- | -- |
| Comair | 48,155 | 1.19 | 44,445 | 1.07 | 5,332 | 0.14 | -- | -- | -- | -- |
| Continental | 506,983 | 12.58 | 497,165 | 11.93 | 450,614 | 11.54 | 436,879 | 10.86 | 399,848 | 9.82 |
| Delta | 180,593 | 4.48 | 213,328 | 5.12 | 249,021 | 6.38 | 561,028 | 13.95 | 609,943 | 14.98 |
| ExpressJet | 88,443 | 2.19 | 77,669 | 1.86 | -- | -- | -- | -- | -- | -- |
| Frontier | 81,718 | 2.03 | 96,555 | 2.32 | 84,347 | 2.16 | 62,120 | 1.54 | 81,709 | 2.01 |
| Go Jet | 62,591 | 1.55 | 50,729 | 1.22 | 55,759 | 1.43 | -- | -- | -- | -- |
| Mexicana | 63,401 | 1.57 | 52,510 | 1.26 | 56,920 | 1.46 | 42,342 | 1.05 | -- | -- |
| Midwest | 36,101 | 0.90 | 20,470 | 0.49 | -- | -- | -- | -- | -- | -- |
| Northwest [2] | 241,282 | 5.99 | 234,321 | 5.62 | 172,295 | 4.41 | -- | -- | -- | -- |
| Pinnacle | -- | -- | 20,617 | 0.49 | 12,431 | 0.32 | -- | -- | -- | -- |
| SkyWest | 141,117 | 3.50 | 150,281 | 3.60 | 177,121 | 4.53 | 170,108 | 4.23 | -- | -- |
| Spirit | -- | -- | 31,182 | 0.75 | 3,940 | 0.10 | -- | -- | -- | -- |
| Southwest | 1,417,636 | 35.17 | 1,455,014 | 34.91 | 1,469,818 | 37.63 | 1,497,648 | 37.24 | 1,519,659 | 37.32 |
| United | 107,491 | 2.67 | 109,098 | 2.62 | 38,938 | 1.00 | 104,617 | 2.60 | 296,296 | 7.28 |
| US Airways | 88,503 | 2.20 | 174,617 | 4.19 | 169,931 | 4.35 | 198,139 | 4.93 | 207,994 | 5.11 |
| Other Carriers | 42,804 | 1.06 | 47,894 | 1.15 | 84,028 | 2.15 | 66,048 | 1.64 | 21,051 | 0.52 |
| Total | 4,030,571 | 100.00 | 4,167,440 | 100.00 | 3,905,439 | 100.00 | 4,022,070 | 100.00 | 4,071,781 | 100.00 |
| % Increase (Decrease) Over Prior 12-Month Period | | | 3.40% | | (6.29%) | | 2.99% | | 1.24% | |

[1] Ceased as America West and became US Airways as of April 1, 2007.
[2] Ceased as Northwest and became Delta Airlines as of January 1, 2010.

The total enplaned and deplaned international passengers at the Airport are shown below:

**Total Enplaned and Deplaned International Passengers** **Table 3**

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| January | 14,435 | 14,880 | 11,323 | 12,526 | 8,705 |
| February | 12,142 | 10,359 | 7,108 | 10,094 | 9,854 |
| March | 16,077 | 14,218 | 10,803 | 13,441 | 14,600 |
| April | 17,613 | 10,393 | 9,972 | 13,203 | 13,996 |
| May | 16,494 | 14,070 | 6,951 | 13,001 | 13,684 |
| June | 20,822 | 21,295 | 14,243 | 13,284 | 13,370 |
| July | 22,880 | 24,421 | 16,186 | 19,274 | 19,222 |
| August | 18,137 | 17,352 | 13,481 | 12,579 | 13,116 |
| September | 13,410 | 10,167 | 7,636 | 6,701 | 11,125 |
| October | 12,873 | 10,761 | 9,549 | 7,023 | 11,388 |
| November | 16,883 | 13,848 | 13,603 | 7,605 | 14,351 |
| December | 15,819 | 15,455 | 18,431 | 8,239 | 38,620 |
| Total | 197,585 | 177,219 | 139,286 | 136,970 | 182,031 |
| Increase (Decrease) | | | | | |
| Over Prior 12-Month Period | | (20,366) | (37,933) | (2,316) | 45,061 |
| % Increase (Decrease) | | | | | |
| Over Prior 12-Month Period | | (10.31%) | (21.40%) | (1.66%) | 32.90% |

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The historical aircraft landed weight at the Airport, in 1,000 pound units, by air carrier, in the designated calendar year is shown below. Landed weight is utilized in the computation of the Airport's landing fee.

**Air Carrier Landed Weight (1,000 lbs.)** **Table 4**

| Carriers | 2007 | | 2008 | | 2009 | | 2010 | | 2011 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Weight | % Total | Weight | % Total | Weight | % Total | Weight | % Total | Weight | % Total |
| Aerolitoral | 20,922.20 | 0.34 | 29,896.20 | 0.48 | 11,893.30 | 0.22 | 25,022.50 | 0.45 | 32,630.00 | 0.57 |
| Aeromar | 1,729.20 | 0.03 | 988.30 | 0.02 | 576.50 | 0.01 | 576.70 | 0.01 | 202.40 | 0.00 |
| Aeromexico | 45,580.50 | 0.75 | 21,328.90 | 0.34 | 5,114.00 | 0.09 | 279.00 | 0.00 | 57,702.00 | 1.01 |
| Airborne | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| AirTran | -- | -- | 70,371.50 | 1.13 | 134,093.00 | 2.45 | 154,698.50 | 2.75 | 121,632.50 | 2.13 |
| America West [1] | 20,417.80 | 0.33 | -- | -- | -- | -- | -- | -- | -- | -- |
| American | 886,481.50 | 14.54 | 850,168.00 | 13.69 | 779,142.00 | 14.20 | 763,731.00 | 13.56 | 739,589.00 | 12.96 |
| American Eagle | 29,363.10 | 0.48 | -- | -- | -- | -- | 17,943.30 | 0.32 | 26,666.0 | 0.47 |
| Atlantic Southeast | 49,402.70 | 0.81 | 31,481.00 | 0.51 | 22,121.40 | 0.40 | 11,438.60 | 0.20 | 40,639.90 | 0.71 |
| Chauauqua | 8,560.50 | 0.14 | 7,791.30 | 0.13 | 15,022.20 | 0.28 | 3,875.20 | 0.07 | -- | -- |
| Comair | 54,932.60 | 0.90 | 47,213.00 | 0.76 | 5,673.00 | 0.10 | 19,762.70 | 0.35 | 94.00 | 0.00 |
| Compass Air | -- | -- | -- | -- | -- | -- | 67,941.90 | 1.21 | 66,691.10 | 1.17 |
| Continental | 648,890.00 | 10.64 | 615,721.00 | 9.92 | 520,630.00 | 9.49 | 475,545.00 | 8.44 | 443,430.00 | 7.77 |
| Continental Express | -- | -- | -- | -- | -- | -- | 20,828.00 | 0.37 | 20,846.30 | 0.36 |
| Delta | 209,600.30 | 3.44 | 230,978.00 | 3.72 | 248,632.00 | 4.53 | 487,363.10 | 8.65 | 632,447.50 | 11.08 |
| DHL Airways | 102,001.00 | 1.67 | 84,428.00 | 1.36 | 1,774.00 | 0.03 | -- | -- | -- | -- |
| ExpressJet | 159,894.20 | 2.62 | 106,801.20 | 1.72 | -- | -- | -- | -- | -- | -- |
| Federal Express | 369,173.40 | 6.05 | 335,296.90 | 5.40 | 315,539.30 | 5.75 | 334,244.70 | 5.93 | 401,223.80 | 7.03 |
| Frontier | 118,771.00 | 1.95 | 126,237.00 | 2.03 | 111,719.00 | 2.04 | 77,483.80 | 1.38 | 94,732.90 | 1.66 |
| Go Jet | 78,591.00 | 1.29 | 61,707.00 | 0.99 | 68,139.00 | 1.24 | 78,658.00 | 1.40 | 74,169.00 | 1.30 |
| Kitty Hawk | 309.00 | 0.01 | -- | -- | -- | -- | -- | -- | -- | -- |
| Martinaire | -- | -- | 6,154.00 | 0.10 | 6,961.50 | 0.13 | 5,233.00 | 0.09 | 4,972.50 | 0.09 |
| Mesa | 41,256.00 | 0.68 | 23,182.00 | 0.37 | 21,574.00 | 0.39 | 18,425.00 | 0.33 | -- | -- |
| Mesaba | -- | -- | -- | -- | -- | -- | 76,753.90 | 1.36 | 40,403.80 | 0.71 |
| Mexicana | 110,842.00 | 1.82 | 110,842.70 | 1.79 | 88,959.10 | 1.62 | 62,251.40 | 1.11 | 142.20 | 0.00 |
| Midwest Express | 48,759.00 | 0.80 | 26,555.00 | 0.43 | -- | -- | -- | -- | -- | -- |
| Northwest [2] | 320,211.00 | 5.25 | 295,433.70 | 4.76 | 200,465.10 | 3.65 | 17,601.50 | 0.31 | -- | -- |
| Pinnacle | -- | -- | 25,465.50 | 0.41 | 19,996.00 | 0.37 | 42,308.70 | 0.75 | 19,492.30 | 0.34 |
| SkyWest | 153,553.00 | 2.52 | 178,488.00 | 2.87 | 201,526.00 | 3.67 | 205,167.50 | 3.64 | -- | -- |
| Spirit | -- | -- | 41,198.40 | 0.66 | 5,649.20 | 0.10 | 138.00 | 0.00 | -- | -- |
| Southwest | 1,986,266.00 | 32.57 | 2,118,360.00 | 34.12 | 2,031,640.00 | 37.02 | 1,932,976.00 | 34.32 | 1,929,756.00 | 33.81 |
| Trans States | 8,211.90 | 0.13 | 9,999.00 | 0.16 | -- | -- | -- | -- | -- | -- |
| US Airways | 80,143.30 | 1.31 | 68,895.20 | 1.11 | 170,248.80 | 3.10 | 230,879.40 | 4.10 | 235,673.30 | 4.13 |
| United | 138,795.20 | 2.28 | 136,758.40 | 2.20 | 52,298.70 | 0.95 | 60,506.30 | 1.07 | 270,513.90 | 4.74 |
| United Parcel | 344,219.00 | 5.64 | 385,499.90 | 6.21 | 346,353.00 | 6.31 | 297,698.60 | 5.29 | 330,302.10 | 5.79 |
| Other Carriers | 61,399.40 | 1.01 | 161,952.60 | 2.61 | 101,796.80 | 1.86 | 142,871.70 | 2.54 | 124,093.10 | 2.17 |
| **Total** | 6,098,275.80 | 100.00 | 6,209,191.70 | 100.00 | 5,487,536.90 | 100.00 | 5,632,203.00 | 100.00 | 5,708,045.60 | 100.00 |

[1] Ceased as America West and became US Airways as of April 1, 2007.
[2] Ceased as Northwest and became Delta Airlines as of January 1, 2010.

The following represents a summary of cargo activities at the Airport by calendar year:

**Enplaned Air Cargo Weights (U.S. Tons)** **Table 5**

| Calendar Year | Mail | Freight | Total Cargo | % Change |
|---|---|---|---|---|
| 2007 | 15,427.58 | 48,516.40 | 63,943.98 | -- |
| 2008 | 13,781.45 | 48,450.81 | 62,232.26 | (2.68) |
| 2009 | 12,202.33 | 40,611.08 | 52,813.41 | (15.13) |
| 2010 | 13,412.89 | 45,154.32 | 58,567.21 | 10.89 |
| 2011 | 14,824.95 | 43,488.21 | 58,313.16 | (0.43) |

Tables 6 and 7 reflect the historical performance of parking operations at the Airport. The current parking rates at the Airport are shown below.

**Current Parking Rates (effective October 1, 2011)** **Table 6**

**Hourly Parking**

| Time Utilized | ($) |
|---|---|
| 0 - ¼ Hour | 0.00 |
| ¼ - ½ Hour | 1.00 |
| ½ - 1 Hour | 2.00 |
| 1 - 1 ½ Hours | 3.00 |
| 1 ½ - 2 Hours | 4.00 |
| 2 - 4 Hours | 7.00 |
| 4 - 6 Hours | 11.00 |
| 6+ Hours (Maximum Daily Rate) | 24.00 |

**Long Term Parking**

| Time Utilized | ($) |
|---|---|
| 0 - ¼ Hour | 0.00 |
| ¼ - 1 Hour | 2.00 |
| 1 – 2 Hours | 4.00 |
| 2 Hour – 3 Hours | 7.00 |
| 3 Hours – 4 Hours | 9.00 |
| 4 Hours – 24 Hours | 10.00 |

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**Airport Parking System Revenues** **Table 7**

| | Fiscal Year Ended September 30 | | | | |
|---|---|---|---|---|---|
| | **2007** | **2008** | **2009** | **2010** | **2011** |
| Parking Revenues | $16,738,326 | $17,244,123 | $16,513,093 | $17,169,664 | $19,319,267 |
| Parking Expenses | (3,097,789) | (3,769,960) | (3,739,868) | (3,602,059) | (3,629,456) |
| Net Parking Revenues | $13,640,537 | $13,474,163 | $12,773,225 | $13,567,605 | $15,689,811 |
| Gross Parking Revenues as a % of Airport System Gross Revenues | 29.53% | 26.45% | 26.56% | 26.81% | 23.20% |
| Net Parking Revenues as a % of Airport System Net Revenues | 56.60% | 57.09% | 56.93% | 56.13% | 40.43% |
| Airport System Gross Revenues | $56,682,447 | $65,187,888 | $62,180,333 | $64,045,889 | $83,288,806 |
| Airport System Net Revenues | $24,098,754 | $23,602,094 | $22,437,240 | $24,172,125 | $38,808,642 |

Source: City of San Antonio, Department of Finance.

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The historical financial performance of the Airport System for the fiscal years ending September 30 is shown in Tables 8 and 9 and has been provided by the City's Finance Department. A comparison of the major categories comprising Gross Revenues and Operation and Maintenance Expenses for the past five fiscal years is shown below.

**Comparative Statement of Gross Revenues and Expenses** **Table 8**

| | Fiscal Year Ended September 30 | | | | |
|---|---|---|---|---|---|
| | **2007($)** | **2008($)** | **2009($)** | **2010($)** | **2011($)** |
| **Gross Revenues** | | | | | |
| Airline Revenues | | | | | |
| Scheduled Carrier Landing Fees | 5,749,818 | 6,465,537 | 5,752,737 | 7,236,225 | 8,664,750 |
| Non-Scheduled Carrier Landing Fees | 1,159,531 | 1,210,747 | 1,788,595 | 2,360,307 | 1,446,665 |
| Terminal Building Rentals [1] | 5,265,310 | 11,233,739 | 12,850,279 | 11,973,132 | 19,007,289 |
| FIS Space Fees | 894,503 | 1,325,182 | 431,116 | 511,187 | 600,585 |
| Ramp Fees | 407,500 | 413,633 | 345,501 | 398,366 | 2,109,150 |
| Baggage Handling System Charges | -- | -- | -- | -- | 5,105,855 |
| Passenger Loading Bridges | -- | -- | -- | -- | 782,666 |
| Subtotal Airlines Revenues | 13,476,662 | 20,648,838 | 21,168,228 | 22,479,217 | 37,716,960 |
| Non-Airline Revenues | | | | | |
| Concession Contracts | 15,787,104 | 16,093,691 | 14,731,620 | 15,635,177 | 16,776,304 |
| Parking Fees | 16,738,326 | 17,244,123 | 16,513,093 | 17,169,664 | 19,319,267 |
| Property Leases | 6,603,443 | 7,670,764 | 7,624,105 | 7,488,208 | 7,697,458 |
| Stinson Airport | 209,485 | 237,873 | 260,451 | 331,355 | 401,957 |
| General Aviation Fuel | -- | -- | -- | -- | 593,364 |
| Interest Income | 3,434,689 | 2,546,135 | 791,665 | 192,354 | 186,599 |
| Misc. Revenues | 427,223 | 446,464 | 1,091,171 | 749,914 | 596,897 |
| Transfer from Other Funds | 5,515 | 300,000 | -- | -- | -- |
| Subtotal Non-Airline Revenues | 43,205,785 | 44,539,050 | 41,012,105 | 41,566,672 | 45,571,846 |
| Total Gross Revenues | 56,682,447 | 65,187,888 | 62,180,333 | 64,045,889 | 83,288,806 |
| **Operating & Maintenance Expenses** | | | | | |
| Airfield Area | 1,580,597 | 1,873,361 | 2,436,739 | 2,499,112 | 2,189,071 |
| Service Area | 342,880 | 340,824 | 265,027 | 354,503 | 291,297 |
| Terminal B | 2,740,507 | 3,052,839 | 2,984,514 | 3,156,933 | 3,414,755 |
| Terminal A | 3,829,290 | 4,584,861 | 4,678,958 | 4,601,709 | 4,857,592 |
| Fire & Rescue | 3,916,032 | 4,036,895 | 3,919,226 | 3,895,150 | 4,433,517 |
| Access | 600,481 | 845,346 | 813,042 | 833,489 | 728,766 |
| Central Plant | 696,512 | 688,753 | 739,003 | 659,252 | 609,264 |
| Commercial & Industrial | 109,554 | 60,434 | 3,435 | 41,676 | 78,246 |
| Other Buildings & Area | 101,633 | 59,261 | 5,455 | 37,927 | 25,532 |
| Parking | 3,097,789 | 3,769,960 | 3,739,868 | 3,602,059 | 3,629,456 |
| Stinson Airport | 564,525 | 716,957 | 783,710 | 704,100 | 641,799 |
| Administration | 7,447,138 | 13,020,708 | 8,636,490 | 8,822,961 | 10,577,136 |
| Maintenance & Control | 1,272,447 | 1,387,287 | 1,514,218 | 1,605,743 | 1,823,892 |
| Security | 4,427,411 | 5,701,668 | 6,269,170 | 5,822,768 | 5,813,629 |
| Operations | 1,718,113 | 1,122,477 | 1,380,100 | 1,276,138 | 1,228,199 |
| Ground Transportation | 138,784 | 324,163 | 534,267 | 636,006 | 723,263 |
| Contract Monitoring | -- | -- | 672,872 | 696,833 | -- |
| Environmental Stewardship | -- | -- | 366,999 | 627,405 | 807,744 |
| Airport Safety/Wildlife Programs | -- | -- | -- | -- | 301,190 |
| Baggage Handling System | -- | -- | -- | -- | 2,250,199 |
| Passenger Loading Bridges | -- | -- | -- | -- | 55,617 |
| Total Operating & Maintenance Expenses | 32,583,693 | 41,585,794 | 39,743,093 | 39,873,764 | 44,480,164 |
| Net Revenues | 24,098,754 | 23,602,094 | 22,437,240 | 24,172,125 | 38,808,642 |

[1] Through FY 2010, the Signatory Airlines (defined herein) were eligible to receive a rebate against their terminal rents, in an amount equal to 50% of funds available in excess of the 25% debt service coverage requirement after the payment of all Operation and Maintenance Expenses, debt service requirements, and deposits to the bond funds. Terminal building rentals are shown net of credit. Beginning in FY 2011, there is no rebate; however, the Signatory Agreement provides for certain credits which will apply toward the next fiscal year's rates and charges. The first credits are, therefore, applied during FY 2012.

**Airport Financial Update**

As part of its annual Budget Process, the City re-estimates revenues and expenditures for the current fiscal year. During the most recent Budget Process, the FY 2012 Net Revenues for the Airport System are projected at $38.2 million (exclusive of transfers for capital improvements and debt service).

The ratios of Gross Revenues and Net Revenues to the debt service requirements of the outstanding Parity GARBs for the past five fiscal years ended September 30 are shown below:

**Historical Debt Service Coverage** **Table 9**

| | Fiscal Year Ended September 30 | | | | |
|---|---|---|---|---|---|
| | **2007($)** | **2008($)** | **2009($)** | **2010($)** | **2011($)** |
| Gross Revenues [1] | 56,682,447 | 65,187,888 | 62,180,333 | 64,045,889 | 83,288,806 |
| Airline Rental Credit | 8,831,771 | 5,040,274 | 4,165,260 | 4,178,122 | -0- |
| Adjusted Gross Revenues | 65,514,218 | 70,228,162 | 66,345,593 | 68,224,011 | 83,288,806 |
| Operating Expenses | (32,583,693) | (41,585,794) | (39,743,093) | (39,873,764) | (44,480,164) |
| Net Revenue | 32,930,525 | 28,642,368 | 26,602,500 | 28,350,247 | 38,808,642 |
| Annual Debt Service Requirements | 16,994,196 | 19,775,825 | 22,121,151 | 17,150,414 | 24,985,745 |
| Less: Capitalized Interest | -0- | 2,837,927 | 4,061,585 | -0- | 734,451 |
| Net Annual Debt Service Requirements | 16,994,196 | 16,937,898 | 18,059,566 | 17,150,414 | 24,251,294 |
| Gross Revenue Debt Service Coverage [2] | 3.86x | 3.55x | 3.00x | 3.98x | 3.33x |
| Net Revenue Debt Service Coverage | 1.94x | 1.45x | 1.20x | 1.65x | 1.55x |
| Net Revenue Debt Service Coverage - Including Reduction of Debt Service Due to Capitalized Interest | 1.94x | 1.69x | 1.47x | 1.65x | 1.60x |

1 As reported in the City's audited financial statements.
2 Calculated using Gross Revenues adjusted for airline rental credit.

Source: City of San Antonio, Department of Finance.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Operating Statistics**

Operating Activity pertaining to domestic and international enplaned passengers (Tables 1 & 2) for calendar year ("CY") 2011 is approximately 1% above CY 2007 levels. Total enplaned and deplaned international passengers (Table 3) for CY 2011 is still 8% below CY 2007 levels. After a 30% decline in international passengers between CY 2007 and CY 2010, international passengers increased by 32.8% in CY 2011 after AeroMexico increased service to replace service lost by the Mexicana bankruptcy in 2010 and the introduction of new low-fare Mexico service by vivaAerobus and Interjet in November and December of 2011, respectively.

Carrier landed weight decreased by a compounded annual rate of 1.6% from CY 2007 to CY 2011. Changes in operating activity can be attributed to recovery from the recession-induced decrease in CY 2009 which led to the exit of airlines such as ExpressJet and Spirit. Since then activity has begun to recover and passed the CY 2009 level by 4.0%. Continued recovery is expected as the economy recovers and the increase in international seats to Mexico from new carriers.

**Airport Revenues**

Gross Revenues have increased by 46.9% between FY 2007 and FY 2011, a compound annual growth rate of 10.1%. Airline revenues, which comprise 45.3% of total revenues for FY 2011 have increased by a compounded annual growth rate of 29.4% over the same period due primarily to increases in debt service after the opening of Terminal B as well as the accompanying increases in operating and maintenance expenses for the new consolidated baggage handling system ("BHS") and passenger loading bridges ("PLB"). Over this same period, non-airline revenues increased at a compounded annual growth rate of 1.3% due to increases in parking rates resulting in increased parking revenues (compound annual growth rate of 3.7%). In addition, the Airport experienced an increase in concessions revenue (compound annual growth rate of 1.5%) due to the new concession and car rental agreements. Non-Airline revenues for FY 2011 represent 54.7% of total revenues.

**Airport Expenditures**

Operation and Maintenance Expenses are maintained by cost centers. Operation and Maintenance Expenses increased at a compound annual growth rate of 7.6% from FY 2007 through FY 2011. A significant portion of this increase has been in maintenance-related functions for the opening of Terminal B including the new consolidated BHS and PLB. Other factors which contributed to an increase in cost include added security measures, utility costs, insurance, wage adjustments, and IT system support. The decrease in FY 2009 is due to several one-time expenditures in FY 2008, which included: $1.5 million for OPEB (defined herein) initial implementation, $1.4 million in air service incentive charges, and $1.0 million for a strategic business study for the airport.

## AIRPORT AGREEMENTS

**Airlines**

Historically, the City has had lease agreements (the "Signatory Agreements") with airlines operating at the Airport. The current Signatory Agreement(s) were executed with the Airlines on November 17, 2011. The new agreement is the culmination of more than three years of negotiations with the airlines and accomplished SAT's primary goals of providing first class service to the traveling public and by keeping costs down while remaining in compliance with City policy for leasing and utilizing city-owned property to generate revenue. The term of the agreement is November 9, 2010 through September 30, 2015. Airlines have the option of extending the agreement for an additional two years. The City and airlines have the option of extending the agreement for an additional three years for a maximum term of ten years.

Under the Signatory Agreement, airline rents and fees recover the maintenance and operating (M&O) costs and the capital costs, including debt service coverage associated with each cost center and adjusted for certain credits. Capital costs are net of costs funded with grants or Passenger Facility Charges. Rents and fees are calculated annually based on the Airport budget. The over/under estimates of Airport revenue and expenses and estimated units (e.g., landed weight) used to calculate airline rents and fees are reconciled annually to the actual costs of Airport operations. The airlines are billed by the Airport for under estimates of costs and expenses and the City provides credit to the airlines for over estimates of costs and expenses.

As part of the Signatory Agreement, the Airlines formed the San Antonio Airport Consortium ("SAAC"), a Texas non-profit corporation to perform certain maintenance and janitorial services. Initial areas include the maintenance of the consolidated BHS and PLB. In addition, in order to provide consistent maintenance throughout the public view areas (including hold rooms, public space, restrooms, common use airline space, etc.) of the terminals, SAAC will take over janitorial responsibilities of those areas. Airlines can also assign SAAC the responsibility for non-public view exclusive areas.

While SAT underwent a Terminal Replacement, coinciding with the start date of the Signatory Agreements, the total number of gates remained the same. All SAT passenger gates and terminal facilities will continue to be leased under preferential use or common use terms. The new preferential use provisions have been negotiated and allow for much greater flexibility in SAT's management of gates and facilities. New provisions provide for recapture of under-utilized gates and the conversion of preferential gates to common use if minimum utilization requirements are not maintained.

Overall, the new SAT Signatory Agreements maintain the Airport's flexibility to improve operational efficiency and continue to grow by providing a predictable and competitive cost structure for the airlines.

**Non-Airline Agreements**

*Car Rental*. The City receives revenues from automobile rental companies under agreements which guarantee minimum annual rental amounts or if greater, a percentage of gross revenues from automobile rentals at both the Airport and Stinson. The City has agreements with eight rental car companies, including Advantage, Alamo, Avis, Budget, Dollar/Thrifty (operating under a dual branding agreement), Enterprise, Hertz, and National, operating at counters in Terminal A at the Airport. The concession agreement has terms that expire June 30, 2013. Additionally, Avis and Hertz occupy ground and buildings on Airport property for their service centers. These agreements expire on October 13, 2013 and January 31, 2014, respectively. These agreements produced $9,890,156 in revenue for FY 2011.

*Terminal Concessions*. Terminal concessions include food and beverage, retail (news and gifts, and specialty shops), and duty-free/duty-paid merchandise. Other concessions include services such as banking, luggage cart rentals, shoe shine, vending, internet kiosks, and phone cards. These services are provided at both Airport terminals and revenues are collected based on the greater of a guaranteed annual minimum rental or a percentage of gross revenues. Concession space improvements completed in the landside terminal and Terminal A in CY 2002, and the new Terminal B have significantly improved the size and location of food and beverage concessions areas, specialty retail, and news and gifts shops, and the general attractiveness (aesthetics and décor) of the concession areas. Most food and beverage spaces are now located beyond the security checkpoints thereby providing opportunity for passengers to patronize the concessions at leisure before their flights. Concessionaires have introduced national-brand food outlets in new premises, enhancing the appeal of food concessions to many Airport passengers. These agreements produced $6,109,996 in revenue for FY 2011. Five food and beverage concession locations in Terminal A will be bid in CY 2012 under a prime concession arrangement.

Terminal concession revenues are forecast to adjust with passenger enplanements and general price inflation.

*Airport Advertising*. Clear Channel Interspace provides advertising display services at the Airport under the terms of a ten-year agreement that extends to October 2017. Clear Channel Interspace pays the City 60% on indoor static advertising, 40% on indoor tech advertising, and 30% on outdoor advertising, with a minimum rent guarantee of $700,000. In FY 2011, this agreement generated revenues to the City of $700,000.

*Fixed Based Operators ("FBO")*. The Airport currently has five FBOs. The FBOs include Landmark Aviation, Signature Flight Support Services, Nayak Aviation, Hallmark/Millionaire, and Smart Traveling. FBO ground leases vary in size from 363,000 square feet to approximately 700,000 square feet. Leased FBO hangars vary in size from a single hangar of 35,000 square feet to multiple hangars of 20,000 to 40,000 square feet. FBO lease terms expire from November 2012 through March 2037. These leases produced $943,517 in revenue in FY 2011.

*Maintenance and Repair Operators*. ST Aerospace San Antonio, LP, a wide-body aircraft maintenance, repair and overhaul facility, leases over 2.3 million square feet of ground space and four hangars and backshop/office space totaling 575,000 square feet. In addition, ST Aerospace completed its seventh hangar of 128,000 square feet in January 2011. Current customers include Delta Airlines and United Parcel Service. ST Aerospace has over 1,000 permanent and contract employees. The addition of the seventh hangar added an additional 150 employees. The City and ST Aerospace recently executed a lease amendment for this tenant to construct the new maintenance hangar and extended the term of the lease through December 31, 2028. This lease produced $635,676 in revenue in FY 2011.

M7 Aerospace, LP, a regional jet and military aircraft maintenance, repair, overhaul, and component repair facility, leases 1.1 million square feet of ground space and over 450,000 square feet of hangar/office space. M7 Aerospace, LP currently has over 400 employees, with 225 employees located at the San Antonio facility. The current ground and building lease was renewed in December 2010 for a term of ten years. The current lease agreement produced $800,004 in revenue in FY 2011.

The Airport is also home to two major corporate jet maintenance, repair, and overhaul facilities, Cessna Citation Service Center ("Cessna") and Hawker Beechcraft Aircraft Service Center ("Hawker Beechcraft"). Cessna leases approximately 373,000 square feet of ground space and occupies a tenant-owned maintenance hangar of 60,000 square feet. Cessna's lease term expires October 2026. Hawker Beechcraft leases approximately 386,000 square feet of ground space and three City-owned hangars/shops that total over 75,000 square feet. Hawker Beechcraft's lease term expires May 2018. Each facility currently employs 75 people. These lease agreements produced $523,000 in revenue in FY 2011.

## FEDERAL LAW AFFECTING AIRPORT RATES AND CHARGES

### Federal Legislation

Federal legislation affects the funding that the Airport receives, its PFC collections and the operational requirements imposed on it. In August 1994, the President of the United States signed into law the FAA Authorization Act of 1994 (the "1994 Act") which continues the pre-existing federal requirement that airline rates and charges set by airports be "reasonable" and mandates an expedited administrative process by which the Secretary of Transportation (the "Secretary") shall review rates and charges complaints, 49 U.S.C. § 47129. Under 49 U.S.C.§ 47129, an affected air carrier may file a written complaint requesting a determination of the Secretary as to reasonableness within 60 days after such carrier receives written notice of the establishment or increase of such fee.

Congressional authorization for the FAA's operating authority, including various federal aviation programs and excise taxes, expired in 2007 and was subsequently extended by Congress for only short time periods through February 2012. On February 14, 2012, the President signed into law the FAA Modernization and Reform Act of 2012, which establishes federal funding for the FAA for fiscal years 2012-2015. Failure of Congress to reauthorize the FAA's operating authority beyond that period, or adverse changes in the conditions placed on such authority, may have an adverse impact on Airport operations over the long run because grants awarded under the FAA's Airport Improvement Program have been a significant source of funding for the Airport.

The American Recovery and Reinvestment Act of 2009 (the "Recovery Act"), which became law in February 2009, included $1.1 billion in stimulus funding through Federal discretionary grants with priority for projects expected to be completed within two years of enactment and serves to supplement but not supplant planned expenditures. On September 3, 2009, City Council accepted a federal stimulus grant offered by the TSA through the Recovery Act. This grant is in the form of a reimbursement agreement for up to $10 million for the eligible costs, including design, engineering, and construction of the consolidated baggage handling system. This system, which cost approximately $32 million includes an explosive detection system and facilities to house equipment. This system has been constructed and is in service at the Airport. Based on estimated final costs, the City will receive approximately $10 million in TSA stimulus grants which serves to reduce the overall costs of this system to the City and, ultimately, the Airlines.

### Passenger Facility Charges

Under the PFC Act, as modified by AIR-21, the FAA may authorize a public agency to impose a PFC of $1.00, $2.00, $3.00, $4.00, or $4.50 on each passenger enplaned at any commercial service airport (those with regularly scheduled service and enplaning 2,500 or more passengers annually) controlled by said public agency, subject to certain limitations. Public agencies wishing to impose these PFCs must apply to the FAA for such authority and meet certain requirements identified in the legislation and implementing regulation, 14 CFR Part 158, issued by the FAA. The City currently imposes a PFC of $4.50.

PFC Bonds are available to airports to finance certain projects that: (1) preserve or enhance capacity, safety, or security of the national air transportation system, (2) reduce noise resulting from an airport, or (3) furnish opportunities for enhanced competition among air carriers. Under certain circumstances, the FAA grants approval to commence collection of PFCs ("impose only" approval) before approval to spend the PFCs on approved projects ("use" approval) is granted. Approval to both collect and spend PFC proceeds is referred to as an "impose and use" approval.

## CERTAIN INVESTMENT CONSIDERATIONS AND RISK FACTORS

### General

Airline industry dynamics have a marked influence on the Airport and its financial performance, which includes the collection of Gross Revenues and PFCs, as applicable, in adequate amounts to pay debt service on the Bonds and all other Outstanding GARBs and Outstanding PFC Bonds. Accordingly, a general understanding of the industry as a whole, as well as the various risks faced thereby, are necessary when making an informed investment decision regarding the Bonds. The following is presented not as an exhaustive list describing all factors affecting the airline industry, but rather as a short synopsis of the types of examples inherent to those entities operating within this industry. The City cannot predict the continued long-term effects of the events described in this section, or of future events that are both unpredictable and unforeseeable, on air travel demands, Pledged Revenues, and/or the overall financial condition of the Airport.

The generation of Gross Revenues is heavily dependent on the volume of the commercial flights, passengers, and cargo at the Airport. Such volume reflects a wide range of factors including, but not limited to: (1) the availability and cost of aviation fuel and other necessary supplies, (2) national and international economic conditions and currency fluctuations, (3) the financial health and viability of the airline industry, (4) air carrier service and route networks, (5) the population growth and the economic health of the region and the nation, (6) changes in demand for air travel, (7) service and cost competition, (8) levels of air fares, (9) fixed costs and capital requirements, (10) the cost and availability of financing, (11) the capacity of the national air traffic control system, (12) the capacity of the Airport and the capacity of competing airports, (13) national and international disasters and hostilities, (14) the cost and availability of employees, (15) labor relations within the airline industry, (16) regulation by the federal government, (17) environmental risks and regulations, noise abatement concerns and regulations, (18) bankruptcy and insolvency laws, and (19) safety concerns arising from international conflicts and the possibility of additional terrorist attacks and other risks. Several of these factors, including increased fuel, labor, equipment, and other costs; slow or negative traffic growth in certain areas; increased competition among air carriers, bankruptcies, consolidation and mergers among air carriers, costs of compliance with new security regulations and requirements, threat of possible future terrorist attacks, increases in the requirements for and the cost of debt capital, reduced profits and caused significant losses for all but a few air carriers in the early 2000s. By early 2007, all major airlines serving the Airport that had been in bankruptcy emerged from bankruptcy protection and started reporting profits. In 2008, however, a number of airlines (including some that served the Airport) ceased operations and/or filed for bankruptcy protection unable to sustain increased costs due to record aviation fuel prices and other financial pressures. Increased costs and other factors arising from the September 11, 2001 terrorist attacks and related regulatory reaction are discussed separately below under the subcaption "Geopolitical Risks; Safety and Security Concerns."

### Current Economic Conditions

Historically, the financial performance of the air transportation industry has correlated with the state of the national economy. During September 2008, significant and dramatic changes occurred in the financial markets. Several U.S. commercial and investment banks declared bankruptcy, were acquired by other financial institutions, combined with other financial institutions, or sought huge infusions of capital. The volatility in the capital markets led the U.S. government to intervene by making funds available to certain institutions, taking over the ownership of others and assuming large amounts of troubled financial instruments in exchange for imposing greater regulation over certain institutions in order to restore consumer confidence in, and stabilize, the nation's financial markets. Since 2008, the U.S. economy has experienced a recession followed by weak growth. As a result of concerns about the U.S. government's ability to resolve long-term deficits, in August 2011, Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, downgraded the credit rating of the U.S. sovereign debt from "AAA" to "AA+." It is not known at this time whether the high national unemployment rate, or the slow rate of national and global economic growth will persist beyond 2012. There can be no assurances that such developments will not have an adverse effect on the air transportation industry.

### Airline Economic Considerations

The financial strength and stability of airlines serving the Airport will affect future airline traffic. The airline industry in general suffered substantial losses in recent years. To mitigate these losses, some airlines have reduced their route networks and flight schedules and negotiated with employees, lessors, and vendors to cut costs, either under Chapter 11 bankruptcy protection or the threat of such. Additional losses could force airlines to further retrench, seek bankruptcy protection, discontinue marginal operations, or liquidate. The restructuring, merging, or liquidation of one or more of the large network airlines could drastically affect air service at many connection hub airports, offer business opportunities for the remaining airlines, and change air travel patterns throughout the U.S. aviation system.

The current economic downturn has reduced air traffic as a result of a decline in business activities, job losses, reduced discretionary income, and consumer spending and has put pressure on businesses to find alternatives to air travel.

On October 1, 2010 Continental and United merged into a new airline called United Airlines, and on November 30, 2011 received a single operating certificate and will combine as of March 3, 2012, after having received approval from the U.S. Department of Justice to do so without violating anti-trust laws. In addition, shareholders of both companies have approved the transaction. In May 2011, Southwest Airlines acquired AirTran, and on March 1, 2012 received a single operating certificate. Further airline consolidation remains possible and could change airline service patterns, particularly at the connecting hub airports of the merging airlines. The City cannot predict what impact, if any, such consolidations will have on airline traffic at the Airport.

**Bankruptcies**

*City Bankruptcy*. The City may be able to file for bankruptcy under Chapter 9 of the Bankruptcy Code. Should the City become the debtor in a bankruptcy case, the Bondholders may not have a lien on Gross Revenues, Subordinate Net Revenues, and PFC Revenues received by the City after the commencement of the bankruptcy case unless either: (1) the pledge of such revenues by the City constitutes a “statutory lien” within the meaning of the Bankruptcy Code, or (2) such revenues constitute “special revenues” within the meaning of the Bankruptcy Code. If Gross Revenues, Subordinate Net Revenues, and PFC Revenues are not special revenues or if the Bondholders do not have a statutory lien on post-bankruptcy Gross Revenues, Subordinate Net Revenues, and PFC Revenues, delays or reductions in payments to the Bondholders may result. There may also be delays in payments to the Bondholders while a court considers these issues. Even if a court determines that Gross Revenues, Subordinate Net Revenues, and PFC Revenues are special revenues or that the Bondholders do have a lien on post-bankruptcy revenues, the court may permit the City to spend such revenues to pay Operation and Maintenance Expenses, notwithstanding any provision of the Ordinances to the contrary.

*Airline Bankruptcies*. Airlines using the Airport may file for protection under U.S. or foreign bankruptcy laws, and any such airline (or a trustee on its behalf) would have the right to seek rejection of any executory airport lease or contract within certain specified time periods after the filing, unless extended by the bankruptcy court. In addition, during the pendency of a bankruptcy proceeding, a debtor airline using the Airport typically may not, absent a court order, make any payments to the Department on account of services or use of airport facilities provided to the airline prior to bankruptcy. Thus, the Department’s stream of payments from a debtor airline may be interrupted to the extent such payments are for pre-petition services to, and use of the airport facilities by, airlines in bankruptcy, including any accrued rent, landing fees, aviation fees, and PFCs. As described above AMR has recently filed a bankruptcy action.

On November 29, 2011, American Airlines Inc. (“American Airlines”), together with AMR Corporation and American Eagle, Inc. (“American Eagle”) (collectively, “AMR”), filed for bankruptcy protection under Chapter 11 of the Federal Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. American Airlines and American Eagle represented approximately 17% of the Airport’s passenger traffic in FY 2011. Any significant financial or operational difficulties incurred by AMR could have a material adverse effect on the Gross Revenues of the Airport. The City makes no representation as to AMR and its future plans generally, or with regard to the Airport in particular.

Certain of the Signatory Airlines (or their respective parent corporations) are subject to the information requirements of the Securities Exchange Act of 1934 (the “Exchange Act”) and in accordance therewith file reports and other information with the SEC. Only companies with securities listed on a national securities exchange, with securities traded over the counter which are registered under the Exchange Act, or which are required to file with the SEC pursuant to the information-reporting requirements will have information on file. Certain information, including financial information, as of particular dates, concerning each such Signatory Airline (or their respective parent corporations) is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected in the public reference facilities of the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C., 20549, and at the SEC's regional offices at 230 South Dearborn Street, Chicago, IL, 60604, and 75 Park Place, New York, NY, 10007, and copies of such reports and statements can be obtained from the Public Reference Section of the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C., 20549 at prescribed rates or at www.sec.gov. In addition, each domestic airline is required to file periodic reports of financial and operating statistics with the DOT. Such reports can be inspected at the following location: Offices of Aviation Information Management, Data Requirements and Public Reports Division, Research and Special Programs, Administration, Department of Transportation, 400 Seventh Street, S.W., Washington, D.C., 20590, and copies of such reports can be obtained from DOT at prescribed rates. Foreign flag airlines also provide certain information concerning their operations and financial affairs, which may be obtained from the respective airline.

In addition, each Signatory Airline and certain other airlines are required to file periodic reports of financial and operating statistics with the DOT. Such reports can be inspected at the following location: Office of Airline Statistics, Research and Special Programs Administration, Department of Transportation, Room 4201, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies of such reports can be obtained from the DOT at prescribed rates. The foreign airlines also provide certain information concerning their operations and financial affairs, which may be obtained from the respective airlines.

Applicable federal legislation and regulations provide that PFCs collected and held by an airline constitute a trust fund for the benefit of the applicable airport and create additional protections intended to ensure the regular transfer of PFCs to airports in the event of an airline bankruptcy. There can be no assurance, however, that during the bankruptcy of any airline, payment to the Airport of PFCs will not be delayed or blocked.

**Geopolitical Risks; Safety and Security Concerns**

As a result of the conflicts in the Middle East and related terrorist threats immediately following the events of September 11, 2001, as well as concerns regarding safety, airlines significantly reduced the number of transatlantic flights and consequently, airline revenues and cash flow were adversely affected. Although passenger traffic since 2005 has exceeded the pre-September 11, 2001 levels, uncertainty associated with war and the threats of future terrorist attacks may have an adverse impact on air travel in the future.

Concerns about the safety of airline travel and the effectiveness of security precautions, particularly in the context of the aforementioned international hostilities and terrorist attacks, may influence passenger travel behavior and air travel demand. As reflected in the aftermath of the terrorist attacks of September 11, 2001, travel behavior may be affected by anxieties about the safety of flying and by the inconveniences and delays associated with more stringent security screening procedures, both of which may give rise to the avoidance of air travel generally and the switching from air to surface travel modes.

Safety concerns post-September 11, 2001, were largely responsible for the steep decline in airline travel nationwide in 2002. Since 2001, government agencies, airlines, and airport operators have upgraded security measures to guard against future terrorist incidents and maintain confidence in the safety of airline travel. These measures include strengthened aircraft cockpit doors, changed flight crew procedures, increased presence of armed sky marshals, federalization of airport security functions under the TSA, more effective dissemination of information about threats, more intensive screening of passengers and baggage, and deployment of new screening technologies.

The City cannot predict the effect of any future government-required security measures on passenger activity at the Airport, nor can the City predict how the government will staff security screening functions or the effect on passenger activity of government decisions regarding its staffing levels.

Enplanements at the Airport, collections of PFCs, and the receipt of Gross Revenues were negatively affected by security restrictions on the Airport and the financial condition of the air transportation industry following the terrorist attacks of September 11, 2001, and the Airport, like many airport operators, experienced increased operating costs due to compliance with federally mandated and other security and operating changes. The City cannot predict the likelihood of future incidents similar to the terrorist attacks of September 11, 2001, the possibility of increased security restrictions, and the likelihood of future air transportation disruptions or the impact on the Airport or the airlines from such incidents or disruptions.

**Airport Security Requirements**

*General*. Legislative and regulatory requirements since 2001 have imposed substantial costs on the Airport and its airlines relating to security, some of which are discussed below. Federal legislation created the TSA, an agency within the Department of Homeland Security ("DHS"). Mandates of federal legislation, TSA and DHS have imposed extensive new requirements related to, among other things, screening of baggage and cargo (including explosive detection), screening of passengers, employees and vehicles, and airport buildings and structures.

The ATSA makes airport security the responsibility of the TSA. The Homeland Security Act of 2002 and subsequent directives issued by DHS have mandated, among other things, stronger cockpit doors on commercial aircraft, an increased presence of armed federal marshals on commercial flights, establishment of 100% checked baggage screening, and replacement of all passenger and baggage screeners with federal employees who must undergo criminal history background checks and be U.S. citizens.

ATSA also mandates additional airport security measures, including: (1) screening or inspection of all individuals, goods, property, vehicles, and equipment before entry into secured and sterile areas of the Airport, (2) security awareness programs for airport employees, (3) screening all checked baggage for explosives with explosives detection systems ("EDS") or other means or technology approved by the Undersecretary of the DOT, (4) deployment of sufficient EDS for all checked baggage, and (5) operation of a system to screen, inspect, or otherwise ensure the security of all cargo to be transported in all-cargo aircraft. Due to a lack of TSA funding, airports have borne some or all of the cost of design, construction, and installation of automated in-line baggage screening systems and passenger screening checkpoints to meet the specifications that the TSA screening process requires for operation at full design capacity.

A fully automated baggage handling system, that includes an explosive detection system and facilities to house this equipment has been constructed and is in service at the Airport. The facilities and equipment cost approximately $32 million. The TSA is providing a $10 million grant in the form of a reimbursement agreement for this project. The annual operating cost of the baggage handling system was approximately $4.7 million in FY 2011. This will not be included in the Airport budget after February 12, 2012. It is now included in airline consortium costs.

The TSA also has issued additional unfunded mandates through TSA security directives including: (1) transmittal to the TSA of personal information on all employees holding, applying for, or renewing an airport-issued identification badge for the performance of Security Threat Assessment ("STA") and retrieval of STA results prior to issuing badges and other forms of identification, (2) performance of inspections of all vendors and vendor products entering the sterile terminal areas of the Airport, (3) reduction in the number of airport employees authorized to escort visitors in the secured areas, (4) annual audits of all airport-issued identification media, (5) the implementation of a substantive training program for all persons designated as an authorized signatory in the Airport's identification media system, and (6) recording and retention of personal identification media used to obtain an airport-issued identification badge. The annual cost to the Airport of complying with these security requirements is approximately $7.0 million in FY 2012.

*Cargo Security*. Both federal legislation and TSA rules have imposed additional requirements relating to air cargo. These include providing information for a central database on shippers, extending the areas of the Airport subject to security controls, and criminal background checks on additional employees, which inhibits the ability of operators to hire temporary workers during peak periods. The City has no direct involvement in fulfilling these requirements; they are the requirements of airline tenants at the Airport.

To date, the Airport has been able to meet the additional financial burdens imposed by new security requirements, but the Department anticipates additional unfunded security directives that may result in additional costs. Such requirements may include deployment of new technology at passenger screening checkpoints, particularly Advanced Imaging Technology, access control at passenger screening exit lanes (currently done by TSA), biometric credentialing in employee screening and access control and additional security requirements at the general aviation airports.

**International Traffic**

International traffic constitutes 1.7% of the Airport's passenger traffic for FY 2011. The adverse economic conditions affecting domestic air travel have also affected international traffic. In addition, health crises, natural disasters and terrorism, or the threat thereof, can adversely affect international traffic. Most recently, a global outbreak of H1N1 virus, eruptions of the Icelandic volcano disrupting flights to and from various European destinations, and the continued escalation of violence in Mexico related to the illegal drug trade have caused travel concerns that may continue to adversely affect international traffic at the Airport.

**Cost of Aviation Fuel**

Airline earnings are significantly affected by the price of aviation fuel. According to the Air Transport Association, fuel is the largest cost component of airline operations, and therefore an important and uncertain determinant of an air carrier's operating economics. There has been no shortage of aviation fuel since the "fuel crisis" of 1974, but there have been significant increases and fluctuations in the price of fuel.

Any increase in fuel prices causes an increase in airline operating costs. Fuel prices continue to be susceptible to, among other factors, political unrest in various parts of the world, Organization of Petroleum Exporting Countries policy, increased demand for fuel caused by rapid growth of economies such as China and India, the levels of fuel inventory maintained by certain industries, the amounts of reserves maintained by governments, currency fluctuations, disruptions to production and refining facilities, and weather. In recent years, the cost of aviation fuel has risen sharply in response both to political instability abroad as well as increased demand for petroleum products around the world. Significant fluctuations and prolonged increases in the cost of aviation fuel have had an adverse impact on air transportation industry profitability, causing airlines to reduce capacity, fleet, and personnel as well as to increase airfares and institute fuel, checked baggage, and other extra surcharges, all of which may decrease demand for air travel.

**Travel Substitutes**

Teleconference, video-conference, and web-based meetings continue to improve in quality and price and are often considered a satisfactory alternative to face-to-face business meetings. Events such as the terrorist attacks of September 11, 2001, may have accelerated this trend.

**Capacity of National Air Traffic Control and Airport Systems**

Capacity limitations of the national air traffic control system at the Airport and at competing airports could be factors that might affect future activity at the Airport. In the past, demands on the air traffic control system have caused operational restrictions that have affected airline schedules and passenger traffic and caused significant delays. The FAA has made certain improvements to the computer, radar, and commutations equipment of the air traffic control system in recent years, but no assurances can be given that future increases in airline and passenger activity would not again adversely affect airline operations.

**Regulatory Environment**

The FAA has jurisdiction over flying operations generally, including personnel, aircraft, ground facilities, and other technical matters, as well as certain environmental matters. Under the FAA's noise reduction regulations, the air transportation industry was required to modify substantial numbers of its existing aircraft. Airport noise remains a significant federal and local issue at certain airports, which may require substantial capital investments by the industry and/or airport operators, including the Airport, from time to time to meet applicable standards.

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## INVESTMENTS

Available investable funds of the City are invested as authorized and required by the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "Investment Act"), and in accordance with an Investment Policy approved by the City Council. The Investment Act requires that the City establish an investment policy to ensure that City funds are invested only in accordance with State law. The City established a written investment policy adopted September 29, 2011 and revised on November 17, 2011. The City's investments are managed by the City's Department of Finance, which, in accordance with the Investment Policy, reports investment activity to the City Council.

### Legal Investments

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

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

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

**Investment Policies**

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

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

The City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt an ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in said ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, or other investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in mutual funds in the aggregate to no more than 80% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in no-load mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

**Current Investments**

As of December 31, 2011, investable City funds in the approximate amount of $1,213,793,629 were 82.87% invested in obligations of the United States, or its agencies and instrumentalities, 12.88% invested in a money market mutual fund, and 4.25% in a collateralized repurchase agreement, with the weighted average maturity of the portfolio being less than one year. The investments and maturity terms are consistent with State law and the City's Investment Policy objectives to satisfy cash flow requirements, preservation and safety of principal, liquidity and diversification, minimize risk, maximize yield, and proactive portfolio management.

The market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 100.05% of their book value. No funds of the City are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

**Securities Lending**

On April 1, 2010, the City entered into a securities lending agreement with Frost National Bank in compliance with State statutes and the City's Investment Policy. This securities lending agreement will end on March 31, 2013, however, the City has an option to renew for two additional one-year periods. The securities lending agreement requires collateral in the form of cash and/or U.S. government securities equal to 102.0% of the loaned security's market value plus accrued interest for domestic government or agency securities loaned.

## LITIGATION

**General Litigation and Claims**

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and promotional practices; various claims from contractors for additional amounts under construction contracts; and property tax assessments and various other liability claims. The amount of damages in most of the pending lawsuits is capped under the Texas Tort Claims Act. Therefore, as of fiscal year ended September 30, 2011, the amount of $21,544,573 is included as a component of the Reserve for claims liability. The estimated liability, including an estimate of incurred but not reported claims, is recorded in the Insurance Reserve Fund. The status of such litigation ranges from early discovery stage to various levels of appeal of judgments both for and against the City. The City intends to defend vigorously against the lawsuits, including the pursuit of all appeals; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the outcome of such lawsuits.

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

Information regarding various lawsuits against the City is included at Note 11, entitled "Commitments and Contingencies," of the City's CAFR for the fiscal year ended September 30, 2011, attached hereto as Appendix C. The City provides the following updated information related to the lawsuits:

*Kopplow Development, Inc. v. City of San Antonio*. Plaintiff contends that the construction of a regional stormwater detention facility was an inverse condemnation of its property by increasing the flood plain elevation on its property. The City also filed a statutory condemnation to acquire an easement involving Plaintiff's property to construct and maintain part of the facility. This matter was tried in July 2008 with a favorable ruling to Plaintiff; but the City's motion for new trial was granted. After a retrial, the jury awarded approximately $600,000 to Plaintiff for the inverse condemnation and statutory condemnation. The City and Plaintiff have appealed. The Fourth Court of Appeals issued its opinion affirming the trial court's ruling awarding Plaintiff $4,600 as compensation for the land taken, but reversed the other portion of the judgment for the remainder of the damages. Plaintiff's motion for rehearing was denied on December 29, 2010. Plaintiff filed a Petition for Review to the Texas Supreme Court, which was granted. Plaintiff filed its brief on the merits in October 2011 and the City filed its reply in December 2011. On March 9, 2012, the Supreme Court accepted the Petition for Review, but has not yet set the matter for oral argument.

*Daniel Thomas, et. al. v. City of San Antonio, et. al*. Plaintiffs' decedent was involved in two vehicle accidents in a short period of time and fled the scene of the second one on foot. After decedent refused commands to stop and drop his weapon, and in fear for their safety, the officers shot and killed the decedent. Plaintiffs filed suit against the City and the officers in their individual capacities. If liability is determined, damages could be in excess of $250,000. In December 2011, the Court granted the City's motion for summary judgment. The Defendant officer filed an Interlocatory appeal with the Fifth Circuit Court of Appeals on January 27, 2012. If the Fifth Circuit affirms the denial of the officers' motions for summary judgment, the matter will proceed to trial 30 days after that opinion is issued.

*Smith, et al. v. Ybarra, et al*. Plaintiffs' decedent was killed in a motor vehicle accident. Plaintiffs filed suit against the driver of the vehicle involved, as well as the City. As to the City, Plaintiffs contend that paramedics did not render medical aid to decedent based on their mistaken belief that she was already dead. Damages could be up to $250,000. The driver of the vehicle involved was criminally prosecuted. In February 2012, a jury found her guilty of intoxication manslaughter and she was sentenced to 2 years in jail. The civil matter has not been set for trial.

*KGME, Incorporated v. City of San Antonio*. Plaintiff entered into a contract with the City to provide construction services. The parties determined that work on portions of the contract had become impracticable and further work would cease. Plaintiff sued for breach of contract and violations of the Prompt Payment Act. Damages could exceed $250,000. The City filed a plea to the jurisdiction, which was denied by the trial court. The Fourth Court of Appeals issued its opinion on February 16, 2011, affirming the trial court's denial of the City's plea to the jurisdiction. The case was remanded back to state court. As of this date, there is no trial setting.

*Headwaters Coalition, et. al. v. City of San Antonio*. The Headwaters Coalition, owners of the property alleged to contain the headwaters of the San Antonio River, and a local homeowners association filed suit to prevent the use of 2007 bond funds for constructing a drainage system to run down Hildebrand Avenue from Broadway to the San Antonio River, intending to alleviate floodwaters on Broadway. Plaintiffs contend that the wording of the 2007 bond election documents strictly limits the construction of the drainage system to Broadway and that no work may be done off of that street. The City contends that the intent of the 2007 bond proposition election documents was to alleviate the flooding on Broadway and that placement of the drainage system on Hildebrand is the most efficient and cost-effective means of achieving that goal. Alternatively, the City contends that the Hildebrand drainage system plan substantially complies with the 2007 bond proposition documents. A State District Court Judge entered a temporary injunction preventing the City not only from using the 2007 bond proceeds on the Hildebrand system, but prohibiting any further construction work or the expenditures of any other City funds on the Hildebrand drainage system project during the pendency of the suit. The City filed an interlocutory appeal to the Fourth Court of Appeals. On April 25, 2012, the Court issued an opinion reversing the trial court decision, dissolving the temporary injunction, and remanding the case to the trial court for further proceedings. Plaintiffs have indicated that they may seek review from the Texas Supreme Court.

*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 July 23, 2012.

*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 2012. After unsuccessfully seeking another continuance of the trial, Plaintiff non-suited the case and refilled 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 December 10, 2012.

*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.

*Melissa Hopkins, et. al. v. William Karman, et.al*. Plaintiff's decedent was the victim of armed robbery. A San Antonio Police Officer arrived on the scene. Shots were exchanged with suspects and Plaintiffs' decedent was killed. Plaintiffs filed suit against the officer and the City alleging violations of civil rights under 42 U.S.C. §1983. On January 26, 2012, the Court administratively stayed this case. Damages could exceed $250,000.

## CITY PENSION AND OTHER POSTEMPLOYMENT RETIREMENT BENEFIT LIABILITIES

### City Pension Benefit Plans

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

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

Based on actuarial valuations, the City's current fire and police pension plan is funded in accordance with Texas law, and the UAAL as of October 1, 2011 was $242.7 million with an amortization period for the UAAL of 9.1 years and a funded ratio of 90.6%. The TMRS' UAAL as of December 31, 2010 was $100.4 million with a funded ratio of 90.6%. See the following for additional information on these two plans.

### Fire and Police Pension Plan

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

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

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

The Fund's annual required contribution for FY 2011 is determined by pension law. The Fund's October 1, 2011 actuarial valuation used the entry-age normal cost method. Significant assumptions included (a) 7.8% investment rate of return and (b) projected annual salary increase of 4.0%. The unfunded actuarial liability is amortized as a level percentage of projected payroll on an open basis.

The actuarial valuation also utilizes a technique that smoothes the effects of short-term volatility in the market value of investments over a five-year period. As is the case with most public pension plans, the Fire and Police Pension Fund incurred investment losses in prior years. Under this approach, the Fund's investment returns have been smoothed which results in the deferral of $360.5 million in investment losses as of October 1, 2011. These investment losses will be recognized in future years' actuarial valuations to the extent they are not offset by recognition of investment gains above the Fund's assumed investment return of 7.8% or other actuarial gains.

**Texas Municipal Retirement System**

The City provides benefits for all eligible employees (excluding firefighters and police officers) through a nontraditional, joint contributory, hybrid defined benefit plan in TMRS. TMRS is a statewide agent multiple-employer public employee retirement system created by law in 1948 to provide retirement and disability benefits to City employees. TMRS as of December 31, 2010, is the agent for 842 participating entities. It is the opinion of the TMRS management that the plans in TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the TMRS plan.

Since its inception, TMRS had used the traditional Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date but does not project the potential future liability of provisions adopted by a participating government. Two-thirds of the governments participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. These provisions are considered to be "committed" benefits (or likely to be guaranteed); as such, for the December 31, 2007 valuation, TMRS' Board adopted the Projected Unit Credit (PUC) actuarial funding method, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. These changes had a significant impact on TMRS' Unfunded Actuarial Accrued Liability (UAAL) and funded position as well as the City's contribution requirements. As of December 31, 2006, the City's Plan had a UAAL of $178.5 million with a funded ratio of 72.2%. After adoption of these changes, the City's Plan had a UAAL of $317.7 million with a funded ratio of 60.1% as of December 31, 2007.

The Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period may be increased up to 30 years, unless a participating government requests that the period remain at 25 years. For governments with repeating features, these changes resulted initially in higher required contributions and lower funded ratios. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow governments the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate). As a result of these changes, the City's contribution rate was projected to increase from 12.5% to 16.7%. Due to the significant increase in contribution requirements, the City selected to phase in the contribution rate in FY 2009 from 12.5% to 13.1% with an ultimate projected rate to be in excess of 18.0% after phase-in (or triple the employee contribution rate).

The City additionally created a work plan to review and address the changes being made by TMRS. Six focus groups with employees and retirees were held to obtain input via a survey on their TMRS benefits and priorities to assist the City in evaluating its options and decisions made on the TMRS Board. Furthermore, the City engaged a legal firm to provide legal advice on TMRS and other pension related issues. The legal firm engaged an actuarial firm to evaluate the assumptions and results of TMRS' report to provide a historical performance analysis of the funds within TMRS, and assist in exploring viable pension alternatives. A task force of current employees and retirees was formed to provide input regarding the work to be completed by this actuarial firm.

The City further adopted a plan change in 2010 removing the annually repeating Cost of Living Adjustment (COLA) feature as a way to mitigate future contribution increases. This change does not prevent adoption of either ad hoc or annually repeating COLAs in the future, but it did reduce the City's contribution rate in 2010 from 13.9% to 12.3%. The City also proposed legislation to the State's 82nd Legislative Session held in January 2011 which would: 1) allow cities to provide COLAs which would not be subject to current provisions requiring retroactive application of changes and 2) provide cities the ability to grant additional payments (e.g., 13th check) where funding is available. This proposed legislation was developed to provide additional flexibility and options for addressing the significant challenges associated with the current TMRS plan. While neither of these proposals passed, the City will continue to work on ways to manage its contribution rate.

TMRS also proposed legislation during the State's 82nd Legislative Session to combine the Municipal Accumulation Fund (MAF), Current Service Annuity Reserve Fund (CSARF), and the Employees Savings Fund (ESF), into a single city trust fund. Under TMRS, assets were held in trust in three distinct accounts, which were called "funds." The MAF holds city contributions and interest. The ESF holds member contributions and interest. When a member retires, the accumulated contributions and interest in the member's account transfer from the ESF, along with matching funds from the city's MAF into the CSARF. The basic retirement benefit is therefore fully funded at the time of a member's retirement and is then paid monthly to the retiree from the CSARF. At the time a member retires, the basic retirement benefit becomes a liability of TMRS. Since the passage of House Bill 360 in 2009, each year the ESF and CSARF are credited, by law, with 5.0% interest. This guaranteed interest credit may result in a highly leveraged (positive or negative) interest credit to the MAF. In years when TMRS as a whole earns less than the amount needed to provide the 5.0% guaranteed interest credit to the ESF and CSARF, additional funding will be needed from the MAF. Additionally, as each city's plan matures and retirements increase, more funds transfer into the CSARF from the ESF and the MAF, and the MAF balance, combined with the highly leveraged interest allocations, can result in city contribution rates that may be more volatile than a typical pension plan.

Restructuring, or combining, funds eliminated the leverage inherent in the asset structure and helped to make city contribution rates less volatile. Under a restructured pension fund, at the time of retirement, money would not be transferred to the CSARF (it would stay in the combined/single trust fund of the city). By reallocating the CSARF assets and liabilities and the ESF assets into each city's single trust fund, all future investment earnings based on that city's contributions for active and retired members would be directly applied to that specific city's trust assets and included in the funding equation, resulting in decreased liabilities and contribution rates. Additionally, a city's funded ratio would improve because the city would receive "credit" for the excess of the assets over liabilities for those retirements that are currently being paid from the CSARF; and the city's annual requirement contribution would be reduced since the city would receive interest on a larger base of assets over a longer period of time. The vast majority of defined benefit plans are funded under a similar structure. This proposal passed as Senate Bill 350 and was enacted in June 2011. This legislation permitted the actuarial valuation to be completed, as if restructuring occurred on December 31, 2010.

In addition to the restructuring, the actuarial assumptions were updated based on an actuarial experience study that was adopted by the TMRS board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). The City's UAAL as of December 31, 2010 prior to restructuring was calculated at $201.4 million with a funded ratio of 73.0%. The City's UAAL using the new rate structure calculates to $100.4 million with a funded ratio of 90.6%. Further, the amortization periods differed; prior to restructuring the period is 25.6 years; after restructuring the period is 24.1 years, resulting in a reduction to the contribution rate from 13.3% to 10.0% for the first quarter of FY 2012.

In the FY 2012 budget, City Council adopted a one-time annuity increase that will be provided to retired employees and to beneficiaries of deceased employees. The amount of the increase is computed as the sum of the prior service and current service annuities on the effective date of retirement of the person on whose service the annuities are based. This number was multiplied by 70.0% of the percentage change in the Consumer Price Index for All Urban Consumers, from December of the year immediately preceding the effective date of the person's retirement to the December that is 13 months before the effective date of the increase. This one-time annuity increase will cause the contribution rate to increase from 10.0% to 10.3%, effective January 1, 2012.

Benefits depend upon the sum of the employee's contributions to the TMRS plan, with interest, and the City-financed monetary credits, with interest. At the date the TMRS plan began, the City granted monetary credits for service rendered before the TMRS plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the TMRS plan. Monetary credits for service since the TMRS plan began are a percentage of the employee's accumulated contributions. In addition, the City may grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the TMRS plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percentage had always been in existence and if the employee's salary had always been the average salary for the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the City-financed monetary credits with interest were used to purchase an annuity.

Members are eligible to retire upon attaining the normal retirement age of 60 and above with 5 or more years of service, or with 20 years of service regardless of age. The TMRS plan also provides death and disability benefits. A member is vested after five years, but must leave accumulated contributions in the TMRS plan. If a member withdraws the contributions with interest, the member would not be entitled to the City-financed monetary credits, even if vested.

TMRS provisions and contribution requirements are adopted by the governing body of the City within the options available in the state statutes governing TMRS and within the actuarial constraints contained in the statutes.

Contribution requirements are actuarially determined by TMRS' actuary (see summary of TMRS Actuarial Assumptions and Methods at the end of Note 8 in the City's CAFR). The contribution rate for the City's employees is 6.0% and the matching percent was 12.6% for calendar year 2010, both as adopted by the governing body of the City (see summary of contribution information at the beginning of Note 8 in the City's CAFR). Under the state law governing TMRS, the employer's contribution rates are annually determined by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percentage of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortized the unfunded (overfunded) actuarial liability (asset) over the applicable period for the City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The normal cost contribution finances the currently accruing monetary credits due to the City matching percentage, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percentage of payroll necessary to satisfy the obligation of the City to each employee at the time the employee's retirement becomes effective. The prior service contribution rate amortizes the UAAL over the remainder of the plan's 24.1 year amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased UAAL is being amortized over a new 24.1 year period. Currently, the UAAL is amortized over a constant 24.1 year period as a level percentage of payroll. Contributions are made monthly by both the employees and the City. All current year required contributions of the employees and the City were made to TMRS. Due to the fact that the City requires the contribution rates in advance for budget purposes, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

Investments are reported at fair value. The fair values of fixed income securities are valued by the custodian using the last trade date price information supplied by various pricing data vendors. Fair values of the equity index funds (comingled funds) are determined based on the funds' net asset values at the date of valuation. Short-term investment funds are reported at cost, which approximates market value. Security transactions are reported on a trade date basis.

| Membership as of the Valuation Date | 12/31/2010 |
|---|---|
| Number of: | |
| Active Members | 5,951 |
| Retirees and beneficiaries | 3,402 |
| Inactive members | 2,188 |
| Total | 11,541 |

TMRS' administration costs are funded from a portion of TMRS' annual investment earnings.

TMRS issues a publicly available financial report that includes financial information and required supplementary information for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used related to participating municipalities. The report may be obtained by writing to the TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling (800) 924-8677. In addition, the report is available on TMRS' website at www.TMRS.com. The required schedule of funding progress follows immediately the notes to the financial statements, and they present multi-year trend information regarding the actuarial value of plan assets relative to the actuarial liability for benefits.

**Other City Postemployment Retirement Benefits**

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

The first of the two programs is a health insurance plan, which provides benefits for nonuniformed City retirees and for pre-October 1, 1989 uniformed (fire and police) retirees who are not eligible for Medicare. The program is comprised of three self-funded PPO health plans currently administered by United Healthcare. These plans may be amended at any time with approval from the City Council. This program is funded on a pay-as-you-go basis with an aggregate sharing of premium costs based on the following targets: 67.0% by the City and 33.0% by the retiree for those retirees hired prior to October 2007. With the adoption of the FY 2008 Budget, additional changes were made to this retirement health plan. For all non-uniformed employees beginning employment on or after October 1, 2007, a revised schedule for sharing of the costs on a pay-as-you-go basis is effective. The revised schedule is as follows: (1) Employees who separate from the City with less than five years of service are not eligible to participate in the program; (2) Employees who separate with at least five years of service but less than 10 years of service are eligible to participate in the program but without City subsidy; and (3) Employees who separate from employment with 10 years of service or more will pay for 50.0% of the pay-as-you-go contributions to the program and the City will contribute the remaining 50.0%. The ability to participate in the program remains based on eligibility for the TMRS Pension Plan.

Currently, there are 6,068 active civilian employees who may become eligible in the future. Employees may become eligible to participate in this program based on eligibility for a retirement benefit under the rules for TMRS Pension Plan and their number of years of service to City of San Antonio. Under the TMRS Pension Plan, employees may retire at age 60 and above with five or more years of service or with 20 years of service regardless of age. Retiree medical benefits continue for the life of the retiree and their surviving eligible dependents that were covered at the time of the employee's retirement. Nonuniformed City employees who qualify for a disability pension under TMRS rules are also eligible to receive the retiree medical benefit under this plan. As of September 30, 2011, there were 435 retirees and surviving spouses participating in this program.

The second program with 893 participating retirees is available to eligible retirees who have Medicare coverage. All retirees and dependents are required to apply for and maintain Medicare Part A & B coverage once they reach age 65 or otherwise become eligible for Medicare. Of the current 893 participating Medicare retirees, 145 participate in a fully insured Medicare Advantage HMO and the remaining 748 participate in a fully insured Medicare Supplement. This program may be amended at any time by the City Council.

The City intends to conduct actuarial studies of this plan bi-annually with annual reviews of assumptions and changes in benefits to compute OPEB liability. Most recently, an actuarial valuation of the plan was performed as of January 1, 2011, for a September 30, 2011 valuation date, with the UAAL reported at $324.5 million. The plan continues to be funded on a pay-as-you-go basis and no prefunding has occurred to date.

The other postemployment benefit program of the City, the Fire and Police Retiree Health Care Fund, San Antonio (Health Fund) is a Texas statutory retirement health trust for firefighters and police officers of the City. The trust holds assets and liabilities of the City's Fire and Police Retiree Health Care Plan (Plan). This Plan is a single-employer defined benefit postemployment health care plan that was created in October 1989 in accordance with provisions established by contract with the local fire and police unions to provide postemployment health care benefits to police officers and firefighters of the City retiring after September 30, 1989. Authority to establish and amend the plan's postemployment health care benefits is based on such contracts and the Texas Legislature enacts regulations that control the operation of the Health Fund. The statutory trust is governed by a board of trustees that meets on a monthly basis. The board consists of nine members: the Mayor or his appointee; two members of the City Council; one retired and two active duty police officers; and one retired and two active duty firefighters. The Health Fund board has the ability to modify benefits within certain parameters. The City is the only participating employer in the Plan.

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

During the 2007 State legislative session, the City, Board of Trustees of the Fund, Fire Association, and Police Association actively pursued amendments to the Fund's governing legislation, which amendments were enacted. These amendments were done in order to address the long-term actuarial position of the Fund. The changes primarily include: (a) making certain changes to the benefits plans; (b) providing the Board of Trustees of the Fund the authority to make additional changes to the health benefits plans in the future; (c) maintaining the City's contribution to the health plan at 9.4% of payroll over the next 10 years; (d) phase-in over five years of employee contributions from 2.0% of covered payroll to 4.7%; and (e) other administrative changes. Additionally, if after 10 years, the UAAL of the Fund cannot be amortized over a period of 30 years or less, the Board shall increase the City and employee contributions, and deductibles and out of pocket maximums for retirees by a percentage not to exceed 10% each year until the UAAL can be amortized over a period of 30 years or less.

The Fire and Police Health Care Fund's actuarial study with a valuation date of October 1, 2011, for fiscal year ending September 30, 2012, indicates that the UAAL, calculated in compliance with GASB regulations, was $403.6 million with a funded ratio of 36.9%. The study further indicates that after the 10-year period as defined in the governing legislation, a projected total increase of 1.52% in the total contribution requirement would provide for the amortization of the Fund's UAAL over 30 years. In effect, in FY 2018, the City's contribution rate is projected to increase from 9.4% to 10.34% of covered payroll and active fire and police employees from 4.7% to 5.17% of covered payroll. Contribution rates are projected to increase in FY 2019 as well, with the City's contribution rate increasing from 10.34% to 10.41% of covered payroll and active fire and police employees from 5.17% to 5.21% of covered payroll in order to achieve a 30-year amortization of the UAAL.

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

**Use of Assumptions and Estimates**

As set forth herein, as well as in Notes 8 and 9, respectively, of the City's CAFR for its fiscal year ended September 30, 2011, selected provisions of which are attached hereto as Appendix C, the disclosure relating to the City Pension and Retiree Health Benefits Plans are based upon certain actuarial assumptions and estimates, reasonably made based upon information available at such time, that are subject to variance. To the extent these assumptions and estimates do not materialize or are inaccurate, the financial information disclosed herein and in Notes 8 and 9, respectively, of the CAFR, including the estimated-as-compared-to-actual values of the assets and liabilities for each of the City Pension and Retiree Health Benefits Plans, could change substantially and in a materially adverse manner.

**CAFR Discussion**

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

## TAX MATTERS

**Opinion**

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., and LM Tatum, PLLC, both of San Antonio, Texas, Co-Bond Counsel to the City, will render their opinions that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof, except for any holder who is treated pursuant to section 147(a) of the Internal Revenue Code of 1986 (the "Code") as a "substantial user" of the projects refinanced with the proceeds of the Bonds or a "related person" to such user. Except as stated above, Co-Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See "APPENDIX E - Forms of Co-Bond Counsel Opinions" attached hereto.

In rendering their opinions, Co-Bond Counsel (a) will rely upon information furnished by the City, including information and representations in the City's federal tax certificate, (b) covenants of the City contained in the Ordinances relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property refinanced therewith, and (c) the Verification Report prepared by Causey, Demgen & Moore Inc. Although it is expected that the Bonds will qualify as tax-exempt obligations for federal income tax purpose as of the date of issuance, the tax-exempt status of the Bonds could be affected by future events. However, future events beyond the control of the City, as well as the failure to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

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

**Future and Proposed Legislation**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

**Federal Income Tax Accounting Treatment of Original Issue Discount**

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (1) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (2) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

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

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

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each accrual period and ratably within each such accrual period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (1) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (2) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

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

**Collateral Federal Income Tax Consequences**

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

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

INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds is an item of tax preference, as defined in section 57(a)(5) of the Code, for purposes of determining the alternative minimum tax imposed on individuals and corporations by section 55 of the Code.

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

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

**State, Local and Foreign Taxes**

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

## REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The 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

### General

On the Closing Date, the City will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinions of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding special obligations of the City, and based upon examination of such transcript of proceedings, the legal opinions 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 2012 GARBs and the 2012 PFC Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security or in any manner questioning the validity of the Bonds will also be furnished. In their capacity as Co-Bond Counsel, McCall, Parkhurst & Horton L.L.P., and LM Tatum, PLLC, both of San Antonio, Texas, have reviewed the information appearing in this Official Statement under the captions "PLAN OF FINANCE," "THE BONDS" (other than under the subsection "Book-Entry-Only System," "Defaults and Remedies," and "Payment Record," as to which no view will be expressed), "SECURITY FOR THE BONDS AND CERTAIN ORDINANCE PROVISIONS," "TAX MATTERS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "LEGAL MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (other than under the subsection "Compliance with Prior Undertakings," as to which no view will be expressed) to determine whether such information fairly summarizes the material and documents referred to therein and is correct as to matters of law. Co-Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon 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. The legal fees to be paid Co-Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the issuance and delivery of the Bonds. The forms of legal opinions of Co-Bond Counsel expected to be delivered on the date of issuance of the Bonds are attached hereto as Appendix E. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Winstead PC, and Shelton & Valadez, P.C., both of San Antonio, Texas.

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

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

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

## RATINGS

Fitch Ratings ("Fitch"), Moody's Investors Services, Inc. ("Moody's"), and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") have rated the 2012 GARBs "A+" (stable outlook), "A1" (stable outlook), and "A+" (stable outlook), respectively, and the 2012 PFC Bonds "A" (stable outlook), "A2" (stable outlook), and "A-" (stable outlook), respectively. An explanation of the significance of such ratings may be obtained from Moody's, S&P, and Fitch. The rating of the Bonds by Moody's, S&P, and Fitch reflects only the views of said companies at the time the ratings are given, and the City makes no representations as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by Moody's, S&P, and Fitch if, in the judgment of said companies, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

## CONTINUING DISCLOSURE OF INFORMATION

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

### Annual Reports

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

The City will file annually with the MSRB certain updated financial information and operating data. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement indicated as Tables 1-9, and in the CAFR, substantially in the manner set forth in Appendix D to this Official Statement. The City will update and provide this information within six months after the end of its fiscal year.

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

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

### Notices of Certain Events

*Notice of Occurrence of Certain Events, Whether or Not Material*. The City will notify the MSRB through EMMA (in an electronic format as prescribed by the MSRB) within ten business days following the occurrence of any of the following events with respect to the Bonds, without regard to whether such event is material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other events affecting the tax status of the Bonds; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of an obligated person.

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

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

**Availability of Information**

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

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

**Limitations and Amendments**

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

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

**Compliance with Prior Undertakings**

During the past five years, the City has complied in all material respects with all of its previous continuing disclosure agreements in accordance with the Rule.

## VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by the Co-Financial Advisors (defined herein) on behalf of the City was examined by Causey Demgen & Moore Inc, certified public accountants (the "Accountants"). The Accountants have restricted their procedures to examining the arithmetical accuracy of certain computations and have not made any study or evaluation of the assumptions and information on which the computations are based, and accordingly, have not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome. The Accountants will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of the computations contained in the provided schedules to determine that the anticipated receipts from the Federal Securities and cash deposits listed in the schedules provided by the Co-Financial Advisors, to be held in the Escrow Fund, will be sufficient to pay, when due, the principal and interest requirements of the Refunded Bonds.

## FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

## CO-FINANCIAL ADVISORS

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

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

## UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the 2012 GARBs from the City at a purchase price of $76,927,777.18, which represents the par amount of the 2012 GARBs, plus a reoffering premium of $7,184,176.50, less an Underwriters' discount of $391,399.32, and no accrued interest.

The Underwriters also have agreed, subject to certain conditions, to purchase the 2012 PFC Bonds from the City at a purchase price of $28,181,761.14, which represents the par amount of the 2012 PFC Bonds, plus a reoffering premium of $2,542,248.10, less an Underwriters' discount of $150,486.96, and no accrued interest.

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

## AUTHORIZATION OF THE OFFICIAL STATEMENT

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

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

/s/ Julián Castro
Mayor, City of San Antonio

ATTEST:

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

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**SCHEDULE I**

**SCHEDULE OF REFUNDED OBLIGATIONS**

**Refunded GARBs:**

| Series | Maturity Date | Interest Rate (%) | Par Amount ($) | Redemption Date | Redemption Price (%) |
|---|---|---|---|---|---|
| Airport System Revenue Improvement Bonds, Series 2002 | 07/01/2013 | 5.750% | $ 3,370,000 | 07/01/2012 | 100.000 |
| | 07/01/2014 | 5.750% | 3,570,000 | 07/01/2012 | 100.000 |
| | 07/01/2015 | 5.750% | 3,785,000 | 07/01/2012 | 100.000 |
| | 07/01/2016 | 5.750% | 4,010,000 | 07/01/2012 | 100.000 |
| | 07/01/2017 | 5.750% | 4,245,000 | 07/01/2012 | 100.000 |
| | 07/01/2019[1] | 5.400% | 9,245,000 | 07/01/2012 | 100.000 |
| | 07/01/2021[1] | 5.250% | 10,300,000 | 07/01/2012 | 100.000 |
| | 07/01/2023[1] | 5.250% | 11,450,000 | 07/01/2012 | 100.000 |
| | 07/01/2027[1] | 5.250% | 26,855,000 | 07/01/2012 | 100.000 |
| TOTAL | | | $76,830,000 | | |

**Refunded PFC Bonds:**

| Series | Maturity Date | Interest Rate (%) | Par Amount ($) | Redemption Date | Redemption Price (%) |
|---|---|---|---|---|---|
| Passenger Facility Charge & Subordinate Lien Airport System Revenue Improvement Bonds, Series 2002 | 07/01/2013 | 5.750% | $ 1,230,000 | 07/01/2012 | 100.000 |
| | 07/01/2014 | 5.750% | 1,300,000 | 07/01/2012 | 100.000 |
| | 07/01/2015 | 5.750% | 1,380,000 | 07/01/2012 | 100.000 |
| | 07/01/2016 | 5.750% | 1,465,000 | 07/01/2012 | 100.000 |
| | 07/01/2017 | 5.750% | 1,550,000 | 07/01/2012 | 100.000 |
| | 07/01/2018 | 5.750% | 1,640,000 | 07/01/2012 | 100.000 |
| | 07/01/2021[1] | 5.250% | 5,510,000 | 07/01/2012 | 100.000 |
| | 07/01/2023[1] | 5.250% | 4,185,000 | 07/01/2012 | 100.000 |
| | 07/01/2027[1] | 5.250% | 9,830,000 | 07/01/2012 | 100.000 |
| TOTAL | | | $28,090,000 | | |

[1] Represents a Term Bond.

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# APPENDIX A

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

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## APPENDIX A

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

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

**Population and Location**

The 2010 Census, prepared by the United States Census Bureau ("U.S. Census Bureau"), found a City population of 1,327,407. 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 Department of Planning and Development Services estimates the City's population to be 1,366,249 in 2012. The U.S. Census Bureau ranks the City as the second largest in the State of Texas and the seventh largest in the United States.

The City is the county seat of Bexar County. Bexar County had a population of 1,714,773 according to the 2010 Census. The City's Department of Planning and Development Services estimates Bexar County's population to be 1,787,566 and the San Antonio-New Braunfels Metropolitan Statistical Area ("MSA") population to be 2,240,894 in 2012. The City is located in south central Texas approximately 80 miles south of the State capital in Austin, 165 miles northwest of the Gulf of Mexico, and approximately 150 miles from the United States ("U.S.") / Mexico border cities of Del Rio, Eagle Pass, and Laredo.

The following table provides the population of the City, Bexar County, and the San Antonio-New Braunfels MSA[1] for the years shown:

| Year | City of San Antonio | Bexar County | San Antonio-New Braunfels MSA |
|---|---|---|---|
| 1920 | 161,379 | 202,096 | 289,089 |
| 1930 | 231,542 | 292,533 | 389,445 |
| 1940 | 253,854 | 338,176 | 437,854 |
| 1950 | 408,442 | 500,460 | 603,775 |
| 1960 | 587,718 | 687,151 | 796,792 |
| 1970 | 654,153 | 830,460 | 951,876 |
| 1980 | 785,880 | 988,800 | 1,154,648 |
| 1990 | 935,933 | 1,185,394 | 1,407,745 |
| 2000 | 1,144,646 | 1,392,931 | 1,711,703 [1] |
| 2010 | 1,326,539 | 1,714,773 | 2,142,508 [2] |

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

*Sources: U.S. Census Bureau; Texas Association of Counties – County Information Project; and City of San Antonio, Department of Planning and Community Development.*

**Area and Topography**

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

**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 2011 net taxable assessed value of $71.2 billion.

By City Charter and State law, City Council has the power to annex territory by passage of an ordinance. As of January 1999, State law mandates that municipalities planning to annex prepare an Annexation Plan 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.

At the present time, the City does not have an Annexation Plan. There are minor exceptions in 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 any voluntary annexation requests.

**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 elective Council which enacts legislation, adopts budgets, and determines policies. The City Charter provides for a council-manager form of government. The City Council is comprised of eleven members, with ten members elected from single-member districts, and the Mayor elected at-large. Each member of the City Council serves two-year terms, and each member is limited to a maximum of four full terms. The office of the Mayor is considered a separate office. The terms of all members of the City Council currently sitting in office expire on May 31, 2013. The City Council appoints a City Manager who administers the government of the City, and serves as the City's chief administrative officer. The City Manager serves at the pleasure of City Council.

**City Charter**

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

The most recent amendment to the City Charter was adopted at the November 4, 2008 election. This City Charter amendment revised term limits to allow a mayor or member of the City Council to serve four full two-year terms of office, instead of two full two-year terms, but prohibited the 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 Council member until the special election is held. The election is scheduled to be held on May 12, 2012.

If this City Charter amendment is approved by City voters, the City Charter will be amended to reflect the change to require an election to fill a vacancy on City Council if the vacancy occurs with more than 270 days remaining in the term, and allow City Council to appoint a person to serve as a Council member on a temporary basis during the period between the creation of the vacancy and the special election. Additionally, it will allow City Council to fill vacancies on council with 270 or less days remaining by majority vote.

**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 20 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, 2011 were $297,629,648 (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 $19^{th}$ 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, 2011 were $10,821,500. (See "San Antonio Water System" herein.)

On January 28, 2012, by operation of legislation passed by the $82^{nd}$ 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 supports a favorable business environment and economic diversification, which is represented by various industries, including convention and tourism, healthcare and bioscience, government employment, automotive manufacturing, information security, financial services, the oil and gas industry, and international trade. Support for these economic activities is demonstrated by the City's commitment to its ongoing infrastructure improvements and development, and its dedicated work force. 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 6.6% in March 2012, down from 6.8% reported in February 2012. The Texas unadjusted (actual) unemployment rate decreased to 7.0% in March 2012, down from 7.2% reported in February 2012. The nation's unadjusted (actual) unemployment rate decreased to 8.4% in March 2012, down from 8.7% in February 2012. Total employment in the San Antonio-New Braunfels MSA for March 2012 was 864,200. Government, trade, transportation, and utilities, and education and health services represent the largest employment sectors in the San Antonio-New Braunfels MSA. Despite national economic challenges, San Antonio continues to be one of the top leisure and convention cities in the country and benefits from visitors within driving distance from Dallas, Houston, and other Texas cities.

***Healthcare and Bioscience Industry***

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

*Health Care*. The 900-acre South Texas Medical Center (the "Medical Center") has over 40 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. Approximately 2,700 students 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 some 5,783 persons with a total annual budget of approximately $740 million. The UT Health Science Center oversees the federally funded Regional Academic Health Center in the Rio Grande Valley with facilities in Harlingen, McAllen, Brownsville, and Edinburg.

The UT Health Science Center is one of the country's leading health sciences universities, and ranks in the top 2% of all U.S. institutions receiving federal funding. The university's schools of medicine, nursing, dentistry, health professions, and graduate biomedical sciences produced 1,211 graduates in 2010 and has produced 25,856 graduates since inception. The $740 million operating budget supports six campuses in San Antonio, Laredo, Harlingen, and Edinburg.

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

There are numerous other medical facilities outside the boundaries of the Medical Center, including 25 short-term general hospitals, two children's psychiatric hospitals, and two state hospitals. The U.S. Department of Defense ("DoD") has 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 to expand BAMC into one of two national DoD Regional Medical Centers, and a new outpatient clinic to replace Wilford Hall. BAMC also participates with UT Health Science Center and University Hospital in operating two Level I trauma centers in the community.

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

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

The Texas Biomedical Research Institute ("Texas Biomed"), formerly the Southwest Foundation for Biomedical Research, which conducts fundamental and applied research in the medical sciences, is one of the largest independent, non-profit, biomedical research institutions in the U.S. and is internationally renowned. As one of the world's leading independent biomedical research institutions, Texas Biomed is dedicated to advancing the health of 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 at San Antonio. The UT Health Science Center, along with the Cancer Therapy and Research Center, form the San Antonio Cancer Institute, a National Cancer Institute-designated Comprehensive Cancer Center.

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

Texas House Speaker Joe Straus and the South Texas Regional Center of Innovation and Commercialization ("STRCIC") announced on May 13, 2010, an investment of $3 million in Palmaz Scientific, Inc. through the Texas Emerging Technology Fund. The investment is for the commercialization of Palmaz Scientific's patented nanotechnology processes for the introduction of innovative vascular stents and other implantable medical devices including the SESAME stent, Micro-Neuro stent, Micro-Grooved Coronary stent and a Micro-Mesh Covered Carotid stent to improve effectiveness and safety of today's vascular stents.

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

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

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, is committing funding in the amount of $3.3 million over 3 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 10-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 UT Health Science Center was established in 1959 and is the largest health sciences university in South Texas. The University is the core and catalyst for the City's largest targeted industry, Healthcare and Biosciences, which generates an annual economic impact of over $24 billion. The UT Health Science Center directly employs over 5,000, is ranked in the top 5% of National Institute of Health funded research universities, and is the number one public medical school in the nation for graduating Hispanics. UT Health Science Center's annual economic impact was estimated at $914 million in 2009. In addition, for the last 34 years, the University has served as the San Antonio Fire Department's contracted "medical director" conducting all medical training for San Antonio's paramedics and firefighters.

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 our own 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 University has agreed to enter into an Economic Development Agreement with the SAEDC and provide the SAEDC, over 10 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.

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

*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.

WHASC at Lackland Air Force Base 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 WHASC is currently under construction at Lackland and is scheduled to open in 2015.

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 military treatment facility manages a total combined budget of over $839 million and contributes over $138 million annually in inpatient/outpatient private sector care expenses.

Currently, all U.S. Army combat medic training is conducted at Fort Sam Houston. As a result of BRAC 2005, all military enlisted combat medic training will be undertaken at the new Medical Education and Training Campus at Fort Sam Houston – Joint Base San Antonio.

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 (which is dedicated to medical investigations), and the Frank Tejeda Veterans Administration Outpatient Clinic (which serves veterans located throughout South Texas). The two military medical care facilities and the Veterans Hospital collaborate in a variety of ways, including clinical research and the provision of medical care to military veterans.

***Finance Industry***

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

After competing with Little Rock, Tulsa, and Raleigh, Nationwide announced in October 2009 that San Antonio would be home to a new regional corporate headquarters location. Ranked 127$^{th}$ on the 2011 Fortune 500 List, 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.

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

On February 9, 2010, Allstate announced its decision to locate a customer operations center, invest $12 million, and create 600 new full-time jobs in San Antonio. The core function of this operations center will support direct sales calls and selling additional insurance products to existing clients. Allstate is the nation's largest publicly held personal lines insurer. Allstate employs an estimated 70,000 agents and support staff nationwide. In 2011, the company ranked 89 on the list of Fortune 500 companies, with annual revenues exceeding $31 billion. Allstate's main lines of insurance include automobiles, property, life, and retirement and investment products. Allstate has two other sales support centers located in Northbrook, Illinois (its headquarters) and Charlotte, North Carolina. As of December 2010, Allstate reported that it had hired 414 employees and eventually expects the center will employ 600 employees, who will sell Allstate products and provide service to the company's customers.

San Antonio is also the home of many banking headquarters and regional operation centers such as Frost National Bank, Broadway 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 recent study prepared by Richard V. Butler, Ph.D. and Mary E. Stefl, Ph.D., both professors at Trinity University, found that the hospitality industry has an economic impact of nearly $11.0 billion. The estimated annual payroll for the industry is $1.99 billion, and the industry employs more than 106,000 people.

In 2011, the City's overall level of hotel occupancy increased by 3.4%. However, this is considering room supply increased by 2.3%. Total room nights sold increased by 5.8%. The average daily room rate decreased 1.5%, revenue per available room increased 1.9%, and overall revenue increased 4.3%.

*Tourism*. The list of attractions in the San Antonio area includes, among many others, the Alamo and other sites of historic significance, the River Walk, and two major theme parks, SeaWorld San Antonio and Six Flags Fiesta Texas. D.K. Shifflet & Associates, Ltd. reported San Antonio attracted 26 million visitors in 2010. Of these, 12.2 million were overnight leisure visitors, placing San Antonio as one of the top U.S. destinations in Texas. Recent FY 2011 accomplishments contributing to the City's success include: generating over $12 million in positive media value for San Antonio as a tourism and convention destination; Top Chef Texas, which featured San Antonio in eight episodes which showcased the City as a growing culinary destination; implementing a marketing and communication campaign leveraging the 175th anniversary of the Battle of the Alamo; and renovating and branding the City's Visitor Information Center across from the Alamo, which services more than 300,000 visitors.

*Conventions*. San Antonio is also one of the top convention cities in the country. In FY 2011, the City's Convention & Visitors Bureau ("CVB") launched a niche CEO marketing plan, which raised awareness of San Antonio with top business executives primarily to influence meeting destination opportunities. Thus, the CVB sales staff booked more than 852,000 room nights for current and future years. High profile meetings booked include: American Society for Therapeutic Radiology & Oncology, with 40,000 room nights for 2018 and 2022; Breast Cancer Symposium, with 21,000 room nights for 2018-2020; and American Society for Mass Spectrometry, with 21,000 room nights for 2016. 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] |
|---|---|---|---|---|---|---|
| 2002 | 64.2% | $56.57 | 6,383,286 | 483,452 | 693,921 | $435.5 |
| 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 |

[1] Data obtained from Smith Travel Research based on hotels in the San Antonio selected zip code historical report dated January 18, 2012.
[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 military represents a significant component of the City's economy providing an annual economic impact of over $13 billion for the City. Three major military installations are currently located in Bexar County, including Joint Base San Antonio-Lackland Air Force Base ("JBSA-Lackland"), Joint Base San Antonio-Fort Sam Houston ("JBSA-Fort Sam Houston"), and Joint Base San Antonio-Randolph Air Force Base ("JBSA-Randolph"). In addition, the property of Brooks Air Force Base ("Brooks AFB"), a fourth major military installation, was transferred from the U.S. Air Force to the City-created Brooks Development Authority ("BDA") in 2002, as part of the Brooks City-Base Project ("Brooks City-Base"). Furthermore, the military is still leasing over two million square feet of space at Port San Antonio (the "Port"), which is the former Kelly Air Force Base that was closed in 2001.

One of the most significant events in San Antonio's recent economic history is the BRAC 2005. BRAC 2005's realignment of medical facilities resulted in a major positive impact on military medicine in San Antonio, with $3.2 billion in construction and the addition of 12,500 jobs at Fort Sam Houston, which was accomplished in September 2011. This is up from the $1.6 billion in construction and 11,500 personnel projected in 2007.

BRAC 2005 has strengthened San Antonio's role as a leading military research, training, and education center. It established Joint Base San Antonio, which has consolidated installation management at the three military bases in San Antonio, thereby creating the largest installation in the DoD, while supporting 78,000 personnel and $10.3 billion in property.

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

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

The potential economic impact from JBSA-Fort Sam Houston due to the BRAC 2005 expansion is projected 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.

JBSA-Lackland is home to the 37$^{th}$ Training Wing and is situated on 9,700 acres, all within the city limits of San Antonio. According to the 2010 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 will graduate 86,000 trainees per year. Construction is moving ahead on two new Airman Training Complexes as part of a $900 million East Campus Project. Each Training Complex will house up to 1,200 trainees and includes dining halls and classroom facilities. A third Training Complex started construction in summer 2011.

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

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

The BRAC 2005 growth supports the City's economic development strategy to promote development in targeted areas of the City, to leverage military installation economic assets to create jobs, and to assist 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. These hospitals are designed to be the most advanced in the world and are capable of providing state-of-the art medical care to veterans with multiple serious injuries. San Antonio is also home to the National Trauma Institute ("NTI"), a collaborative military-civilian trauma institute involving SAMMC, 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.

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 ("GMP") 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 currently underway and is expected to be completed in the summer of 2012. This project is complex, since it is the center segment of a cooperative effort joining the already completed Texas Department of Transportation 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 is actually being built on federal property and will be gifted to the military upon completion in the summer 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 December 2012.

Currently, the DoD is the community's largest employer, employing over 195,075 people; with an economic impact of $13.3 billion annually; and $9 billion in yearly wages. Over 48,000 military veterans reside in San Antonio and receive over $1.2 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 2015. The value of the proposed projects during this time period is anticipated to be about $200 million to $300 million per year, with almost $1 billion in post-BRAC 2005 projects lined up.

***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 AirLines, 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 their 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 cannot expand to include the additional 322 employees SWA plans to hire by the end of 2012. 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, City staff offered the following financial incentives to SWA: (1) a cash grant of $440,000 payable over 2 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 10 years based on SWA's annual payment of personal property taxes. In exchange for these incentives, SWA has agreed to do the following: (1) retain and expand their customer support and services center in San Antonio; (2) retain 478 jobs and add 322 new jobs, for a total of 800 jobs, by December 31, 2012; and (3) meet the City's minimum "living wage" requirement of $10.75 per hour for all employees 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 Air Force One due to a decision to close a Wichita, Kansas plant over cost inefficiencies. 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 747s 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 more than 3,046 scientists, engineers, and support personnel. SwRI's total revenue for FY 2011 was $581 million and total payroll was $232 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 has come to be 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, DHS, 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 new 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 the first quarter of 2013.

*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 are located on San Antonio's south side. Toyota suppliers will also add about 1,000 jobs through 2012, bringing the total number of jobs supporting Toyota's operations to approximately 5,300, with an annual impact of $1.7 billion. Production commenced for the Toyota Tacoma on August 6, 2010. On April 15, 2011, Toyota announced that plants across the country – including the one in San Antonio – would be halting production for five days. According to Toyota, there existed a delay in supplies arriving from Japan following the devastating earthquake on March 11, 2011. Toyota continued to employ its 25,000 North American workers and workers had the opportunity to choose to use vacation days, take unpaid time off or work on training and plant improvement activities. In September 2011, Toyota's San Antonio facility returned to full capacity, four months earlier than Toyota originally predicted.

*Back Office Operations*. Con-way Freight, Inc. ("Con-way") is a wholly-owned subsidiary of Con-way, Inc., a publicly traded company. Con-way provides transportation, logistics and supply-chain management services for a range of manufacturing, industrial and retail customers. Con-way has been in San Antonio since 1989 and opened its current location at 5685 F.M. 1346 in 1993. On October 7, 2011, Con-way proposed an investment of $8.5 million to expand its operations and relocate to a new, larger facility in the Cornerstone Business Park at 1511 Cornerway Boulevard. With this expansion, Con-way also intends to retain 73 existing jobs and create 56 new jobs over the next four years.

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.

*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. A majority of the property site (approximately 80%) lies within Bexar County and approximately 20% is within the City limits.

In June 2010, CPS and UTSA announced a 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, UTSA's USAA Robert F. McDermott Distinguished Chair in Engineering, will head the institute formerly known as the Institute for Conventional, Alternative and Renewable Energy. This research institute will work with other academic and research entities with robust green programs including the 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. In 2011, CPS invested $1 million that will be followed by $2.5 million in 2012. The annual investment expects to increase thereafter and these investments are being supported by the City's International and Economic Development Department's efforts to strike agreements with solar panel array investments coming to San Antonio seeking tax abatements.

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

As of January 2012, CPS' renewable energy capacity totals more than 883 MW in service with another 633 MW under contract or in the contract development phase. CPS has contracted to purchase 200 MW of wind power annually over the next 25 years from the Los Vientos I Wind Project scheduled for commercial operation in December 2012. Also under contract and in varying levels of development in the San Antonio area are 30 MW of solar-generated energy which is scheduled for commercial operation between March and May of 2012 and 3 MW of landfill gas-generated energy expected to be in operation by December 2012. Most recently, CPS has entered into contract negotiations with OCI Solar Power for 400 MW of solar power 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 equivalent to approximately 22.7% (exclusive of the 400 MW currently under negotiation) of its historic peak power requirement. As part of its proposal to CPS to provide 400 MW of solar energy, OCI Solar Power also proposes to bring a solar cell manufacturing facility and related value-chain components to San Antonio resulting in the creation of at least 800 permanent jobs. CPS and OCI Solar Power are beginning negotiations on agreements reflecting these proposals with a goal of having solar farms in place by 2017.

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 the utility 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 June 2012.
- Three separate purchase power contracts have been signed with SunEdison that will bring approximately 30 MW of renewable solar energy. 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. This uniquely structured contract, a first in the solar industry, will ultimately provide CPS ratepayers with more than $32 million in energy savings over the next 25 years. Construction has already begun on the first phase of the project on almost 200 acres of land owned by SAWS and home to the Dos Rios Water Recycling Center. SunEdison will build two approximately 10 MW solar installations at this site with the third solar farm to be located in Somerset, Texas. All three solar facilities are expected to be online by the summer of 2012.
- GreenStar, a manufacturer of LED streetlights, will move to a new manufacturing space in the Alamo Downs area. Initially, the company will employ 38 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 30 local employees and has 18 more positions posted on its website. At the end of November 2011, Consert had installed its innovative energy management technology in 212 homes in the San Antonio area with more being installed each week. The remaining systems are on schedule to be completed in early 2012.
- 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.

***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 moved its insurance operations from Menlo, California to San Antonio in 2001 and still 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 U.S. 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 must agree to locate a minimum of 200 jobs at the IBC Centre building at 175 E. Houston by June 30, 2012 and retain these jobs at this location for the ten-year term of the agreement. Argo must also agree 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 265 at its headquarters facility. 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 5 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 has 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; (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.

***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 2012, the Port will reach an important milestone as two road construction phases begun in 2011 are completed. The project extends 36th Street from the Port's northwest entrance for almost two miles into the heart of the property, improving access to the Port and, starting in 2012, opening 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 the Texas Department of Transportation.

***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 1,246 acre campus with approximately 350 acres available for immediate development. The U.S. Air Force ceased all operations at Brooks City-Base on September 15, 2011.

The BDA gates opened in May 2011 with the completion of South New Braunfels Phase 1. BDA commissioned its first Economic Impact Study with the University of Texas at San Antonio Institute for Economic Development. Construction activities were estimated at $597.4 million in direct output and $1 billion in total output.

BDA has completed the acceptance of $17 million in personal property from the Air Force. To date, BDA has donated items with an estimated value of $559,000 to local non-profit organizations and schools. BDA moved to its new office space at 3201 Sidney Brooks after a $300,000 renovation of the former child care facility.

BDA has signed a number of lease agreements with the following companies.

- NuStar Energy – Two-year lease agreement with NuStar Refining, LLC signed on July 7, 2011 for approximately 12,615 square feet. The space will be utilized for office administration and lab testing.
- Texas A&M – Five-year lease agreement signed on July 5, 2011 for 77,648 square feet of classroom and office space.
- Spine and Pain Center of San Antonio, PLLC – BDA signed a ten year lease agreement with Spine and Pain Center of San Antonio, PLLC on September 1, 2011 with approximately 9,622 rentable square feet.
- Wyle Laboratories, Inc – Two-year lease agreement signed on July 1, 2011 for approximately 26,176 total square feet in building 160, 170, and 159 and the surrounding grounds and parking areas.

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. In addition, construction on a 300 unit multi-family apartment complex started July 20, 2011. The development will be owned by BDA and the NRP Group will be the co-developer. The development is slated to be completed in spring 2012. The apartments will be leased at market-rate and will offer all the conveniences of modern, urban living.

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

- BDA applied for designation as an EB-5 Regional Center in July 2011. Receiving Regional Center designation may benefit BDA from an influx of foreign capital, which may improve its financial operations and capital projects. BDA expects approval in nine months.
- In May 2011, BDA was awarded $2.4 million from the State Energy Conservation Office ("SECO") for energy saving upgrades to buildings 155, 414, 502, 578, 671, 704, 754, and 940, and 163 residential housing units.
- BDA completed construction on the new chiller systems for various buildings with a previous $5.4 million loan award from SECO. BDA estimates saving $3.4 million annually in utility cost.
- BDA was awarded a loan/grant from the SECO Stimulus Program in the amount of $1.657 million for energy utilization improvements to portions of two existing buildings, 160 and 170, and the replacement of the heating, ventilation, and air conditioning systems associated with the buildings. BDA received this money at 2% interest with a payback of ten years utilizing the energy savings realized from the upgrade.
- BDA was awarded a Loan/Grant from SECO in the amount of $3.78 million for upgrades to buildings 532, 570, and 775, and 150 for installation of roof top solar panels and replacement of the HVAC system. BDA received this money at 2% interest with a payback of ten years and anticipates utilizing the energy savings realized from these upgrades for payment of such debt service.

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

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**Growth Indices**

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

| For the Month of December | Electric Customers | Gas Customers |
|---|---|---|
| 2002 | 594,945 | 306,503 |
| 2003 | 602,185 | 306,591 |
| 2004 | 617,261 | 308,681 |
| 2005 | 638,344 | 310,699 |
| 2006 | 662,029 | 314,409 |
| 2007 | 681,312 | 319,122 |
| 2008 | 693,815 | 320,407 |
| 2009 | 706,235 | 321,984 |
| 2010 | 717,109 | 324,634 |
| 2011 | 728,344 | 328,314 |

*Source: CPS.*

***SAWS Average Customers per Fiscal Year***

| Fiscal Year Ended December 31 | Water Customers [1] |
|---|---|
| 2002 | 298,215 |
| 2003 | 303,917 |
| 2004 | 311,556 |
| 2005 | 320,661 |
| 2006 | 331,476 |
| 2007 | 341,220 |
| 2008 | 346,865 |
| 2009 | 350,859 |
| 2010 | 355,085 |
| 2011 | 358,656 |

[1] Average number billed, excluding SAWS irrigation customers.
*Source: SAWS.*

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### *Construction Activity*

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

| Calendar | Residential Single Family | | Residential Multi-Family [1] | | Other [2] | |
|---|---|---|---|---|---|---|
| Year | Permits | Valuation | Permits | Valuation | Permits | Valuation |
| 2002 | 6,347 | $435,090,131 | 246 | $101,680,895 | 14,326 | $ 833,144,271 |
| 2003 | 6,771 | 521,090,684 | 141 | 2,738,551 | 13,813 | 1,041,363,980 |
| 2004 | 7,434 | 825,787,434 | 206 | 7,044,283 | 14,695 | 1,389,950,935 |
| 2005 | 8,207 | 943,804,795 | 347 | 5,221,672 | 20,126 | 1,772,959,286 |
| 2006 | 7,301 | 890,864,655 | 560 | 13,028,440 | 19,447 | 1,985,686,296 |
| 2007 | 4,053 | 617,592,057 | 29 | 4,715,380 | 13,268 | 2,343,382,743 |
| 2008 | 2,588 | 396,825,916 | 13 | 2,033,067 | 9,637 | 2,634,745,310 |
| 2009 | 2,084 | 311,309,870 | 50 | 5,692,447 | 6,933 | 1,684,823,866 |
| 2010 | 1,976 | 307,406,128 | 10 | 1,612,057 | 5,702 | 1,320,800,279 |
| 2011 | 1,663 | 260,602,240 | 2 | 445,000 | 5,128 | 1,723,212,400 |

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

### *Total Municipal Sales Tax Collections – Ten Largest Texas Cities*

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

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Amarillo | N/A | $ 56,863,740 | $ 56,514,269 | N/A | N/A |
| Arlington | $ 86,127,967 | 83,143,848 | 80,170,009 | $ 81,851,457 | $ 80,701,278 |
| Austin | 144,161,036 | 137,309,212 | 131,403,989 | 147,051,782 | 147,310,525 |
| Corpus Christi | 62,721,436 | N/A | 57,311,248 | 62,076,566 | 58,502,801 |
| Dallas | 215,394,908 | 204,732,898 | 205,447,327 | 227,067,964 | 223,708,825 |
| El Paso | 72,347,296 | 68,348,227 | 64,480,623 | 67,821,673 | 64,508,591 |
| Fort Worth | 105,424,832 | 100,569,555 | 97,877,323 | 106,259,648 | 98,863,541 |
| Houston | 507,928,840 | 473,149,941 | 489,009,133 | 504,416,610 | 471,684,021 |
| Plano | 66,325,563 | 58,888,948 | N/A | 64,180,104 | 63,267,699 |
| Round Rock | 63,030,582 | 61,644,122 | 58,694,318 | 67,029,667 | 69,435,651 |
| SAN ANTONIO | 220,171,017 | 208,322,621 | 202,966,327 | 215,808,945 | 209,599,573 |

*Source: State of Texas, Comptroller's Office.*

## Education

There are 15 independent school districts within Bexar County with a combined enrollment of 314,938 encompassing 55 high schools, 73 middle/junior high schools, 260 early education/elementary schools, ten magnet schools, and 32 alternative schools as of October 2010. There are an additional 27 charter school districts with 71 open enrollment charter schools at all grade levels. In addition, Bexar County has 93 accredited private and parochial schools at all education levels. Generally, students attend school in the districts in which they reside. There is currently no busing between school districts in effect. The seven largest accredited and degree-granting universities, which include a medical school, a dental school, a law school, and five public community colleges, had combined enrollments of 117,344 for fall 2011.

*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 2012, as compared to the prior periods of February 2012 and March 2011, respectively.

***Employment by Industry***

| San Antonio-New Braunfels MSA [1] | March 2012 | February 2012 | March 2011 |
|---|---|---|---|
| Mining and Logging | 3,400 | 3,300 | 2,900 |
| Construction | 44,300 | 43,700 | 41,400 |
| Manufacturing | 46,200 | 46,100 | 45,200 |
| Trade, Transportation, and Utilities | 147,400 | 146,800 | 142,700 |
| Information | 18,100 | 17,900 | 18,700 |
| Financial Activities | 70,900 | 69,500 | 69,100 |
| Professional and Business Services | 99,200 | 99,300 | 102,900 |
| Education and Health Services | 132,600 | 131,700 | 130,000 |
| Leisure and Hospitality | 109,900 | 104,900 | 105,400 |
| Other Services | 31,700 | 31,600 | 31,300 |
| Government | 160,500 | 160,300 | 163,600 |
| Total Nonfarm | 864,200 | 855,100 | 853,200 |

[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 2012, as compared to the prior periods of February 2012 and March 2011, respectively.

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

| San Antonio-New Braunfels MSA [1] | March 2012 | February 2012 | March 2011 |
|---|---|---|---|
| Civilian Labor Force | 1,017.8 | 1,008.6 | 1,012.4 |
| Number of Employed | 950.3 | 939.6 | 938.8 |
| Number of Unemployed | 67.5 | 69.0 | 73.6 |
| Unemployment Rate (%) | 6.6 | 6.8 | 7.3 |
| **Texas (Actual) [1]** | **March 2012** | **February 2012** | **March 2011** |
| Civilian Labor Force | 12,532.1 | 12,463.8 | 12,390.9 |
| Number of Employed | 11,655.7 | 11,570.0 | 11,408.6 |
| Number of Unemployed | 876.4 | 893.8 | 982.3 |
| Unemployment Rate (%) | 7.0 | 7.2 | 7.9 |
| **United States (Actual) [1]** | **March 2012** | **February 2012** | **March 2011** |
| Civilian Labor Force | 154,316.0 | 154,114.0 | 153,022.0 |
| Number of Employed | 141,412.0 | 140,684.0 | 138,962.0 |
| Number of Unemployed | 12,904.0 | 13,430.0 | 14,060.0 |
| Unemployment Rate (%) | 8.4 | 8.7 | 9.2 |

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

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**San Antonio Electric and Gas Systems**

***History and Management***

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

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

The CPS Board is vested with all of the powers of the City with respect to the management and operation of the EG Systems and the expenditure and application of the revenues therefrom, including all powers necessary or appropriate for the performance of all covenants, undertakings, and agreements of the City contained in the bond ordinances, except regarding rates, condemnation proceedings, and issuances of bonds, notes, or commercial paper. It is empowered to appoint and employ all officers and employees and must obtain and keep in force a "blanket" type employees' fidelity and indemnity bond (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 CPS Citizens Advisory Committee from those submitting applications and resumes. The CPS Board appoints all members to the committee. Members can serve up to three, two-year terms.

***Service Area***

The CPS electric system serves a territory consisting of substantially all of Bexar County and small portions of the adjacent counties of Comal, Guadalupe, Atascosa, Medina, Bandera, Wilson, and Kendall. Certification of this service area has been approved by the Public Utility Commission of Texas (the "PUCT"). CPS is currently the exclusive provider of retail electric service within this service area, including the provision of electric service to some 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. Beginning in 2016, CPS will also begin selling wholesale electricity to the City of Boerne, the City of Seguin, the Central Texas Electric Cooperative, and the Kerrville Public Utility Board. From time to time, CPS also enters into partial supply arrangements with various municipally-owned utilities and cooperatives. CPS continues to seek additional opportunities to enter into wholesale electric power agreements. The requirements under the existing wholesale agreements are firm energy obligations of CPS.

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

CPS also has franchise agreements with 30 incorporated communities in the San Antonio area. These franchise agreements permit CPS to operate its facilities in the cities' streets and public ways in exchange for a franchise fee of 3% on electric and natural gas revenues earned within their respective municipal boundaries. CPS is also a party to separate agreements with the cities of Castroville and Lytle to operate and maintain their gas systems through September 2012 and December 2012, 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 Texas Railroad Commission ("TRC") has significant original jurisdiction over the rates, services, and operations of all natural gas utilities in Texas. Municipal Utilities such as CPS are generally excluded from regulation by the TRC, except in matters related to natural gas safety. CPS' retail gas services outside the City are subject to appellate, but not original, rate regulatory jurisdiction, by the TRC. To date, no such appeal to the TRC of CPS' retail gas rates has ever been filed.

The City is obligated under the bond ordinances, as provided under the rate covenant, to establish 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 electric increase was required primarily due to increases in debt service resulting from a new coal generation plant, J.K. Spruce 2 ("JKS 2"), LM6000 Gas Combustion Turbine Peakers, and anticipated environmental upgrades to CPS' coal plants. The expected 4.2% bill impact 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 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 at the PUCT, and are based on its transmission cost of service approved by the PUCT, representing CPS' input to the calculation of the statewide postage stamp pricing method.

*Additional Impacts of Senate Bill 7.* SB 7 provides for an independent transmission system operator ("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 2012, CPS' renewable energy capacity totals more than 883 MW in service with another 233 MW under contract and in varying levels of project construction. An additional 400 MW of renewable capacity is in the contract development phase. CPS has contracted to purchase 200 MW of wind power annually over the next 25 years from the Los Vientos I Wind Project scheduled for commercial operation in December 2012. Also under contract and in varying levels of development in the San Antonio area are 30 MW of solar-generated energy which is scheduled for commercial operation between March and May of 2012 and 3 MW of landfill gas-generated energy expected to be in operation by December 2012. Most recently, CPS has entered into contract negotiations with OCI Solar Power for 400 MW of solar power 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 equivalent to approximately 22.7% (exclusive of the 400 MW currently under negotiation) of its historic peak power requirement.

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

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

*Debt and Asset Management Program.* CPS has developed a debt and asset management program ("Debt Management Program") for the purposes of lowering the debt component of energy costs, maximizing the effective use of cash and cash equivalent assets, and enhancing financial flexibility. An important part of the Debt

Management Program is debt restructuring through the prudent employment of variable rate debt and possible interest rate swap contracts. The program also focuses on the use of unencumbered cash and available cash flow, when available, to redeem debt ahead of scheduled maturities as a means of reducing outstanding debt. The Debt Management Program is designed to lower interest costs, fund strategic initiatives and increase net cash flow. CPS has a Debt Management Policy (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 System.* CPS operates 20 electric generating units, four of which are coal-fired and 16 of which are gas-fired. (Four gas units at the Tuttle Power Station were retired in early 2011). 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 36.1% of the electric system's native load for the fiscal year ending January 31, 2011.

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

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

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

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

Ownership
Effective February 2, 2006

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

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

STP Units 1 and 2 each have a 40-year Nuclear Regulatory Commission ("NRC") license that expires in 2027 and 2028, respectively. In October 2010, STPNOC filed an application with the NRC to extend the operating licenses of STP Units 1 and 2 to 2047 and 2048, respectively. Based on the published NRC review schedule, STPNOC expects NRC approval of the license renewal application in early 2013.

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

Until DOE is able to fulfill its responsibilities under the NWPA, the NWPA has provisions directing the NRC to create procedures to provide for interim storage of used nuclear fuel at the site of a commercial nuclear reactor. Pursuant to STPNOC's analysis of recent NRC guidance, management expects to start the process of planning, licensing, and building an on-site independent spent fuel storage installation ("ISFSI" also known as "Dry Cask Storage") within the next two years with an expectation that the ISFSI will be operational towards the middle of the decade. CPS expects STPNOC to provide firm cost estimates for the project within the first few months of 2012 when the vendor is retained to deliver the completed ISFSI. CPS will be responsible for 40% of this cost.

*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 (or approximately 40% of CPS' projected additional base load generation requirements in 2024, the year in which additional base load generation is anticipated to be required), 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 value. 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 the Company's 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 on nuclear plant ownership. The letter also stated that NRC staff is suspending its review of the foreign ownership section of the STP Units 3 and 4 COLA until this matter is resolved by NINA. The NRC stated that it would continue the review of the remaining portions of the COLA. The NRC letter referenced a NINA letter dated June 23, 2011, in which NINA submitted to the NRC revised General and Financial Information that included a revised foreign ownership Negation Action Plan. This information was later included as Part 1 of Revision 6 to the STP Units 3 and 4 COLA that NINA submitted to the NRC on August 30, 2011. In the revised Negation Action Plan, Toshiba could acquire up to a 90% ownership interest in NINA, with a corresponding 85% ownership interest in STP Units 3 and 4. On December 31, 2011, in response to the NRC letter dated December 13, 2011, interveners filed a motion for summary disposition of the STP Units 3 and 4 COLA due to the foreign ownership, control, and domination issue. Subsequently, on February 7, 2012, the Atomic Safety and Licensing Board denied this motion for summary disposition, noting an evidentiary hearing would be the more appropriate method of analyzing the facts related to this issue.

*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 and to or from neighboring utilities and for wholesale energy transactions as required. This network is composed of 138 and 345 kilovolt ("kV") lines with autotransformers to provide the necessary flexibility in the movement of bulk power.

*Distribution System.* The distribution system is currently supplied by 79 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 7,590 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 4,133 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground residential distribution systems.

***Gas System***

*Transmission System.* The gas transmission system consists of a network of approximately 86 miles of steel mains that range in size from 4 to 30 inches. The entire system is coated and catholically protected to mitigate corrosion. The gas transmission system operates at pressures between 135 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 293 pressure regulating stations and approximately 5,092 miles of mains. The system consists of 2 to 30-inch steel mains and 1-1/4 to 8-inch high-density polyethylene (plastic) mains. The distribution system operates at pressures between 9 psig and 274 psig. All steel mains are coated and catholically protected to mitigate corrosion. Critical areas of the distribution system are designated critical pressure regulating stations and isolation valves are remotely controlled by SCADA.

***Implementation of New Accounting Policies***

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

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

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

***Recent Financial Transactions***

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

On May 11, 2010, CPS issued $25.2 million of Taxable Notes from its Flexible Rate Revolving Note Private Placement Program. The funds were used to remediate $25.745 million of outstanding tax-exempt bonds associated with the common facilities that will also be used by STP Units 3 and 4.

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

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.

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***CPS Historical Net Revenues and Coverage***

| | Fiscal Years Ended January 31, (Dollars in Thousands) | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| Gross Revenues [1] | $1,822,230 | $1,943,313 | $2,191,323 | $1,981,103 | $2,099,240 |
| Maintenance & Operating Expenses | 1,104,037 [2] | 1,177,337 | 1,408,353 [2] | 1,205,189 | 1,233,286 |
| Available For Debt Service | $ 718,193 | $ 765,976 | $ 782,970 | $ 775,914 | $ 865,954 |
| Actual Principal and Interest Requirements: | | | | | |
| Senior Lien Obligations [3] | $ 271,931 | $ 290,954 | $ 309,855 | $ 32,540 [4] | $ 357,054 [4] |
| Junior Lien Obligations | $ 15,006 | $ 15,179 | $ 11,190 | $ 6,987 | $ 10,774 [4] |
| Actual Coverage-Senior Lien | 2.64x | 2.63x | 2.53x | 2.33x | 2.43x |
| Actual-Senior and Junior Lien | 2.50x | 2.50x | 2.44x | 2.29x | 2.35x |
| Pro Forma MADS Coverage | | | | | |
| Senior Lien [5] | 1.98x | 2.11x | 2.15x | 2.14x | 2.38x |
| Senior and Junior Lien [6] | 1.74x | 1.85x | 1.89x | 1.88x | 2.10x |

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 CPS Senior Lien Obligations includes a reduction of $5 million and $14.5 million for the years ending January 31, 2010 and January 31, 2011, respectively, related to the direct subsidy for the Senior Lien Build America Bonds. CPS Junior Lien Obligations includes a reduction of $2.5 million for the year ended January 31, 2011 related to the direct subsidy for the Junior Lien Build America Bonds.
5 Maximum annual debt service on Senior Lien Obligations.
6 Maximum annual debt service on Senior Lien Obligations and the Junior Lien Obligations.

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## San Antonio Water System

### *History and Management*

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

Final City Council approval for the consolidation was given on April 30, 1992 with the approval of Ordinance No. 75686 (the "System Ordinance"), which created the City's water system into a single, unified system consisting of the former City departments comprising the waterworks, wastewater, and water reuse systems, together with all future improvements and additions thereto, and all replacements thereof. In addition, the System Ordinance authorizes the City to incorporate into SAWS a stormwater system and any other water-related system to the extent permitted by law.

The City believes that establishing SAWS has allowed the City greater flexibility in meeting future financing requirements. More importantly, it has allowed the City to develop, implement, and plan for its water needs through one agency.

The complete management and control of SAWS is vested in a board of trustees (the "SAWS Board") currently consisting of seven members, including the City's Mayor and six persons who are residents of the City or reside within the SAWS service area. With the exception of the Mayor, all SAWS Board members are appointed by the City Council for four-year staggered terms and are eligible for reappointment for one additional four-year term. Four SAWS Board members must be appointed from four different quadrants in the City, and two SAWS Board members are appointed from the City's north and south sides, respectively. SAWS Board membership specifications are subject to future change by City Council.

With the exception of fixing rates and charges for services rendered by SAWS, condemnation proceedings, and the issuance of debt, the SAWS Board has absolute and complete authority to control, manage, and operate SAWS, including the expenditure and application of gross revenues, the authority to make rules and regulations governing furnishing services to customers, and their subsequent payment for SAWS' services, along with the discontinuance of such services upon the customer's failure to pay for the same. The SAWS Board, to the extent authorized by law and subject to certain various exceptions, also has authority to make extensions, improvements, and additions to SAWS and to acquire, by purchase or otherwise, properties of every kind in connection therewith.

### *Service Area*

SAWS provides water and wastewater service to the majority of the population within the corporate limits of the City and Bexar County, which totals approximately 1.7 million residents. SAWS employs approximately 1,600 personnel and maintains approximately 10,100 miles of water and sewer mains. The tables that follow show historical water consumption and water consumption by class for the fiscal years indicated.

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### *Historical Water Consumption (Million Gallons)* [(1)]

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

(1) Unaudited.
(a) Reflects rate increase and rate restructuring for water usage beginning in November 2010. Prior to November, Water Base Rate (including TCEQ fees) was $6.96, Water Usage Rate was $20.52, Sewer Base Rate (including TCEQ fees) was $7.81 and Sewer Usage Rate was $9.63.
(b) Seven months ended December 31, 2001. In 2001, the SAWS Board of Trustees approved a change in the fiscal year-end from May 31st to December 31st.
(c) Pumpage is total potable water production less Aquifer Storage and Recovery recharge.
(d) Rate shown is for 5/8" meters.
(e) Represents standard (non-seasonal) usage charge for monthly residential water usage of 7,788 gallons per month. Includes water supply and EAA fees.
(f) Minimum service availability charge (includes charge for first 1,496 gallons).
(g) Represents usage charge for a residential customer based on winter average water consumption of 6,178 gallons per month.
*Source: SAWS.*

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

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

(1) Unaudited.
(a) Seven months ended December 31, 2001. In 2001, the SAWS Board of Trustees approved a change in the fiscal year end from May 31st to December 31st.
(b) Water Supply and EAA fees are billed based on the gallons billed for water sales.
(c) Gallons billed for conservation are included in the gallons billed for water sales.
*Source: SAWS.*

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*SAWS System*

SAWS includes all water resources, properties, facilities, and plants owned, operated, and maintained by the City relating to supply, storage, treatment, transmission, and distribution of treated potable water, chilled water, and steam (collectively, the "waterworks system"), collection and treatment of wastewater (the "wastewater system"), and treatment and recycle of wastewater (the "recycle water system") (the waterworks system, the wastewater system, and the recycle water system, collectively, the "System"). The System does not include any "Special Projects", which are declared by the City, upon the recommendation of the SAWS Board, not to be part of the System and are financed with obligations payable from sources other than ad valorem taxes, certain specified revenues, or any water or water-related properties and facilities owned by the City as part of its electric and gas system.

In addition to the water-related utilities that the SAWS Board has under its control, on May 13, 1993, the City Council approved an ordinance establishing initial responsibilities over the stormwater quality program with the SAWS Board and adopted a schedule of rates to be charged for stormwater drainage services and programs. As of the date hereof, the stormwater program is not deemed to be a part of the System.

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

*Waterworks System*. The City originally acquired its waterworks system in 1925 through the acquisition of the San Antonio Water Supply Company, a privately owned company. Since such time and until the creation of SAWS in 1992, management and operation of the waterworks system was under the control of the City Water Board. The SAWS' waterworks system currently extends over approximately 637 square miles, making it the largest water purveyor in Bexar County. SAWS serves more than 80% of the water utility customers in Bexar County. As of December 31, 2011, SAWS provided potable water service to approximately 360,300 customer connections, which includes residential, commercial, multifamily, industrial, and wholesale accounts. To service its customers, the waterworks system utilizes 42 elevated storage tanks and 38 ground storage reservoirs, of which 12 act as both, with combined storage capacities of 192 million gallons. As of December 31, 2011, the waterworks system had in place 4,988 miles of distribution mains, ranging in size from four to 60 inches in diameter (the majority being between six and 12 inches), and 27,566 fire hydrants distributed evenly throughout the SAWS service area.

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

SAWS serves a substantial portion of the residents of the City, 12 governmental entities, and other customers outside the corporate limits of the City. As Regional Agent, SAWS has certain prescribed boundaries that currently cover an area of approximately 504 square miles. SAWS also coordinates with the City for wastewater planning for the City's total planning area, extraterritorial jurisdiction ("ETJ"), of approximately 1,107 square miles. The population for this planning area is approximately 1.7 million people. As of December 31, 2011, SAWS provided wastewater services to approximately 405,120 customers.

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

The wastewater system is composed of approximately 5,160 miles of mains and three major treatment plants, Dos Rios, Leon Creek, and Medio Creek. All three plants are conventional activated sludge facilities. SAWS holds Texas Pollutant Discharge Elimination System wastewater discharge permits, issued by the TCEQ for 187 million gallons per day ("MGD") in treatment capacity and 46 MGD in reserve permit capacity. The permitted flows from the wastewater system's three regional treatment plants represent approximately 98% of the municipal discharge within the City's ETJ.

SAWS applied to the TCEQ to expand its Certificates of Convenience and Necessity ("CCN") or service areas for water and sewer from the existing boundaries to the ETJ boundary of the City. When the TCEQ grants a CCN to a water or sewer purveyor, it provides that purveyor with a monopoly for retail service. By expanding the CCN to the ETJ, developments needing retail water and sewer service within the ETJ must apply to SAWS. Service can then be provided according to SAWS standards and small, undersized systems can be avoided. SAWS' current CCN application for water consists of four separate applications that cover approximately 12,000 acres. The applications for sewer consisted of eight separate applications that cover approximately 226,000 acres. All applications are in the final stages of approval by the TCEQ and should be completed during 2012. 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 insure that areas developed in the ETJ and then annexed by the City will already have some City development regulations in place.

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

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

*Stormwater System*. In September 1997, the City created its Municipal Drainage Utility and established its Municipal Drainage Utility Fund to capture revenues and expenditures for services related to the management of the municipal drainage activity in response to Environmental Protection Agency-mandated stormwater runoff and treatment requirements under the 40 CFR 122.26 Storm Water Discharge. The City, along with SAWS, has the responsibility, pursuant to the Permit from the TCEQ, for water-quality monitoring and maintenance. The City and SAWS have entered into an interlocal agreement to set forth the specific responsibilities of each regarding the implementation of the requirements under the Permit. The approved annual budget for the SAWS share of program responsibilities for SAWS FY 2012 is $5,303,852, for which SAWS is reimbursed $4,558,241 from the stormwater utility fee imposed by the City.

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

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

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

***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.

BexarMet was created by the 49th Texas Legislature in 1945, to serve anticipated growth in Bexar County. From an initial account base of 4,765 primarily residential accounts, it grew to more than 92,000 residential and commercial accounts served in 2011. Over the past few years, repeated customer complaints about inadequate service, alleged mismanagement, and excessive rates resulted in legislative intervention in 2007, through the enactment of House Bill 1565, by the 80th Texas Legislature which mandated 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. 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, 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.

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 ("SB 341"). SB 341 establishes 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. The Election was held on

November 8, 2011 and BexarMet ratepayers voted in favor of dissolution (9,047 votes for versus 3,172 votes against).

These results were canvassed by the BexarMet Board and certified to the Texas Secretary of State on November 18, 2011. The last prerequisite to the assumption of operational control and management of BexarMet by SAWS was preclearance of the Election results by the U.S. Department of Justice, which was received on January 27, 2012. The City commenced assumption procedures on January 28, 2012. SAWS, acting by and through the City, has taken action to accommodate the assumption of BexarMet in accordance with the requirements and specifications of SB 341. On October 20, 2011, the City Council adopted an ordinance creating a "special project," as authorized by SB 341 and pursuant to SAWS' senior lien bond ordinances, where the assumed BexarMet will 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, pursuant to a bond validation suit filed under Chapter 1205, as amended, Texas Government Code (Cause No. D-1-GV-12-000115, 410th District Court, Travis County, Texas), received judicial validation of this position at a trial held on March 5, 2012 when the trial court entered a final judgment granting the City all relief requested thereby.

Pursuant to SB 341: (a) the term of each Director of BexarMet expires on the date the Election results are certified to the Secretary of State of the State of Texas; (b) SAWS assumes control of the operation and management of BexarMet on the date the Election results are certified to the Secretary of State of the State of Texas; (c) not later than the 90th day after the date the Election results are certified to the Secretary of State of the State of Texas, the TCEQ, in consultation with the Oversight Committee, must transfer or assign to the SAWS all: (1) rights and duties of BexarMet, including existing contracts, duties, assets, and obligations of BexarMet, (2) files, records, and accounts of BexarMet, including those that pertain to the control, finances, management, and operation of BexarMet, and (3) permits, approvals, and certificates necessary to provide water services; (d) to the extent that a transfer of an item requires the approval of a state agency, the state agency must grant approval without additional notice or hearing; and (e) after the TCEQ has transferred the property, assets, and liabilities as prescribed by this section, the TCEQ will enter an order dissolving BexarMet.

SB 341 states that its intent is not to enhance or harm the position of a party that has 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.

Within the past five years, BexarMet has 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 commercial paper program; covenant defaults under bond documentation, including failure to meet debt service coverage requirements; material litigation; and termination of an existing interest rate hedging agreement. In addition, BexarMet has 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 ended April 30, 2011 and its most recent official statement are available on EMMA.

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

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

(1) Unaudited.
(a) Seven months ended December 31, 2001. In 2001, the SAWS Board of Trustees approved a change in the fiscal year end from May 31st to December 31st.
(b) Represents current year debt service payments. Details regarding outstanding debt can be found in the notes to the financial statements. All bonded debt is secured by revenue and is included in these totals.
(c) Gross Revenues are defined as operating revenues plus nonoperating revenues less revenues from the City Public Service contract and interest on Project Funds.
(d) Operating Expenses reflect operating expenses before depreciation as shown on the Statement of Revenues, Expenses, and Changes in Equity.
(e) Maximum annual debt service requirements consist of principal and interest payments prior to the U.S. federal interest subsidy on the Series 2009A revenue bonds.
(f) SAWS bond ordinance requires the maintenance of a debt coverage ratio of at least 1.25x the annual debt service on outstanding senior lien debt.
n/a: Not applicable due to short period.
*Source: SAWS.*

## The Airport System

The City's Airport System is described in detail in the body of this Official Statement.

* * *

# APPENDIX B

# EXCERPTS FROM GARB ORDINANCE

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## APPENDIX B

## EXCERPTS FROM THE MASTER GARB ORDINANCE AND THE THIRTEENTH SUPPLEMENT

**THE FOLLOWING CAPITALIZED TERMS ARE DEFINED IN THE MASTER GARB ORDINANCE (REFERRED TO IN THE EXCERPTS AS THE "MASTER ORDINANCE") AND ARE APPLICABLE TO THE THIRTEENTH SUPPLEMENT**

[*Note: The term "Pre-2001 Parity Obligations" used in this Appendix refers to airport revenue bonds issued by the City prior to the adoption of the Master GARB Ordinance and which were secured by a first lien on and pledge of the Gross Revenues of the Airport System on parity with all Parity Obligations issued pursuant to the Master GARB Ordinance. No Pre-2001 Parity Obligations remain outstanding.*]

"**Account**" means any account created, established and maintained under the terms of any Supplement.

"**Accountant**" means a nationally recognized independent certified public accountant, or an independent firm of certified public accountants.

"**Additional Parity Obligations**" shall mean the additional parity revenue obligations which the City reserves the right to issue in the future as provided in Section 17 of the Master Ordinance.

"**Airport System**" means and includes the City of San Antonio International Airport and Stinson Municipal Airport, as each now exists, and all land, buildings, structures, equipment, and facilities pertaining thereto, together with all future improvements, extensions, enlargements, and additions thereto, and replacements thereof, and all other airport facilities of the City acquired or constructed with funds from any source, including the issuance of Parity Obligations; provided, however, for the purpose of providing further clarification, the term "Airport System" shall not include Industrial Properties and Special Facilities Properties.

**"Airport Consultant"** means an airport consultant or airport consultant firm or corporation having a wide and favorable reputation for skill and experience with respect to the operation and maintenance of airports, in recommending rental and other charges for use of airport facilities and in projecting revenues to be derived from the operation of airports, and not a full time employee of the City.

**"Annual Budget"** means the annual budget of the Airport System (which may be included in the City's general annual budget), as amended and supplemented, adopted or in effect for a particular Fiscal Year.

"**Annual Debt Service Requirements**" means, for any Fiscal Year, the principal of and interest on all Parity Obligations coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the City on such Debt, or be payable in respect of any required purchase of such Debt by the City) in such Fiscal Year, less and except any such principal or interest for the payment of which provision has been made by (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest or principal either from proceeds of bonds, notes or other obligations, from interest earned or to be earned thereon, from Airport System funds other than Gross Revenues, or from any combination of such sources and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a dedicated Fund or Account, the proceeds of which are required to be transferred as needed into the Bond Fund or directly to the Paying Agent for such Parity Obligations; and, for such purposes, any one or more of the following rules shall apply at the election of the City:

(1) <u>Committed Take Out</u>. If the City has entered into a Credit Agreement constituting a binding commitment within normal commercial practice, from any bank, savings and loan association, insurance company, or similar institution to discharge any of its Funded Debt at its Stated Maturity (or, if due on demand, at any date on which demand may be made) or to purchase any of its Funded Debt at any date on which such Debt is subject to required purchase, all under arrangements whereby the City's obligation to repay the amounts advanced for such discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased shall be excluded from such calculation and the principal of and interest on the Funded Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made,

if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added;

(2) Balloon Debt. If the principal (including the accretion of interest resulting from original issue discount or compounding of interest) of any series or issue of Funded Debt due (or payable in respect of any required purchase of such Funded Debt by the City) in any Fiscal Year either is equal to at least 25% of the total principal (including the accretion of interest resulting from original issue discount or compounding of interest) of such Funded Debt or exceeds by more than 50% the greatest amount of principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year (such principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein and throughout this Exhibit A as "Balloon Debt"), the amount of principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the original principal amount of such Balloon Debt amortized over the Term of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation;

(3) Consent Sinking Fund. In the case of Balloon Debt, if a Designated Financial Officer shall deliver to the City a certificate providing for the retirement of (and the instrument creating such Balloon Debt shall permit the retirement of), or for the accumulation of a sinking fund for (and the instrument creating such Balloon Debt shall permit the accumulation of a sinking fund for), such Balloon Debt according to a fixed schedule stated in such certificate ending on or before the Fiscal Year in which such principal (and premium, if any) is due, then the principal of (and, in the case of retirement, or to the extent provided for by the sinking fund accumulation, the premium, if any, and interest and other debt service charges on) such Balloon Debt shall be computed as if the same were due in accordance with such schedule, provided that this clause (3) shall apply only to Balloon Debt for which the installments previously scheduled have been paid or deposited to the sinking fund established with respect to such Debt on or before the times required by such schedule; and provided further that this clause (3) shall not apply where the City has elected to apply the rule set forth in clause (2) above;

(4) Prepaid Debt. Principal of and interest on Parity Obligations, or portions thereof, shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year for which such principal or interest are payable from funds on deposit or set aside in trust for the payment thereof at the time of such calculations (including without limitation capitalized interest and accrued interest so deposited or set aside in trust) with a financial institution acting as fiduciary with respect to the payment of such Debt;

(5) Variable Rate.

(A) Except as hereinafter provided in this subparagraph, the rate of interest on Variable Rate Obligations then proposed to be issued shall be deemed to be the average for the then immediately preceding five years of the BMA Index, plus 20 basis points; provided, however, that (i) if, after the issuance of the Variable Rate Obligations then proposed to be issued, more than 20% of the aggregate of the Parity Obligations Outstanding will bear interest at a variable rate and (ii) any Parity Obligation is then insured by a Bond Insurer, the rate of interest on Variable Rate Obligations then proposed to be issued shall be deemed to be the greater of (x) the most recently announced 30-year Revenue Bond Index published by The Bond Buyer, a financial journal published, as of the date the Master Ordinance was adopted, in The City of New York, New York, (y) the rate of interest then borne by any Variable Rate Obligations then Outstanding, and (z) 1.25 times the average variable rate borne by any Variable Rate Obligations then Outstanding during the then immediately preceding twelve-month period, or if no Variable Rate Obligations are then Outstanding, 1.25 times the average variable rate for similarly rated obligations with comparable maturities during the then immediately preceding twelve-month period, and

(B) Except as hereinafter provided in this subparagraph, the rate of interest on Variable Rate Obligations outstanding at the time of such calculation shall be deemed to be the lesser of (i) the then current per annum rate of interest borne by such Variable Rate Obligations or (ii) the average per annum rate of interest borne by such Variable Rate Obligations during the then immediately preceding twelve-month period; provided, however, that for any period during which (a) more then 20% of the aggregate of the Parity Obligations then Outstanding bear interest at a variable rate and (b) any Parity Obligation is then insured by a Bond Insurer, the rate of interest on such Variable Rate Obligations shall be the greater of (x) the most recently announced 30 year Revenue Bond Index published by The Bond Buyer, a financial journal published, as of the date the Master Ordinance was adopted, in The City of New York, New York, (y) the rate of interest then in effect with respect to such Variable Rate Obligations in accordance with their terms, and (z) 1.25 times the average variable rate borne by such Variable Rate Obligations during the then immediately preceding twelve-month period;

(6) Credit Agreement Payments. If the City has entered into a Credit Agreement in connection with an issue of Debt, payments due under the Credit Agreement (other than payments made by the City in connection with the termination or unwinding of a Credit Agreement), from either the City or the Credit Provider, shall be included in such calculation except to the extent that the payments are already taken into account under (1) through (5) above and any payments otherwise included above under (1) through (5) which are to be replaced by payments under a Credit Agreement, from either the City or the Credit Provider, shall be excluded from such calculation. With respect to any calculation of historic data, only those payments actually made in the subject period shall be taken into account in making such calculation and, with respect to prospective calculations, only those payments reasonably expected to be made in the subject period shall be taken into account in making the calculation.

**"Average Annual Debt Service Requirements"** means, as of the time of computation, the aggregate of the Annual Debt Service Requirement for each Fiscal Year that Parity Obligations are Outstanding from the date of such computation, divided by the number of Fiscal Years remaining to the final Stated Maturity of such Parity Obligations.

**"Aviation Director"** means the director of the City's Department of Aviation, or the successor or person acting in such capacity.

**"BMA Index"** means the "high grade" seven-day index made available by The Bond Markets Association of New York, New York, or any successor thereto, based upon 30-day yield evaluation at par of bonds, the interest income on which is excludable from gross income of the recipients thereof for federal income tax purposes. In the event that neither The Bond Markets Association nor any successor thereto makes available an index conforming to the requirements of the preceding sentence, the term "BMA Index" shall mean an index determined by the City based upon the rate for bonds rated in the highest short-term rating category by Moody's and Standard & Poor's, the interest income on which is excludable from gross income of the recipients thereof for federal income tax purposes, in respect of issuers most closely resembling the "high grade" component issuers selected by "BMA Index".

"**Bond Counsel**" means an independent attorney or firm of attorneys selected by the City whose opinions respecting the legality or validity of securities issued by or on behalf of states or political subdivisions thereof are nationally recognized.

"**Bond Fund**" means the "City of San Antonio General Airport Revenue Parity Obligations Bond Fund", the existence of which is confirmed in Section 5(b), and is further described in Section 7, of the Master Ordinance.

**"Bond Insurer"** means any insurance company insuring payment of municipal bonds and other similar obligations if such bond or obligations so insured by it are eligible for a rating by a Credit Rating Agency, at the time of the delivery of a Municipal Bond Insurance Policy, in one of its two highest rating categories.

"**Bond Reserve Fund**" means the "City of San Antonio General Airport Revenue Parity Obligations Reserve Fund", the existence of which is confirmed in Section 5(c), and is further described in Section 8, of the Master Ordinance.

**"Business Day"** means any day other than a Saturday, a Sunday or a day on which the City or the city in which the payment office of the Paying Agent is located is authorized by law to remain closed and is closed.

**"Capital Improvement Fund"** means the "City of San Antonio Capital Improvement Fund", the existence of which is confirmed in Section 5(e), and is further described in Section 12, of the Master Ordinance.

**"Capital Improvements"** means improvements, extensions and additions to the Airport System (other than Special Facilities) that are properly chargeable to capital account by generally accepted accounting practice and includes, without limitations, equipment and rolling stock so chargeable and real estate (and easements and other interests therein) on, under or over which any such improvements, extensions or additions are, or are proposed to be, located.

"**Chapter 1371**" means Chapter 1371, Texas Government Code.

"**Chapter 2256**" means Chapter 2256, Texas Government Code.

"**City**" or "**Issuer**" mean the City of San Antonio, Texas.

"**Code**" means the Internal Revenue Code of 1986, as amended, any successor federal income tax laws or any regulations promulgated or rulings published pursuant thereto.

**"Completion Obligations"** means any bonds, notes or other obligations issued or incurred by the City for the purpose of completing any Capital Improvement for which Parity Obligations have previously been issued or incurred by the City, as described in Section 17(c) of the Master Ordinance.

"**Credit Agreement**" means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Parity Obligations, 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 Parity Obligations and on a parity therewith.

"**Credit Facility**" means (i) a policy of insurance or a surety bond, issued by a Bond Insurer or an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a Credit Rating Agency having an outstanding rating on Parity Obligations would rate the Parity Obligations fully insured by a standard policy issued by the issuer in its highest generic rating category for such obligations; and (ii) a letter of credit or line of credit issued by any financial institution, provided that a Credit Rating Agency having an outstanding rating on the Parity Obligations would rate the Parity Obligations in its two highest generic rating categories for such obligations if the letter of credit or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Parity Obligations and the interest thereon.

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

**"Credit Rating Agency"** means (a) Fitch, (b) Moody's, (c) Standard & Poor's, (d) any successor to any of the foregoing by merger, consolidation or otherwise, and (e) any other nationally recognized municipal securities rating service from whom the City seeks and obtains a rating on any issue or series of Parity Obligations.

"**Debt**" of the City payable from Gross Revenues or Net Revenues means all:

(1) indebtedness incurred or assumed by the City for borrowed money (including indebtedness arising under Credit Agreements) and all other financing obligations of the City issued or incurred for the Airport System that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

(2) all other indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations at or for the Airport 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 the "Debt" payable from the Gross Revenues, 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. Except as may be otherwise provided above, 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 City in prior Fiscal Years.

"**Designated Financial Officer**" means the City Manager, the Director of Finance, or such other financial or accounting official of the City so designated by the governing body of the City.

"**Eligible Investments**" means (i) those investments in which the City is now or hereafter authorized by law, including, but not limited to, Chapter 2256, to purchase, sell and invest its funds and funds under its control and (ii) any other investments not specifically authorized by Chapter 2256 but which may be designated by the terms of a Supplement as Eligible Investments under authority granted by Chapter 1371.

**"Federal Payments"** means those funds received by the City from the federal government or any agency thereof as payments for the use of any facilities or services of the Airport System.

"**Fiscal Year**" means the successive twelve-month period designated by the City as its fiscal year of the City, which currently ends on September 30 of each calendar year.

"**Fitch**" means Fitch, Inc.

"**Fund**" means any fund created, established and maintained under the terms of the Master Ordinance and any Supplement.

"**Funded Debt**" of the Airport System means all Parity Obligations (and, for purposes of Section 17(d) of the Master Ordinance, all Subordinated Debt) created or assumed by the City and payable from Gross Revenues that mature by their terms (in the absence of the exercise of any earlier right of demand), or that are renewable at the option of the City to a date, more than one year after the original creation or assumption of such Debt by the City.

"**Gross Revenues**" means all of the revenues and income of every nature and from whatever source derived by the City (but excluding grants and donations for capital purposes) from the operation and/or ownership of the Airport System, including the investment income from the investment or deposit of money in each Fund (except the Construction Fund, any Rebate Fund, and interest earnings required to be deposited to any Rebate Fund) created, maintained or confirmed by the Master Ordinance; provided, however, that if the net rent (excluding ground rent) from any Special Facilities Lease is pledged to the payment of principal, interest, reserve, or other requirements in connection with revenue bonds issued by the City to provide Special Facilities for the Airport System for the lessee (or in connection with obligations issued to refund said revenue bonds) the amount of such net rent so pledged and actually used to pay such requirements shall not constitute or be considered as Gross Revenues, but all ground rent, and any net rent in excess of the amounts so pledged and used, shall be deposited in the Revenue Fund described in the Master Ordinance. Without limiting the generality of the foregoing, the term *Gross Revenues* shall include all landing fees and charges, ground rentals, space rentals in buildings and all charges made to concessionaires, and all revenues of any nature derived from contracts or use agreements with airlines and other users of the Airport System and its facilities; provided, however, that the term Gross Revenues shall not include any "passenger facility charges" described substantially in the manner provided in the "Aviation Safety and Capacity Expansion Act of 1990" (P.L. 101-508, Title IX) or the "Aviation Investment and Reform Act for the 21$^{st}$ Century" enacted by Congress in the year 2000, or other similar federal laws and the rules and regulations promulgated thereby, or any other "passenger facility charges," "customer facility charges" or similar charges that may be imposed for use by passengers or customers of Airport System facilities pursuant to federal, state or local law.

"**Holder**" or "**Bondholder**" or "**owner**" means the registered owner of any Parity Obligation registered as to ownership and the holder of any Parity Obligation payable to bearer, or as otherwise provided for in a Supplement.

**"Industrial Properties"** means (a) the real and personal properties situated at and around the Airport System which are owned by the City and (i) leased to industrial or commercial tenants engaged in activities which are unrelated to the City's public airport operations, or (ii) held by the City for future industrial and commercial development, and (b) any other real or personal property now owned or hereafter acquired by the City which is unrelated to the City's public airport operations.

"**Master Ordinance**" means Ordinance No. 93789 of the City, adopted on April 19, 2001, which established the General Airport Revenue Bond Financing Program.

"**Maturity**" when used with respect to any Debt means the date on which the principal of such Debt or any installment thereof becomes due and payable as therein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption, or otherwise.

**"Moody's"** means Moody's Investors Service, Inc.

"**Net Revenues**" means the Gross Revenues after deducting Operation and Maintenance Expenses.

"**Operation and Maintenance Expenses**" means the reasonable and necessary current expenses of the City paid or accrued in administering, operating, maintaining, and repairing the Airport System. Without limiting the generality of the foregoing, the term "Operation and Maintenance Expenses" shall include all costs directly related to the Airport System, that is, (1) collecting Gross Revenues and of making any refunds therefrom lawfully due others; (2) engineering, audit reports, legal, and other overhead expenses directly related to its administration, operation, maintenance, and repair; (3) salaries, wages and other compensation of officers and employees, and payments to pension, retirement, health and hospitalization funds and other insurance, including self-insurance for the foregoing (which shall not exceed a level comparable to airports of a similar size and character); (4) costs of routine repairs, replacements, renewals, and alterations not constituting a capital improvement, occurring in the usual course of business; (5) utility services; (6) expenses of general administrative overhead of the City allocable to the Airport System; (7) equipment, materials and supplies used in the ordinary course of business not constituting a capital improvement, including ordinary and current rentals of equipment or other property; (8) fidelity bonds, or a properly allocable share of the premium of any blanket bond, pertaining to the Airport System or Gross Revenues or any other moneys held hereunder or required hereby to be held or deposited hereunder; and (9) costs of carrying out the provisions of the Master Ordinance, including paying agent's fees and expenses; costs of insurance required hereby, or a properly allocable share of any premium of any blanket policy pertaining to the Airport System or Gross Revenues, and costs of recording, mailing, and publication. To provide further clarification, Operation and Maintenance Expenses shall not include the following: (1) any allowances for depreciation; (2) costs of capital improvements; (3) reserves for major capital improvements, Airport System operations, maintenance or repair; (4) any allowances for redemption of, or payment of interest or premium on, Debt; (5) any liabilities incurred in acquiring or improving properties of the Airport; (6) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities to the extent that they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases; (7) liabilities based upon the City's negligence or other ground not based on contract; and (8) to the extent Federal Payments may not be included as Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to the Federal Payments for such period.

"**Outstanding**" when used with respect to Parity Obligations means, as of the date of determination, all Parity Obligations theretofore delivered under the Master Ordinance and any Supplement, except:

(1) Parity Obligations theretofore cancelled and delivered to the City or delivered to the Paying Agent or the Registrar for cancellation;

(2) Parity Obligations deemed paid pursuant to the defeasance provisions as set forth in any Supplement;

(3) Parity Obligations upon transfer of or in exchange for and in lieu of which other Parity Obligations have been authenticated and delivered pursuant to the Master Ordinance and any Supplement; and

(4) Parity Obligations under which the obligations of the City have been released, discharged, or extinguished in accordance with the terms thereof;

provided, that, unless the same is acquired for purposes of cancellation, Parity Obligations owned by the City shall be deemed to be Outstanding as though it was owned by any other owner.

"**Outstanding Principal Amount**" means, with respect to all Parity Obligations or to a series of Parity Obligations, the outstanding and unpaid principal amount of such Parity Obligations paying interest on a current basis and the outstanding and unpaid principal and compounded interest on such Parity Obligations paying accrued, accreted, or compounded interest only at maturity as of any "Record Date" established by a Registrar in a Supplement or in connection with a proposed amendment of the Master Ordinance. For purposes of this definition, payment obligations of the City under the terms of a Credit Agreement that is treated as a Parity Obligation shall be treated as outstanding and unpaid principal.

"**Parity Obligations**" means all Outstanding Pre-2001 Parity Obligations, any Additional Parity Obligations issued pursuant to a Supplement and in accordance with Section 17 of the Master Ordinance, and all other Debt of the City which may be issued, incurred or assumed in accordance with the terms of the Master Ordinance and a Supplement and which is secured by a first lien on and pledge of the Gross Revenues.

"**Paying Agent**" means each entity designated in a Supplement as the place of payment of a series or issue of Parity Obligations.

"**Person**" means any natural person, firm, partnership, association, corporation, or public body.

"**Registrar**" means each entity designated in a Supplement as the registrar of a series or issue of Parity Obligations.

"**Required Reserve Amount**" means an amount of money and investments equal in market value to the Average Annual Debt Service Requirements of all Parity Obligations at any time Outstanding.

"**Reserve Fund Obligations**" means cash, Eligible Investments, any Credit Facility, or any combination of the foregoing.

"**Revenue Fund**" means the "City of San Antonio Airport System Revenue Fund", the existence of which is confirmed in Section 5a, and is further described in Section 6 of, the Master Ordinance.

"**Special Contingency Reserve Fund**" means the "City of San Antonio Parity Obligations Special Contingency Reserve Fund", the existence of which is confirmed in Section 5(d), and is further described in Section 11, of the Master Ordinance.

**"Special Facilities"** and **"Special Facilities Properties"** mean structures, hangars, aircraft overhaul, maintenance or repair shops, heliports, hotels, storage facilities, garages, inflight kitchens, training facilities and any and all other facilities and appurtenances being a part of or related to the Airport System the cost of the construction or other acquisitions of which is financed with the proceeds of Special Facilities Debt. Upon the retirement of Special Facilities Debt, the City may declare such facilities financed with such Special Facilities Debt to be within the meaning of "Airport System," as hereinabove defined.

**"Special Facilities Debt"** means those bonds, notes or other obligations from time to time hereafter issued or incurred by or on behalf of the City pursuant to Section 17(d) of the Master Ordinance.

**"Special Facilities Lease"** means any lease or agreement, howsoever denominated, pursuant to which a Special Facility is leased by or on behalf of the City to the lessee in consideration for which the lessee agrees to pay (i) all debt service on the Special Facilities Debt issued to finance the Special Facility (which payments are pledged to secure the Special Facilities Debt) and (ii) the operation and maintenance expenses of the Special Facility.

**"Standard & Poor's** means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies.

"**Stated Maturity**" means, when used with respect to any Debt or any installment of interest thereon, any date specified in the instrument evidencing or authorizing such Debt or such installment of interest as a fixed date on which the principal of such Debt or any installment thereof or the fixed date on which such installment of interest is due and payable.

"**Subordinated Debt**" means any Debt which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity Obligations then Outstanding or subsequently issued.

"**Subordinated Debt Fund**" means the "City of San Antonio General Airport Revenue Subordinated Debt Fund" established pursuant to Section 10 of the Master Ordinance.

"**Supplement**" or "**Supplemental Ordinance**" mean an ordinance supplemental to, and authorized and executed pursuant to the terms of, the Master Ordinance.

**"Tax-Exempt Debt"** means Debt interest on which is excludable from the gross income of the Holder for federal income tax purposes under section 103 of the Code.

"**Term of Issue**" means with respect to any Balloon Debt, a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or (ii) twenty-five years.

**"Variable Rate Obligations"** means Parity Obligations that bear interest at a rate per annum which is subject to adjustment so that the actual rate of interest is not ascertainable at the time such Parity Obligations are issued; provided, however, that upon the conversion of the rate of interest on a Variable Rate Obligation to a fixed rate of interest (whether or not the interest rate thereon is subject to conversion back to a variable rate of interest), such Parity Obligation shall not be treated as a "Variable Rate Obligation" for so long as such Parity Obligation bears interest at a fixed rate.

**THE FOLLOWING SECTIONS 2 THROUGH 10 AND 12 THROUGH 20 APPEAR IN THE MASTER ORDINANCE:**

**SECTION 2. SECURITY AND PLEDGE.** (a) ***First Lien on Gross Revenues***. The Parity Obligations are and shall be secured by and payable from a first lien on and pledge of the Gross Revenues, in accordance with the terms of this Master Ordinance, any Supplement and, with respect to the Pre-2001 Parity Obligations only, the ordinances of the City which authorized the issuance of such Pre-2001 Parity Obligations; and the Gross Revenues are further pledged to the establishment and maintenance of the Bond Fund, Bond Reserve Fund and the other Funds and Accounts (excluding any Rebate Fund) provided in accordance with the terms of this Master Ordinance and any Supplement. The Parity Obligations are and will be secured by and payable only from the Gross Revenues, and are and will not be secured by or payable from a mortgage or deed of trust on any properties, whether real, personal, or mixed, constituting any portion of the Airport System. The owners of the Parity Obligations shall never have the right to demand payment out of funds raised or to be raised by taxation, or from any source other than specified in this Master Ordinance or any Supplement.

(b) ***Ability to Pledge Other Revenues***. In addition to securing all Parity Obligations with a first lien on and pledge of the Gross Revenues, the City reserves the right to further secure the payment of any Parity Obligations, or to secure the payment of any Debt (including Subordinated Debt) or other short term or long term indebtedness incurred by the City relating to the Airport System with a lien on and pledge of any other lawfully available revenues of the Airport System, including, but not limited to, all or a portion of "passenger facility charges" authorized to be levied and collected by the City in accordance with the provisions of the *"Aviation Safety and Capacity Expansion Act of 1990"* (P.L. 101-508, Title IX) or the *"Aviation Investment and Reform Act for the 21st Century"* enacted by Congress in the year 2000, or other similar federal laws and the rules and regulations promulgated thereby, or any other similar charges that may be imposed pursuant to federal law, all pursuant to the Supplement which authorizes the issuance of such Parity Obligations or Subordinated Debt.

**SECTION 3. RATE COVENANT; RECOMMENDATION OF AIRPORT CONSULTANT.** (a) ***Rate Covenant***. The City covenants and agrees with the holders of all Parity Obligations, as follows:

(1) It will at all times fix, maintain, enforce, charge, and collect rates, fees, charges, and amounts for the use, occupancy, services, facilities, and operation of the Airport System which will produce in each Fiscal Year Gross Revenues at least sufficient: (A) to pay all Operation and Maintenance Expenses during each Fiscal Year, and also (B) to provide an amount equal to 1.25 times the Annual Debt Service Requirements during each Fiscal Year on all then Outstanding Parity Obligations.

(2) If the Airport System should become legally liable for any other obligations or indebtedness, the City shall fix, maintain, enforce, charge, and collect additional rates, fees, charges, and amounts for the use, occupancy, services, facilities and operation of the Airport System sufficient to establish and maintain funds for the payment thereof.

(b) ***Recommendation of Airport Consultant***. If the Gross Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for such Fiscal Year, shall request an

Airport Consultant to make its recommendations, if any, as to a revision of the City's rentals, rates, fees and other charges, its Operation and Maintenance Expenses, or the method of operation of the Airport System in order to satisfy as quickly as practicable the foregoing rate covenant. Copies of such request and the recommendation of the Airport Consultant, if any, shall be filed with the City Clerk. So long as the City substantially complies in a timely fashion with the recommendation of the Airport Consultant, the City will not be deemed to have defaulted in the performance of its duties under this Master Ordinance even if the resulting Gross Revenues are not sufficient to be in compliance with the rate covenant set forth above, so long as the Annual Debt Service Requirements on the Parity Obligations are paid when due.

**SECTION 4. GENERAL COVENANTS.** While any Parity Obligation is Outstanding, the City further covenants and agrees that in accordance with and to the extent required or permitted by law:

(a) ***Performance***. The City will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Master Ordinance and any Supplement; it will promptly pay or cause to be paid the principal amount of and interest on every Parity Obligation, on the dates and in the places and manner prescribed in a Supplement and such Parity Obligations; and it will, at the time and in the manner prescribed, deposit or cause to be deposited the amounts required to be deposited into the Funds and Accounts as provided in accordance with this Master Ordinance and any Supplement.

(b) ***City's Legal Authority***. The City is a duly created and existing home rule municipality and is duly authorized under the laws of the State of Texas to issue and incur Parity Obligations; that all action on its part to issue or incur Parity Obligations shall have been duly and effectively taken, and that the Parity Obligations in the hands of the owners thereof are and will be valid and enforceable special obligations of the City in accordance with their terms.

(c) ***Title.*** It has or will obtain lawful title, whether such title is in fee or lesser interest, to the lands, buildings, structures and facilities constituting the Airport System, that it warrants that it will defend the title to all the aforesaid lands, buildings, structures and facilities, and every part thereof, against the claims and demands of all Persons whomsoever, that it is lawfully qualified to pledge the Gross Revenues to the payment of the Parity Obligations in the manner prescribed herein, and has lawfully exercised such rights.

(d) ***Liens.*** It will from time to time and before the same become delinquent pay and discharge all taxes, assessments and governmental charges, if any, which shall be lawfully imposed upon it, or the Airport System; it will pay all lawful claims for rents, royalties, labor, materials and supplies which if unpaid might by law become a lien or charge thereon, the lien of which would be prior to or interfere with the liens granted in accordance with the terms of this Master Ordinance, so that the priority of the liens granted in accordance with the terms of this Master Ordinance shall be fully preserved in the manner provided herein, and it will not create or suffer to be created any mechanic's, laborer's, materialman's or other lien or charge which might or could be prior to the liens granted in accordance with the terms of this Master Ordinance, or do or suffer any matter or thing whereby the liens granted in accordance with the terms of this Master Ordinance might or could be impaired; provided, however, that no such tax, assessment or charge, and that no such claims which might be used as the basis of a mechanic's, laborer's, materialman's or other lien or charge, shall be required to be paid so long as the validity of the same shall be contested in good faith by the City.

(e) ***Operation of Airport System***. The City will continuously and efficiently operate the Airport System and shall maintain the Airport System in good condition, repair, and working order, all at reasonable cost. The City will not supply space, services, or privileges at the Airport System without making commensurate charges therefor, except to the extent actually required by law in connection with Federal and State authorities.

(f) ***Further Encumbrance***. The City will not additionally encumber the Gross Revenues or the Net Revenues in any manner, except as permitted in this Master Ordinance and any Supplement in connection with Parity Obligations, unless said encumbrance is made junior and subordinate in all respects to the liens, pledges, covenants and agreements of this Master Ordinance and any Supplement; but the right of the City to issue or incur Subordinated Debt payable in whole or in part from a subordinate lien on the Net Revenues is specifically recognized and retained.

*(g)* ***Sale, Lease, or Encumbrance of Airport System***. Except for the use of the Airport System or services pertaining thereto in the normal course of business, neither all nor a substantial part of the Airport System shall be sold, leased, mortgaged, pledged, encumbered, alienated, or otherwise disposed of until all Parity Obligations have been paid in full, or unless provision has been made therefor, and the City shall not dispose of its title to the Airport System or to any useful part thereof, including, without limitation, any property necessary to the operation and use of the Airport System, other than (i) in connection with the execution of leases, licenses, easements, or other agreements in connection with the operation of the Airport System by the City, or in connection with any Special Facilities thereat, (ii) in

connection with any pledges of and liens on revenues derived from the operation and use of the Airport System or any part thereof, or any Special Facilities pertaining thereto, for the payment of Parity Obligations, Subordinated Debt, Special Facilities Debt, and any other obligations pertaining to the Airport System and (iii) except as otherwise provided in the next three paragraphs.

(A) The City may sell, exchange, lease, or otherwise dispose of, or exclude from the Airport System any property constituting a part of the Airport System which the Aviation Director certifies (i) to be no longer useful in the construction or operation of the Airport System, or (ii) to be no longer necessary for the efficient operation of the Airport System, or (iii) to have been replaced by other property of at least equal value. The net proceeds of the sale or disposition of any Airport System property (or the fair market value of any property so excluded) pursuant to this paragraph shall be used for the purpose of replacing properties at the Airport System, shall be paid into the Revenue Fund, or shall be applied to retire or pay Annual Debt Service Requirements of Parity Obligations.

(B) The preceding provisions to the contrary notwithstanding, the City will not enter into any lease of, or sell or otherwise dispose of, any part of the Airport System or enter into a management or other similar operating agreement for the operation of any part of the Airport System if, as a result of such lease, sale or other disposition, the interest income on any of the Parity Obligations would become includable in gross income of the recipients thereof for federal income tax purposes. Without limiting the generality of the foregoing, the City (i) will not take any action that would cause any part of the Airport System financed with the proceeds of Tax-Exempt Debt to cease to be "owned by" the City (as the term "owned by" is used in section 142(b)(1)(A) of the Code), (ii) will require, as a condition to the leasing of any part of the Airport System, or the entering into of any management or other similar operating agreement for the operation of any part of the Airport System, that the lessee or the other party to such management or other similar operating agreement, as the case may be, make an irrevocable election, in accordance with the provisions of section 142(b)(1)(B) of the Code and the regulations issued thereunder, not to claim depreciation or an investment credit with respect to the property leased to it by the City, or in the case of a management or other similar operating agreement, the property managed or operated by it, (iii) will not enter into any lease, management or other similar operating agreement with respect to any portion of the Airport System if such lease, management or other operating agreement has a term of eighty percent (80%) or more of the reasonably expected economic life of the property subject to such lease, management or other similar operating agreement within the meaning of section 142(b)(1)(B)(ii) of the Code, and (iv) will not enter into any lease, management or other similar operating agreement if the lessee or other party to a management or other similar operating agreement has an option to purchase any portion of the Airport System for a price other than the fair market value of such property at the time such option is exercised. The foregoing notwithstanding, the City shall not be obliged to comply with the aforesaid requirements of the Code during the term of Tax-Exempt Debt if the failure to comply with such requirements would not adversely affect the tax-exempt status of such Debt.

(C) Nothing herein prevents any transfer of all or a substantial part of the Airport System to another body corporate and politic (including, but not necessarily limited to, a joint action agency or an airport authority) which assumes the City's obligations under this Master Ordinance and in any Supplement, in whole or in part, if (i) in the written opinion of an Airport Consultant, the ability to meet the rate covenant under this Master Ordinance and in any Supplement are not materially and adversely affected and (ii) in the written opinion of Bond Counsel, such transfer and assumption will not cause the interest on any Outstanding Parity Obligations that are Tax-Exempt Debt to be includable in gross income of the owners thereof for federal income tax purposes. In such event, following such transfer and assumption, all references to the City, any City officials, City ordinances, City budgetary procedures and any other officials, actions, powers or characteristics of the City shall be deemed references to the transferee entity and comparable officials, actions, powers or characteristics of such entity. In the event of any such transfer and assumption, nothing therein shall prevent the retention by the City of any facility of the Airport System if, in the written opinion of an Underwriter, such retention will not materially and adversely affect nor unreasonably restrict the transferee entity's ability to comply with the requirements of the rate covenant and the other covenants of this Master Ordinance and any Supplement.

(h) ***Special Facilities.*** The City may finance Special Facilities from the proceeds of Special Facilities Debt issued by or on behalf of the City without regard to any requirements of this Master Ordinance with respect to the issuance of Parity Obligations, subject, however, to the following conditions:

(i) Such Special Facilities Debt shall be payable solely from rentals derived by or on behalf of the City under a Special Facilities Lease entered into between the City (or an entity acting on behalf of the City) and the person, firm or corporation which will be utilizing the Special Facilities to be financed; and

(ii) In addition to all rentals with respect to the Special Facilities to be financed, a fair and reasonable rental for the land upon which said Special Facilities are to be constructed shall be charged by the City, and said ground rent shall be deemed Gross Revenues not available for the payment of such Special Facilities Debt.

(i) ***Accounts and Fiscal Year***. It shall keep proper books, records and accounts relating to the Airport System separate and apart from all other records and accounts of the City, in which complete and correct entries shall be made of all transactions relating to the Airport System, and the City shall cause said books and accounts to be audited annually as of the close of each Fiscal Year by an Accountant (which may be part of the City's comprehensive annual financial report). The City agrees to operate the Airport System and keep its books of records and account pertaining thereto on the basis of its current Fiscal Year.

(j) ***Audits***. After the close of each Fiscal Year while any Parity Obligation is Outstanding, an audit will be made by an Accountant of the books and accounts relating to the Airport System and the Gross Revenues (which may be included in the City's comprehensive annual financial report). As soon as practicable after the close of each such Fiscal Year, and when said audit has been completed and made available to the City, a copy of such audit for the preceding Fiscal Year shall be mailed to the Municipal Advisory Council of Texas, any Bond Insurer or Credit Provider, and to any owner of any then Outstanding Parity Obligations who shall so request in writing promptly after it is readily available to the general public, and also to each information depository then required pursuant to Rule 15c2-12 promulgated by the Securities and Exchange Commission, or similar rule, within the time period required by such Rule 15c2-12. Such annual audit reports shall be open to the inspection of the owners of the Parity Obligations and their agents and representatives at all reasonable times during regular business hours of the City.

(k) ***Annual Budget; Tax Levy for Operation and Maintenance; Elimination of Tax Levy.*** The City shall prepare, prior to the beginning of each Fiscal Year, an Annual Budget for the Airport System (which may be included in the City's general annual budget), in accordance with law, reflecting an estimate of cash receipts and disbursements for the ensuing Fiscal Year in sufficient detail to indicate the probable Gross Revenues and Operation and Maintenance Expenses for such Fiscal Year. Such budget is required to contain, among other items, the following: estimated Gross Revenues, Operation and Maintenance Expenses and Net Revenues for such Fiscal Year, the estimated amounts to be deposited during such Fiscal Year in each of the Funds and Accounts established in this Master Ordinance and any Supplement, and the estimated expenditures during such Fiscal Year for the replacement of Capital Improvements. A copy of the Annual Budget shall be filed with any Bond Insurer or Credit Provider promptly after it is readily available to the general public.

(l) ***Insurance***. The City shall cause to be insured such parts of the Airport System as would usually be insured by corporations operating like properties, with a responsible insurance company or companies, against risks, accidents or casualties against which and to the extent insurance is usually carried by corporations operating like properties, including, to the extent reasonably obtainable, fire and extended coverage insurance and public liability and property damage insurance; provided, however, that public liability and property damage insurance need not be carried if the City Attorney gives a written opinion to the effect that the City is not liable for claims which would be protected by such insurance. All insurance premiums shall be paid as an expense of operation of the Airport System. At any time while any contractor engaged in construction work shall be fully responsible therefor, the City shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the Bondholders and their representatives at all reasonable times. Upon the happening of any loss or damage covered by insurance from one or more of said causes, the City shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the City. The proceeds of insurance covering such property, together with any other funds necessary and available for such purpose, shall be used forthwith by the City for repairing the property damaged or replacing the property destroyed; provided, however, that if said insurance proceeds and other funds are insufficient for such purpose, then said insurance proceeds pertaining to the Airport System shall be deposited in a special and separate trust fund, at the Depository, to be designated the "Insurance Account". The Insurance Account shall be held until such time as other funds become available which, together with the Insurance Account, will be sufficient to make the repairs or replacements originally required.

(m) ***Governmental Agencies.*** The City will duly observe and comply with all valid requirements of all Federal and State authorities relative to the ownership, operation, and maintenance of the Airport System. Additionally, the City will comply with all of the terms and conditions of any and all grants and assurances, franchises, permits and authorizations applicable to or necessary with respect to the Airport System, and which have been obtained from any governmental agency; and the City has or will obtain and keep in full force and effect all franchises, permits, authorization and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation and maintenance of the Airport System.

(n) ***Rights of Inspection***. The owner of Parity Obligations shall have the right at all reasonable times during regular business hours of the City to inspect all records, accounts and data of the City relating to the Airport System.

(o) ***Legal Holidays.*** In any case where the date of maturity of interest on or principal of the Parity Obligations or the date fixed for redemption of any Parity Obligations or any other payment obligation under a Parity Obligation not be a Business Day, then payment of interest or principal need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date of maturity or the date fixed for redemption and no interest shall accrue for the period from the date of maturity or redemption to the date of actual payment.

(p) ***Bondholders' Remedies.*** This Master Ordinance and any Supplement shall constitute a contract between the City and the owners of the Parity Obligations from time to time Outstanding and this Master Ordinance and the Supplement authorizing the issuance of Parity Obligations shall be and remain irrepealable until the Parity Obligations and any interest thereon shall be fully paid or discharged or provision therefor shall have been made as provided in a Supplement. In the event of a default in the payment of the principal of or interest on any Parity Obligation or a default in the performance of any duty or covenant provided by law or in this Master Ordinance, the owner or owners of any Parity Obligation may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any owner of any Parity Obligation may at law or in equity, by suit, action, mandamus, or other proceedings filed in any court of competent jurisdiction, enforce and compel performance of all duties required to be performed by the City under this Master Ordinance and any Supplement, including the making of reasonably required rates and charges for the use and services of the Airport System, the deposit of the Gross Revenues into the Funds and Accounts provided in this Master Ordinance and any Supplement, and the application of such Gross Revenues in the manner required in this Master Ordinance and any Supplement.

**SECTION 5. CREATION OF FUNDS AND ACCOUNTS.** The following special Funds and Accounts have been created and established in connection with the issuance of the Pre-2001 Parity Obligations and shall continue to be maintained on the books of the City, so long as any of the Parity Obligations, or interest thereon, are Outstanding and unpaid:

(a) *City of San Antonio Airport System Revenue Fund*, herein called the "Revenue Fund"; and there has been created and there shall continue to be maintained within the Revenue Fund an account entitled the San Antonio Airport System Operation and Maintenance Account, herein called the "Operation and Maintenance Account";

(b) *City of San Antonio Airport System Parity Obligations Bond Fund, herein called the "Bond Fund";*

(c) *City of San Antonio Airport System Parity Obligations Reserve Fund*, herein called the "Bond Reserve Fund";

(d) *City of San Antonio Airport System Parity Obligations Special Contingency Reserve Fund*, herein called the "Special Contingency Reserve Fund"; and

(e) *City of San Antonio Airport System Capital Improvement Fund*, herein called the "Capital Improvement Fund".

**SECTION 6. REVENUE FUND.** All Gross Revenues shall be kept and accounted for separate and apart from all other funds of the City and shall be credited from day to day as received to the credit of the Revenue Fund. Gross Revenues in the Revenue Fund shall be deposited to the credit of the other Funds and Accounts created or maintained by this Master Ordinance, in the manner and amounts hereinafter provided, and each of such Funds and Accounts shall have priority as to such deposits in the order in which they are treated in the following Sections 7 through 12.

**SECTION 7. BOND FUND.** (a) ***Purpose of and Payments into the Bond Fund***. The Bond Fund shall be used solely to pay the principal of, premium, if any, and interest on, and other payments (other than Operation and Maintenance Expenses) incurred in connection with Parity Obligations, as such principal matures and such interest and other payments comes due. There shall be credited to the Bond Fund the following:

(1) immediately after the sale and delivery of any series of Parity Obligations, any accrued interest on such Parity Obligations; and

(2) on or before the 25th day of each month, commencing with the month following the delivery of each series of Parity Obligations, such amounts, in approximately equal monthly installments, as will be sufficient, together with any other funds on deposit therein and available for such purpose, to pay the principal of, premium, if any and interest on, and other payments scheduled to come due on all Outstanding Parity Obligations on the next applicable payment date.

(b) ***Accounts***. The City reserves the right in any Supplement to (i) establish within the Bond Fund various Accounts to facilitate the timely payment of Parity Obligations as the same become due and owing and (ii) provide other terms and conditions with respect to payment obligations with respect to a Parity Obligation not inconsistent with the provisions of this Master Ordinance.

**SECTION 8. BOND RESERVE FUND.** (a) ***Payments into the Bond Reserve Fund***. There is currently on deposit in the Bond Reserve Fund an amount at least equal to the Average Annual Debt Service Requirements of the Pre-2001 Parity Obligations. After the delivery of any future Additional Parity Obligations, the City shall cause the Bond Reserve Fund to be increased, if and to the extent necessary, so that such fund will contain an amount of money and investments equal in market value to the Average Annual Debt Service Requirements of all Parity Obligations which will be Outstanding after such delivery. An amount of money and investments equal in market value to the Average Annual Debt Service Requirements of all Parity Obligations at any time Outstanding is hereby designated as the "Required Reserve Amount". Any increase in the Required Reserve Amount may be funded from Gross Revenues, or from proceeds from the sale of any Additional Parity Obligations, or any other available source or combination of sources. All or any part of the Required Reserve Amount not funded initially and immediately after the delivery of any installment or issue of Additional Parity Obligations shall be funded, within not more than five years from the date of such delivery, by deposits of Gross Revenues in approximately equal monthly installments on or before the 25th day of each month. Principal amounts of Parity Obligations which must be redeemed pursuant to any applicable mandatory redemption requirements shall be deemed to be maturing amounts of principal for the purpose of calculating principal and interest requirements on such bonds. When and so long as the amount in the Bond Reserve Fund is not less than the Required Reserve Amount no deposits shall be made to the credit of the Bond Reserve Fund; but when and if the Bond Reserve Fund at any time contains less than the Required Reserve Amount, then the City shall transfer from Gross Revenues in the Revenue Fund, and deposit to the credit of the Bond Reserve Fund, monthly, on or before the 25th day of each month, a sum equal to 1/60th of the Required Reserve Amount, until the Bond Reserve Fund is restored to the Required Reserve Amount. The City specifically covenants that when and so long as the Bond Reserve Fund contains the Required Reserve Amount, the City shall cause all interest and income derived from the deposit or investment of the Bond Reserve Fund to be deposited to the credit of the Bond Fund.

(b) ***Purpose***. The Bond Reserve Fund shall be used to pay the principal of or interest on all Parity Obligations at any time when the Bond Fund is insufficient for such purpose, and may be used finally to retire the last debt service requirements on the Parity Obligations.

(c) ***Authority to Use Credit Facility***. The City may satisfy its covenant to maintain the Bond Reserve Fund in an amount equal to the Required Reserve Amount with a Credit Facility that will provide funds, together with other Reserve Fund Obligations, if any, credited to the Bond Reserve Fund, at least equal to the Required Reserve Amount. The City may replace or substitute a Credit Facility for all or a portion of the cash or Eligible Investments on deposit in the Bond Reserve Fund or in substitution for or replacement of any existing Credit Facility. Upon such replacement or substitution, cash or Eligible Investments on deposit in the Bond Reserve Fund which, taken together with the face amount of any existing Credit Facilities, are in excess of the Required Reserve Amount may be withdrawn by the City, at the option of the Designated Financial Officer, and transferred to the Bond Fund (or to the Revenue Fund if the City receives an opinion of Bond Counsel that transferring such funds to the Revenue Fund would not adversely effect the tax exempt status of any Outstanding Parity Obligations originally issued as Tax-Exempt Debt; provided that withdrawn cash constituting bond proceeds shall be used only for Airport System Improvements); provided, however, that at the option of the Designated Financial Officer, acting on behalf of the City, the face amount of any Credit Facility for the Bond Reserve Fund may be reduced in lieu of such transfer.

(d) ***Withdrawals from Bond Reserve Fund.*** If the City is required to make a withdrawal from the Bond Reserve Fund for any of the purposes described in this Section, the Designated Financial Officer, acting on behalf of the City, shall promptly notify the issuer of such Credit Facility of the necessity for a withdrawal from the Bond Reserve Fund for any such purposes, and shall make such withdrawal FIRST from available moneys or Eligible Investments then on deposit in the Bond Reserve Fund, and NEXT from a drawing under any Credit Facility to the extent of such deficiency. Should there be more than one provider of Credit Facilities that are on deposit in or credited to the Bond Reserve Fund, the order of priority with respect to the drawings on such Credit Facilities shall be determined by the City and the providers of the Credit Facilities prior to any such drawings being made thereunder.

(e) ***Deficiencies.*** In the event of a deficiency in the Bond Reserve Fund, such that the Bond Reserve Fund contains less than the Required Reserve Amount, then the City shall restore the Required Reserve Amount in the manner described in Section 8(a) above. In the event the Required Reserve Amount is funded through the use of a Credit Facility, and the Credit Facility specifies a termination or expiration date that is prior to the final maturity of the Parity Obligations so secured thereby, the City shall provide that such Credit Facility shall be renewed at least twelve (12) months prior to the specified termination or expiration date or in the alternative provide that any deficiency that will result upon the termination or expiration of such Credit Facility will be accounted for either by (i) obtaining a substitute Credit Facility no sooner than twenty-four (24) months or no later than twelve (12) months prior to the specified termination or expiration date of the then existing Credit Facility or (ii) by depositing cash into the Bond Reserve Fund in no more than twenty-four (24) monthly installments of not less than one-twenty fourth (1/24th) of the amount of such deficiency on or before the 25th day of each month, commencing on the 25th day of the month which is twelve (12) months prior to such termination or expiration date, to restore the Bond Reserve Fund to the Required Reserve Amount.

(f) ***Redemption or Defeasance.*** In the event of the redemption or defeasance of any Parity Obligation, any Reserve Fund Obligations on deposit in the Bond Reserve Fund in excess of the Required Reserve Amount may be withdrawn and transferred, at the option of the City, to the Bond Fund, as a result of (i) the redemption of the Parity Obligations, or (ii) funds for the payment of the Parity Obligations having been deposited irrevocably with the paying agent or place of payment therefor in the manner described in a Supplement, the result of such deposit being that such Parity Obligations no longer are deemed to be Outstanding under the terms of this Master Ordinance and such Supplement.

(g) ***Credit Facility Draws.*** In the event there is a draw upon the Credit Facility, the City shall reimburse the issuer of such Credit Facility for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is issued, from Gross Revenues; however, such reimbursement from Gross Revenues shall be subject to the provisions of Section 7(d) hereof and shall be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on Parity Obligations.

**SECTION 9. OPERATION AND MAINTENANCE ACCOUNT IN THE REVENUE FUND; PAYMENT OF OPERATION AND MAINTENANCE EXPENSES AND TRANSFERS TO SUBORDINATED DEBT FUND.** All amounts in the Revenue Fund in excess of those required to be made to the credit of the Bond Fund and the Bond Reserve Fund shall be deemed to constitute, and shall be designated as, the Operation and Maintenance Account in the Revenue Fund. The amounts in the Operation and the Maintenance Account shall be, first, used to pay all Operation and Maintenance Expenses, and second, transferred to the Subordinated Debt Fund (authorized to be established in a Supplement pursuant to Section 10 of this Master Ordinance) at the times and in the amounts required by a Supplement to provide for the payment of principal, premium, if any, and interest on, and other payments (excluding any Operation and Maintenance Expenses but including payments to a related debt service reserve fund) incurred in connection with, any Subordinated Debt. Such payments and transfers described in the preceding sentence shall have priority over all deposits to the credit of the Special Contingency Reserve Fund and the Capital Improvement Fund as hereinafter provided. It is further specifically provided that no deposit shall ever be made to the credit of the Special Contingency Reserve Fund or the Capital Improvement Fund if any such deposit would reduce the amount on hand in the Operation and Maintenance Account to less than the budgeted or estimated Operation and Maintenance Expenses for the ensuing three calendar months.

**SECTION 10. SUBORDINATED DEBT FUND.** (a) ***Subordinated Debt Fund Authorized to be Established.*** For the sole purpose of paying the principal amount of, premium, if any, and interest on, and other payments (excluding any Operation and Maintenance Expenses but including payments to a related debt service reserve fund) incurred in connection with Subordinated Debt, the City may create in a Supplement which authorizes the issuance of Subordinated Debt a separate fund designated as the Subordinated Debt Fund. Such Subordinated Debt Fund shall be established and maintained on the books of the City and accounted for separate and apart from all other funds of the City. Moneys in the Subordinated Debt Fund shall be deposited and maintained in an official depository bank of the City.

(b) ***Additional Accounts.*** The City may create, establish and maintain on the books of the City additional Accounts within the Subordinated Debt Fund from which moneys can be withdrawn to pay the principal of and interest on Subordinated Debt which hereafter may be issued or incurred.

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**SECTION 12. CAPITAL IMPROVEMENT FUND.** Subject to satisfying the requirements of Sections 7, 8, 9, 10 and 11 of this Master Ordinance, the City shall transfer the balance remaining in the Operation and Maintenance Account in the Revenue Fund at the end of each Fiscal Year and deposit same to the credit of the Capital Improvement Fund. The Capital Improvement Fund shall be used for the purposes, and with priority of claim thereon, as follows: first, for the payment of principal, interest, and reserve requirements on Parity Obligations if funds on deposit in the Bond Fund and the Bond Reserve Fund are insufficient to make such payments; second, for the payment of principal, interest, and reserve requirements on Subordinated Debt if funds on deposit in the Subordinated Debt Fund and any related debt service reserve fund are insufficient to make such payments; third, for the purpose of paying the costs of improvements, enlargements, extensions, additions, replacements, repairs or other capital expenditures related to the Airport System; and fourth, for any other lawful purpose related to the Airport System.

**SECTION 13. CONSTRUCTION FUND AND REBATE FUND.** The City, in a Supplement, hereafter may create, establish and maintain on the books of the City a separate Fund or Account for use by the City for payment of all lawful costs associated with the construction, improvement and equipping of the Airport System, and for making payments to the United States of America pursuant to section 148 of the Code.

**SECTION 14. DEFICIENCIES IN FUNDS.** If in any month the City shall fail to deposit into the Bond Fund or Bond Reserve Fund the amounts required, amounts equivalent to such deficiencies shall be set apart and paid into said Funds from the first available and unallocated Gross Revenues for the following month or months, and such payments shall be in addition to the amounts otherwise required to be paid into said Funds during such month or months. To the extent necessary, the City shall increase the rates, fees, charges, and amounts for the use, occupancy, services, facilities and operation of the Airport System to make up for any such deficiencies.

**SECTION 15. SECURITY FOR FUNDS.** All Funds and Accounts created or maintained by this Master Ordinance shall be secured in the manner and to the fullest extent permitted or required by law for the security of public funds, and such Funds and Accounts shall be used only for the purposes and in the manner permitted or required by this Master Ordinance.

**SECTION 16. PAYMENT OF PARITY OBLIGATIONS.** On or before each principal and interest payment date while any of the Parity Obligations are Outstanding and unpaid, the City shall make available to the paying agents therefor, out of the Bond Fund, or if necessary, out of the Bond Reserve Fund, money sufficient to pay, on each of such dates, the principal of and interest on the Parity Obligations as the same matures and comes due, or to redeem the Parity Obligations prior to maturity, either upon mandatory redemption or at the option of the City. The Paying Agents shall destroy all paid Parity Obligations, and the coupons appertaining thereto, if any, and furnish the City with an appropriate certificate of cancellation or destruction if requested by the City.

**SECTION 17. ISSUANCE OF ADDITIONAL PARITY OBLIGATIONS.** (a) ***Additional Parity Obligations***. The City reserves the right to issue or incur, for any lawful purpose, pursuant to this Master Ordinance and a Supplement, Additional Parity Obligations; provided, however, that no such Parity Obligations shall be delivered unless:

(i) *No Default*. The Designated Financial Officer and the Aviation Director certify that, upon incurring, issuing or otherwise becoming liable in respect to such Parity Obligations, the City will not be in default under any term or provision of this Master Ordinance, any Parity Obligations then Outstanding or any Supplement pursuant to which any of such Parity Obligations were issued or incurred.

(ii) *Proper Fund Balances*. The Designated Financial Officer certifies that, upon the issuance of such Parity Obligations, the Bond Fund will have the required amounts on deposit therein and that the Bond Reserve Fund will contain the applicable Required Reserve Amount or so much thereof as is required to be funded at such time. Upon the issuance of such Parity Obligations, any additional amounts necessary to cause the Bond Reserve Fund to be funded in the Required Reserve Amount may be funded over a 60-month period in the manner provided for in Section 8(a) of this Master Ordinance, with a Credit Facility in the manner provided in Section 8(c) of this Master Ordinance, or a combination thereof.

(iii) *Projected Coverage*. An Airport Consultant provides a written report setting forth projections which indicate that the estimated Net Revenues of the Airport System for each of three consecutive Fiscal Years beginning in the later of:

(A) the first complete Fiscal Year following the estimated date of completion and initial use of all revenue producing facilities to be financed with Parity Obligations, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities, or

(B) the first complete Fiscal Year in which the City will have scheduled payments of interest on or principal of the Parity Obligations to be issued for the payment of which provision has not been made as indicated in the report of such Airport Consultant from proceeds of such Parity Obligations, investment income thereon or from other appropriated sources (other than Net Revenues),

are equal to at least 1.25 times of the Annual Debt Service Requirements on all Parity Obligations scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Annual Debt Service Requirements for the Additional Parity Obligations then being issued or incurred.

(iv) *Alternative Coverage for Parity Obligations*. In lieu of the certification in clause (iii) above, the Designated Financial Officer may provide a certificate showing that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues of the Airport System were equal to at least 1.25 times of the maximum Annual Debt Service Requirements on all Parity Obligations scheduled to occur in the then current or any future Fiscal Year after taking into consideration the Parity Obligations proposed to be issued or incurred.

(b) ***Refunding Obligations***. If Parity Obligations are being issued for the purpose of refunding less than all Outstanding Parity Obligations, neither of the certifications described in subsections (a)(iii) or (a)(iv) of this Section are required so long as the Designated Financial Officer provides a certificate showing that the aggregate debt service requirements of such refunding Parity Obligations will not exceed the aggregate debt service requirements of the Parity Obligations being refunded.

(c) ***Completion Obligations***. The City reserves the right to issue or incur Parity Obligations to pay the cost of completing any Capital Improvements for which Parity Obligations have previously been issued.

Prior to the delivery of Completion Obligations, the City must provide, in addition to all of the applicable certificates required by subsection (a) of this Section (other than the certificates not required under the circumstances described below), the following documents:

(i) a certificate of the consulting engineer engaged by the City to design the Capital Improvement for which the Completion Obligations are to be delivered stating that such Capital Improvement has not materially changed in scope since the most recent series of Parity Obligations was issued or incurred for such purpose (except as permitted in the Supplement authorizing such Parity Obligations) and setting forth the aggregate cost of the Capital Improvement which, in the opinion of such consulting engineer, has been or will be incurred; and

(ii) a certificate of the Aviation Director (A) stating that all amounts allocated to pay costs of the Capital Improvement from the proceeds of the most recent series of Parity Obligations issued or incurred in connection with the Capital Improvement for which the Completion Obligations are being issued or incurred were used or are still available to be used to pay costs of such Capital Improvement; (B) containing a calculation of the amount by which the aggregate cost of that Capital Improvement (furnished in the consulting engineer's certificate described above) exceeds the sum of the costs of the Capital Improvement paid to such date plus the moneys available at such date within any construction fund or other like account applicable to the Capital Improvement plus any other moneys which the Aviation Director, in the discretion thereof, has determined are available to pay such costs in any other fund; and (C) certifying that, in the opinion of the Aviation Director, it is necessary to issue or incur the Completion Obligations to provide funds for the completion of the Capital Improvement.

Completion Obligations may be issued or incurred for any Airport System facility or project which shall be declared in the Supplement to be a Capital Improvement. Any such Supplement may contain such further provisions as the City shall deem appropriate with regard to the use, completion, modification or abandonment of such Capital Improvement. Anything herein to the contrary, the provisions of subsections (a)(iii) and (a)(iv) of this Section do not apply to Completion Obligations if the aggregate principal amount of the Completion Obligations then to be issued does not exceed 15% of the aggregate principal amount of the Parity Obligations initially issued to pay the cost of such Capital Improvement.

(d) ***Subordinated Debt and Special Facilities Debt***. Subordinated Debt and Special Facilities Debt may be issued or incurred by the City without limitation. Subordinated Debt shall be payable from moneys deposited to the credit of the Subordinated Debt Fund. Special Facilities Debt is permitted to be issued, as described in Section 4(g) hereof, and shall not be secured by a lien on and pledge of Gross Revenues or Net Revenues.

(e) ***Credit Agreements***. Payments to be made under a Credit Agreement may be treated as Parity Obligations if the governing body of the City makes a finding in the Supplement authorizing the treatment of the obligations of the City incurred under a Credit Agreement as a Parity Obligation that, based upon the findings contained in a certificate executed and delivered by a Designated Financial Officer, the City will have sufficient funds to meet the financial obligations of the Airport System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of the Airport System and the financial obligations of the City relating to the Airport System after giving effect to the treatment of the Credit Agreement as a Parity Obligation.

(f) ***Determination of Net Revenues***. In making a determination of Net Revenues for any of the purposes described in this Section, the Airport Consultant or the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the Airport System that became effective at least 30 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues tests described above, make a pro forma determination of the Net Revenues of the Airport System for the period of time covered by the certification or opinion based on such change in rates and charges being in effect for the entire period covered by the certificate or opinion.

**SECTION 18. DEFEASANCE.** The provisions relating to the terms and conditions upon which a defeasance of Parity Obligations shall be effected shall be contained in the Supplement authorizing such Parity Obligations.

**SECTION 19. AMENDMENT OF MASTER ORDINANCE.** The City hereby reserves the right to amend this Master Ordinance subject to the following terms and conditions, to-wit:

(a) ***Amendments Without Consent of Holders or Credit Providers***. The City may from time to time, with notice to each Credit Provider but without the consent of any Holder, except as otherwise required by paragraph (b) below, amend this Master Ordinance in order to:

(1) cure any ambiguity, defect or omission in this Master Ordinance that does not materially adversely affect the interests of the Holders;

(2) grant additional rights or security for the benefit of the Holders;

(3) add events of default as shall not be inconsistent with the provisions of this Master Ordinance and which shall not materially adversely affect the interests of the Holders;

(4) qualify this Master Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect;

(5) make such amendments to this Master Ordinance as may be required, in the opinion of Bond Counsel, to ensure compliance with sections 103 and 141 through 150 of the Code and the regulations promulgated thereunder and applicable thereto;

(6) make such changes, modifications or amendments as may be necessary or desirable in order to allow the owners of the Parity Obligations to thereafter avail themselves of a book-entry system for payments, transfers and other matters relating to the Parity Obligations, which changes, modifications or amendments are not contrary to or inconsistent with other provisions of this Master Ordinance and which shall not adversely affect the interests of the owners of the Parity Obligations;

(7) make such changes, modifications or amendments as may be necessary or desirable in order to obtain the approval of the Parity Obligations by the Office of the Attorney General of the State of Texas, to the extent such approval is required by law, or to obtain or maintain the granting of a rating on the Parity Obligations by a Credit Rating Agency, or to obtain or maintain a Credit Agreement or a Credit Facility;

(8) make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the Parity Obligations, in order, to the extent permitted by law, to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange agreements, or similar types of agreements with respect to the Parity Obligations; and

(9) make any other change (other than any change described in clauses (1) through (5) of subsection (b) below) with respect to which the City receives written confirmation from each Rating Agency that such amendment would not cause such Rating Agency to withdraw or reduce its then current rating on the Parity Obligations.

Notice of any such amendment of the nature described in this Section 19(a) may be provided in the manner described in Section 19(c) hereof; provided, however, that the giving of such notice shall not constitute a condition precedent to the adoption of an ordinance providing for such amendment, and the failure to provide such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

(b) ***Amendments With Consent of Holders and Credit Providers***. Except as provided in Section 19(a) above, each Credit Provider and the Holders of Parity Obligations aggregating a majority in principal amount of the aggregate principal amount of then Outstanding Parity Obligations which are the subject of a proposed amendment or are affected by a proposed amendment shall have the right from time to time to approve any amendment to this Master Ordinance which may be deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the Holders in aggregate principal amount of the then Outstanding Parity Obligations affected by such amendment, nothing herein contained shall permit or be construed to permit amendment of the terms and conditions of this Master Ordinance or in any of the Parity Obligations affected by such amendment so as to:

(1) Make any change in the maturity of any of such Parity Obligations;

(2) Reduce the rate of interest borne by any of such Parity Obligations;

(3) Reduce the amount of the principal of, or redemption premium, if any, payable on any of such Parity Obligations;

(4) Modify the terms of payment of principal or of interest or redemption premium on such Outstanding Parity Obligations or any of them or impose any condition with respect to such payment; or

(5) Change the minimum percentage of the principal amount of the Parity Obligations necessary for consent to such amendment.

(c) ***Notice of Amendment***. Whenever the City shall desire to make any amendment or addition to or rescission of this Master Ordinance requiring consent of each Credit Provider and/or the Holders of the Parity Obligations, the City shall cause notice of the amendment, addition, or rescission to be sent by first class mail, postage prepaid, to (i) each Credit Provider, and (ii) the Holders (if the Holders of all Parity Obligations or at least a majority in aggregate principal amount of the Parity Obligations are required to consent) at the respective addresses shown on the Registration Books. Whenever at any time within one year after the date of the giving of such notice, the City shall receive an instrument or instruments in writing executed by each Credit Provider and the Holders of all or a majority (as the case may be) in aggregate principal amount of the Parity Obligations then outstanding affected by any such amendment, addition, or rescission requiring the consent of the Holders, which instrument or instruments shall refer to the proposed amendment, addition, or rescission described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the City may adopt such amendment, addition, or rescission in substantially such form, except as herein provided.

(d) ***Amendments Binding on All Holders***. No Holder may thereafter object to the adoption of any amendment, addition, or rescission which is accomplished pursuant to and in accordance with the provisions of this Section, or to any of the provisions thereof, and such amendment, addition, or rescission shall be fully effective for all purposes.

(e) ***Consents Irrevocable and Binding on Future Holders***. Any consent given by the Holder of a Parity Obligation pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the publication of the notice provided for in this Section, and shall be conclusive and binding upon all future Holders of the same Parity Obligation during such period. Such consent may be revoked at any time after six months from the date of the publication of said notice by the Holder who gave such consent, or by a successor in title, by filing notice with the City, but such revocation shall not be effective if the Holders of a majority in aggregate principal amount of the affected Parity Obligations then Outstanding, have, prior to the attempted revocation, consented to and approved the amendment.

(f) ***Ownership of Parity Obligations***. For the purposes of establishing ownership of the Parity Obligations, the City shall rely solely upon the registration of the ownership of such Parity Obligations on the registration books kept by the Paying Agent/Registrar.

(g) ***Ownership.*** For the purpose of this Section, the ownership and other matters relating to all Parity Obligations shall be determined as provided in each Supplement.

(h) ***Amendments of Supplements***. Each Supplement shall contain provisions governing the ability of the City to amend such Supplement; provided, however, that no amendment may be made to any Supplement for the purpose of granting to the owners of Outstanding Parity Obligations under such Supplement a priority over the owners of any other Outstanding Parity Obligations.

**SECTION 20. INVESTMENTS.** Money in any Fund established pursuant to this Master Ordinance or any Supplement may, at the option of the City, be invested in any investment permitted by the provisions of the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended); provided that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times. Such investments shall be valued in terms of current market value as of the last day of each Fiscal Year of the City. All interest and income derived from such deposits and investments immediately shall be credited to, and any losses debited to, the Fund from which the deposit or investment was made, except to the extent otherwise provided in Section 8 and 11 of this Master Ordinance with respect to the Bond Reserve Fund and Special Contingency Reserve Fund. Such investments shall be sold promptly when needed or when necessary to prevent any default in connection with the Parity Obligations, consistent with the ordinances, respectively, authorizing their issuance. It is further provided, however, that any interest earnings on proceeds of Parity Obligations, or on funds on deposit in any Fund or Account, which are required to be rebated to the United States of America in order to prevent any Parity Obligations from being arbitrage bonds shall be deposited to the Rebate Fund authorized to be established by a Supplement in accordance with Section 13 of this Master Ordinance and shall not be considered as interest earnings for the purposes of this Section or for the purposes of determining Gross Revenues.

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**THE FOLLOWING SECTIONS 7, 8, 9, 11 AND 13 APPEAR IN THE THIRTEENTH SUPPLEMENT TO THE MASTER ORDINANCE**

**SECTION 7. SECURITY**. (a) ***Gross Revenues.*** The Series 2012 Bonds are special obligations of the City payable from and secured solely by the Gross Revenues pursuant to the Master Ordinance and this Thirteenth Supplement. The Gross Revenues are hereby pledged to the payment of the principal of, premium, if any, and interest on the Series 2012 Bonds as the same shall become due and payable.

(b) ***Bond Reserve Fund.***

(i) The Series 2012 Bonds are to be secured by the Bond Reserve Fund. The City certifies that the amount that will be on deposit in the Bond Reserve Fund on the date of issuance of the Series 2012 Bonds will be not less than *$13,592,935.10*, which was the balance in such Fund as of February 29, 2012, and is at least equal to the Required Reserve Amount relating to the Outstanding Parity Obligations (i.e., *$13,139,459.47* calculated as of September 30, 2011). Such amount was funded from the following sources:

> (A) Series 2001 Bonds: The Required Reserve Amount upon the issuance of the Series 2001 Bonds was equal to *$10,831,733*. The amount on deposit in the Bond Reserve Fund upon the issuance of the Series 2001 Bonds was at least equal to such Required Reserve Amount; consequently, pursuant to Ordinance No. 94463, no additional deposits were made to the Bond Reserve Fund at such time.
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> (B) Series 2002 Bonds: The Required Reserve Amount upon the issuance of the Series 2002 Bonds increased to an amount equal to *$13,116,139*. Pursuant to Ordinance No. 95388, upon the issuance of the Series 2002 Bonds, the City deposited *$2,500,000.00* of proceeds of the Series 2002 Bonds into the Bond Reserve Fund in order to fund the Bond Reserve Fund to not less than the Required Reserve Amount.
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> (C) Series 2003 Forward Refunding Bonds: The Required Reserve Amount upon the issuance of the Series 2003 Forward Refunding Bonds decreased to an amount equal to *$10,903,176*. The amount on deposit in the Bond Reserve Fund upon the issuance of the Series 2003 Forward Refunding Bonds was at least equal to such Required Reserve Amount; consequently, pursuant to Ordinance No. 93790, no additional deposits were made to the Bond Reserve Fund at such time.
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> (D) Series 2003-A Bonds and Series 2003-B Bonds: The Required Reserve Amount upon the issuance of the Series 2003-A Bonds and the Series 2003-B Bonds increased to an amount equal to *$12,668,496*. The amount on deposit in the Bond Reserve Fund upon the issuance of the Series 2003-A Bonds and the Series 2003-B Bonds was at least equal to such Required Reserve Amount; consequently, pursuant to Ordinance Nos. 97347 and 97348, no additional deposits were made to the Bond Reserve Fund at such time.
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> (E) Series 2006 Bonds: The Required Reserve Amount upon the issuance of the Series 2006 Bonds decreased to an amount equal to *$12,126,409*, and the amount then on deposit therein was at least equal to such amount. Pursuant to Ordinance No. 2006-11-16-1298, upon the issuance of the Series 2006 Bonds, the City used proceeds of the Series 2006 Bonds to purchase and deposit into the Bond Reserve Fund a Credit Facility in the form of a debt service reserve fund surety policy provided by Financial Security Assurance Inc. with a maximum amount available to be drawn thereon equal to *$600,000* (which was issued to replace a surety policy previously provided by Financial Security Assurance Inc. in connection with certain Parity Obligations that were refunded by the Series 2006 Bonds).
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> (F) Series 2007 Bonds: The Required Reserve Amount upon the issuance of the Series 2007 Bonds increased to an amount equal to *$15,809,118.92*, and the amount then on deposit therein was equal to *$15,115,585.00*. Pursuant to Ordinance No. 2007-11-29-1188, upon the issuance of the Series 2007 Bonds, the City deposited *$657,533.92* of available funds of the City (not bond proceeds) into the Bond Reserve Fund in order to fund the Bond Reserve Fund to not less than the Required Reserve Amount.
>
> (G) Series 2010 Bonds. The Required Reserve Amount upon the issuance of the Series 2010 Bonds decreased to an amount equal to *$13,463.467.57* due in part to providing for the amortization of the Series 2010 Bonds over 30 years. Consequently, the Average Annual Debt Service Requirements did not increase, and no additional funds were required to be deposited into the Bond Reserve Fund, upon the issuance and delivery of the Series 2010 Bonds.

(ii) Upon the issuance of the Series 2012 Bonds, the Required Reserve Amount for all Parity Obligations then Outstanding (including the Series 2012 Bonds) is expected to decrease upon delivery of the Series 2012 Bonds to an amount less than the current Required Reserve Amount (i.e., *$13,139,459.47*) due to achieving an interest cost savings resulting from the refunding of the Refunded Bonds. Consequently, the

Average Annual Debt Service Requirements is not expected to increase, and no additional funds are expected to be required to be deposited into the Bond Reserve Fund, upon the issuance and delivery of the Series 2012 Bonds; however, in the event the Average Annual Debt Service Requirements actually will increase upon delivery of the Series 2012 Bonds to an amount in excess of *$13,139,459.47*, the City Manager and Chief Financial Officer are authorized to utilize a portion of the proceeds of the Series 2012 Bonds or other available funds of the City on the date of delivery of the Series 2012 Bonds to increase the amount on deposit in the Bond Reserve Fund to the new Required Reserve Amount (and such determination shall be incorporated into *Exhibit B* to be completed by a Designated Financial Officer).

(c) ***Security Interest***. Chapter 1208, Texas Government Code, applies to the issuance of the Series 2012 Bonds and the pledge of Gross Revenues by the City under the Master Ordinance and this Thirteenth Supplement, and is therefore valid, effective, and perfected. If Texas law is amended at any time while the Series 2012 Bonds are outstanding and unpaid such that the pledge of the Gross Revenues by the City under the Master Ordinance and this Thirteenth Supplement is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the registered owners of the Series 2012 Bonds the perfection of the security interest in said pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, and enable a filing to perfect the security interest in said pledge to occur.

**SECTION 8. PAYMENTS**; **BOND FUND.** (a) ***Moneys Made Available to Paying Agent.*** The City agrees to pay the principal of, premium, if any, and the interest on the Series 2012 Bonds when due. The City shall make available to the Paying Agent/Registrar, on or before such principal or interest payment date, money sufficient to pay such interest on and such principal of the Series 2012 Bonds as will accrue or mature. The Paying Agent/Registrar shall cancel all paid Series 2012 Bonds and shall furnish the City with an appropriate certificate of cancellation.

(b) ***Bond Fund.*** Pursuant to Section 7 of the Master Ordinance, moneys in the Revenue Fund shall be applied by the City on the dates and in the amounts, and in the order of priority with respect to the Funds and Accounts that such applications are described in the Master Ordinance, including making monthly deposits into the Bond Fund to provide sufficient funds to pay all principal of and interest on all Parity Obligations, including the Series 2012 Bonds.

**SECTION 9. REBATE FUND.** There is hereby created and there shall be established and maintained on the books of the City, and accounted for separate and apart from all other funds of the City, a separate fund designated as the Series 2012 Rebate Fund (the "***Rebate Fund***"). The Rebate Fund shall be for the sole benefit of the United States of America and shall not be subject to the lien created by this Thirteenth Supplement or to the claim of any other Person, including the Holders of the Series 2012 Bonds. Amounts deposited to the Rebate Fund, together with any investment earnings thereon, shall be held in trust and applied solely as provided in section 148 of the Code.

*** ** ***

**SECTION 11. AMENDMENT OF SUPPLEMENT**. (a) ***Amendments Without Consent***. This Thirteenth Supplement and the rights and obligations of the City and of the owners of the Series 2012 Bonds may be modified or amended at any time without notice to or the consent of any owner of the Series 2012 Bonds or any other Parity Obligations (but with prior notice to the Insurer), solely for any one or more of the following purposes:

(i) To add to the covenants and agreements of the City contained in this Thirteenth Supplement, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the City in this Thirteenth Supplement;

(ii) To cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in this Thirteenth Supplement, upon receipt by the City of an opinion of Bond Counsel, that the same is needed for such purpose, and will more clearly express the intent of this Thirteenth Supplement;

(iii) To supplement the security for the Series 2012 Bonds, replace or provide additional credit facilities, or change the form of the Series 2012 Bonds or make such other changes in the provisions hereof as the City may deem necessary or desirable and which shall not, in the judgment of the City, materially adversely affect the interests of the owners of the Outstanding Series 2012 Bonds;

(iv) To make any changes or amendments (A) requested by any Credit Rating Agency then rating or requested by the City to rate Parity Obligations, as a condition to the issuance or maintenance of a rating, or (B) as may be necessary or desirable in order to obtain the approval of the Series 2012 Bonds by the Office of the Attorney General of the State of Texas, which changes or amendments do not, in the judgment of the City, materially adversely affect the interests of the owners of the Outstanding Parity Obligations;

(v) To make such changes, modifications or amendments as are permitted by the last paragraph of Section17(d) of this Thirteenth Supplement;

(vi) To make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the Outstanding Parity Obligations, in order, to the extent permitted by law, to facilitate the economic and practical utilization of Credit Agreements with respect to the Parity Obligations; or

(vii) To make such other changes in the provisions hereof as the City may deem necessary or desirable and which shall not, in the judgment of the City, materially adversely affect the interests of the owners of Outstanding Parity Obligations.

Notice of any such amendment may be published by the City in the manner described in subsection (c) of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

(b) ***Amendments With Consent***. Subject to the other provisions of this Thirteenth Supplement, the Insurer and the owners of Outstanding Series 2012 Bonds aggregating a majority in Outstanding Principal Amount shall have the right from time to time to approve any amendment, other than amendments described in subsection (a) of this Section, to this Thirteenth Supplement which may be deemed necessary or desirable by the City; provided, however, that nothing herein contained shall permit or be construed to permit, without the approval of the owners of all of the Outstanding Series 2012 Bonds, the amendment of the terms and conditions in this Thirteenth Supplement or in the Series 2012 Bonds so as to:

(i) Make any change in the maturity of the Outstanding Series 2012 Bonds;

(ii) Reduce the rate of interest borne by Outstanding Series 2012 Bonds;

(iii) Reduce the amount of the principal payable on Outstanding Series 2012 Bonds;

(iv) Modify the terms of payment of principal of or interest on the Outstanding Series 2012 Bonds, or impose any conditions with respect to such payment;

(v) Affect the rights of the owners of less than all Series 2012 Bonds then Outstanding; or

(vi) Change the minimum percentage of the Outstanding Principal Amount of Series 2012 Bonds necessary for consent to such amendment.

(c) ***Notice***. If at any time the City shall desire to amend this Thirteenth Supplement other than pursuant to subsection (a) of this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal of general circulation in The City of New York, New York, and a newspaper of general circulation in the City, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of the Registrar for inspection by all owners of Series 2012 Bonds. Such publication is not required, however, if the City gives or causes to be given such notice in writing to each owner of Series 2012 Bonds.

(d) ***Receipt of Consents***. Whenever at any time not less than thirty days, and within one year, from the date of the first publication of said notice or other service of written notice of the proposed amendment the City shall receive an instrument or instruments executed by the Insurer and all of the owners or the owners of at least a majority in Outstanding Principal Amount of Series 2012 Bonds, as appropriate, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file as aforesaid, the City may adopt the amendatory ordinance in substantially the same form.

(e) ***Effect of Amendments***. Upon the adoption by the City of any ordinance to amend this Thirteenth Supplement pursuant to the provisions of this Section, this Thirteenth Supplement shall be deemed to be amended in accordance with the amendatory ordinance, and the respective rights, duties, and obligations of the City and all the owners of then Outstanding Series 2012 Bonds and all future owners of the Series 2012 Bonds shall thereafter be determined, exercised, and enforced under the Master Ordinance and this Thirteenth Supplement, as amended.

(f) ***Consent Irrevocable***. Any consent given by any owner of Series 2012 Bonds pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication or other service of the notice provided for in this Section, and shall be conclusive and binding upon all future owners of the same Series 2012 Bonds during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the owner who gave such consent, or by a successor in title, by filing notice thereof with the Registrar and the City, but such revocation shall not be effective if the owners of a majority in Outstanding Principal Amount of Series 2012 Bonds, prior to the attempted revocation, consented to and approved the amendment.

(g) ***Ownership***. For the purpose of this Section, the ownership and other matters relating to all Series 2012 Bonds registered as to ownership shall be determined from the Registration Books. The Registrar may conclusively assume that such ownership continues until written notice to the contrary is served upon the Registrar.

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**SECTION 13. THIRTEENTH SUPPLEMENT TO CONSTITUTE A CONTRACT; EQUAL SECURITY**. In consideration of the acceptance of the Series 2012 Bonds, the issuance of which is authorized hereunder, by those who shall hold the same from time to time, this Thirteenth Supplement shall be deemed to be and shall constitute a contract between the City and the Holders from time to time of the Series 2012 Bonds and the pledge made in this Thirteenth Supplement by the City and the covenants and agreements set forth in this Thirteenth Supplement to be performed by the City shall be for the equal and proportionate benefit, security, and protection of all Holders, without preference, priority, or distinction as to security or otherwise of any of the Series 2012 Bonds authorized hereunder over any of the others by reason of time of issuance, sale, or maturity thereof or otherwise for any cause whatsoever, except as expressly provided in or permitted by this Thirteenth Supplement.

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# APPENDIX C

## EXCERPTS FROM PFC BOND ORDINANCE

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## APPENDIX C

## EXCERPTS FROM THE MASTER PFC BOND ORDINANCE AND FIFTH SUPPLEMENT

**THE FOLLOWING CAPITALIZED TERMS ARE DEFINED IN THE MASTER PFC BOND ORDINANCE AND ARE APPLICABLE TO THE FIFTH SUPPLEMENT:**

"**Account**" means any account created, established and maintained under the terms of any Supplement.

"**Accountant**" means a nationally recognized independent certified public accountant, or an independent firm of certified public accountants.

"**Additional Parity PFC Obligations**" shall mean the additional parity revenue obligations secured in whole or in part with a lien on and pledge of PFC Revenues which the City reserves the right to issue in the future as provided in Section 15 of the Master Ordinance.

"**Airport System**" means and includes the City of San Antonio International Airport and Stinson Municipal Airport, as each now exists, and all land, buildings, structures, equipment, and facilities pertaining thereto, together with all future improvements, extensions, enlargements, and additions thereto, and replacements thereof, and all other airport facilities of the City acquired or constructed with funds from any source, including the issuance of Parity PFC Obligations; provided, however, for the purpose of providing further clarification, the term "Airport System" does not include Industrial Properties and Special Facilities Properties.

**"Airport Consultant"** means an airport consultant or airport consultant firm or corporation selected by the City having a wide and favorable reputation for skill and experience with respect to the operation and maintenance of airports, in recommending rental and other charges for use of airport facilities and in projecting revenues to be derived from the operation of airports, and not a full time employee of the City.

**"Annual Budget"** means the annual budget of the Airport System (which may be included in the City's general annual budget), as amended and supplemented, adopted or in effect for a particular Fiscal Year.

"**Annual Debt Service Requirements**" means, for any Fiscal Year, the principal of and interest on all Parity PFC Obligations coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the City on such Debt, or be payable in respect of any required purchase of such Debt by the City) in such Fiscal Year, less and except any such principal or interest for the payment of which provision has been made by (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest or principal either from proceeds of bonds, notes or other obligations, from interest earned or to be earned thereon, from Airport System funds other than PFC Revenues, or from any combination of such sources and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a dedicated Fund or Account, the proceeds of which are required to be transferred as needed into the PFC Bond Fund or directly to the Paying Agent for such Parity PFC Obligations; and, for such purposes, any one or more of the following rules shall apply at the election of the City:

(1) <u>Committed Take Out</u>. If the City has entered into a Credit Agreement constituting a binding commitment within normal commercial practice, from any bank, savings and loan association, insurance company, or similar institution to discharge any of its Funded Debt at its Stated Maturity (or, if due on demand, at any date on which demand may be made) or to purchase any of its Funded Debt at any date on which such Debt is subject to required purchase, all under arrangements whereby the City's obligation to repay the amounts advanced for such discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased shall be excluded from such calculation and the principal of and interest on the Funded Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added;

(2) <u>Balloon Debt</u>. If the principal (including the accretion of interest resulting from original issue discount or compounding of interest) of any series or issue of Funded Debt due (or payable in respect of any required purchase of such Funded Debt by the City) in any Fiscal Year either is equal to at least 25% of the total principal (including the accretion of interest resulting from original issue discount or compounding of interest) of such Funded Debt or exceeds by more than 50% the greatest amount of principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year (such principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein and throughout this Exhibit A as "Balloon Debt"), the amount of principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the original principal amount of such Balloon Debt amortized over the Term of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation;

(3) Consent Sinking Fund. In the case of Balloon Debt, if a Designated Financial Officer shall deliver to the City a certificate providing for the retirement of (and the instrument creating such Balloon Debt shall permit the retirement of), or for the accumulation of a sinking fund for (and the instrument creating such Balloon Debt shall permit the accumulation of a sinking fund for), such Balloon Debt according to a fixed schedule stated in such certificate ending on or before the Fiscal Year in which such principal (and premium, if any) is due, then the principal of (and, in the case of retirement, or to the extent provided for by the sinking fund accumulation, the premium, if any, and interest and other debt service charges on) such Balloon Debt shall be computed as if the same were due in accordance with such schedule, provided that this clause (3) shall apply only to Balloon Debt for which the installments previously scheduled have been paid or deposited to the sinking fund established with respect to such Debt on or before the times required by such schedule; and provided further that this clause (3) shall not apply where the City has elected to apply the rule set forth in clause (2) above;

(4) Prepaid Debt. Principal of and interest on Parity PFC Obligations, or portions thereof, shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year for which such principal or interest are payable from funds on deposit or set aside in trust for the payment thereof at the time of such calculations (including without limitation capitalized interest and accrued interest so deposited or set aside in trust) with a financial institution acting as fiduciary with respect to the payment of such Debt;

(5) Variable Rate.

(A) Except as hereinafter provided in this subparagraph, the rate of interest on Variable Rate Obligations then proposed to be issued shall be deemed to be the average for the then immediately preceding five years of the BMA Index, plus 20 basis points; provided, however, that (i) if, after the issuance of the Variable Rate Obligations then proposed to be issued, more than 20% of the aggregate of the Parity PFC Obligations Outstanding will bear interest at a variable rate and (ii) any Parity PFC Obligation is then insured by a Bond Insurer, the rate of interest on Variable Rate Obligations then proposed to be issued shall be deemed to be the greater of (x) the most recently announced 30-year Revenue Bond Index published by The Bond Buyer, a financial journal published, as of the date the Master Ordinance was adopted, in The City of New York, New York, (y) the rate of interest then borne by any Variable Rate Obligations then Outstanding, and (z) 1.25 times the average variable rate borne by any Variable Rate Obligations then Outstanding during the then immediately preceding twelve-month period, or if no Variable Rate Obligations are then Outstanding, 1.25 times the average variable rate for similarly rated obligations with comparable maturities during the then immediately preceding twelve-month period, and

(B) Except as hereinafter provided in this subparagraph, the rate of interest on Variable Rate Obligations outstanding at the time of such calculation shall be deemed to be the lesser of (i) the then current per annum rate of interest borne by such Variable Rate Obligations or (ii) the average per annum rate of interest borne by such Variable Rate Obligations during the then immediately preceding twelve-month period; provided, however, that for any period during which (a) more then 20% of the aggregate of the Parity PFC Obligations then Outstanding bear interest at a variable rate and (b) any Parity PFC Obligation is then insured by a Bond Insurer, the rate of interest on such Variable Rate Obligations shall be the greater of (x) the most recently announced 30 year Revenue Bond Index published by The Bond Buyer, a financial journal published, as of the date the Master Ordinance was adopted, in The City of New York, New York, (y) the rate of interest then in effect with respect to such Variable Rate Obligations in accordance with their terms, and (z) 1.25 times the average variable rate borne by such Variable Rate Obligations during the then immediately preceding twelve-month period;

(6) Credit Agreement Payments. If the City has entered into a Credit Agreement in connection with an issue of Debt, payments due under the Credit Agreement (other than payments made by the City in connection with the termination or unwinding of a Credit Agreement), from either the City or the Credit Provider, shall be included in such calculation except to the extent that the payments are already taken into account under (1) through (5) above and any payments otherwise included above under (1) through (5) which are to be replaced by payments under a Credit Agreement, from either the City or the Credit Provider, shall be excluded from such calculation. With respect to any calculation of historic data, only those payments actually made in the subject period shall be taken into account in making such calculation and, with respect to prospective calculations, only those payments reasonably expected to be made in the subject period shall be taken into account in making the calculation.

**"Average Annual Debt Service Requirements"** means, as of the time of computation, the aggregate of the Annual Debt Service Requirement for each Fiscal Year that Parity PFC Obligations are Outstanding from the date of such computation, divided by the number of Fiscal Years remaining to the final Stated Maturity of such Parity PFC Obligations.

**"Aviation Director"** means the director of the City's Department of Aviation, or the successor or person acting in such capacity.

**"BMA Index"** means the "high grade" seven-day index made available by The Bond Markets Association of New York, New York, or any successor thereto, based upon 30-day yield evaluation at par of bonds, the interest income on which is excludable from gross income of the recipients thereof for federal income tax purposes. In the event that neither The Bond Markets Association nor any successor thereto makes available an index conforming to the requirements of the preceding sentence, the term "BMA Index" shall mean an index determined by the City based upon the rate for bonds rated in the highest short-term rating category by Moody's and Standard & Poor's, the interest income on which is excludable from gross income of the recipients thereof for federal income tax purposes, in respect of issuers most closely resembling the "high grade" component issuers selected by "BMA Index".

"**Bond Counsel**" means an independent attorney or firm of attorneys selected by the City whose opinions respecting the legality or validity of securities issued by or on behalf of states or political subdivisions thereof are nationally recognized.

**"Bond Insurer"** means any insurance company insuring payment of municipal bonds and other similar obligations if such bond or obligations so insured by it are eligible for a rating by a Credit Rating Agency, at the time of the delivery of a Municipal Bond Insurance Policy, in one of its two highest rating categories.

**"Business Day"** means any day other than a Saturday, a Sunday or a day on which the City or the city in which the payment office of the Paying Agent is located is authorized by law to remain closed and is closed.

"**Chapter 1371**" means Chapter 1371, Texas Government Code.

"**Chapter 2256**" means Chapter 2256, Texas Government Code.

"**City**" or "**Issuer**" mean the City of San Antonio, Texas.

"**Code**" means the Internal Revenue Code of 1986, as amended, any successor federal income tax laws or any regulations promulgated or rulings published pursuant thereto.

**"Completion Obligations"** means any bonds, notes or other obligations issued or incurred by the City for the purpose of completing any PFC Eligible Airport-Related Project for which Parity PFC Obligations have previously been issued or incurred by the City, as described in Section 15(c) of the Master Ordinance.

"**Credit Agreement**" means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Parity PFC Obligations, 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 Parity PFC Obligations and on a parity therewith.

"**Credit Facility**" means (i) a policy of insurance or a surety bond, issued by a Bond Insurer or an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a Credit Rating Agency having an outstanding rating on Parity PFC Obligations would rate the Parity PFC Obligations fully insured by a standard policy issued by the issuer in its highest generic rating category for such obligations; and (ii) a letter of credit or line of credit issued by any financial institution, provided that a Credit Rating Agency having an outstanding rating on the Parity PFC Obligations would rate the Parity PFC Obligations in its two highest generic rating categories for such obligations if the letter of credit or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Parity PFC Obligations and the interest thereon.

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

**"Credit Rating Agency"** means (a) Fitch, (b) Moody's, (c) Standard & Poor's, (d) any successor to any of the foregoing by merger, consolidation or otherwise, and (e) any other nationally recognized municipal securities rating service from whom the City seeks and obtains a rating on any issue or series of Parity PFC Obligations.

"**Debt**" means:

(1) all indebtedness, payable in whole or in part from PFC Revenues, incurred or assumed by the City for borrowed money (including indebtedness arising under Credit Agreements) and all other financing obligations of the City, payable in whole or in part from PFC Revenues, which is issued or incurred for the Airport System that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

(2) all other indebtedness (other than indebtedness otherwise treated as Debt hereunder), payable in whole or in part from PFC Revenues, for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations at or for the Airport 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 the "Debt" payable from the PFC Revenues, 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. Except as may be otherwise provided above, 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 City in prior Fiscal Years.

"**Designated Financial Officer**" means the City Manager, the Director of Finance, or such other financial or accounting official of the City so designated by the governing body of the City.

"**Eligible Investments**" means (i) those investments in which the City is now or hereafter authorized by law, including, but not limited to, Chapter 2256, to purchase, sell and invest its funds and funds under its control and (ii) any other investments not specifically authorized by Chapter 2256 but which may be designated by the terms of a Supplement as Eligible Investments under authority granted by Chapter 1371.

"**FAA**" means the Federal Aviation Administration, or any appropriate federal agency succeeding, or performing the functions of, the Federal Aviation Administration.

"**Fiscal Year**" means the successive twelve-month period designated by the City as its fiscal year of the City, which currently ends on September 30 of each calendar year.

"**Fitch**" means Fitch Ratings, or any successor thereto.

"**Fund**" means any fund created, established and maintained under the terms of the Master Ordinance and any Supplement.

"**Funded Debt**" of the Airport System means all Parity PFC Obligations and Subordinated PFC Debt created or assumed by the City and payable from PFC Revenues that mature by their terms (in the absence of the exercise of any earlier right of demand), or that are renewable at the option of the City to a date, more than one year after the original creation or assumption of such Debt by the City.

"**Holder**" or "**Bondholder**" or "**owner**" means the registered owner of any Parity PFC Obligation registered as to ownership and the holder of any Parity PFC Obligation payable to bearer, or as otherwise provided for in a Supplement.

**"Industrial Properties"** means (a) the real and personal properties situated at and around the Airport System which are owned by the City and (i) leased to industrial or commercial tenants engaged in activities which are unrelated to the City's public airport operations, or (ii) held by the City for future industrial and commercial development, and (b) any other real or personal property now owned or hereafter acquired by the City which is unrelated to the City's public airport operations.

"**Master GARB Ordinance**" means Ordinance No. 93789 titled the *Master Ordinance Establishing the Airport System Revenue Bond Financing Program With Respect to the Issuance of Obligations by the City of San Antonio, Texas Secured by Gross Revenues of the Airport System*", adopted by the City on April 19, 2001.

"**Master Ordinance**" means Ordinance No. 95389 titled the *Master Ordinance Establishing the Airport System Revenue Bond Financing Program With Respect to the Issuance of Obligations by the City of San Antonio, Texas Payable in Whole or in Part From "Passenger Facility Charges"*, adopted on March 7, 2002, which established the PFC Revenue Bond Financing Program.

"**Maturity**" when used with respect to any Debt means the date on which the principal of such Debt or any installment thereof becomes due and payable as therein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption, or otherwise.

**"Moody's"** means Moody's Investors Service, Inc., or any successor thereto.

"**Outstanding**" when used with respect to Parity PFC Obligations means, as of the date of determination, all Parity PFC Obligations theretofore delivered under the Master Ordinance and any Supplement, except:

(1) Parity PFC Obligations theretofore cancelled and delivered to the City or delivered to the Paying Agent or the Registrar for cancellation;

(2) Parity PFC Obligations deemed paid pursuant to the defeasance provisions as set forth in any Supplement;

(3) Parity PFC Obligations upon transfer of or in exchange for and in lieu of which other Parity PFC Obligations have been authenticated and delivered pursuant to the Master Ordinance and any Supplement; and

(4) Parity PFC Obligations under which the obligations of the City have been released, discharged, or extinguished in accordance with the terms thereof;

provided, that, unless the same is acquired for purposes of cancellation, Parity PFC Obligations owned by the City shall be deemed to be Outstanding as though it was owned by any other owner.

"**Outstanding Principal Amount**" means, with respect to all Parity PFC Obligations or to a series of Parity PFC Obligations, the outstanding and unpaid principal amount of such Parity PFC Obligations paying interest on a current basis and the outstanding and unpaid principal and compounded interest on such Parity PFC Obligations paying accrued, accreted, or compounded interest only at maturity as of any "Record Date" established by a Registrar in a Supplement or in connection with a proposed amendment of the Master Ordinance. For purposes of this definition, payment obligations of the City under the terms of a Credit Agreement that is treated as a Parity PFC Obligation shall be treated as outstanding and unpaid principal.

"**Parity PFC Obligations**" means any and all Debt of the City which may be issued, incurred or assumed in accordance with the terms of the Master Ordinance and a Supplement which is secured by a first lien on and pledge of the PFC Revenues, including Additional Parity PFC Obligations issued pursuant to a Supplement and in accordance with Section 15 of the Master Ordinance,.

"**Paying Agent**" means each entity designated in a Supplement as the place of payment of a series or issue of Parity PFC Obligations.

"**Person**" means any natural person, firm, partnership, association, corporation, or public body.

**"PFC Act"** means 49 USC §40117, as may be amended from time to time (including all related federal regulations), or other applicable federal law which authorizes the City to impose and charge a passenger facility charge and collect PFC Revenues.

"**PFC Bond Fund**" means the "City of San Antonio Airport System Parity PFC Obligations Bond Fund", created and established pursuant to Section 5(b), and further described in Section 7, of the Master Ordinance.

"**PFC Bond Reserve Fund**" means the "City of San Antonio Airport System Parity PFC Obligations Reserve Fund", created and established pursuant to Section 5(c), and further described in Section 8, of the Master Ordinance.

**"PFC Capital Improvement Fund"** means the "City of San Antonio Airport System PFC Capital Improvement Fund", created and established pursuant to Section 5(d), and further described in Section 10, of the Master Ordinance.

"**PFC Eligible Airport-Related Project**" has the same meaning as set forth in the PFC Act, which as of the date of passage of the Master Ordinance is defined to mean a project:

(A) for airport development or airport planning under Subchapter I of Chapter 471 of Title 49 of the United States Code;

(B) for terminal development described in 49 USC §47110(d);

(C) for airport noise capability planning under 49 USC §47505;

(D) to carry out noise compatibility measures eligible for assistance under 49 USC §47504, whether or not a program for those measures has been approved under 49 USC §47504; and

(E) for constructing gates and related areas at which passengers board or exit aircraft.

"**PFC Revenue Fund**" means the "City of San Antonio Airport System PFC Revenue Fund", created and established pursuant Section 5(a), and further described in Section 6, of the Master Ordinance.

"**PFC Revenues**" means all revenues received by the City from the imposition of passenger facility fees or charges on each paying passenger of an air carrier or foreign air carrier boarding an aircraft at the San Antonio International Airport in accordance with the provisions of the PFC Act.

"**Registrar**" means each entity designated in a Supplement as the registrar of a series or issue of Parity PFC Obligations.

"**Required Reserve Amount**" means an amount of money and investments equal in market value to the Average Annual Debt Service Requirements of all Parity PFC Obligations at any time Outstanding.

"**Reserve Fund Obligations**" means cash, Eligible Investments, any Credit Facility, or any combination of the foregoing.

**"Special Facilities"** and **"Special Facilities Properties"** mean structures, hangars, aircraft overhaul, maintenance or repair shops, heliports, hotels, storage facilities, garages, inflight kitchens, training facilities and any and all other facilities and appurtenances being a part of or related to the Airport System the cost of the construction or other acquisitions of which is financed with the proceeds of Special Facilities Debt. Upon the retirement of Special Facilities Debt, the City may declare such facilities financed with such Special Facilities Debt to be within the meaning of "Airport System," as hereinabove defined.

**"Special Facilities Debt"** means those bonds, notes or other obligations from time to time hereafter issued or incurred by or on behalf of the City pursuant to Section 15(d) of the Master Ordinance.

**"Special Facilities Lease"** means any lease or agreement, howsoever denominated, pursuant to which a Special Facility is leased by or on behalf of the City to the lessee in consideration for which the lessee agrees to pay (i) all debt service on the Special Facilities Debt issued to finance the Special Facility (which payments are pledged to secure the Special Facilities Debt) and (ii) the operation and maintenance expenses of the Special Facility.

**"Standard & Poor's** means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, or any successor thereto.

"**Stated Maturity**" means, when used with respect to any Debt or any installment of interest thereon, any date specified in the instrument evidencing or authorizing such Debt or such installment of interest as a fixed date on which the principal of such Debt or any installment thereof or the fixed date on which such installment of interest is due and payable.

"**Subordinate Net Revenues**" means "Net Revenues" (as defined in the Master GARB Ordinance) of the Airport System which remain after all amounts then required by the Master GARB Ordinance and any Supplement related thereto to be transferred to the Bond Fund and the Bond Reserve Fund established by the Master GARB Ordinance to secure "Parity Obligations" (as defined in the Master GARB Ordinance) have been made.

"**Subordinated PFC Debt**" means any Debt which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity PFC Obligations then Outstanding or subsequently issued.

"**Subordinated PFC Debt Fund**" means the "City of San Antonio Airport System PFC Revenue Subordinated Debt Fund" established pursuant to Section 9 of the Master Ordinance.

"**Supplement**" or "**Supplemental Ordinance**" mean an ordinance supplemental to, and authorized and executed pursuant to the terms of, the Master Ordinance.

**"Tax-Exempt Debt"** means Debt interest on which is excludable from the gross income of the Holder for federal income tax purposes under section 103 of the Code.

"**Term of Issue**" means with respect to any Balloon Debt, a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or (ii) twenty-five years.

**"Variable Rate Obligations"** means Parity PFC Obligations that bear interest at a rate per annum which is subject to adjustment so that the actual rate of interest is not ascertainable at the time such Parity PFC Obligations are issued; provided, however, that upon the conversion of the rate of interest on a Variable Rate Obligation to a fixed rate of interest (whether or not the interest rate thereon is subject to conversion back to a variable rate of interest), such Parity PFC Obligation shall not be treated as a "Variable Rate Obligation" for so long as such Parity PFC Obligation bears interest at a fixed rate.

## THE FOLLOWING SECTIONS 2 THROUGH 18 APPEAR IN THE MASTER PFC BOND ORDINANCE

**SECTION 2. SECURITY AND PLEDGE.** (a) ***First Lien on PFC Revenues***. The Parity PFC Obligations are and shall be secured by and payable from a first lien on and pledge of the PFC Revenues in accordance with the terms of this Master Ordinance and any Supplement; and the PFC Revenues are further pledged to the establishment and maintenance of the PFC Bond Fund, the PFC Bond Reserve Fund and the other Funds and Accounts (excluding any Rebate Fund) provided in accordance with the terms of this Master Ordinance and any Supplement. The Parity PFC Obligations are and will be secured by and payable from a first lien on PFC Revenues and, unless otherwise provided in a Supplement, are and will not be secured by or payable from a mortgage or deed of trust on any properties, whether real, personal, or mixed, constituting any portion of the Airport System. The owners of the Parity PFC Obligations shall never have the right to demand payment out of funds raised or to be raised by taxation, or from any source other than specified in this Master Ordinance or any Supplement.

(b) ***Ability to Pledge Other Revenues***. In addition to securing all Parity PFC Obligations with a first lien on and pledge of the PFC Revenues, the City reserves the right to further secure the payment of any Parity PFC Obligations with a lien on and pledge of any other lawfully available revenues of the Airport System, including but not limited to Subordinate Net Revenues, all pursuant to the Supplement which authorizes the issuance of such Parity PFC Obligations.

**SECTION 3. COVENANTS TO BUDGET DEBT SERVICE COVERAGE AND MAINTAIN SUBORDINATE NET REVENUE COVERAGE, AND ADDITIONAL COVENANTS RELATED TO PASSENGER FACILITY CHARGES.** (a) ***Budget Covenant***. Section 4(k) of this Master Ordinance requires the City to prepare an Annual Budget for the Airport System prior to the beginning of each Fiscal Year. The City covenants and agrees with the holders of all Parity PFC Obligations that each Annual Budget will be prepared in a manner which will indicate that the reasonably expected receipt of PFC Revenues during such Fiscal Year (together with any funds reasonably expected to be on deposit during such Fiscal Year in the PFC Revenue Fund or the PFC Capital Improvement Fund from prior Fiscal Years and available for purposes of acquiring and constructing PFC Eligible Airport-Related Projects), after payment of all costs to acquire and construct PFC Eligible Airport-Related Projects with PFC Revenues during such Fiscal Year, will provide an amount equal to 1.25 times the Annual Debt Service Requirements during such Fiscal Year on all then Outstanding Parity PFC Obligations.

(b) ***Covenant to Maintain Subordinate Net Revenue Coverage***. In the event any Parity PFC Obligations which are also secured with a lien on and pledge of Subordinate Net Revenues remain Outstanding and the City is for any reason unable to collect, or does not actually collect, PFC Revenues in an amount sufficient to satisfy the budget covenant described in Section 3(a) above, the City covenants that it will at all times fix, maintain, enforce, charge, and collect rates, fees, charges, and amounts for the use, occupancy, services, facilities, and operation of the Airport System which will produce in each Fiscal Year Subordinate Net Revenues at least equal to 1.10 times the Annual Debt Service Requirements during each Fiscal Year on all then Outstanding Parity PFC Obligations.

(c) ***Additional Covenants Related to Passenger Facility Charges***. While any Parity PFC Obligation is Outstanding, the City further covenants and agrees that in accordance with and to the extent required or permitted by law:

(i) <u>*Covenant to Comply with PFC Act*</u>. The City will perform and comply with all requirements and provisions of the PFC Act applicable to the City.

(ii) <u>*Covenant to Comply with Records of Decision*</u>. The City will perform and comply with all requirements and provisions in each record of decision or other similar authorization it receives from the FAA which authorizes the City to impose, charge and collect a passenger facility charge at the rate and in the aggregate amounts specified therein.

(iii) <u>*Covenant to Impose Passenger Facility Charges at Maximum Approved Amount*</u>. The City will impose, charge and collect passenger facility charges to the fullest extent approved and authorized by each applicable record of decision or other similar authorization it has received from the FAA. Furthermore, the City will not unilaterally decrease the rate or aggregate amount of passenger facility charges it has been authorized by the FAA to impose, charge and collect from time to time.

(iv) <u>*Covenant to Prevent Termination, Suspension or Reduction of Authority*</u>. The City will not take any action which would cause the FAA to terminate, suspend or reduce any authorization previously granted to the City to impose, charge and collect a passenger facility charge at the rate or in the aggregate amount authorized from time to time. The City further covenants to take all actions reasonably necessary to contest any attempt made by the FAA to terminate, suspend or reduce the City's authority to impose, charge and collect passenger facility charges at the rate and in the aggregate amount previously authorized and to notify each Credit Rating Agency in writing of any such attempt.

(v) <u>*Covenant to Construct PFC Eligible Airport-Related Projects*</u>. The City will use PFC Revenues to finance the construction and acquisition of each PFC Eligible Airport-Related Project which has been approved by the FAA and will take all actions reasonably necessary to complete each such Project within the time period set forth in the appropriate record of decision or other similar authorization.

**SECTION 4. GENERAL COVENANTS.** While any Parity PFC Obligation is Outstanding, the City further covenants and agrees that in accordance with and to the extent required or permitted by law:

(a) ***Performance***. The City will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Master Ordinance and any Supplement; it will promptly pay or cause to be paid the principal amount of and interest on every Parity PFC Obligation, on the dates and in the places and manner prescribed in a Supplement and such Parity PFC Obligations; and it will, at the time and in the manner prescribed, deposit or cause to be deposited the amounts required to be deposited into the Funds and Accounts as provided in accordance with this Master Ordinance and any Supplement.

(b) ***City's Legal Authority***. The City is a duly created and existing home rule municipality and is duly authorized under the laws of the State of Texas to issue and incur Parity PFC Obligations; that all action on its part to issue or incur Parity PFC Obligations shall have been duly and effectively taken, and that the Parity PFC Obligations in the hands of the owners thereof are and will be valid and enforceable special obligations of the City in accordance with their terms.

(c) ***Title.*** It has or will obtain lawful title, whether such title is in fee or lesser interest, to the lands, buildings, structures and facilities constituting the Airport System, including but not limited to PFC Eligible Airport-Related Projects, that it warrants that it will defend the title to all the aforesaid lands, buildings, structures and facilities, and every part thereof, against the claims and demands of all Persons whomsoever, that it is lawfully qualified to pledge the PFC Revenues to the payment of the Parity PFC Obligations in the manner prescribed herein, and has lawfully exercised such rights.

(d) ***Liens.*** It will from time to time and before the same become delinquent pay and discharge all taxes, assessments and governmental charges, if any, which shall be lawfully imposed upon it or the Airport System; it will pay all lawful claims for rents, royalties, labor, materials and supplies which if unpaid might by law become a lien or charge thereon, the lien of which would be prior to or interfere with the liens granted in accordance with the terms of this Master Ordinance, so that the priority of the liens granted in accordance with the terms of this Master Ordinance shall be fully preserved in the manner provided herein, and it will not create or suffer to be created any mechanic's, laborer's, materialman's or other lien or charge which might or could be prior to the liens granted in accordance with the terms of this Master Ordinance, or do or suffer any matter or thing whereby the liens granted in accordance with the terms of this Master Ordinance might or could be impaired; provided, however, that no such tax, assessment or charge, and that no such claims which might be used as the basis of a mechanic's, laborer's, materialman's or other lien or charge, shall be required to be paid so long as the validity of the same shall be contested in good faith by the City.

(e) ***Operation of Airport System***. The City will continuously and efficiently operate the Airport System and shall maintain the Airport System in good condition, repair, and working order, all at reasonable cost. The City will not supply space, services, or privileges at the Airport System without making commensurate charges therefor, except to the extent actually required by law in connection with Federal and State authorities.

(f) ***Further Encumbrance***. The City will not additionally encumber the PFC Revenues in any manner, except as permitted in this Master Ordinance and any Supplement in connection with Parity PFC Obligations, unless said encumbrance is made junior and subordinate in all respects to the liens, pledges, covenants and agreements of this Master Ordinance and any Supplement; but the right of the City to issue or incur Subordinated PFC Debt payable in whole or in part from a subordinate lien on the PFC Revenues is specifically recognized and retained.

*(g)* ***Sale, Lease, or Encumbrance of Airport System***. Except for the use of the Airport System or services pertaining thereto in the normal course of business, neither all nor a substantial part of the Airport System shall be sold, leased, mortgaged, pledged, encumbered, alienated, or otherwise disposed of until all Parity PFC Obligations have been paid in full, or unless provision has been made therefor, and the City shall not dispose of its title to the Airport System or to any useful part thereof, including, without limitation, any property necessary to the operation and use of the Airport System, other than (i) in connection with the execution of leases, licenses, easements, or other agreements in connection with the operation of the Airport System by the City, or in connection with any Special Facilities thereat, (ii) in connection with any pledges of and liens on revenues derived from the operation and use of the Airport System or any part thereof, or any Special Facilities pertaining thereto, for the payment of Parity PFC Obligations, Subordinated PFC Debt, Special Facilities Debt, and any other obligations pertaining to the Airport System (including obligations issued pursuant to the Master GARB Ordinance) and (iii) except as otherwise provided in the next three paragraphs.

(A) The City may sell, exchange, lease, or otherwise dispose of, or exclude from the Airport System any property constituting a part of the Airport System which the Aviation Director certifies (i) to be no longer useful in the construction or operation of the Airport System, or (ii) to be no longer necessary for the efficient operation of the Airport System, or (iii) to have been replaced by other property of at least equal value. The net proceeds of the sale or disposition of any Airport System property (or the fair market value of any property so excluded) pursuant to this paragraph shall be used for the purposes described in the Master GARB Ordinance.

(B) The preceding provisions to the contrary notwithstanding, the City will not enter into any lease of, or sell or otherwise dispose of, any part of the Airport System or enter into a management or other similar operating agreement for the operation of any part of the Airport System if, as a result of such lease, sale or other disposition, the interest income on any of the Parity PFC Obligations that were originally issued as Tax-Exempt Debt would become includable in gross income of the recipients thereof for federal income tax purposes. Without limiting the generality of the foregoing, the City (i) will not take any action that would cause any part of the Airport System financed with the proceeds of Tax-Exempt Debt to cease to be "owned by" the City (as the term "owned by" is used in section 142(b)(1)(A) of the Code), (ii) will require, as a condition to the leasing of any part of the Airport System, or the entering into of any management or other similar operating agreement for the operation of any part of the Airport System, that the lessee or the other party to such management or other similar operating agreement, as the case may be, make an irrevocable election, in accordance with the provisions of section 142(b)(1)(B) of the Code and the regulations issued thereunder, not to claim depreciation or an investment credit with respect to the property leased to it by the City, or in the case of a management or other similar operating agreement, the property managed or operated by it, (iii) will not enter into any lease, management or other similar operating agreement with respect to any portion of the Airport System if such lease, management or other operating agreement has a term of eighty percent (80%) or more of the reasonably expected economic life of the property (as determined under section 147(b) of the Code) subject to such lease, management or other similar operating agreement within the meaning of section 142(b)(1)(B) of the Code, and (iv) will not enter into any lease, management or other similar operating agreement if the lessee or other party to a management or other similar operating agreement has an option to purchase any portion of the Airport System for a price other than the fair market value of such property at the time such option is exercised. The foregoing notwithstanding, the City shall not be obliged to comply with the aforesaid requirements of the Code during the term of Tax-Exempt Debt if the failure to comply with such requirements would not adversely affect the tax-exempt status of such Debt.

(C) Nothing herein prevents any transfer of all or a substantial part of the Airport System to another body corporate and politic (including, but not necessarily limited to, a joint action agency or an airport authority) which assumes the City's obligations under this Master Ordinance and in any Supplement, in whole or in part, if (i) in the written opinion of an Airport Consultant, the ability to meet the budget covenant under this Master Ordinance and in any Supplement are not materially and adversely affected and (ii) in the written opinion of Bond Counsel, such transfer and assumption will not cause the interest on any Outstanding Parity PFC Obligations that are Tax-Exempt Debt to be includable in gross income of the owners thereof for federal income tax purposes. In such event, following such transfer and assumption, all references to the City, any City officials, City ordinances, City budgetary procedures and any other officials, actions, powers or characteristics of the City shall be deemed references to the transferee entity and comparable officials, actions, powers or characteristics of such entity. In the event of any such transfer and assumption, nothing therein shall prevent the retention by the City of any facility of the Airport System if, in the written opinion of an Airport Consultant, such retention will not materially and adversely affect nor unreasonably restrict the transferee entity's ability to comply with the requirements of the budget covenant and the other covenants of this Master Ordinance and any Supplement.

(h) ***Special Facilities.*** The City may finance Special Facilities from the proceeds of Special Facilities Debt issued by or on behalf of the City without regard to any requirements of this Master Ordinance with respect to the issuance of Parity PFC Obligations, subject, however, to the following conditions:

(i) Such Special Facilities Debt shall be payable solely from rentals derived by or on behalf of the City under a Special Facilities Lease entered into between the City (or an entity acting on behalf of the City) and the person, firm or corporation which will be utilizing the Special Facilities to be financed; and

(ii) In addition to all rentals with respect to the Special Facilities to be financed, a fair and reasonable rental for the land upon which said Special Facilities are to be constructed shall be charged by the City, and said ground rent shall not be available for the payment of such Special Facilities Debt.

(i) ***Accounts and Fiscal Year***. It shall keep proper books, records and accounts relating to the Airport System separate and apart from all other records and accounts of the City, in which complete and correct entries shall be made of all transactions relating to the Airport System, and the City shall cause said books and accounts to be audited annually as of the close of each Fiscal Year by an Accountant (which may be part of the City's comprehensive annual financial report). The City agrees to operate the Airport System and keep its books of records and account pertaining thereto on the basis of its current Fiscal Year.

(j) ***Audits***. After the close of each Fiscal Year while any Parity PFC Obligation is Outstanding, an audit will be made by an Accountant of the books and accounts relating to the Airport System and the PFC Revenues (which may be included in the City's comprehensive annual financial report). As soon as practicable after the close of each such Fiscal Year, and when said audit has been completed and made available to the City, a copy of such audit for the preceding Fiscal Year shall be mailed to the Municipal Advisory Council of Texas, any Bond Insurer or Credit Provider, and to any owner of any then Outstanding Parity PFC Obligations who shall so request in writing promptly after it is readily available to the general public, and also to each information depository then required pursuant to Rule 15c2-12 promulgated by the Securities and Exchange Commission, or similar rule, within the time period required by such Rule 15c2-12. Such annual audit reports shall be open to the inspection of the owners of the Parity PFC Obligations and their agents and representatives at all reasonable times during regular business hours of the City.

(k) ***Annual Budget.*** The City shall prepare, prior to the beginning of each Fiscal Year, an Annual Budget for the Airport System (which may be included in the City's general annual budget), in accordance with law, reflecting an estimate of cash receipts and disbursements for the ensuing Fiscal Year in sufficient detail to indicate the probable PFC Revenues and expenditures related to PFC Eligible Airport-Related Projects and Debt Service on PFC Parity Obligations and Subordinated PFC Debt for such Fiscal Year. A copy of the Annual Budget shall be filed with any Bond Insurer or Credit Provider promptly after it is readily available to the general public.

(l) ***Insurance***. The City shall cause to be insured such parts of the Airport System as would usually be insured by entities operating like properties, with a responsible insurance company or companies, against risks, accidents or casualties against which and to the extent insurance is usually carried by corporations operating like properties, including, to the extent reasonably obtainable, fire and extended coverage insurance and public liability and property damage insurance; provided, however, that public liability and property damage insurance need not be carried if the City Attorney gives a written opinion to the effect that the City is not liable for claims which would be protected by such insurance. All insurance premiums shall be paid as an expense of operation of the Airport System. At any time while any contractor engaged in construction work shall be fully responsible therefor, the City shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the Bondholders and their representatives at all reasonable times. Upon the happening of any loss or damage covered by insurance from one or more of said causes, the City shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the City. The proceeds of insurance covering such property, together with any other funds necessary and available for such purpose, shall be used forthwith by the City for repairing the property damaged or replacing the property destroyed;

provided, however, that if said insurance proceeds and other funds are insufficient for such purpose, then said insurance proceeds pertaining to the Airport System shall be deposited in a special and separate trust fund, at the Depository, to be designated the "Insurance Account". The Insurance Account shall be held until such time as other funds become available which, together with the Insurance Account, will be sufficient to make the repairs or replacements originally required.

(m) ***Governmental Agencies.*** The City will duly observe and comply with all valid requirements of all Federal and State authorities relative to the ownership, operation, and maintenance of the Airport System, including all PFC Eligible Airport-Related Projects. Additionally, the City will comply with all of the terms and conditions of any and all grants and assurances, franchises, permits and authorizations applicable to or necessary with respect to the Airport System, including all PFC Eligible Airport-Related Projects, and which have been obtained from any governmental agency; and the City has or will obtain and keep in full force and effect all franchises, permits, authorization and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation and maintenance of the Airport System, including all PFC Eligible Airport-Related Projects.

(n) ***Rights of Inspection***. The owner of Parity PFC Obligations shall have the right at all reasonable times during regular business hours of the City to inspect all records, accounts and data of the City relating to the Parity PFC Obligations and the PFC Eligible Airport-Related Projects.

(o) ***Legal Holidays.*** In any case where the date of maturity of interest on or principal of the Parity PFC Obligations or the date fixed for redemption of any Parity PFC Obligations or any other payment obligation under a Parity PFC Obligation not be a Business Day, then payment of interest or principal need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date of maturity or the date fixed for redemption and no interest shall accrue for the period from the date of maturity or redemption to the date of actual payment.

(p) ***Bondholders' Remedies.*** This Master Ordinance and any Supplement shall constitute a contract between the City and the owners of the Parity PFC Obligations from time to time Outstanding and this Master Ordinance and the Supplement authorizing the issuance of Parity PFC Obligations shall be and remain irrepealable until the Parity PFC Obligations and any interest thereon shall be fully paid or discharged or provision therefor shall have been made as provided in a Supplement. In the event of a default in the payment of the principal of or interest on any Parity PFC Obligation or a default in the performance of any duty or covenant provided by law or in this Master Ordinance, the owner or owners of any Parity PFC Obligation may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any owner of any Parity PFC Obligation may at law or in equity, by suit, action, mandamus, or other proceedings filed in any court of competent jurisdiction, enforce and compel performance of all duties required to be performed by the City under this Master Ordinance and any Supplement, including the deposit of the PFC Revenues into the Funds and Accounts provided in this Master Ordinance and any Supplement, and the application of such PFC Revenues in the manner required in this Master Ordinance and any Supplement.

**SECTION 5. CREATION OF FUNDS AND ACCOUNTS.** The following special Funds and Accounts are hereby created and established in connection with the issuance of Parity PFC Obligations and shall continue to be maintained on the books of the City so long as any of the Parity PFC Obligations, or interest thereon, are Outstanding and unpaid:

(a) *City of San Antonio Airport System PFC Revenue Fund*, herein called the "PFC Revenue Fund";

(b) *City of San Antonio Airport System Parity PFC Obligations Bond Fund*, herein called the "PFC Bond Fund"*;*

(c) *City of San Antonio Airport System Parity PFC Obligations Reserve Fund*, herein called the "PFC Bond Reserve Fund";

(d) *City of San Antonio Airport System PFC Capital Improvement Fund*, herein called the "PFC Capital Improvement Fund".

**SECTION 6. REVENUE FUND.** All PFC Revenues shall be kept and accounted for separate and apart from all other funds of the City and shall be credited from day to day as received to the credit of the PFC Revenue Fund. PFC Revenues in the PFC Revenue Fund shall be deposited to the credit of the other Funds and Accounts created by this Master Ordinance, in the manner and amounts hereinafter provided, and each of such Funds and Accounts shall have priority as to such deposits in the order in which they are treated in the following Sections 7 through 10.

**SECTION 7. PFC BOND FUND.** (a) ***Purpose of and Payments into the PFC Bond Fund***. The PFC Bond Fund shall be used solely to pay the principal of, premium, if any, and interest on, and other payments incurred in connection with Parity PFC Obligations, as such principal matures and such interest and other payments comes due. There shall be credited to the PFC Bond Fund the following:

(i) immediately after the sale and delivery of any series of Parity PFC Obligations, any accrued interest on such Parity PFC Obligations; and

(ii) on or before the 25th day of each month, commencing with the month following the delivery of each series of Parity PFC Obligations, such amounts, in approximately equal monthly installments, as will be sufficient, together with any other funds on deposit therein and available for such purpose, to pay the principal of, premium, if any and interest on, and other payments scheduled to come due on all Outstanding Parity PFC Obligations on the next applicable payment date.

(b) ***Accounts***. The City reserves the right in any Supplement to (i) establish within the PFC Bond Fund various Accounts to facilitate the timely payment of Parity PFC Obligations as the same become due and owing and (ii) provide other terms and conditions with respect to payment obligations with respect to a Parity PFC Obligation not inconsistent with the provisions of this Master Ordinance.

**SECTION 8. PFC BOND RESERVE FUND.** (a) ***Payments into the PFC Bond Reserve Fund***. After the delivery of each series of Parity PFC Obligations, the City shall cause the amount on deposit in the PFC Bond Reserve Fund to contain an amount of money and investments equal in market value to the Average Annual Debt Service Requirements of all Parity PFC Obligations which will be Outstanding after such delivery. An amount of money and investments equal in market value to the Average Annual Debt Service Requirements of all Parity PFC Obligations at any time Outstanding is hereby designated as the "Required Reserve Amount". Any increase in the Required Reserve Amount may be funded from PFC Revenues, or from proceeds from the sale of Parity PFC Obligations, or any other available source or combination of sources. All or any part of the Required Reserve Amount not funded initially and immediately after the delivery of any installment or issue of Parity PFC Obligations shall be funded, within not more than five years from the date of such delivery, by deposits of PFC Revenues in approximately equal monthly installments on or before the 25th day of each month. Principal amounts of Parity PFC Obligations which must be redeemed pursuant to any applicable mandatory redemption requirements shall be deemed to be maturing amounts of principal for the purpose of calculating principal and interest requirements on such Parity PFC Obligations. When and so long as the amount in the PFC Bond Reserve Fund is not less than the Required Reserve Amount no deposits shall be made to the credit of the PFC Bond Reserve Fund; but when and if the PFC Bond Reserve Fund at any time contains less than the Required Reserve Amount, then the City shall transfer from PFC Revenues in the PFC Revenue Fund and deposit to the credit of the PFC Bond Reserve Fund, monthly, on or before the 25th day of each month, a sum equal to 1/60th of the Required Reserve Amount, until the PFC Bond Reserve Fund is restored to the Required Reserve Amount. The City specifically covenants that when and so long as the PFC Bond Reserve Fund contains the Required Reserve Amount, the City shall cause all interest and income derived from the deposit or investment of the PFC Bond Reserve Fund to be deposited to the credit of the PFC Bond Fund.

(b) ***Purpose***. The PFC Bond Reserve Fund shall be used to pay the principal of or interest on all Parity PFC Obligations at any time when the PFC Bond Fund is insufficient for such purpose, and may be used finally to retire the last debt service requirements on the Parity PFC Obligations.

(c) ***Authority to Use Credit Facility***. The City may satisfy its covenant to maintain the PFC Bond Reserve Fund in an amount equal to the Required Reserve Amount with a Credit Facility that will provide funds, together with other Reserve Fund Obligations, if any, credited to the PFC Bond Reserve Fund, at least equal to the Required Reserve Amount. The City may replace or substitute a Credit Facility for all or a portion of the cash or Eligible Investments on deposit in the PFC Bond Reserve Fund or in substitution for or replacement of any existing Credit Facility. Upon such replacement or substitution, cash or Eligible Investments on deposit in the PFC Bond Reserve Fund which, taken together with the face amount of any existing Credit Facilities, are in excess of the Required Reserve Amount may be withdrawn by the City, at the option of the Designated Financial Officer, and transferred to the PFC Bond Fund (or to the PFC Revenue Fund if the City receives an opinion of Bond Counsel that transferring such funds to the PFC Revenue Fund would not adversely effect the tax exempt status of any Outstanding Parity PFC Obligations originally issued as Tax-Exempt Debt; provided that withdrawn cash constituting bond proceeds shall be used only for PFC Eligible Airport-Related Projects); provided, however, that at the option of the Designated Financial Officer, acting on behalf of the City, the face amount of any Credit Facility for the PFC Bond Reserve Fund may be reduced in lieu of such transfer.

(d) ***Withdrawals from PFC Bond Reserve Fund.*** If the City is required to make a withdrawal from the PFC Bond Reserve Fund for any of the purposes described in this Section, the Designated Financial Officer, acting on behalf of the City, shall promptly notify the issuer of such Credit Facility of the necessity for a withdrawal from the PFC Bond Reserve Fund for any such purposes, and shall make such withdrawal FIRST from available moneys or Eligible Investments then on deposit in the PFC Bond Reserve Fund, and NEXT from a drawing under any Credit Facility to the extent of such deficiency. Should there be more than one provider of Credit Facilities that are on deposit in or credited to the PFC Bond Reserve Fund, the order of priority with respect to the drawings on such Credit Facilities shall be determined by the City and the providers of the Credit Facilities prior to any such drawings being made thereunder.

(e) ***Deficiencies.*** In the event of a deficiency in the PFC Bond Reserve Fund, such that the PFC Bond Reserve Fund contains less than the Required Reserve Amount, then the City shall restore the Required Reserve Amount in the manner described in Section 8(a) above. In the event the Required Reserve Amount is funded through the use of a Credit Facility, and the Credit Facility specifies a termination or expiration date that is prior to the final maturity of the Parity PFC Obligations so secured thereby, the City shall provide that such Credit Facility shall be renewed at least twelve (12) months prior to the specified termination or expiration date or in the alternative provide that any deficiency that will result upon the termination or expiration of such Credit Facility will be accounted for either by (i) obtaining a substitute Credit Facility no sooner than twenty-four (24) months or no later than twelve (12) months prior to the specified termination or expiration date of the then existing Credit Facility or (ii) by depositing cash into the PFC Bond Reserve Fund in no more than twenty-four (24) monthly installments of not less than one-twenty fourth (1/24th) of the amount of such deficiency on or before the 25th day of each month, commencing on the 25th day of the month which is twelve (12) months prior to such termination or expiration date, to restore the PFC Bond Reserve Fund to the Required Reserve Amount.

(f) ***Redemption or Defeasance.*** In the event of the redemption or defeasance of any Parity PFC Obligation, any Reserve Fund Obligations on deposit in the PFC Bond Reserve Fund in excess of the Required Reserve Amount may be withdrawn and transferred, at the option of the City, to the PFC Bond Fund, as a result of (i) the redemption of the Parity PFC Obligations, or (ii) funds for the payment of the Parity PFC Obligations having been deposited irrevocably with the paying agent or place of payment therefor in the manner described in a Supplement, the result of such deposit being that such Parity PFC Obligations no longer are deemed to be Outstanding under the terms of this Master Ordinance and such Supplement.

(g) ***Credit Facility Draws.*** In the event there is a draw upon the Credit Facility, the City shall reimburse the issuer of such Credit Facility for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is issued, from PFC Revenues; however, such reimbursement from PFC Revenues shall be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on Parity PFC Obligations.

**SECTION 9. SUBORDINATED PFC DEBT FUND.** (a) ***Subordinated PFC Debt Fund Authorized to be Established.*** For the sole purpose of paying the principal amount of, premium, if any, and interest on, and other payments (including payments to a related debt service reserve fund) incurred in connection with Subordinated PFC Debt, the City may create in a Supplement which authorizes the issuance of Subordinated PFC Debt a separate fund designated as the Subordinated PFC Debt Fund. Such Subordinated PFC Debt Fund shall be established and maintained on the books of the City and accounted for separate and apart from all other funds of the City. Moneys in the Subordinated PFC Debt Fund shall be deposited and maintained in an official depository bank of the City.

(b) ***Additional Accounts.*** The City may create, establish and maintain on the books of the City additional Accounts within the Subordinated PFC Debt Fund from which moneys can be withdrawn to pay the principal of and interest on Subordinated PFC Debt which hereafter may be issued or incurred.

**SECTION 10. PFC CAPITAL IMPROVEMENT FUND.** Subject to satisfying the requirements of Sections 7, 8 and 9 of this Master Ordinance, the City shall transfer the balance remaining in the PFC Revenue Fund at the end of each month and deposit same to the credit of the PFC Capital Improvement Fund. The PFC Capital Improvement Fund shall be used for the purposes, and with priority of claim thereon, as follows: first, for the payment of principal, interest, and reserve requirements on Parity PFC Obligations if funds on deposit in the PFC Bond Fund and the PFC Bond Reserve Fund are insufficient to make such payments; second, for the payment of principal, interest, and reserve requirements on Subordinated PFC Debt if funds on deposit in the Subordinated PFC Debt Fund and any related debt service reserve fund are insufficient to make such payments; third, for the purpose of paying the costs of PFC Eligible Airport-Related Projects; and fourth, for any other purpose related to the Airport System permitted by applicable state and federal law.

**SECTION 11. CONSTRUCTION FUND AND REBATE FUND.** The City, in a Supplement, hereafter may create, establish and maintain on the books of the City (i) a separate Fund or Account into which the City may deposit proceeds of any Parity PFC Obligations authorized by such Supplement to pay costs associated with the construction of PFC Eligible Airport-Related Projects, and (ii) a separate fund or account into which the City may deposit funds and investment earnings to make payments to the United States of America pursuant to section 148 of the Code.

**SECTION 12. DEFICIENCIES IN FUNDS.** If in any month the City shall fail to deposit into the PFC Bond Fund or PFC Bond Reserve Fund the amounts required, amounts equivalent to such deficiencies shall be set apart and paid into said Funds from the first available and unallocated PFC Revenues and other funds pledged to secure any Parity PFC Obligations for the following month or months, and such payments shall be in addition to the amounts otherwise required to be paid into said Funds during such month or months.

**SECTION 13. SECURITY FOR FUNDS.** All Funds and Accounts created by this Master Ordinance shall be secured in the manner and to the fullest extent permitted or required by law for the security of public funds, and such Funds and Accounts shall be used only for the purposes and in the manner permitted or required by this Master Ordinance.

**SECTION 14. PAYMENT OF PARITY PFC OBLIGATIONS.** On or before each principal and interest payment date while any of the Parity PFC Obligations are Outstanding and unpaid, the City shall make available to the paying agents therefor, out of the PFC Bond Fund, or if necessary, out of the PFC Bond Reserve Fund, money sufficient to pay, on each of such dates, the principal of and interest on the Parity PFC Obligations as the same matures and comes due, or to redeem the Parity PFC Obligations prior to maturity, either upon mandatory redemption or at the option of the City. The Paying Agents shall destroy all paid Parity PFC Obligations, and the coupons appertaining thereto, if any, and furnish the City with an appropriate certificate of cancellation or destruction if requested by the City.

**SECTION 15. ISSUANCE OF ADDITIONAL PARITY PFC OBLIGATIONS.** (a) ***Additional Parity PFC Obligations***. The City reserves the right to issue or incur, for any lawful purpose, pursuant to this Master Ordinance and a Supplement, Additional Parity PFC Obligations; provided, however, that no such Parity PFC Obligations shall be delivered unless:

(i) *No Default*. The Designated Financial Officer and the Aviation Director certify that, upon incurring, issuing or otherwise becoming liable in respect to such Parity PFC Obligations, the City will not be in default under any term or provision of this Master Ordinance (including the budget covenant described in Section 3(a) of this Master Ordinance), any Parity PFC Obligations then Outstanding or any Supplement pursuant to which any of such Parity PFC Obligations were issued or incurred.

(ii) *Proper Fund Balances*. The Designated Financial Officer certifies that, upon the issuance of such Parity PFC Obligations, the PFC Bond Fund will have the required amounts on deposit therein and that the PFC Bond Reserve Fund will contain the applicable Required Reserve Amount or so much thereof as is required to be funded at such time. Upon the issuance of such Parity PFC Obligations, any additional amounts necessary to cause the PFC Bond Reserve Fund to be funded in the Required Reserve Amount may be funded (A) with proceeds of such Additional Parity PFC Obligations, (B) over a 60-month period in the manner provided for in Section 8(a) of this Master Ordinance, (C) with a Credit Facility in the manner provided in Section 8(c) of this Master Ordinance, or (D) a combination thereof.

(iii) *Projected Coverage*. An Airport Consultant provides a written report setting forth projections which indicate that the estimated PFC Revenues for each of three consecutive Fiscal Years beginning in the later of:

(A) the first complete Fiscal Year following the estimated date of completion and initial use of all revenue producing PFC Eligible Airport-Related Projects to be financed with Parity PFC Obligations, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities, or

(B) the first complete Fiscal Year in which the City will have scheduled payments of interest on or principal of the Parity PFC Obligations to be issued for the payment of which provision has not been made as indicated in the report of such Airport Consultant from proceeds of such Parity PFC Obligations, investment income thereon or from other appropriated sources (other than PFC Revenues),

are equal to at least 1.25 times of the Annual Debt Service Requirements on all Parity PFC Obligations scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Annual Debt Service Requirements for the Additional Parity PFC Obligations then being issued or incurred.

(iv) *Alternative Coverage for Parity PFC Obligations*. In lieu of the certification in clause (iii) above, the Designated Financial Officer may provide a certificate showing that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the PFC Revenues were equal to at least 1.25 times of the maximum Annual Debt Service Requirements on all Parity PFC Obligations scheduled to occur in the then current or any future Fiscal Year after taking into consideration the Parity PFC Obligations proposed to be issued or incurred.

(b) ***Refunding Obligations***. If Parity PFC Obligations are being issued for the purpose of refunding less than all Outstanding Parity PFC Obligations, neither of the certifications described in subsections (a)(iii) or (a)(iv) of this Section are required so long as the Designated Financial Officer provides a certificate showing that the aggregate debt service requirements of such refunding Parity PFC Obligations will not exceed the aggregate debt service requirements of the Parity PFC Obligations being refunded.

(c) ***Completion Obligations***. The City reserves the right to issue or incur Parity PFC Obligations to pay the cost of completing any PFC Eligible Airport-Related Project for which Parity PFC Obligations have previously been issued.

Prior to the delivery of Completion Obligations, the City must provide, in addition to all of the applicable certificates required by subsection (a) of this Section (other than the certificates not required under the circumstances described below), the following documents:

(i) a certificate of the consulting engineer engaged by the City to design the PFC Eligible Airport-Related Project for which the Completion Obligations are to be delivered stating that such PFC Eligible Airport-Related Project has not materially changed in scope since the most recent series of Parity PFC Obligations was issued or incurred for such purpose (except as permitted in the Supplement authorizing such Parity PFC Obligations) and setting forth the aggregate cost of the PFC Eligible Airport-Related Project which, in the opinion of such consulting engineer, has been or will be incurred; and

(ii) a certificate of the Aviation Director (A) stating that all amounts allocated to pay costs of the PFC Eligible Airport-Related Project from the proceeds of the most recent series of Parity PFC Obligations issued or incurred in connection with the PFC Eligible Airport-Related Project for which the Completion Obligations are being issued or incurred were used or are still available to be used to pay costs of such PFC Eligible Airport-Related Project; (B) containing a calculation of the amount by which the aggregate cost of that PFC Eligible Airport-Related Project (furnished in the consulting engineer's certificate described above) exceeds the sum of the costs of the PFC Eligible Airport-Related Project paid to such date plus the moneys available at such date within any construction fund or other like account applicable to the PFC Eligible Airport-Related Project plus any other moneys which the Aviation Director, in the discretion thereof, has determined are available to pay such costs in any other fund; and (C) certifying that, in the opinion of the Aviation Director, it is necessary to issue or incur the Completion Obligations to provide funds for the completion of the PFC Eligible Airport-Related Project.

Completion Obligations may be issued or incurred for any Airport System facility or project which shall be declared in the Supplement to be a PFC Eligible Airport-Related Project. Any such Supplement may contain such further provisions as the City shall deem appropriate with regard to the use, completion, modification or abandonment of such PFC Eligible Airport-Related Project. Anything herein to the contrary, the provisions of subsections (a)(iii) and (a)(iv) of this Section do not apply to Completion Obligations if the aggregate principal amount of the Completion Obligations then to be issued does not exceed 15% of the aggregate principal amount of the Parity PFC Obligations initially issued to pay the cost of such PFC Eligible Airport-Related Project.

(d) ***Subordinated PFC Debt and Special Facilities Debt***. Subordinated PFC Debt and Special Facilities Debt may be issued or incurred by the City without limitation. Subordinated PFC Debt shall be payable from moneys deposited to the credit of the Subordinated PFC Debt Fund. Special Facilities Debt is permitted to be issued, as described in Section 4(g) hereof, and shall not be secured by a lien on and pledge of PFC Revenues.

(e) ***Credit Agreements***. Payments to be made under a Credit Agreement may be treated as Parity PFC Obligations if the governing body of the City makes a finding in the Supplement authorizing the treatment of the obligations of the City incurred under a Credit Agreement as a Parity PFC Obligation that, based upon the findings contained in a certificate executed and delivered by a Designated Financial Officer, the City will have sufficient funds to meet the financial obligations of the Airport System payable in whole or in part from PFC Revenues, including sufficient PFC Revenues to satisfy the Annual Debt Service Requirements of the Outstanding Parity PFC Obligations and the financial obligations of the City relating to all PFC Eligible Airport-Related Projects after giving effect to the treatment of the Credit Agreement as a Parity PFC Obligation.

(f) ***Determination of PFC Revenues***. In making a determination of PFC Revenues for any of the purposes described in this Section, the Airport Consultant or the Designated Financial Officer may take into consideration a change in the passenger facility charges imposed by the City that became effective at least 30 days prior to the last day of the period for which PFC Revenues are determined and, for purposes of satisfying the PFC Revenues tests described above, make a pro forma determination of the PFC Revenues for the period of time covered by the certification or opinion based on such change in rates and charges being in effect for the entire period covered by the certificate or opinion.

**SECTION 16. DEFEASANCE.** The provisions relating to the terms and conditions upon which a defeasance of Parity PFC Obligations shall be effected shall be contained in the Supplement authorizing such Parity PFC Obligations.

**SECTION 17. AMENDMENT OF MASTER ORDINANCE.** The City hereby reserves the right to amend this Master Ordinance subject to the following terms and conditions, to-wit:

(a) ***Amendments Without Consent of Holders or Credit Providers***. The City may from time to time, with notice to each Credit Provider but without the consent of any Holder, except as otherwise required by paragraph (b) below, amend this Master Ordinance in order to:

(1) cure any ambiguity, defect or omission in this Master Ordinance that does not materially adversely affect the interests of the Holders;

(2) grant additional rights or security for the benefit of the Holders;

(3) add events of default as shall not be inconsistent with the provisions of this Master Ordinance and which shall not materially adversely affect the interests of the Holders;

(4) qualify this Master Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect;

(5) make such amendments to this Master Ordinance as may be required, in the opinion of Bond Counsel, to ensure compliance with sections 103 and 141 through 150 of the Code and the regulations promulgated thereunder and applicable thereto;

(6) make such changes, modifications or amendments as may be necessary or desirable in order to allow the owners of the Parity PFC Obligations to thereafter avail themselves of a book-entry system for payments, transfers and other matters relating to the Parity PFC Obligations, which changes, modifications or amendments are not contrary to or inconsistent with other provisions of this Master Ordinance and which shall not adversely affect the interests of the owners of the Parity PFC Obligations;

(7) make such changes, modifications or amendments as may be necessary or desirable in order to obtain the approval of the Parity PFC Obligations by the Office of the Attorney General of the State of Texas, to the extent such approval is required by law, or to obtain or maintain the granting of a rating on the Parity PFC Obligations by a Credit Rating Agency, or to obtain or maintain a Credit Agreement or a Credit Facility;

(8) make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the Parity PFC Obligations, in order, to the extent permitted by law, to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange agreements, or similar types of agreements with respect to the Parity PFC Obligations; and

(9) make any other change (other than any change described in clauses (1) through (5) of subsection (b) below) with respect to which the City receives written confirmation from each Rating Agency that such amendment would not cause such Rating Agency to withdraw or reduce its then current rating on the Parity PFC Obligations.

Notice of any such amendment of the nature described in this Section 17(a) may be provided in the manner described in Section 17(c) hereof; provided, however, that the giving of such notice shall not constitute a condition precedent to the adoption of an ordinance providing for such amendment, and the failure to provide such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

(b) ***Amendments With Consent of Holders and Credit Providers***. Except as provided in Section 17(a) above, each Credit Provider and the Holders of Parity PFC Obligations aggregating a majority in principal amount of the aggregate principal amount of then Outstanding Parity PFC Obligations which are the subject of a proposed amendment or are affected by a proposed amendment shall have the right from time to time to approve any amendment to this Master Ordinance which may be deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the Holders in aggregate principal amount of the then Outstanding Parity PFC Obligations affected by such amendment, nothing herein contained shall permit or be construed to permit amendment of the terms and conditions of this Master Ordinance or in any of the Parity PFC Obligations affected by such amendment so as to:

(1) Make any change in the maturity of any of such Parity PFC Obligations;

(2) Reduce the rate of interest borne by any of such Parity PFC Obligations;

(3) Reduce the amount of the principal of or redemption premium, if any, payable on any of such Parity PFC Obligations;

(4) Modify the terms of payment of principal or of interest or redemption premium on such Outstanding Parity PFC Obligations or any of them or impose any condition with respect to such payment; or

(5) Change the minimum percentage of the principal amount of the Parity PFC Obligations necessary for consent to such amendment.

(c) ***Notice of Amendment***. Whenever the City shall desire to make any amendment or addition to or rescission of this Master Ordinance requiring consent of each Credit Provider and/or the Holders of the Parity PFC Obligations, the City shall cause notice of the amendment, addition, or rescission to be sent by first class mail, postage prepaid, to (i) each Credit Provider, and (ii) the Holders (if the Holders of all Parity PFC Obligations or at least a majority in aggregate principal amount of the Parity PFC Obligations are required to consent) at the respective addresses shown on the Registration Books. Whenever at any time within one year after the date of the giving of such notice, the City shall receive an instrument or instruments in writing executed by each Credit Provider and the Holders of all or a majority (as the case may be) in aggregate principal amount of the Parity PFC Obligations then outstanding affected by any such amendment, addition, or rescission requiring the consent of the Holders, which instrument or instruments shall refer to the proposed amendment, addition, or rescission described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the City may adopt such amendment, addition, or rescission in substantially such form, except as herein provided.

(d) ***Amendments Binding on All Holders***. No Holder may thereafter object to the adoption of any amendment, addition, or rescission which is accomplished pursuant to and in accordance with the provisions of this Section, or to any of the provisions thereof, and such amendment, addition, or rescission shall be fully effective for all purposes.

(e) ***Consents Irrevocable and Binding on Future Holders***. Any consent given by the Holder of a Parity PFC Obligation pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the publication of the notice provided for in this Section, and shall be conclusive and binding upon all future Holders of the same Parity PFC Obligation during such period. Such consent may be revoked at any time after six months from the date of the publication of said notice by the Holder who gave such consent, or by a successor in title, by filing notice with the City, but such revocation shall not be effective if the Holders of a majority in aggregate principal amount of the affected Parity PFC Obligations then Outstanding, have, prior to the attempted revocation, consented to and approved the amendment.

(f) ***Ownership of Parity PFC Obligations***. For the purposes of establishing ownership of the Parity PFC Obligations, the City shall rely solely upon the registration of the ownership of such Parity PFC Obligations on the registration books kept by the Paying Agent/Registrar.

(g) ***Ownership.*** For the purpose of this Section, the ownership and other matters relating to all Parity PFC Obligations shall be determined as provided in each Supplement.

(h) ***Amendments of Supplements***. Each Supplement shall contain provisions governing the ability of the City to amend such Supplement; provided, however, that no amendment may be made to any Supplement for the purpose of granting to the owners of Outstanding Parity PFC Obligations under such Supplement a priority over the owners of any other Outstanding Parity PFC Obligations.

**SECTION 18. INVESTMENTS.** Money in any Fund established pursuant to this Master Ordinance or any Supplement may, at the option of the City, be invested in any investment permitted by the provisions of the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended), or other applicable law; provided, however, that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times. Such investments shall be valued in terms of current market value as of the last day of each Fiscal Year of the City. All interest and income derived from such deposits and investments immediately shall be credited to, and any losses debited to, the Fund from which the deposit or investment was made, except to the extent otherwise provided in Section 8 of this Master Ordinance with respect to the PFC Bond Reserve Fund. Such investments shall be sold promptly when needed or when necessary to prevent any default in connection with the Parity PFC Obligations, consistent with the ordinances, respectively, authorizing their issuance. It is further provided, however, that any interest earnings on proceeds of Parity PFC Obligations, or on funds on deposit in any Fund or Account, which are required to be rebated to the United States of America in order to prevent any Parity PFC Obligations from being arbitrage bonds shall be deposited to the Rebate Fund authorized to be established by a Supplement in accordance with Section 11 of this Master Ordinance and shall not be considered as interest earnings for the purposes of this Section or for the purposes of determining PFC Revenues.

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**THE FOLLOWING SECTIONS 7 THROUGH 11 AND 14 APPEAR IN THE FOURTH SUPPLEMENT TO THE MASTER PFC BOND ORDINANCE**

**SECTION 7. SECURITY**. (a) ***PFC Revenues.*** The Series 2012 Bonds are special obligations of the City payable from and secured by a first lien on and pledge of the PFC Revenues pursuant to the Master PFC Ordinance and this Fifth Supplement. The PFC Revenues are hereby pledged to the payment of the principal of, premium, if any, and interest on the Series 2012 Bonds as the same shall become due and payable.

(b) ***Lien on Subordinate Net Revenues***.

(i) The Series 2012 Bonds are additionally secured by a lien on and pledge of the Subordinate Net Revenues. As provided in the definition of Subordinate Net Revenues, all payments from Net Revenues to pay debt service on the Series 2012 Bonds shall be subordinated to the timely payment of debt service on all Parity GARB Obligations issued pursuant to the Master GARB Ordinance and any "Supplement" related thereto which are then outstanding or subsequently issued; consequently, the Series 2012 Bonds are considered "Subordinated Debt" as permitted by Section 4(f) of the Master GARB Ordinance.

(ii) This Fifth Supplement, to the extent that it grants, and for the purpose of (i) additionally securing the Series 2012 Bonds with, a lien on Subordinate Net Revenues as permitted by the Master GARB Ordinance, and (ii) establishing conditions for the issuance of obligations payable in whole or in part with a lien on and pledge of Subordinate Net Revenues, also serves as the "Fourteenth Supplemental Ordinance" or the "Fourteenth Supplement" to the Master GARB Ordinance.

(iii) In the event it becomes necessary for the City to use Subordinate Net Revenues of the Airport System to pay all or any portion of any debt service payment on the Series 2012 Bonds, the City will establish a "Subordinated Debt Fund" in the manner contemplated and required by Section 10 of the Master GARB Ordinance (if such Subordinated Debt Fund has not previously been established) and may establish an account within the Subordinated Debt Fund specifically for the purpose of depositing Subordinate Net Revenues to pay all or a portion of the debt service coming due on the Series 2012 Bonds. Each Designated Financial Officer is further authorized from time to time to transfer funds on deposit in the Subordinated Debt Fund relating to the Series 2012 Bonds to the PFC Bond Fund to pay principal, premium, if any, and interest on the Series 2012 Bonds.

(c) ***PFC Bond Reserve Fund.***

(i) The Series 2012 Bonds are to be secured by the PFC Bond Reserve Fund. The City certifies that the amount that will be on deposit in the PFC Bond Reserve Fund on the date of issuance of the Series 2012 Bonds will be not less than *$9,958,640.48,* which was the balance in such Fund as of February 29, 2012, and is at least equal to the Required Reserve Amount relating to the Outstanding Parity Obligations (i.e., *$9,542,062.93* calculated as of September 30, 2011). Such amount was funded from the following sources:

(A) *Series 2002 PFC Bonds*: The Required Reserve Amount upon the issuance of the Series 2002 PFC Bonds was equal to *$2,747,178.16*. Pursuant to Ordinance No. 95390, upon the issuance of the Series 2002 PFC Bonds, the City deposited *$2,747,178.16* of proceeds of the Series 2002 PFC Bonds into the PFC Bond Reserve Fund in order to fund the PFC Bond Reserve Fund to such Required Reserve Amount.

(B) *Series 2005 PFC Bonds*: The Required Reserve Amount upon the issuance of the Series 2005 PFC Bonds increased to an amount equal to *$5,181,929.00*. Pursuant to Ordinance No. 100782, upon the issuance of the Series 2005 PFC Bonds, the City used proceeds of the Series 2005 PFC Bonds to purchase and deposit into the PFC Bond Reserve Fund a Reserve Fund Credit Facility in the form of a debt service reserve fund surety policy provided by Financial Security Assurance Inc. with a maximum amount available to be drawn thereon equal to *$2,685,000* (which amount was equal to the average annual debt service requirements on the Series 2003 PFC Bonds at the time of issuance).

(C) *Series 2007 PFC Bonds*: The Required Reserve Amount upon the issuance of the Series 2007 PFC Bonds increased to an amount equal to *$10,175,943.87*. Pursuant to Ordinance No. 2007-11-29-1189, upon the issuance of the Series 2007 PFC Bonds, the City used proceeds of the Series 2007 PFC Bonds to purchase and deposit into the PFC Bond Reserve Fund a Reserve Fund Credit Facility in the form of a debt service reserve fund surety policy provided by Financial Security Assurance Inc. with a maximum amount available to be drawn thereon equal to *$4,378,078.87*.

(D) *Series 2010 PFC Bonds*. The Required Reserve Amount upon the issuance of the Series 2010 PFC Bonds decreased to an amount equal to *$9,644,913.54* due primarily to providing for the amortization of the Series 2010 Bonds over 30 years. Consequently, the Average Annual Debt Service Requirements did not increase, and no additional funds were required to be deposited into the PFC Bond Reserve Fund, upon the issuance and delivery of the Series 2010 PFC Bonds.

(ii) Upon the issuance of the Series 2012 Bonds, the Required Reserve Amount for all PFC Obligations then Outstanding (including the Series 2012 Bonds) is expected to *decrease* upon delivery of the Series 2012 Bonds to an amount less than the current Required Reserve Amount (i.e., *$9,542,062.93*) due to achieving an interest cost savings resulting from the refunding of the Refunded Bonds. Consequently, the Average Annual Debt Service Requirements is not expected to increase, and no additional funds are expected to be required to be deposited into the PFC Bond Reserve Fund, upon the issuance and delivery of the Series 2012 Bonds; however, in the event the Average Annual Debt Service Requirements actually will increase upon delivery of the Series 2012 Bonds to an amount in excess of *$9,542,062.93*, the City Manager and Chief Financial Officer are authorized to utilize a portion of the proceeds of the Series 2012 Bonds or other available funds of the City on the date of delivery of the Series 2012 Bonds to increase the amount on deposit in the PFC Bond Reserve Fund to the new Required Reserve Amount (and such determination shall be incorporated into *Exhibit B* to be completed by a Designated Financial Officer).

**SECTION 8. PAYMENTS; PFC BOND FUND.**

(a) ***Moneys Made Available to Paying Agent.*** The City agrees to pay the principal of, premium, if any, and the interest on the Series 2012 Bonds when due, whether by reason of maturity or redemption. The City shall make available to the Paying Agent/Registrar, on or before such principal, redemption, or interest payment date, money sufficient to pay such interest on and such principal of the Series 2012 Bonds as will accrue or mature, or be subject to redemption prior to maturity. The Paying Agent/Registrar shall cancel all paid Series 2012 Bonds and shall furnish the City with an appropriate certificate of cancellation upon the City's request.

(b) ***PFC Bond Fund.*** Pursuant to Section 6 of the Master PFC Ordinance, moneys in the PFC Revenue Fund shall be applied by the City on the dates and in the amounts, and in the order of priority with respect to the Funds and Accounts that such applications are described in the Master PFC Ordinance, including making monthly deposits into the PFC Bond Fund to provide sufficient funds to pay all principal of and interest on all Parity PFC Obligations, including the Series 2012 Bonds.

**SECTION 9. REBATE FUND.** There is hereby created and there shall be established and maintained on the books of the City, and accounted for separate and apart from all other funds of the City, a separate fund designated as the Rebate Fund. The Rebate Fund shall be for the sole benefit of the United States of America and shall not be subject to the lien created by this Fifth Supplement or to the claim of any other Person, including the Holders of the Series 2012

Bonds. Amounts deposited to the Rebate Fund, together with any investment earnings thereon, shall be held in trust and applied solely as provided in section 148 of the Code.

**SECTION 10. AMENDMENT OF SUPPLEMENT**. (a) ***Amendments Without Consent***. This Fifth Supplement and the rights and obligations of the City and of the owners of the Series 2012 Bonds may be modified or amended at any time without notice to or the consent of any owner of the Series 2012 Bonds or any other Parity PFC Obligations, but with prior notice to the Insurer, solely for any one or more of the following purposes:

(i) To add to the covenants and agreements of the City contained in this Fifth Supplement, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the City in this Fifth Supplement;

(ii) To cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in this Fifth Supplement, upon receipt by the City of an opinion of Bond Counsel, that the same is needed for such purpose, and will more clearly express the intent of this Fifth Supplement;

(iii) To supplement the security for the Series 2012 Bonds, replace or provide additional credit facilities, or change the form of the Series 2012 Bonds or make such other changes in the provisions hereof as the City may deem necessary or desirable and which shall not, in the judgment of the City, materially adversely affect the interests of the owners of the Outstanding Series 2012 Bonds;

(iv) To make any changes or amendments requested by (A) any Credit Rating Agency then rating or requested by the City to rate Parity PFC Obligations, as a condition to the issuance or maintenance of a rating, or (B) as may be necessary or desirable in order to obtain the approval of the Series 2012 Bonds by the Office of the Attorney General of the State of Texas, which changes or amendments do not, in the judgment of the City, materially adversely affect the interests of the owners of the Outstanding Parity PFC Obligations;

(v) To make such changes, modifications or amendments as are permitted by Section19(c)(v) of this Fifth Supplement;

(vi) To make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the Outstanding Parity PFC Obligations, in order, to the extent permitted by law, to facilitate the economic and practical utilization of Credit Agreements with respect to the Parity PFC Obligations; or

(vii) To make such other changes in the provisions hereof as the City may deem necessary or desirable and which shall not, in the judgment of the City, materially adversely affect the interests of the owners of Outstanding Parity PFC Obligations.

Notice of any such amendment may be published by the City in the manner described in subsection (c) of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

(b) ***Amendments With Consent***. Subject to the other provisions of this Fifth Supplement, the Insurer and the owners of Outstanding Series 2012 Bonds aggregating a majority in Outstanding Principal Amount shall have the right from time to time to approve any amendment, other than amendments described in Subsection (a) of this Section, to this Fifth Supplement which may be deemed necessary or desirable by the City; provided, however, that nothing herein contained shall permit or be construed to permit, without the approval of the owners of all of the Outstanding Series 2012 Bonds, the amendment of the terms and conditions in this Fifth Supplement or in the Series 2012 Bonds so as to:

(i) Make any change in the maturity of the Outstanding Series 2012 Bonds;

(ii) Reduce the rate of interest borne by Outstanding Series 2012 Bonds;

(iii) Reduce the amount of the principal payable on Outstanding Series 2012 Bonds;

(iv) Modify the terms of payment of principal of or interest on the Outstanding Series 2012 Bonds, or impose any conditions with respect to such payment;

(v) Affect the rights of the owners of less than all Series 2012 Bonds then Outstanding; or

(vi) Change the minimum percentage of the Outstanding Principal Amount of Series 2012 Bonds necessary for consent to such amendment.

(c) ***Notice***. If at any time the City shall desire to amend this Fifth Supplement other than pursuant to subsection (a) of this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal of general circulation in The City of New York, New York, and a newspaper of general circulation in the City, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of the Registrar for inspection by all owners of Series 2012 Bonds. Such publication is not required, however, if the City gives or causes to be given such notice in writing to each owner of Series 2012 Bonds.

(d) ***Receipt of Consents***. Whenever at any time not less than thirty days, and within one year, from the date of the first publication of said notice or other service of written notice of the proposed amendment the City shall receive an instrument or instruments executed by the Insurer and all of the owners or the owners of at least a majority in Outstanding Principal Amount of Series 2012 Bonds, as appropriate, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file as aforesaid, the City may adopt the amendatory ordinance in substantially the same form.

(e) ***Effect of Amendments***. Upon the adoption by the City of any ordinance to amend this Fifth Supplement pursuant to the provisions of this Section, this Fifth Supplement shall be deemed to be amended in accordance with the amendatory ordinance, and the respective rights, duties, and obligations of the City and all the owners of then Outstanding Series 2012 Bonds and all future owners of the Series 2012 Bonds shall thereafter be determined, exercised, and enforced under the Master PFC Ordinance and this Fifth Supplement, as amended.

(f) ***Consent Irrevocable***. Any consent given by any owner of Series 2012 Bonds pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication or other service of the notice provided for in this Section, and shall be conclusive and binding upon all future owners of the same Series 2012 Bonds during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the owner who gave such consent, or by a successor in title, by filing notice thereof with the Registrar and the City, but such revocation shall not be effective if the owners of a majority in Outstanding Principal Amount of Series 2012 Bonds, prior to the attempted revocation, consented to and approved the amendment.

(g) ***Ownership***. For the purpose of this Section, the ownership and other matters relating to all Series 2012 Bonds registered as to ownership shall be determined from the Registration Books. The Registrar may conclusively assume that such ownership continues until written notice to the contrary is served upon the Registrar.

**SECTION 11. ISSUANCE OF ADDITIONAL INDEBTEDNESS SECURED WITH SUBORDINATE NET REVENUES.** (a) ***No Superior Lien Permitted***. No Debt or other obligations of the City may be issued which is secured in whole or in part with a lien on and pledge of Subordinate Net Revenues that is superior to the lien on and pledge of Subordinate Net Revenues that has been granted in this Fifth Supplement to secure the Series 2012 Bonds (or that may be granted in the future on a parity basis in connection with any Additional Parity PFC Obligations or other indebtedness of the City).

(b) ***Additional Indebtedness Secured in Whole or in Part with Parity Pledge of Subordinate Net Revenues***. The City reserves the right to secure Debt (including Additional Parity PFC Obligations) or other indebtedness, secured in whole or in part with a lien on and pledge of Subordinate Net Revenues on a parity with the lien on and pledge of Subordinate Net Revenues which has been granted in this Fifth Supplement to further secure the Series 2012 Bonds, upon satisfaction of the following conditions (which conditions are in addition to satisfaction of the conditions set forth in Section 15 of the Master PFC Ordinance if such additional indebtedness is considered to be Additional Parity PFC Obligations):

(i) <u>No Default</u>. The Designated Financial Officer and the Aviation Director certify that, upon incurring, issuing or otherwise becoming liable in respect to such additional indebtedness, the City will not be in default under any term or provision of any ordinance which authorized the issuance of indebtedness then outstanding that is secured in whole or in part with a lien on Subordinate Net Revenues on a parity with the lien on Subordinate Net Revenues which has been granted in this Fifth Supplement to further secure the Series 2012 Bonds (including, if applicable, the Master PFC Ordinance and any Supplement).

(ii) <u>Proper Fund Balances</u>. The Designated Financial Officer certifies that, upon the issuance of such additional indebtedness: (i) the Bond Fund established by the Master GARB Ordinance will have the required amounts on deposit therein; (ii) all other similar debt service funds established in connection with outstanding obligations payable in whole or in part with a lien on and pledge of Subordinate Net Revenues to provide funds to pay the principal and interest on such obligations will have the required amounts on deposit therein; (iii) the Bond Reserve Fund established by the Master GARB Ordinance will contain the applicable Required Reserve Amount or so much thereof as is required to be funded at such time; and (iv) all other similar debt service reserve funds established in connection with the issuance of any obligations payable in whole or in part with a lien on and pledge of Subordinate Net Revenues will contain the amount then required to be funded at such time.

(iii) <u>Subordinate Net Revenue Coverage</u>. The Designated Financial Officer certifies that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Subordinate Net Revenues were equal to at least 1.10 times the maximum Annual Debt Service Requirements on all indebtedness of the City which is secured in whole or in part with a lien on and pledge of the Subordinate Net Revenues on parity with the lien on and pledge of Subordinate Net Revenues granted in this Fifth Supplement to secure the Series 2012 Bonds, and which is scheduled to occur in the then current or any future Fiscal Year after taking into consideration the additional indebtedness proposed to be issued or incurred.

(c) ***Other Indebtedness Secured in Whole or in Part with Junior Pledge of Subordinate Net Revenues***. The City further reserves the right to issue Debt or other indebtedness secured in whole or in part with a lien on and pledge of Subordinate Net Revenues which is junior and subordinate to the lien on and pledge of Subordinate Net Revenues that has been granted in this Fifth Supplement to further secure the Series 2012 Bonds without the necessity of complying with any historical or projected revenue requirements unless otherwise required by the ordinance or ordinances which authorize the issuance of such Debt or other indebtedness.

*** ** ***

**SECTION 14. FIFTH SUPPLEMENT AND MASTER PFC ORDINANCE TO CONSTITUTE A CONTRACT; EQUAL SECURITY**. In consideration of the acceptance of the Series 2012 Bonds, the issuance of which is authorized hereunder, by those who shall hold the same from time to time, this Fifth Supplement shall be deemed to be and shall constitute a contract between the City and the Holders from time to time of the Series 2012 Bonds and the pledge made in this Fifth Supplement by the City and the covenants and agreements set forth in this Fifth Supplement to be performed by the City shall be for the equal and proportionate benefit, security, and protection of all Holders, without preference, priority, or distinction as to security or otherwise of any of the Series 2012 Bonds authorized hereunder over any of the others by reason of time of issuance, sale, or maturity thereof or otherwise for any cause whatsoever, except as expressly provided in or permitted by this Fifth Supplement.

# APPENDIX D

## SELECTED PORTIONS OF THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

The information contained in Appendix D consists of selected portions of the City's Comprehensive Annual Financial Report for the fiscal year ended September 30, 2011 selected by the City of San Antonio for inclusion herein, and is not intended to be a complete statement of the City's financial condition. Reference is made to the Comprehensive Annual Financial Report for further information.

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# CITY OF SAN ANTONIO

P O BOX 839966
SAN ANTONIO, TEXAS 78283-3966

March 1, 2012

To the Honorable Mayor and City Council:

It is my pleasure to present the City of San Antonio's (City) Comprehensive Annual Financial Report (CAFR) for the fiscal year-ended September 30, 2011. These financial statements were prepared by the City's Finance Department and audited by the public accounting firm of Grant Thornton, LLP. As reflected in the Independent Auditors' Report, the City's financial statements are presented fairly in all material respects in accordance with U.S. generally accepted accounting principles. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the City.

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

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

## CITY SERVICES

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

The City is located in South Central Texas, approximately 75 miles south of the state capital of Austin and serves as the county seat for Bexar County. San Antonians enjoy first-rate medical services, a convenient and efficient airport, an excellent highway system, mild weather, and superb recreation choices, including: championship golf courses, theme parks, historical attractions, museums, professional sporting attractions and a lively performing arts environment. As of September 30, 2011, the City's geographic area was approximately 467 square miles. The United States Census Bureau cites the City as the second most populated city in the State of Texas with 1,326,539 citizens and is ranked as the seventh most populated city in the country.



## CITY SERVICES (Continued)

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

The City continues to support recreational improvements that enhance citizens' quality of life and recreation and fitness opportunities. For the third time, in November 2010 San Antonio voters approved a sales tax initiative to provide up to $135.0 million to be used to acquire and preserve land or interests in land in the Edwards Aquifer recharge and contributing zones and to be used for the acquisition of open space and linear parks along San Antonio's Creekways. A total of 32 miles of linear greenway walking and biking trails have been constructed through two previous voter-approved sales tax initiatives. The City actively pursues outside opportunities for grants and community partnerships to leverage public funds.

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

## ECONOMIC CONDITIONS AND OUTLOOK

As a community, San Antonio has positioned itself for long-term growth and prosperity by successfully following a strategy to diversify its economy and improve quality of life for all citizens. The economic strategy resulting from SA2020 emerges as the City's roadmap to become a leader in job creation by maintaining growth in traditional industry sectors while specifically targeting 10.0% job growth in the following sectors: Healthcare and Biosciences, Information Technology and Information Security, Aerospace, and the New Energy economy. The City's SA2020 goals will be pursued through the next decade by utilizing San Antonio's unique assets, including its historical and cultural heritage, formidable local institutions (e.g. military bases, universities, medical center), and natural resources such as the Eagle Ford Shale formation in South Texas.

In addition to charting our course for continued economic prosperity, SA2020 also focuses on ongoing infrastructure improvements, neighborhood revitalization and workforce development initiatives, as well as downtown development. In February 2010, the City passed the Inner-City Reinvestment Infill Policy (ICRIP) to further support balanced and sustainable development throughout San Antonio's inner-city and southern sectors, which include Port San Antonio and Brooks City-Base. Both government and citizens are actively committed to increasing the caliber of educational and economic opportunities, expanding arts and leisure choices, revitalizing older neighborhoods, and planning for overall growth in the City. The City's cultural and geographic proximity to Mexico provides favorable conditions for international business relations. Also enhancing San Antonio's business appeal is the high quality of life the City offers and a cost-of-living that is below the national average. In addition to the favorable economic climate, excellent weather conditions year round help encourage and enhance the operation of many of San Antonio's most important industries.

Economic indicators tell the story of a resilient 2011 for San Antonio exemplifying the comparative stability of the local economy as it outperformed comparable cities impacted by the national recession. According to research performed by the Brookings Institution, San Antonio is one of the 20 strongest performing metropolitan areas (metros) out of the 100 largest metros. The Brookings Metropolitan Policy Program issues the quarterly series, *MetroMonitor*, which provides an understanding of how the current economic recession has 'affected America's metropolitan economies'.

The Brookings *MetroMonitor* measures overall metropolitan performance as an aggregate of four measures: percent employment change, percent unemployment rate change, percent Gross Metropolitan Product (GMP) change and percent change in Housing Price Index (HPI). The September 2011 report, which examined data throughout the 2$^{nd}$ quarter of calendar year 2011, showed San Antonio in the top 20 (strongest performers) in increased employment and stable housing price index.

As of the 2$^{nd}$ quarter of calendar year 2011, the 100 largest metros in the United States continue to struggle to regain pre-recession employment levels. San Antonio was among the top cities that suffered a less-severe decline in overall employment. From San Antonio's pre-recession peak employment quarter to the 2$^{nd}$ quarter of 2011, San Antonio ranked 4$^{th}$ among the top 100 metros with a change of 0.2%.

San Antonio's seasonally adjusted unemployment rate was 8.1%, compared to the 100-largest metro areas average rate of 9.4%, and the national rate of 9.3%. All metros experienced a rise in unemployment rates through the onset of the recession but among the 100 metros, San Antonio ranked 29$^{th}$ in the nation.

In addition to employment and unemployment data, Good Manufacturing Practice (GMP) is a valuable measure of the total value of goods and services produced within a metro area. When measuring the percentage change in GMP from San Antonio's recession peak quarter to the 2$^{nd}$ quarter of 2011, San Antonio ranked 25$^{th}$ with an increase of 2.9%.

San Antonio's housing market registered a relatively small negative impact as a result of the national housing bubble. According to the September 2011 Multiple Listing Service report by the San Antonio Board of REALTORS®, even though the number of sales was down by 2.0% year-to-date, the median price of a home rose to $151,500, a 2.0% increase when compared to a year ago.

San Antonio's resilient economy was fueled by several targeted industry projects in fiscal year 2011. The City utilized a combination of tax abatements, grant and loan agreements, impact fee waivers, and nominations for State project designations that assisted in enticing the following businesses to move to or remain in San Antonio:

South Texas Research Facility

The City invested $3.3 million in the construction of the $150.0 million South Texas Research Facility through the San Antonio Economic Development Corporation (SAEDC), which entered into an economic development agreement with the University of Texas Health Science Center San Antonio on July 28, 2011. This project will create at least 150 research jobs in the targeted bioscience industry and will provide a potential return on investment of up to $4.0 million through the SAEDC's equity investment in university spinout companies.





Additional entities that the City recruited to or retained within San Antonio are included in the following table:

| Company Name | No. of Jobs | Investment ($M) |
|---|---|---|
| Argo Group | 200 | $ - |
| Baker-Hughes | 400 | 30.0 |
| Becton, Dickson | 296 | 6.4 |
| Boeing | 400 | 10.0 |
| Chevron | 17 | 335.0 |
| Cold Car | 50 | 10.0 |
| Consert | 200 | - |
| Conway Freight | 129 | 8.5 |
| Econtrols | 275 | - |
| Fiberglass Systems | 40 | 8.0 |
| Green Star | 38 | 40.0 |
| HVHC, Inc | 350 | - |
| J.Crew | 270 | 1.7 |
| M-7 | 450 | - |
| PETCO | 400 | 5.0 |
| Schlumberger | 200 | 20.0 |
| Sun Edison | - | 42.5 |
| UT HSC | 150 | 150.0 |
| Weatherford | 200 | 18.0 |
| **Total** | **4,065** | **$ 685.1** |

In addition to the targeted industry projects the following are further details regarding factors affecting the business climate and local economy for the City.

Base-Realignment and Closure and Fort Sam Houston

One of the most significant events in San Antonio's recent economic history is the 2005 Base Realignment and Closure (BRAC). BRAC has had a major positive impact on military medicine in San Antonio resulting in approximately $3.1 billion in construction and the addition of 12,500 jobs in San Antonio in 2011. This is an increase from the $1.6 billion in construction and 11,500 personnel projected in 2007. Currently, all U.S. Army combat medic training is conducted at Fort Sam Houston. As a result of the 2005 BRAC, all military combat medic training – Army, Air Force, Navy, Marines and Coast Guard – will be undertaken at the new Medical Education and Training Campus at Fort Sam Houston. The San Antonio Military Medical Center (SAMMC) has been established as a result of the 2005 BRAC and combines the Level 1 Trauma elements of Wilford Hall and Brooke Army Medical Center (BAMC). Wilford Hall has been renamed SAMMC-South and BAMC has been renamed SAMMC-North. SAMMC-North is doubling its Level 1 trauma missions from SAMMC-South. SAMMC-South is an outpatient only facility that has received outpatient missions from SAMMC-North and will be replaced by the Lackland Ambulatory Care Center. The Care Center is scheduled for completion in 2013. This $486.0 million Care Center will provide world-class medical care for the community.

Base-Realignment and Closure and Fort Sam Houston (Continued)

In addition, San Antonio will receive new medical research missions. The U.S. Army Institute for Surgical Research located next to SAMMC-North will double in size as a result of new BRAC missions and will be renamed the Joint Center of Excellence for Battlefield Health and Trauma. The new mission will continue its cutting edge research in the areas of robotics, prosthetics and regenerative medicine. As a result of BRAC, San Antonio will become a leader in military medical training, education and research.

Port San Antonio

Port San Antonio (Port) is a multimodal logistics platform and aerospace complex 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's 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 $4.0 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 (USGBC).

Fourteen of the Port's customers are aerospace-related firms, including industry leaders Boeing, Lockheed Martin, StandardAero, Chromalloy, Gore Design Completions 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 fiscal year 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 (MRO) 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 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 Design Completions, which is North America's largest outfitter of custom interiors for wide body jets and the third largest such company 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. The company additionally took in two new aircraft to keep it busy through 2012.





Port San Antonio (Continued)

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 $60.0 million in upgrades to the property to meet new Anti-Terrorism Force Protection (ATFP) standards that ensure the safety of its occupants and the sensitive work that takes place within. In 2012 the completion of final bays will allow the 24$^{th}$ Air Force, also known as the 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.

Looking ahead, in 2012 the Port will reach an important milestone as two road construction phases begun in 2011 are completed. The project extends 36$^{th}$ Street from the Port's northwest entrance for almost two miles into the heart of the property, improving access to the Port and, starting in 2012, opening 150 acres at Kelly Field for the development of new air-served facilities.

The new sites opened by the 36$^{th}$ Street extension will enable the construction of new hangars and workshops that can support an additional 8,000 new jobs in that part of the Port alone—further positioning the region as an important and thriving aerospace center. The project is headed by the City's Capital Improvement Management Services Department. Additional project partners include the Metropolitan Planning Organization (MPO), CPS Energy, San Antonio Water System (SAWS) and the Texas Department of Transportation.

Brooks City-Base

Brooks City-Base (BC-B) continues to foster the development of its business and technology center on the south side of San Antonio through its aggressive business attraction and retention efforts. Recognized as one of the most innovative economic development projects in the United States, BC-B is a 1,246 acre campus with approximately 350 acres available for immediate development.

The United States Air Force ceased all operations at BC-B on September 15, 2011. The Brooks Development Authority (BDA) gates opened in May 2011 with the completion of South New Braunfels Phase 1. BDA commissioned its first Economic Impact Study with The University of Texas at San Antonio Institute for Economic Development. Construction activities were estimated at $597.4 million in direct output and $1.0 billion in total output.

BDA completed the acceptance of $17.0 million in personal property from the Air Force. To date BDA has donated items with an estimated value of $559.0 thousand to local nonprofit organizations and schools. BDA moved to its new office space at 3201 Sidney Brooks, after a $300.0 thousand renovation of the former child care facility.

BDA signed a number of lease agreements with the following companies.

- **Volt Information Sciences, Inc** – Five-year lease agreement signed on November 17, 2010 for approximately 34,599 square feet in Building 532, for call center services. Volt expects to hire 600 employees over the next year.
- **NuStar Energy –** Two-year lease agreement with NuStar Refining, LLC signed on July 7, 2011 for approximately 12,615 square feet. The space will be utilized for office administration and lab testing.
- **Texas A&M** – Five-year lease agreement signed on July 5, 2011 for 77,648 square feet of classroom and office space.

Brooks City-Base (Continued)

- **Spine and Pain Center of San Antonio, PLLC** – 10- year lease agreement with Spine and Pain Center of San Antonio, PLLC on September 1, 2011, for approximately 9,622 rentable square feet of medical office space.
- **Wyle Laboratories, Inc** – Two-year lease agreement signed on July 1, 2011 for approximately 26,176 total square feet in Buildings 160, 170 and 159 and the surrounding grounds and parking areas for centrifugal training.

On June 27, 2011, the Mission Trail Baptist Hospital, located on 28 acres at BC-B, 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. Also, construction on a 300 unit multi-family apartment complex started July 20, 2011. The development will be owned by BDA and the NRP Group will be the co-developer. The development is slated to be completed in spring 2012. The apartments will be leased at market-rate and will offer all the conveniences of modern, urban living.

To continue fostering economic activities in the south side, BDA has leveraged resources by applying for designation as an EB-5 Regional Center and obtaining multiple State Energy Conservation Office (SECO) loans. The EB-5 designation will benefit BDA from an influx of foreign capital and will improve its financial operations and capital projects. 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.

Aerospace Industry Development

San Antonio International Airport (SAT) has 20 airlines (9 mainline and 11 regional) providing non-stop flights to a total of 30 destinations, which do not include seasonal charter flights to Mexico available during the spring and summer. During fiscal year 2011, SAT experienced an increase in enplaned passengers despite weak economic conditions. At final count, 4,057,000 passengers were enplaned in fiscal year 2011, an increase of 66,553 (or 1.6%) over the prior year. Both the United merger with Continental (now operating under a single operating certificate) and the Southwest merger with AirTran have been approved by the US government with no change in service at SAT. In November 2011, VivaAerobus and Interjet (both Mexican carriers) announced new service to Mexico City, Monterrey and Toluca from San Antonio to begin in November and December 2011. Southwest Airlines announced service from San Antonio to Mexico City to begin in May 2012 to Mexico City and Cancun.

On November 9, 2010, the first flights departed from Terminal B. The 225,000 square-foot terminal will have eight gates and four levels and replaces the demolished Terminal 2. Also completed in time for the Terminal B opening were a Central Utility Plant and a Baggage Handling System. The Central Utility Plant powers Terminals A & B and gives the SAT the capacity for future expansion, and the Baggage Handling System consolidates all baggage screening equipment from both terminals to a secured location behind the building.

In March 2011, the Vision 2050-Master Plan for SAT was adopted by City Council. Vision 2050, which updates the 1998 Master Plan, identifies the development options regarding land use, facilities and services to ensure that SAT meets its strategic objectives and can accommodate expected levels of activity over the next 20 years.





International Trade and Outlook

As part of the International Relations Office (IRO) and Economic Development Department (EDD)'s ongoing efforts to focus on core functions, the City's "international" functions fit into two distinctive services: "International Relations" which encompasses Protocol and Sister City development including the Casas San Antonio Program, and the Economic Development Department's International Business Development which focuses on attracting foreign direct investment and assisting local companies to expand into foreign markets. This redesign is a natural evolution focused on providing a greater impact in job creation and investment, driven by focused performance measures.

IRO develops and maintains foreign relations for the City, fostering partnerships that increase global visibility, cultural understanding and economic growth.

In fiscal year 2011, vigorous crosssector follow through on new Friendship City Agreements with China resulted in selecting the City of Wuxi as San Antonio's next sister city. The Sister City Agreement will be signed in San Antonio in early 2012, focusing upon exchanges in Tourism, Education, Culture, Healthcare, Investment and Business Development. The Korean Sister City, Gwangju, built an authentic Korean Pavilion at the Denman Estate Park, and the Indian Diwali Festival of Lights grew to 10,000 attendees, promising to be an annual visitor draw. The City hosted officials from Argentina, Canada, China, Germany, Mexico, Korea, India, Russia, Japan, Namibia, Slovak Republic, US Department of State, UK, Singapore, Turkey, Taiwan, Italy, and Spain. Official foreign missions from San Antonio during this period included Mayor Castro's meeting with Mexican President Felipe Calderon as well as visits to Israel, China, Korea, Taiwan, Spain, and Germany.

In fiscal year 2011, the EDD began developing an international economic development strategy, which included aligning the City's contracts with the Free Trade Alliance and the Economic Development Foundation. EDD carried out a targeted foreign prospect development strategy hosting over 12 foreign site selectors from 6 different countries as well as meeting with foreign site selectors during trade missions abroad. This strategy resulted in increased awareness of San Antonio as an ideal foreign investment destination and augmented the number of international prospects engaging Economic Development Foundation in location discussions. The 11th Annual San Antonio Export Leaders Program was carried out in partnership with the Hispanic Chamber of Commerce, UTSA International Trade Center, US Foreign Commercial Service, and other business development stakeholders. National prominence was achieved for this Program by working with the United Stated Department of Commerce in Washington DC to help replicate the program in other US Cities as part of the Presidents' National Export Initiative. EDD worked in collaboration with IRO and the Convention and Visitors Bureau (CVB) to provided support to the China Advisory Subcommittee in the development of an Action Plan to increase trade, foreign direct investment and cultural ties with China, including our Sister City of Wuxi, China.

As of August 31, 2011, the North American Development Bank participated in the development and financing of 152 environmental infrastructure projects, with approximately $1.3 billion in loans and grants. These projects are estimated to cost a total of $3.3 billion to build and will benefit an estimated 13 million border residents throughout the 10 states that comprise the U.S. – Mexico border region.

San Antonio continues to develop itself as an Inland Port for imports and exports with Mexico, Latin America, India, Germany, China, Japan, Spain, and other regions of the world. This is accomplished through transportation, manufacturing and logistics facilities; professional services and value-added services involved in processing, marketing and moving freight within the South Texas Region. Over the past 17 years, the City led the nation by establishing three commercial trade offices in Mexico's principal cities and in Tokyo, Japan.

International Trade and Outlook (Continued)

For 27 years, the IRO's trade representative in Japan has attracted multi-million dollar operations to San Antonio including Toyota and its 24 suppliers, Takata Seat Belt, Sony Corporation, MyCom International, Hyatt Hill Country Resort (a major Japanese investment joint venture), and Higuchi. The trade representative continues to promote Japanese investment in San Antonio by conducting trade missions to cities throughout Japan.

Community Development

Community development projects continue to play an important role in San Antonio's economic success. Targeted redevelopment, neighborhood revitalization and smart growth strategies are shaping the way San Antonio is growing and its citizens are living. The City is continuing its efforts to redevelop portions of the community and influence development of new areas through the ICRIP. Through incentive mechanisms such as qualified fee waivers, it promotes growth and development in the heart of the City, specifically in areas that are currently served by public infrastructure and transit, but underserved by residential and commercial real estate markets. It is the intent of this Policy to coordinate public initiatives within targeted areas in order to stimulate private investment in walkable urban communities that are the building blocks of a sustainable region.

In August 2011, San Antonio became the first major Texas city to possess both a University of Texas System and a Texas A&M University System degree granting campus, when Texas A&M University-San Antonio opened as a stand-alone university. Leveraging the economic momentum surrounding the Toyota manufacturing plant, Texas A&M University-San Antonio, and new activity surrounding the Eagle Ford Shale, as well as implementing the Heritage South Sector Plan, City South Management Authority continues to foster economic growth and sustainable development in the far South Side.

Hospitality Industry

The City's diversified economy includes a significant sector relating to the hospitality industry. A recent study prepared by Richard V. Butler, Ph.D. and Mary E. Stefl, Ph.D., both professors at Trinity University, found that the hospitality industry has an economic impact of nearly $11.0 billion. The estimated annual payroll for the industry is $1.99 billion, and the industry employs more than 106,000 workers. Also, this industry contributes more than $153.4 million in taxes and fees to the City, and more than $286.4 million to all local governments combined.

San Antonio's hospitality industry attracted 26.0 million visitors in 2010, and 12.2 million were overnight leisure visitors, placing San Antonio as one of the top leisure destinations in Texas. San Antonio continues to rank high as a top leisure and convention/group meeting destination. Recent fiscal year 2011 accomplishments contributing to our success include generating over $12.0 million in positive media value for San Antonio as a tourism and convention destination; Top Chef Texas which featured San Antonio in 8 episodes and showcases the City as a growing culinary destination; implementing a marketing and communication campaign leveraging the 175th anniversary of the Battle of the Alamo; and renovated and branded our Visitor Information Center across from the Alamo which services more than 300,000 visitors.

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





Hospitality Industry (Continued)

San Antonio is also one of the top convention cities in the country. In fiscal year 2011, the City's CVB launched a niche CEO marketing plan which raised awareness of San Antonio with top business executives, primarily to influence meeting destination opportunities. Thus, the CVB sales staff booked more than 852,000 room nights for current and future years.

According to Smith Travel Research, in 2011, the City's overall performance for hotel occupancy increased by 3.4%. The increase was attributed to revenue per available room (REVPAR) increases of 1.9%; total room nights sold increases of 5.8%; and hotel room supply increases of 2.3%; tempered by average daily rate (ADR) decreases of 1.5%.

Convention, Sports and Entertainment Facilities

The continued success of the City's vibrant hospitality industry depends significantly on its inventory of high-quality facilities to host conventions, meetings, and major sporting events. The Convention, Sports, and Entertainment Facilities Department (CSEF) operates the Henry B. Gonzalez Convention Center, the recently-renovated Lila Cockrell Theatre, the Alamodome, and (until June 2011) the Municipal Auditorium. After 82 years of operation as a City-owned facility, the Municipal Auditorium was closed and will be redeveloped as the Tobin Center for the Performing Arts. Owned and operated by a nonprofit entity, the new facility will receive almost $200.0 million in renovations and is scheduled to open in 2014. In the past year, more than 570,000 visitors attended 314 events held at the Henry B. Gonzalez Convention Center, including 69 events at the Lila Cockrell Theatre. Significant conventions included the American College of Gastroenterology, Association for Financial Professionals, Society of Nuclear Medicine, Academy of Management, Society of Exploration Geophysicists, National Conference of State Legislators, and the Veterans of Foreign Wars of the US (VFW). The City also hosted the 2011 NCAA Men's Regional Basketball Tournament with more than 25,000 in attendance.

The Alamodome, a multi-purpose sports and general assembly facility, hosted more than 935,000 visitors over 132 event days. Many varied and significant events were held at the Alamodome in 2011, including the following: the Third Annual San Antonio Rock 'N' Roll Marathon and Half Marathon, with over 30,000 participants, which generated $26.1 million in direct visitor spending; the Dallas Cowboys Training Camp with 94,000 attendees over the 13 day camp; the 2010 Valero Alamo Bowl featuring Oklahoma State vs. University of Arizona, with more than 57,000 fans attending which generated a direct economic impact of $32.6 million for the City; the inaugural game for the new University of Texas San Antonio (UTSA) Football program featured the UTSA Roadrunners vs. Northeastern University. Attendance set a new modern-era record (56,000) for a season opener by a first-year NCAA Division I program. The Alamodome also debuted the new Illusions Theater offering a configuration of 3,785–11,000 seats and state-of-the-art curtain and LED lighting systems.

In the CSEF 2011 Capital Improvement Plan, the Convention Center constructed a new Visitor Services Center, enhanced building security with the addition of a new building access control system, and upgraded its technical infrastructure to enhance digital TV reception. Other capital improvements at the convention center include a new comprehensive digital way-finding and meeting room signage system. Total improvements in a two-year period at the Convention Center has totaled over $40.0 million, with the City projected to recover over $30.2 million in capital improvement-related rebates via the State's Convention Event Trust Legislation.

Facility enhancements to the Alamodome include design and construction for a new Home Team Locker Room and the opening of two new concessions outlets. These upgrades will assist the City in enticing future, high profile clients, and improve fan's experiences. The City is projected to recover over $4.1 million in capital improvement-related rebates via the State's Sporting Event Trust Legislation.

## ECONOMIC CONDITIONS AND OUTLOOK (Continued)

Downtown Development Projects

City Council approved economic development grants for center city projects that total $16.8 million for the Mosaic, 1111 Austin Highway, 1800 Broadway, Pearl Parkway North and South, Steel House Lofts, Camden Medical Office, and ButterKrust Redevelopment. These projects represent a total investment of $162.8 million and will add 770 housing units and 615 jobs to the center city.

Since October 2010, the HemisFair Park Area Redevelopment Corporation (HPARC) focused its efforts on the creation and implementation of a Master Plan for HemisFair Park. HPARC selected Johnson Fain, Inc. as the consultant for the Master Plan. Through several community workshops, Johnson Fain developed a Framework Plan that identified main points of focus for HemisFair Park. City Council endorsed the Framework Plan at the May 12, 2011 City Council meeting.

Since its endorsement, HPARC has refined the Framework Plan to include more detail. The refined document will serve as the final master plan for HemisFair Park. The Master Plan, using the Framework Plan as its basis outlines six big ideas for the redevelopment of HemisFair Park to include the following:

1. Expanding the Convention Center eastward;
2. Developing more public and open space;
3. Incorporating a multi-use amphitheater into the redevelopment;
4. Integrating water features into the site;
5. Accommodating the streetcar line through the site; and
6. Redeveloping the S Alamo and Cesar Chavez Corner to accommodate retail and a mix of activity.

Additionally, the Master Plan incorporates HPARC's guiding principles which address connectivity, development, balance, preservation, and sustainability and includes several big ideas that resulted from the public outreach efforts. City Council will take action on the final Master Plan in fiscal year 2012.

American Recovery and Reinvestment Act

President Obama signed the American Recovery and Reinvestment Act (ARRA) into law on February 17, 2009. ARRA will provide a nationwide total of $787.0 billion in spending and tax cuts. The funding is temporary, intended to preserve and create jobs, and make investments in infrastructure, energy and science, unemployment assistance, and state and local stabilization.

In order to take full advantage of the funding opportunities and additional services that may be provided to the City of San Antonio as a result of the ARRA, City staff has worked closely with City Council to strategize and align specific City Council ranked projects to individual Federal and State agency funded programs.

As of February 2012, the City has been awarded over $139.6 million in ARRA grants. These grants have and will fund public safety, street projects, various child care programs, energy efficiency programs, and homeless assistance.



## FINANCIAL INFORMATION

**Accounting System and Budgetary Control**

The management of the City is responsible for establishing a system of internal controls that are designed to provide reasonable assurance that assets are protected from loss, theft, or misuse. The City's accounting system supports the internal controls and procedures, which provide reliable financial records for preparing financial statements in conformity with U.S. generally accepted accounting principles. The internal control structure provides reasonable assurance that the City's assets are safeguarded as well as the reliability of financial records for preparing financial statements. The concept of reasonable assurance first recognizes that the cost of a control should not exceed the benefits likely to be derived. Secondarily, the evaluation of costs and benefits require estimates and judgments by management.

Budgetary compliance is a significant tool for managing and controlling governmental activities, as well as ensuring conformance with the City's budgetary limits and specifications. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Levels of budgetary control, that is the levels at which expenditures cannot legally exceed appropriated amounts, are established by department within individual funds. The City utilizes an encumbrance system of accounting as one mechanism to accomplish effective budgetary control. Encumbered amounts lapse at year-end and are generally appropriated as part of the following year's budget. Another budgetary control is the monthly revenue and expenditure reports detailing budget and actual balances with variances that are generated and reviewed by the Office of Management and Budget, Finance and the City Manager's Office prior to submission to City Council. As part of the annual review and close-out process, City Council will approve desired budget adjustments and carryforwards for the next fiscal year. The City further implemented available budget controls within its system of record for capital projects and grants. The system warns when cumulative expenditures are within 75.0% of total budget. The system will not allow the processing of non-payroll transactions in excess of the budget.

Each year the City prepares a five-year financial forecast (Forecast) prior to the adoption of the annual operating budget. The Forecast is a financial and budgetary planning tool that provides a current and long-range assessment of financial conditions and costs for City services. The Forecast includes the identification of service delivery policy issues that will be encountered in the next five years and that will have a fiscal impact upon the City's program of services. The Forecast also examines the local and national economic conditions that have an impact on the City's economy and ultimately, its budget.

The Forecast serves as a foundation for development of the proposed budget by projecting revenues and anticipated expenditures under a defined set of assumptions. The Forecast enables the City Council and staff to identify financial issues in sufficient time to develop a proactive strategy in order to address emerging strategic issues.

After obtaining the priorities of City Council, as well as conducting reviews of each City department, the proposed City budget is presented to City Council. The proposed budget represents the City staff's professional recommendation on how to utilize revenues and expenditures in order to achieve a balanced budget, while optimizing City service deliveries.

## FINANCIAL INFORMATION (Continued)

**Accounting System and Budgetary Control (Continued)**

As part of the City's sound financial planning, the City Council adopted a budget that is balanced and enhances services that are most important to the community while maintaining a strong financial position. The Budget included reductions totaling $24.0 million in the General Fund that were achieved as a result of technology investments, in-depth comprehensive review and operational efficiencies. The City also maintains an enhanced process for reviewing and justifying the need to fill vacant positions. The City's budget further incorporates a strategy, adopted by City Council, to maintain the financial reserves at 9.0%. The establishment and maintenance of appropriate reserves within the General Fund is critical to prudent financial management and provides budgetary flexibility for unexpected events, financial emergencies, and the unusual fluctuation in revenue-expenditure patterns. These proactive actions assisted the City in generating a favorable ending fund balance for fiscal year 2011.

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

In fiscal year 2010, the City achieved a triple-triple, with three national credit-rating agencies awarding the City 'AAA' status on its General Obligation Bonds, the highest bond rating a city can receive. San Antonio continues to be the only major U.S. city (with a population of more than one million) to be rated 'AAA' by all three major rating agencies: Fitch, Moody's, and Standard & Poor's. These ratings on the General Obligation Bonds were based on the City's "maintenance of strong financial reserves and continued diversification of the local economy." Over the long term, the improved ratings will result in savings to the City and its residents as a result of lower interest rates on the bonds the City sells.

As demonstrated by the statements and schedules in the Financial Section of this report, the City continues to meet its responsibility for sound financial management.

**Fiscal Management**

Debt Administration

The City utilizes a comprehensive debt management financial planning program, which is updated annually and is a major component of the City's financial planning. The model projects financing needs, measuring and assessing the cost and timing of each debt issuance. It involves comprehensive financial analysis, which utilizes computer modeling, and incorporates variables such as interest rate sensitivity, assessed value changes, annexations, and current ad valorem tax collection rates. Use of this financial management tool has assisted the City in meeting its financing needs by facilitating timely and thorough planning, which has allowed the City to capitalize on market opportunities.

Transparency

The City actively pursues transparency of its operations. The status of voter approved $550.0 million bond projects is available for public view on the City's website. At the end of fiscal year 2010, the City streamlined its website for user friendly access to the City's budget documents, quarter and annual reports, and check register. January 19, 2012, the City launched a new website to be more user-focused with subject-based categorization of information. The City will, throughout fiscal year 2012, convert all departmental webpages to this new design, and will continue to assess ways to provide the public with a more transparent government.



## OTHER INFORMATION

**Independent Audit**

State statutes require that an annual audit by an independent certified public accountant be conducted. The City selected the accounting firm Grant Thornton, LLP. In addition to meeting the requirements set forth in State statutes, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996, OMB Circular A-133, *Audit of State and Local Government and Nonprofit Organizations* and *State of Texas Single Audit Circular*. The Independent Auditors' Report on the basic financial statements, Managements Discussion and Analysis (MD&A) (required supplementary information), required disclosures, and schedules are included in the Financial Section of this CAFR. The Independent Auditors' Report, along with other required reports and schedules mandated by the Single Audit Act Amendments of 1996, and OMB Circular A-133, and the *State of Texas Single Audit Circular* are in a separate document.

**Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year-ended September 30, 2010. This was the 35th consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report satisfies both U.S. generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Office of Management and Budget received the Annual Distinguished Budget Award from the Government Finance Officers Association, recognizing outstanding achievement in preparation of the 2011 Operating and Capital Budget.

The Comptroller of Public Accounts has awarded the City with a "Gold" Circle Award for the City's transparency efforts in the Texas Comptroller Leadership Circle program. The Gold level highlights those entities that set the bar with their transparency.

**Acknowledgements**

The preparation of the City of San Antonio, Texas Comprehensive Annual Financial Report for the fiscal year ended September 30, 2011, was made possible by the dedication and hard work of the Finance Department, particularly the staff of the Accounting Division, Financial Reporting Section. Each member of the department has my sincere appreciation for their contributions to the preparation of this document. In closing, please accept my sincere gratitude to the Mayor and City Council, City Manager, Deputy City Managers, Assistant City Managers, and their staff, for their continued support.

Respectfully submitted,

Ben Gorzell Jr., CPA
Chief Financial Officer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

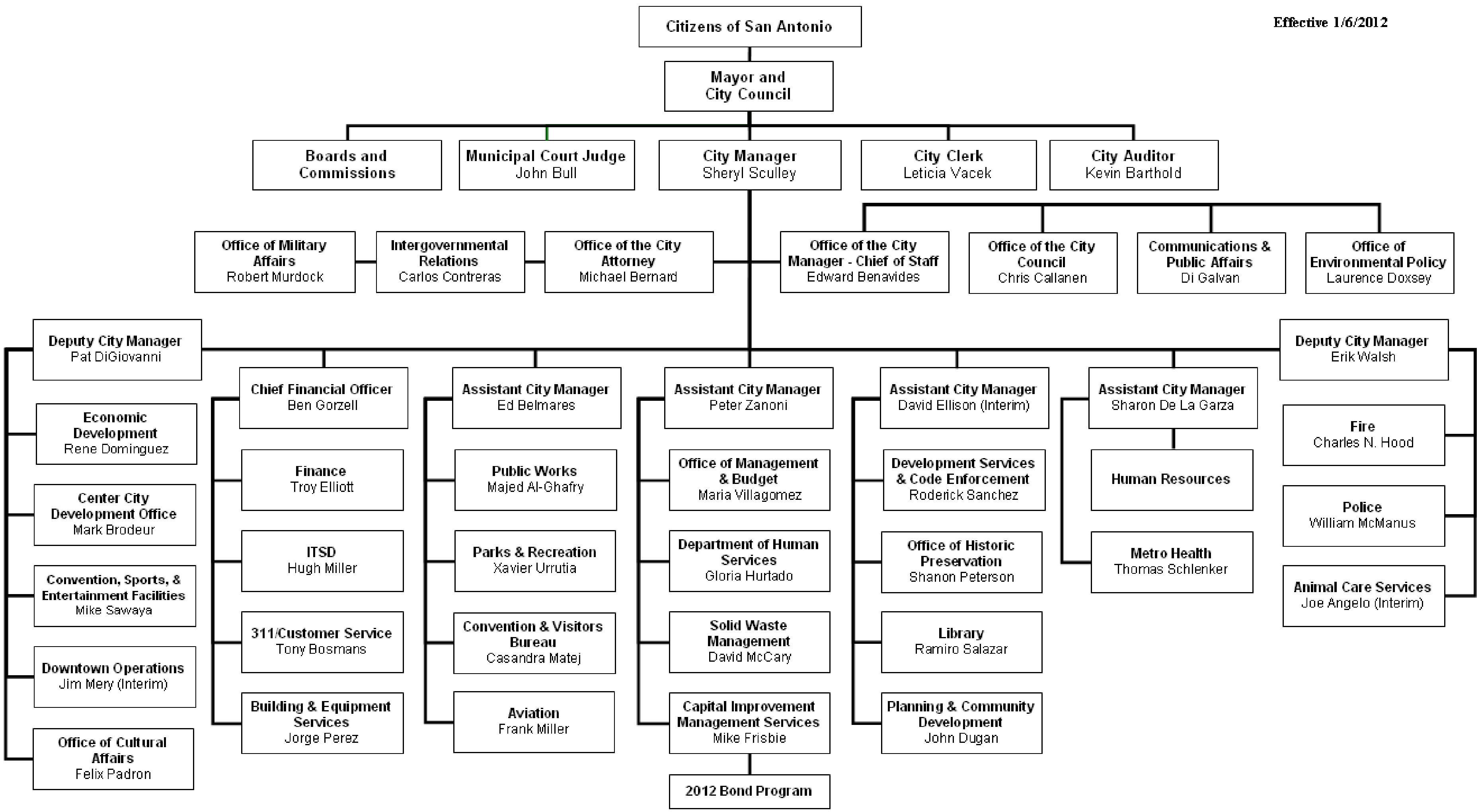
## City of San Antonio
## Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2010

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

President

Executive Director


Effective 1/6/2012
Citizens of San Antonio
Mayor and City Council
Boards and Commissions
Municipal Court Judge John Bull
City Manager Sheryl Sculley
City Clerk Leticia Vacek
City Auditor Kevin Barthold
Office of Military Affairs Robert Murdock
Intergovernmental Relations Carlos Contreras
Office of the City Attorney Michael Bernard
Office of the City Manager - Chief of Staff Edward Benavides
Office of the City Council Chris Callanen
Communications & Public Affairs Di Galvan
Office of Environmental Policy Laurence Doxsey
Deputy City Manager Pat DiGiovanni
Economic Development Rene Dominguez
Center City Development Office Mark Brodeur
Convention, Sports, & Entertainment Facilities Mike Sawaya
Downtown Operations Jim Mery (Interim)
Office of Cultural Affairs Felix Padron
Chief Financial Officer Ben Gorzell
Finance Troy Elliott
ITSD Hugh Miller
311/Customer Service Tony Bosmans
Building & Equipment Services Jorge Perez
Assistant City Manager Ed Belmares
Public Works Majed Al-Ghafry
Parks & Recreation Xavier Urrutia
Convention & Visitors Bureau Casandra Matej
Aviation Frank Miller
Assistant City Manager Peter Zanoni
Office of Management & Budget Maria Villagomez
Department of Human Services Gloria Hurtado
Solid Waste Management David McCary
Capital Improvement Management Services Mike Frisbie
2012 Bond Program
Assistant City Manager David Ellison (Interim)
Development Services & Code Enforcement Roderick Sanchez
Office of Historic Preservation Shanon Peterson
Library Ramiro Salazar
Planning & Community Development John Dugan
Assistant City Manager Sharon De La Garza
Human Resources
Metro Health Thomas Schlenker
Deputy City Manager Erik Walsh
Fire Charles N. Hood
Police William McManus
Animal Care Services Joe Angelo (Interim)

**Comprehensive Annual Financial Report**
**Period Ended September 30, 2011**

***Incorporated December 14, 1837***
***Charter Adopted October 2, 1951***
***Council - Manager Form of Government***

## CITY COUNCIL

**Julián Castro**
*Mayor*

**Diego M. Bernal**
*District 1*

**Ivy R. Taylor**
*District 2*

**Leticia Ozuna**
*District 3*

**Rey Saldaña**
*District 4*

**David Medina, Jr.**
*District 5*

**Ray Lopez**
*District 6*

**Cris Medina**
*District 7*

**W. Reed Williams**
*District 8*

**Elisa Chan**
*District 9*

**Carlton Soules**
*District 10*

## EXECUTIVE LEADERSHIP TEAM

**Sheryl L. Sculley**
*City Manager*

**Pat DiGiovanni**
*Deputy City Manager*

**Erik J. Walsh**
*Deputy City Manager*

**Sharon De La Garza**
*Assistant City Manager*

**David Ellison**
*Interim Assistant City Manager*

**Peter Zanoni**
*Assistant City Manager*

**Ed Belmares**
*Assistant City Manager*

**Ben Gorzell Jr.**
*Chief Financial Officer*

**Michael Bernard**
*City Attorney*

Member of The Government Finance Officers
Association of the United States and Canada

## City of San Antonio, Texas

# *Financial Section*

# CITY OF SAN ANTONIO, TEXAS

## Comprehensive Annual Financial Report

**Year-Ended September 30, 2011**

City of San Antonio, Texas

# *Independent Auditors' Report*

Grant Thornton

Audit • Tax • Advisory

Grant Thornton LLP
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Houston, TX 77002-4168

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## Report of Independent Certified Public Accountants

The Honorable Mayor and Members of the City Council
City of San Antonio, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas (the City), as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of San Antonio Fire and Police Pension Fund, San Antonio Fire and Police Retiree Health Care Fund, San Antonio Health Facilities Development Corporation, San Antonio Health Trust Finance Corporation, San Antonio Industrial Development Authority, San Antonio Education Facilities Corporation and San Antonio Public Library Foundation, blended component units, which represent 71%, 78% and 20%, respectively, of the assets, net assets/fund balances and revenues/additions, of the aggregate remaining fund information. We also did not audit the San Antonio Water System, City Public Service of San Antonio, and the other non-major discretely presented component units which represent 100% of the assets, net assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of SA Energy Acquisition Public Facilities Corporation, San Antonio Health Facilities Development Corporation, San Antonio Housing Trust Finance Corporation, San Antonio Industrial Development Authority, San Antonio Education Facilities Corporation and San Antonio Public Library Foundation audited by other auditors were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

Grant Thornton

Honorable Mayor and Members of the City Council
City of San Antonio, Texas:
Page 2

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 12 and the Budgetary Comparison Schedule – General Fund on page 181, and Schedules of Funding Progress on pages 182 - 185 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary budget and actual schedules for legally adopted funds have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Grant Thornton LLP

Houston, Texas
March 1, 2012

# CITY OF SAN ANTONIO, TEXAS

## Comprehensive Annual Financial Report

**Year-Ended September 30, 2011**

City of San Antonio, Texas

# *Management's Discussion and Analysis*

*(Required Supplementary Information)*

*(Unaudited)*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of San Antonio (City) presents the following discussion and analysis of the City's financial performance during the fiscal year-ended September 30, 2011. This discussion and analysis is intended to assist readers in focusing on significant financial issues and changes in the City's financial position, and identifying any significant variances from the adopted budget. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the financial statements provided in this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

**Financial Highlights**

- The assets of the City exceeded its liabilities by $2,964,940 (net assets). Of this amount, $115,493 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City implemented GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions.* This new pronouncement enhances the usefulness of fund balance reporting by establishing fund balance classifications which can more consistently be applied and by clarifying existing governmental fund type definitions.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $928,648, a decrease of $28,075 compared to the fiscal year 2010 restated fund balance. Of this amount, $9,355 is nonspendable and $919,293 is spendable. Of the total spendable fund balance, $687,637 is restricted in use, $115,821 has been committed, $20,650 is assigned and $95,185 is unassigned, which is available for spending at the government's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was $170,693 or 19.8% of the total General Fund expenditures.
- Other governmental funds had a negative unassigned fund balance totaling $75,508 as of the end of the current fiscal year, resulting in net governmental fund balance of $95,185. For more information see Note 16 Deficits in Fund Balances/Net Assets.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as the introduction to the City of San Antonio's basic financial statements, which have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business financial presentation.

The *statement of net assets* is a presentation of the City's assets and liabilities, including capital and infrastructure assets, and long-term liabilities. This statement reports the difference between assets and liabilities as net assets. Over time, increases or decreases in net assets may help determine or help indicate whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the fiscal year. Changes in net assets are recorded when the underlying event giving rise to the change occurs regardless of the timing of the cash flows. Therefore, revenues and expenses reported in this statement for some items will not result in cash flows until future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). Governmental activities include general government, public safety, public works, sanitation, health services, culture and recreation, convention and tourism, urban redevelopment and housing, welfare, and economic development and opportunity.



The business-type activities of the City include the airport system, development services, market square, parking system, and solid waste management.

In addition, the basic financial statements provide information regarding the City's legally separate discretely presented component units. Discretely presented component unit financial information is reported separately from the primary government in the government-wide financial statements.

**Fund Financial Statements**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements are used to present financial information detailing resources that have been identified for specific activities. The focus of the fund financial statements is on the City's major funds, although nonmajor funds are also presented in aggregate and further detailed in the supplementary statements. The City uses fund accounting to ensure and demonstrate compliance with requirements placed on resources. Funds are divided into three categories: governmental, proprietary, and fiduciary. Fund financial statements allow the City to present information regarding fiduciary funds, since they are not reported in the government-wide financial statements.

***Governmental Funds* -** Governmental funds are used for essentially the same functions reported in the governmental activities in the government-wide financial statements. However, unlike the government-wide statement, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

As the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains five individual governmental fund types for financial reporting purposes. The governmental fund types are General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds, and Permanent Funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Debt Service, Categorical Grant-In Aid, 2007 General Obligation Bonds and General Obligation Project Funds all of which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation labeled "Nonmajor Governmental Funds." Individual fund data for each nonmajor governmental fund is provided in the form of combining statements elsewhere in this report.

***Proprietary Funds* -** The City maintains two types of proprietary funds. *Enterprise funds* are used to report the functions presented in business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Airport System, Development Services, Market Square, Parking System, and Solid Waste Management Funds. *Internal Service Funds* are used to accumulate and allocate costs internally among the City's various functions, including, self-insurance programs, other internal services, information technology services, and capital improvements management services. The services provided by these funds predominantly support the governmental rather than the business-type functions. They have been included within the governmental activities in the government-wide financial statements and are reported alongside the enterprise funds in the fund financial statements. Information is presented separately in the proprietary funds statement of net assets and in the proprietary funds statement of revenues, expenses, and changes in fund net assets for the Airport System Fund, which is considered to be a major fund. The Internal Service Funds are combined into a single aggregated presentation in the proprietary fund financial statements. Data from the other enterprise funds are combined into a single, aggregated presentation labeled “Nonmajor Enterprise Funds.” Individual fund data for each nonmajor enterprise fund and each internal service fund are provided in the form of respective combining statements elsewhere in this report.

***Fiduciary Funds* -** Fiduciary funds are used to account for resources held for the benefit of parties outside the primary government. Fiduciary funds are not reflected in the government-wide financial statements as the resources of those funds are not available to support the City’s programs and operations. With the exception of agency funds, the accounting for fiduciary funds is much like that used for the proprietary funds.

***Notes to the financial statements*** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

***Other information* -** In addition to the basic financial statements and the accompanying notes, this report also presents the required supplementary information of (a) the City’s General Fund budgetary comparison schedule that demonstrates compliance with its budget, and (b) schedules of funding progress related to pension and postemployment plans. The Debt Service Fund, various Special Revenue Funds and specific Permanent Fund budgets, which are legally adopted on an annual basis, are also included in the CAFR as supplementary schedules within the Combining Financial Statements and Schedules.

## Government-Wide Financial Statement Analysis

The following tables, graphs and analysis discuss the financial position and changes to the financial position for the City as a whole as of and for the year-ended September 30, 2011.

**Net Assets**
**Year-Ended September 30, 2011**
**(With Comparative Totals for September 30, 2010)**

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 (Restated)* | 2011 | 2010 (Restated)* | 2011 | 2010 (Restated)* |
| Current and Other Assets | $ 1,361,540 | $ 1,469,758 | $ 243,483 | $ 230,497 | $ 1,605,023 | $ 1,700,255 |
| Capital Assets | 3,806,667 | 3,634,537 | 646,095 | 630,125 | 4,452,762 | 4,264,662 |
| Total Assets | 5,168,207 | 5,104,295 | 889,578 | 860,622 | 6,057,785 | 5,964,917 |
| Current and Other Liabilities | 312,553 | 399,289 | 32,331 | 54,767 | 344,884 | 454,056 |
| Long-term Liabilities | 2,269,674 | 2,179,737 | 478,287 | 453,397 | 2,747,961 | 2,633,134 |
| Total Liabilities | 2,582,227 | 2,579,026 | 510,618 | 508,164 | 3,092,845 | 3,087,190 |
| Net Assets: | | | | | | |
| Investments in Capital Assets, | | | | | | |
| Net of Related Debt | 2,364,212 | 2,238,834 | 273,108 | 273,344 | 2,637,320 | 2,512,178 |
| Restricted | 126,142 | 124,300 | 90,532 | 78,558 | 216,674 | 202,858 |
| Unrestricted | 95,626 | 162,135 | 15,320 | 556 | 110,946 | 162,691 |
| Total Net Assets | $ 2,585,980 | $ 2,525,269 | $ 378,960 | $ 352,458 | $ 2,964,940 | $ 2,877,727 |

* Amounts have been restated primarily to comply with the implementation of GASB Statement No. 54 as discussed in Note 18 Prior Period Restatement.

For the year-ended September 30, 2011, total assets exceeded liabilities by $2,964,940. The largest portion of the City’s net assets, $2,637,320 (89.0%) represents its investment in capital assets less any related debt used to acquire those assets that are still outstanding, and includes assets such as land, infrastructure, improvements, buildings, machinery and equipment, and intangibles.

Capital assets are used to provide services to the citizens of San Antonio and are not available for further spending. Although the City’s investment in capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate liabilities.



Of the total net assets, $216,674 (7.3%) represents resources that are subject to external restrictions on how they may be used. The remaining $110,946 (3.7%) represents unrestricted net assets, which can be used to meet the government’s ongoing obligations to citizens and creditors.

The following schedule provides a detail of the changes to the City’s net assets:

**City of San Antonio, Texas**
**Changes in Net Assets**
**Year-Ended September 30, 2011**
**(With Comparative Totals for September 30, 2010)**

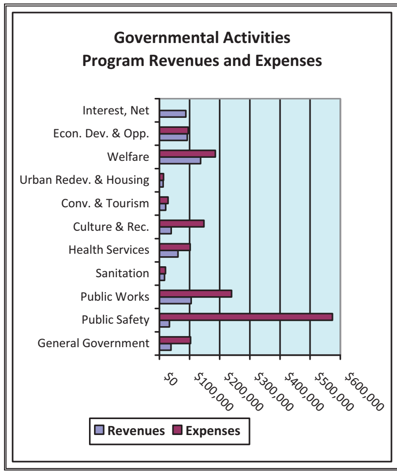
| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 (Restated)* | 2011 | 2010 (Restated)* | 2011 | 2010 (Restated)* |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | $ 151,344 | $ 155,336 | $ 205,396 | $ 181,173 | $ 356,740 | $ 336,509 |
| Operating Grants and Contributions | 267,524 | 256,214 | | | 267,524 | 256,214 |
| Capital Grants and Contributions | 137,892 | 98,362 | 40,237 | 40,156 | 178,129 | 138,518 |
| General Revenues: | | | | | | |
| Property Taxes | 396,847 | 406,579 | | | 396,847 | 406,579 |
| Other Taxes | 343,804 | 328,928 | | | 343,804 | 328,928 |
| Revenues from Utilities | 308,838 | 293,114 | | | 308,838 | 293,114 |
| Investment Earnings | 6,184 | 6,954 | 772 | 823 | 6,956 | 7,777 |
| Miscellaneous | 40,217 | 24,016 | 450 | 1,547 | 40,667 | 25,563 |
| Total Revenues | 1,652,650 | 1,569,503 | 246,855 | 223,699 | 1,899,505 | 1,793,202 |
| Expenses: | | | | | | |
| Primary Government: | | | | | | |
| Governmental Activities: | | | | | | |
| General Government | 103,617 | 114,591 | | | 103,617 | 114,591 |
| Public Safety | 574,263 | 545,359 | | | 574,263 | 545,359 |
| Public Works | 239,195 | 221,612 | | | 239,195 | 221,612 |
| Sanitation | 20,015 | 8,385 | | | 20,015 | 8,385 |
| Health Services | 101,995 | 104,667 | | | 101,995 | 104,667 |
| Culture and Recreation | 147,591 | 143,122 | | | 147,591 | 143,122 |
| Convention and Tourism | 28,735 | 26,437 | | | 28,735 | 26,437 |
| Urban Redevelopment and Housing | 13,696 | 26,486 | | | 13,696 | 26,486 |
| Welfare | 185,600 | 177,819 | | | 185,600 | 177,819 |
| Economic Development and Opportunity | 90,844 | 104,964 | | | 90,844 | 104,964 |
| Interest on Long-Term Debt, Net | 87,792 | 70,945 | | | 87,792 | 70,945 |
| Business-Type Activities: | | | | | | |
| Airport System | | | 105,708 | 83,109 | 105,708 | 83,109 |
| Development Services | | | 20,195 | 19,570 | 20,195 | 19,570 |
| Market Square | | | 2,215 | 251 | 2,215 | 251 |
| Parking System | | | 8,703 | 9,135 | 8,703 | 9,135 |
| Solid Waste Management | | | 82,128 | 85,058 | 82,128 | 85,058 |
| Total Expenses | 1,593,343 | 1,544,387 | 218,949 | 197,123 | 1,812,292 | 1,741,510 |
| Change in Net Assets | | | | | | |
| Before Transfers | 59,307 | 25,116 | 27,906 | 26,576 | 87,213 | 51,692 |
| Transfers | 1,404 | 5,429 | (1,404) | (5,429) | | |
| Net Change in Net Assets | 60,711 | 30,545 | 26,502 | 21,147 | 87,213 | 51,692 |
| Beginning, Net Assets (restated) | 2,525,269 | 2,494,724 | 352,458 | 331,311 | 2,877,727 | 2,826,035 |
| Ending, Net Assets | $ 2,585,980 | $ 2,525,269 | $ 378,960 | $ 352,458 | $ 2,964,940 | $ 2,877,727 |

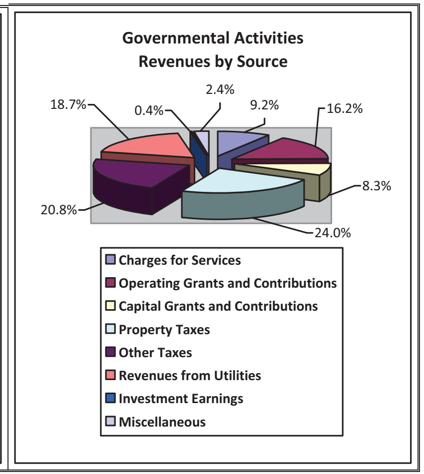
* Amounts have been restated primarily to comply with the implementation of GASB Statement No. 54 as discussed in Note 18 Prior Period Restatement; and reclassified in order to be consistent with the current year's presentation.

The City’s total revenues were $1,899,505 for fiscal year-ended September 30, 2011. Revenues from governmental activities totaled $1,652,650 and revenues from business-type activities totaled $246,855. General revenues represented 57.8% of the City’s total revenue, while program revenues provided 42.2% of revenue received in fiscal year 2011. Expenses for the City totaled $1,812,292. Governmental activity expenses totaled $1,593,343, or 87.9% of total expenses.

*City of San Antonio, Texas* - 3 - *Amounts are expressed in thousands*
*City of San Antonio, Texas* - 4 - *Amounts are expressed in thousands*

## Governmental Activities




Governmental Activities increased the City's net assets by $60,711. The reason for the change is as follows:

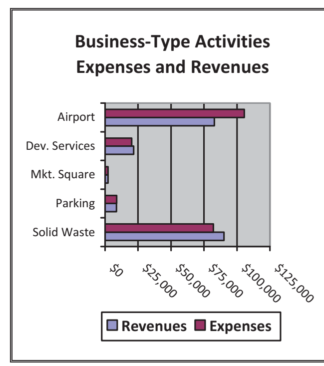
- Grants and Contributions revenues increased by $50,840 primarily due to increased contributions received for the Convention Center Hotel ($20,416), funding received from TXDOT and SAWS for various public works street and drainage projects ($23,650) and amounts received for weatherization, energy efficiency, and City retrofit programs ($9,573).
- The reduction in net taxable assessed values decreased from $72,743,219 in fiscal year 2010 to $71,007,547 in fiscal year 2011 was the primary reason causing Property Taxes revenues to be $9,732 lower than the prior year. Although assessed values for new construction increased in fiscal year 2011, values for existing properties decreased causing an overall reduction in taxable values.
- Other Taxes increased by $14,876 due to an improvement in the local economy from the prior year. This improvement came from an increase in tourism and convention business causing Hotel Occupancy Taxes and Sales and Use Taxes to increase by $13,344, and $3,234, respectively, from the prior year. These increases were tempered by a $1,284 reduction in Gross Receipts Business Taxes due to a reduction in telecommunication access lines.
- CPS Energy revenues increased by $14,128 due to a 5.65% increase in electric sales resulting from an above average hot summer in 2011. Revenues from SAWS increased by $1,597 due to an increase of sales resulting from an extreme drought in 2011, which increased water usage. The precipitation during fiscal year 2011 was 10.55" compared to 52.22" in the prior year.
- Miscellaneous Revenues increased by $16,201 as a result of $5,000 of Community Infrastructure and Economic Development (CIED) funds received from CPS Energy in fiscal year 2011, a subsidy for Build America Bonds (BAB) in the amount of $4,148, and other miscellaneous revenues associated with confiscated property and other donations received from private donors.
- General Government expenses were lower by $10,974 primarily due to $7,588 in assets expensed in fiscal year 2010 that did not meet the threshold to be capitalized.

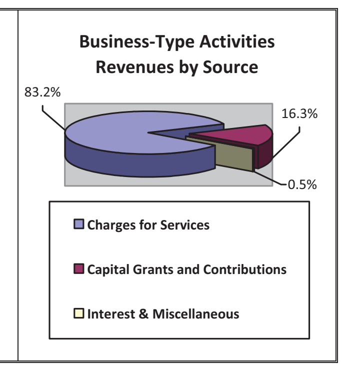


- The increase in Public Safety expenses of $28,904 from the prior fiscal year is partly associated with higher motor fuel costs and police and fire accrued leave. Police also added additional Sergeant and Detective positions, along with equipping all police cruiser vehicles with in-car video systems. Fire added positions to create an additional fire battalion, created a second Hazardous Materials Response Team and supplied five engine companies with equipment needed to provide Advance Life Support (ALS) capabilities at all times.
- Public Works expenses were higher by $17,583 as a result of increased capital project activity of $10,554 for the 36th Street Extension through Kelly USA project. The remainder of the increase is primarily due to increased activity from the prior year associated with various city-wide drainage projects.
- Expenses for Sanitation increased by $11,630 primarily due to three ARRA grants received for the Weatherization Assistance Program, Energy Efficiency Block Grant, and the Retrofit Ramp Up Program.
- Urban Redevelopment and Housing's reduction of $12,790 was due to a decrease of $6,789 in HOME program expenditures as larger programs had not received their tax credits as expected. These dollars were reprogrammed for projected expenses in fiscal year 2012. Additionally, due to the economy, less rental rehabilitation monies were awarded to be spent. Also, two multi-year grants awarded in fiscal year 2009 have decreasing expenditures due to the closing of their grant period. In total, expenditures incurred for Neighborhood Stabilizing Program and Other Community Development Block Grants in fiscal year 2010 totaled $8,800, while dollars expended in fiscal year 2011 only totaled $2,800.
- Welfare increased $7,781 from fiscal year 2010 due to overall increased activity from grants. Categorical Grant In-aid increased by $12,446 due to increased staffing on the CCS and Head Start grant, which translated into higher expenditures in meeting grant objectives. This increase in staffing costs were mitigated by a reduction in American Recovery Reinvestment Act expenses due to funds being exhausted in fiscal year 2011.
- Economic Development and Opportunity expenses decreased $14,120 from fiscal year 2010 due to lower spending for HUD 108 in anticipation of the loan's expiration. The loan was subsequently extended through December 2013 with dollars being reprogrammed to be spent through the first quarter of fiscal year 2014.
- Net increases of $56,178 in bonds and certificates, $11,249 in capital leases, and $9,478 in unamortized premiums and discounts caused the expenses to increase by $16,847 in Interest on Long-term Debt from the prior year.

## Business-Type Activities

Program revenues for the City's Business-Type Activities totaled $245,633, which is $24,304 higher than the previous fiscal year. The remaining revenues were a result of investment earnings and other miscellaneous items. Expenses for Business-Type Activities were $218,949 compared to prior year's expenses of $197,123.



Business-Type Activities increased the City's net assets by $26,502 primarily because of the following:

- Charges for Services increased by $24,223 primarily due to an increase in passenger travel through San Antonio International Airport, resulting in $19,184 more in Airport Systems revenues; Solid Waste fees increasing by $2,179, mainly due to increased recycling activity in fiscal year 2011; and Development Services by $3,327 as the City experienced increases in building permits and plan review revenues for both residential and commercial activity in fiscal year 2011.
- Airport System expenses increased by $22,955 primarily due to increased costs associated with the new terminal expansion at the San Antonio International Airport.
- Market Square expenses were higher in fiscal year 2011 by $1,604 as a result of increased repair and maintenance costs and higher personnel costs needed to operate and maintain the market square facilities.
- Solid Waste expenses decreased by $2,930 from the prior year as the final purchases for city-wide trash and recycle bins occurred in fiscal year 2010.

**Financial Analysis of Governmental Funds**

Activities of the Primary Government's General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Funds are considered general government functions. The General Fund is the City's primary operating fund. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. The Debt Service Fund is used to account for financial activity related to the City's general bonded indebtedness, as well as other long-term obligations. The Capital Projects Funds are used to account for financial activity related to the City indebtedness for Capital Projects, other agency contributions and the operating activities of those projects.

Revenues from taxes increased by $5,144, which is primarily attributable to: (1) a $4,660 decrease in property tax and related penalties and interest revenues in the General Fund, (2) a $11,504 increase in sales and use tax revenues in the General Fund (3) a $2,794 decrease in property tax and related penalties and interest revenues in the Debt Service Fund, (4) a $3,204 increase in occupancy taxes and related penalties and interest revenues in the Nonmajor Governmental Funds, and (5) a $1,136 decrease in property tax revenue in the Tax Increment Reinvestment Zone Fund. The decreases in property taxes are a result of a decrease in assessed property values while the increase in sales and use taxes and occupancy taxes are results of an upswing in the economy and increased activity associated with tourism and convention business.

The total fund balance of the General Fund at year-end was $232,692, an increase of $1,870 from the total restated fund balance of $230,822 in fiscal year 2010. The total spendable General Fund balance for fiscal year 2011 is $227,753, which represents $1,107 in restricted, $48,540 in committed, $7,413 in assigned and $170,693 in unassigned fund balances. The unassigned fund balance represents amounts available for additional appropriations at the end of the fiscal year.

The total fund balance of the Debt Service Fund at year-end was $93,569, a decrease of $15,514 from the total fund balance of $109,083 in fiscal year 2010. The entire fund balance is reserved for payment of debt service.

The Categorical Grant-In Aid Fund has a total deficit fund balance of $4,209 an increase of $394 from the total restated deficit fund balance of $3,815, which is a result of providing additional program services to the community beyond what monies were provided by grantor agencies. The uncollectible amounts were incorporated into the City's annual budget process to be funded over five years of which the City has one year to fund. Remaining deficit amounts will be incorporated into future adopted budgets to fund.

The total fund balance of the 2007 General Obligation Bonds at year-end was $217,775, a decrease of $20,546 from the total fund balance of $238,321 in fiscal year 2010. This stems from capital expenditures associated with the $550,000 bond approved by voters in fiscal year 2007.



The fund balance in the General Obligation Project Fund has a deficit fund balance of $46,836, an increase of $22,286 from the prior year. This is primarily due to the timing difference between capital expenditures associated with the 2007-2012 Municipal Bond Program and the final bond issuance to fund that program.

**General Fund Budgetary Highlights**

**Variances in Budget Appropriations**
**(Budgetary Basis)**
**General Fund**

| | Original Budget | Final Budget | Actual Results |
|---|---|---|---|
| General Government | $ 107,560 | $ 89,243 | $ 81,729 |
| Public Safety | 527,607 | 536,765 | 530,955 |
| Public Works | 40,505 | 44,905 | 45,357 |
| Health Services | 72,194 | 74,826 | 76,619 |
| Sanitation | 3,276 | 3,312 | 3,354 |
| Culture and Recreation | 81,829 | 83,884 | 83,291 |
| Welfare | 41,856 | 46,294 | 44,342 |
| Economic Development and Opportunity | 12,205 | 12,334 | 13,428 |
| Transfers to Other Funds | 52,070 | 55,616 | 55,500 |
| Total | $ 939,102 | $ 947,179 | $ 934,575 |

Changes in original budget appropriations to the final amended budget appropriations resulted in a net $8,077 increase in appropriations. This increase can be summarized by the following:

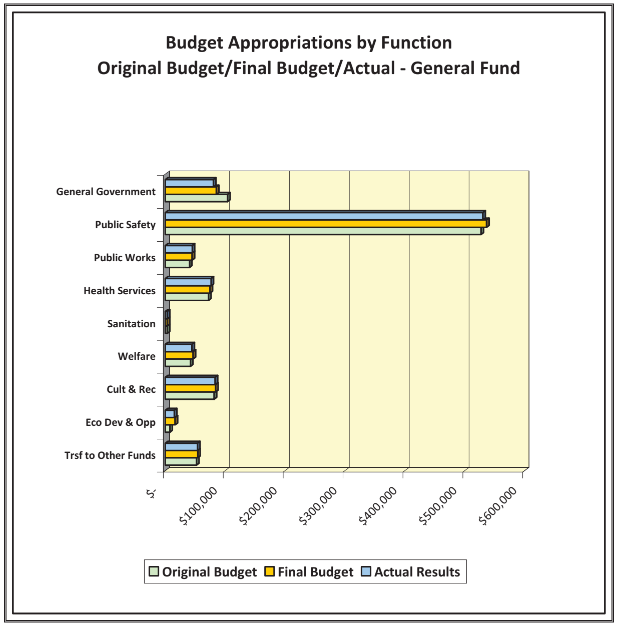
- General Government had an $18,317 decrease, which is attributable to indirect cost reimbursements from other funds causing a $9,459 decrease; budget carryforwards causing a $3,640 increase; and ordinance and analyst adjustments accounting for a decrease of $12,498.
- Public Safety contributed $9,158 to the overall increase, which was comprised of $3,399 in prior year budget carryforwards and $5,759 in ordinance and budget adjustments.
- Of the $4,400 increase in Public Works, $3,921 consisted of budget carryforwards while the remaining $479 increase consisted of budget adjustments.
- Health Services had an increase of $2,632 from the original budget, which was due to $555 added for budget carryforwards and $2,077 in budget adjustments during fiscal year 2011.
- Of the $4,438 increase in Welfare, $3,386 came from budget carryforwards while the remaining $1,052 was decreased via budget adjustments.
- The increase in Transfers to Other Funds consisted of $8,038 in budget carryforwards reduced by $4,492 in budget adjustments.

Final budgeted appropriations for the General Fund were $947,179, while actual expenditures on a budgetary basis were $934,575 creating a positive variance of $12,604. Significant variances are as follows:

- General Government had a $7,514 positive variance. The City budgeted the retiree payouts in the General Government function while actual payouts are charged across all functions. Salary reserves, which are mainly used for cost of living adjustments and step increases for pay, represented $2,163 in fiscal year 2011. Public Safety typically receives 70% of these funds. Further savings were achieved across departments as a result of hiring being delayed during the fiscal year.
- Public Safety had a $5,810 positive variance largely due to position vacancies during the fiscal year.

*City of San Antonio, Texas* - 7 - *Amounts are expressed in thousands*
*City of San Antonio, Texas* - 8 - *Amounts are expressed in thousands*

The following charts provide a comparison of the City's budget appropriations.




## Financial Analysis of Proprietary Funds

Activities of the Primary Government's Airport System, Development Services, Market Square, Parking System, and Solid Waste Funds are considered proprietary funds. The Airport System handles operations at both the San Antonio International Airport and Stinson Municipal Airport. Development Services supports the activities related to the regulation of City development. Market Square accounts for all revenues and expenses associated with the management and operation of the Farmers' Market, El Mercado, the Market Square parking lot and Alameda. The Parking System handles operations of the City's parking garages and lots. Solid Waste Management handles trash collection operations, recycling, and the activities of the City's landfills. Financial analysis for the proprietary funds is on the same basis as the business-type activities. See further analysis on the funds' operations at pages 6 and 7.

## Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2011 amounts to $4,452,762 (net of accumulated depreciation). This investment in capital assets includes land, other non-depreciable assets, buildings, improvements, infrastructure, machinery and equipment, intangible assets and construction in progress. The net increase in the City's investment in capital assets for the current fiscal year was $188,100, which comprises a $172,130 increase in governmental activities and a $15,970 increase in business-type activities.



| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 (Restated)* | 2011 | 2010 (Restated)* | 2011 | 2010 (Restated)* |
| Land | $ 1,371,289 | $ 1,364,382 | $ 14,385 | $ 14,385 | $ 1,385,674 | $ 1,378,767 |
| Other Non-Depreciable Assets | 575 | 500 | | | 575 | 500 |
| Non-Depreciable Intangible Assets | 81,961 | 81,809 | | | 81,961 | 81,809 |
| Depreciable Intangible Assets | 2,711 | 109 | | | 2,711 | 109 |
| Buildings | 434,600 | 454,417 | 291,449 | 139,354 | 726,049 | 593,771 |
| Improvements | 359,593 | 272,961 | 262,642 | 134,372 | 622,235 | 407,333 |
| Infrastructure | 847,588 | 817,171 | | | 847,588 | 817,171 |
| Machinery and Equipment | 170,782 | 163,419 | 21,714 | 23,630 | 192,496 | 187,049 |
| Construction in Progress | 537,568 | 479,769 | 55,905 | 318,384 | 593,473 | 798,153 |
| Total | $ 3,806,667 | $ 3,634,537 | $ 646,095 | $ 630,125 | $ 4,452,762 | $ 4,264,662 |

* Amounts have been restated primarily to comply with GASB Statement No. 54 as discussed in Note 18 Prior Period Restatement

During fiscal year 2011, the City transferred $507,724 of construction in progress to land and depreciable asset classes for completed capital projects which were mainly comprised of city-wide streets and drainage projects, San Antonio River Walk improvements, terminal expansion at the San Antonio International Airport and improvements to the City's convention and sports facilities to include a renovation of the Lila Cockrell Theatre.

The following schedule provides a summary of the City's capital assets:

**Change in Capital Assets**
**September 30, 2011**

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| Beginning Balance (Restated) | $ 5,801,230 | $ 844,119 | $ 6,645,349 |
| Additions | 314,315 | 49,443 | 363,758 |
| Deletions | (22,870) | (11,117) | (33,987) |
| Accumulated Depreciation | (2,286,008) | (236,350) | (2,522,358) |
| Ending Balance | $ 3,806,667 | $ 646,095 | $ 4,452,762 |

Additional information on the City's capital assets can be found in Note 4 Capital Assets.

## Debt Administration

*Long-Term Debt*

At the end of the current fiscal year, the City had a total of $2,307,999 in bonds, certificates, and tax notes outstanding, an increase of 3.2% over last year. Additional information on the City's long-term debt, including descriptions of the new issues, can be found in Note 6 Long-Term Debt and Note 7 Commercial Paper Programs.

*City of San Antonio, Texas* - 9 - *Amounts are expressed in thousands*
*City of San Antonio, Texas* - 10 - *Amounts are expressed in thousands*

| September 30, 2011 and 2010 | | |
|---|---|---|
| | Governmental Activities | |
| | 2011 | 2010* |
| Bonds Payable: | | |
| Tax-Exempt General Obligation Bonds | $ 708,055 | $ 721,350 |
| Taxable General Obligation Bonds | 191,550 | $ 191,550 |
| Tax-Exempt Certificates of Obligation | 356,870 | 303,635 |
| Taxable Certificates of Obligation | | 80 |
| Tax Notes | 27,450 | 28,860 |
| Commercial Paper | | 14,370 |
| Revenue Bonds | 575,115 | 557,387 |
| Capital Appreciation Bonds (CAB) | 23,239 | 20,077 |
| Total | $ 1,882,279 | $ 1,837,309 |
| | Business-Type Activities | |
| | 2011 | 2010* |
| Bonds Payable: | | |
| Tax-Exempt General Obligation Bonds | $ 1,310 | $ 1,345 |
| Taxable General Obligation Bonds | 16,075 | $ 16,875 |
| Tax-Exempt Certificates of Obligation | 2,035 | 2,135 |
| Tax Notes | | 34,500 |
| Revenue Bonds | 406,300 | 344,525 |
| Total | $ 425,720 | $ 399,380 |

*Reclassed in order to be consistent with the current year's presentation.

***Governmental Activities***

In July 2011, the City issued additional indebtedness for a total of $176,635. This was composed of $59,485 in tax-exempt general obligation bonds, $79,780 in tax-exempt certificates of obligation, $9,445 in tax notes and $27,925 in revenue bonds.

The General Obligation Bonds, Series 2011 were issued to finance improvements to streets, bridges, sidewalks, and drainage.

The Combination Tax and Revenue Certificates of Obligation, Series 2011 were issued for the purpose of providing funds for, fire protection, and law enforcement facilities improvements, drainage facilities, sidewalks, bridges, and streets improvements, parks, municipal facilities improvements, and pedestrian walkway improvements along and within the San Antonio River Channel.

The Tax Notes, Series 2011 were issued to provide funding for improving the City's technology infrastructure and business systems by renovating, improving, and equipping various City facilities.

In July 2011, Municipal Facilities Corporation issued $27,925 in Municipal Facilities Corporation Lease Revenue Bonds, Series 2011, to fund the construction of a new Fire and Police Emergency Dispatch Center, also known as the Public Safety Answering Point (PSAP) facility.

***Business-Type Activities***

In December 2010, the City issued $42,220 in Airport System Revenue Improvement and Refunding Bonds, Series 2010A (2010A GARBs), $20,885 in Airport System Revenue Refunding Bonds, Taxable Series 2010B (2010B Taxable GARBs), and $37,335 in Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement and Refunding Bonds, Series 2010 (2010 PFC Bonds).

The 2010A GARBs were issued to fund various airport system capital improvements including PFC eligible airport-related projects, to refund a portion of the City's outstanding indebtedness originally issued to finance Airport System



improvements, provide funds for capitalized interest, and to pay the costs of issuance. The 2010B Taxable GARBs were issued to refund certain GARB obligations and to pay the costs of issuance.

The 2010 PFC Bonds were issued to pay costs related to constructing, improving, renovating, enlarging and equipping airport projects that qualify and have been approved by the Secretary of the United States Department of Transportation. The PFC Bonds were also used to refund the remaining portion of the 2010 Tax Notes attributed to PFC projects not being refunded by the 2010A GARBs, and to pay the costs of issuance.

Standard & Poor's, Moody's, and Fitch's underlying rating for City obligations during fiscal year 2011 were as follows:

| | Standard & Poor's | Moody's | Fitch |
|---|---|---|---|
| General Obligation/Certificates of Obligation/Tax Notes | AAA | Aaa | AAA |
| Hotel Occupancy Tax Bonds (Prior Lien) [1] | A+ | Aa2 | AA- |
| Hotel Occupancy Tax Bonds (Subordinate Lien - Long Term) | A+ | Aa3 | A+ |
| Hotel Occupancy Tax Bonds (Variable Rate - Short Term) | A+ | Aa3 | A+ |
| Hotel Occupancy Tax Notes [2] | Private Placement - Not Rated | | |
| Airport System | A+ | A1 | A+ |
| Aiport PFC | A- | A2 | A |
| Municipal Drainage Utility System Revenue Bonds | AA+ | Aa2 | AA |
| Sales Tax Revenue Commercial Paper Notes [3] | A-1+ | P-1 | F1+ |

[1] Standard and Poor's elevated the City's Hotel Occupancy Tax Bonds (Prior Lien) rating in December 2011 from A+ to AA-.
[2] The Hotel Occupancy Tax Notes were no longer outstanding as of August 15, 2011.
[3] The ratings assigned to the Sales Tax Revenue Commercial Paper Notes are based upon the credit rating of the Letter of Credit provider and no application for an underlying rating on the Notes was submitted.

The Constitution of the State of Texas and the City Charter limit the amount of debt the City may incur. For more information related to these limits see Note 6 Long-Term Debt. The total gross assessed valuation for the fiscal year-ended 2011 was $82,736,182, which provides a debt ceiling of $8,273,618.

**Currently Known Facts**

On February 16, 2012, the City Council approved calling an election on Saturday, May 12, 2012, for the City's proposed 2012-2017 Bond Program. If approved, the $596,000 140-project program will be the largest in the City's history and will not require a property tax increase to fund the debt service obligations. These projects will be divided into the following five categories:

- Streets, Bridges and Sidewalks: 41 projects – $338,000
- Drainage and Flood Control: 17 projects – $128,000
- Parks, Recreation and Open Space: 68 projects – $87,000
- Library, Museum and Cultural Arts Facilities: 11 projects – $29,000
- Public Safety Facilities: 3 projects – $14,000

For more information on other currently known facts, please see Note 19 Subsequent Events.

**Requests for Information**

This financial report is designed to provide a general overview of the City's position for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, P.O. Box 839966, San Antonio, TX 78283-3966.

*City of San Antonio, Texas* - 11 - *Amounts are expressed in thousands*
*City of San Antonio, Texas* - 12 - *Amounts are expressed in thousands*

# CITY OF SAN ANTONIO, TEXAS

## Comprehensive Annual Financial Report

**Year-Ended September 30, 2011**

# City of San Antonio, Texas

## *Basic Financial Statements*

## Statement of Net Assets
### As of September 30, 2011
(In Thousands)

| | PRIMARY GOVERNMENT | | | |
|---|---|---|---|---|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | COMPONENT UNITS |
| **Assets:** | | | | |
| **Current Assets:** | | | | |
| Cash and Cash Equivalents | $ 24,149 | $ 2,134 | $ 26,283 | $ 227,575 |
| Securities Lending Collateral | 12,975 | 1,356 | 14,331 | 2,055 |
| Investments | 261,354 | 27,322 | 288,676 | 311,327 |
| Receivables, Net | 111,509 | 11,103 | 122,612 | 261,599 |
| Due From Other Governmental Agencies | 21,703 | | 21,703 | 12,732 |
| Internal Balances | (1,343) | 1,343 | | |
| Materials and Supplies, at Cost | 6,761 | 706 | 7,467 | 151,771 |
| Prepaid Expenses | 1,062 | | 1,062 | 87,697 |
| Other Assets | | | | 1,204 |
| Deposits | 213 | | 213 | |
| Restricted Assets: | | | | |
| Cash and Cash Equivalents | 142,567 | 32,360 | 174,927 | 312,046 |
| Securities Lending Collateral | 24,982 | 6,744 | 31,726 | |
| Investments | 587,109 | 148,031 | 735,140 | 1,389,102 |
| Receivables, Net | 116,669 | 2,228 | 118,897 | 46,655 |
| Materials and Supplies, at Cost | 75 | | 75 | |
| Deferred Charges | | | | 3,700 |
| Deposits | 151 | | 151 | |
| Prepaid Expenses | 459 | | 459 | |
| Due From Other Governmental Agencies | 13,090 | | 13,090 | |
| **Total Current Assets** | 1,323,485 | 233,327 | 1,556,812 | 2,807,463 |
| **Noncurrent Assets:** | | | | |
| Capital Assets: | | | | |
| Non Depreciable | 1,991,393 | 70,290 | 2,061,683 | 1,567,278 |
| Depreciable, Net | 1,815,274 | 575,805 | 2,391,079 | 9,297,005 |
| Assets Held for Resale | | | | 382 |
| Receivables, Net | | | | 3,716 |
| Prepaid Expenses | | | | 922,726 |
| Net OPEB Asset and Pension Asset | | | | 32,664 |
| Other Noncurrent Assets | | | | 84,329 |
| Unamortized Bond Issuance Costs | 38,055 | 10,156 | 48,211 | 19,017 |
| **Total Noncurrent Assets** | 3,844,722 | 656,251 | 4,500,973 | 11,927,117 |
| **Total Assets** | 5,168,207 | 889,578 | 6,057,785 | 14,734,580 |
| **Liabilities:** | | | | |
| **Current Liabilities:** | | | | |
| Accounts Payable and Current Liabilities | 101,490 | 7,302 | 108,792 | 359,467 |
| Unearned Revenue | 8,448 | 1,774 | 10,222 | 8,053 |
| Securities Lending Obligation | 12,975 | 1,356 | 14,331 | 2,055 |
| Accrued Interest | 1 | 80 | 81 | |
| Due To Other Governmental Agencies | 2,187 | 6 | 2,193 | 3,408 |
| Restricted Liabilities: | | | | |
| Accounts Payable and Current Liabilities | 79,355 | 9,618 | 88,973 | 41,169 |
| Unearned Revenue | 62,012 | | 62,012 | |
| Securities Lending Obligation | 24,982 | 6,744 | 31,726 | |
| Accrued Interest | 15,638 | 5,451 | 21,089 | 26,986 |
| Due To Other Governmental Agencies | 5,465 | | 5,465 | |
| **Total Current Liabilities** | 312,553 | 32,331 | 344,884 | 441,138 |
| **Noncurrent Liabilities:** | | | | |
| Due Within One Year | 191,129 | 26,700 | 217,829 | 328,127 |
| Due in More Than One Year | 2,078,545 | 451,587 | 2,530,132 | 8,666,872 |
| **Total Noncurrent Liabilities** | 2,269,674 | 478,287 | 2,747,961 | 8,994,999 |
| **Total Liabilities** | 2,582,227 | 510,618 | 3,092,845 | 9,436,137 |
| **Net Assets:** | | | | |
| Invested in Capital Assets, Net of Related Debt | 2,364,212 | 273,108 | 2,637,320 | 4,266,136 |
| Restricted for: | | | | |
| Debt Service | 88,190 | 27,893 | 116,083 | 32,514 |
| Capital Projects | 20,674 | 62,639 | 83,313 | 450,533 |
| Operating and Other Reserves | | | | 84,643 |
| Perpetual Care: Expendable | 12,247 | | 12,247 | 2,953 |
| Perpetual Care: Nonexpendable | 5,031 | | 5,031 | |
| Unrestricted | 95,626 | 15,320 | 110,946 | 461,664 |
| **Total Net Assets** | $ 2,585,980 | $ 378,960 | $ 2,964,940 | $ 5,298,443 |

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

## Statement of Activities

**Year-Ended September 30, 2011**

(In Thousands)

| FUNCTION/PROGRAM ACTIVITIES | EXPENSES | PROGRAM REVENUES: CHARGES FOR SERVICES | PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS | PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS | NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS — PRIMARY GOVERNMENT: GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | COMPONENT UNITS |
|---|---|---|---|---|---|---|---|---|
| **Primary Government:** | | | | | | | | |
| **Governmental Activities:** | | | | | | | | |
| General Government | $ 103,617 | $ 27,853 | $ 8,803 | $ 1,583 | $ (65,378) | $ - | $ (65,378) | $ - |
| Public Safety | 574,263 | 9,882 | 18,494 | 4,662 | (541,225) | | (541,225) | |
| Public Works | 239,195 | 43,267 | 15,325 | 46,729 | (133,874) | | (133,874) | |
| Sanitation | 20,015 | 407 | 16,694 | 91 | (2,823) | | (2,823) | |
| Health Services | 101,995 | 33,815 | 27,426 | 608 | (40,146) | | (40,146) | |
| Culture and Recreation | 147,591 | 33,037 | 5,238 | 719 | (108,597) | | (108,597) | |
| Convention and Tourism | 28,735 | | 20,915 | | (7,820) | | (7,820) | |
| Urban Redevelopment and Housing | 13,696 | 400 | 11,288 | 417 | (1,591) | | (1,591) | |
| Welfare | 185,600 | 52 | 136,904 | | (48,644) | | (48,644) | |
| Economic Development and Opportunity | 90,844 | 2,631 | 6,437 | 83,083 | 1,307 | | 1,307 | |
| Amortization of Bond Related Costs | (3,891) | | | | 3,891 | | 3,891 | |
| Interest on Long-Term Debt | 91,683 | | | | (91,683) | | (91,683) | |
| **Total Governmental Activities** | 1,593,343 | 151,344 | 267,524 | 137,892 | (1,036,583) | | (1,036,583) | |
| **Business-Type Activities:** | | | | | | | | |
| Airport System | 105,708 | 82,901 | | 36,025 | | 13,218 | 13,218 | |
| Development Services | 20,195 | 21,629 | | | | 1,434 | 1,434 | |
| Market Square | 2,215 | 2,211 | | 4,212 | | 4,208 | 4,208 | |
| Parking System | 8,703 | 8,588 | | | | (115) | (115) | |
| Solid Waste Management | 82,128 | 90,067 | | | | 7,939 | 7,939 | |
| **Total Business-Type Activities** | 218,949 | 205,396 | | 40,237 | | 26,684 | 26,684 | |
| **Total Primary Government** | $ 1,812,292 | $ 356,740 | $ 267,524 | $ 178,129 | (1,036,583) | 26,684 | (1,009,899) | |
| **Discretely Presented Component Units:** | | | | | | | | |
| CPS Energy | $ 2,072,849 | $ 2,068,686 | $ - | $ 25,107 | | | | 20,944 |
| San Antonio Water System | 425,761 | 368,780 | | 53,692 | | | | (3,289) |
| Brooks Development Authority | 17,939 | 12,817 | | 9,011 | | | | 3,889 |
| City South Management Authority | 170 | | | | | | | (170) |
| Main Plaza Conservancy | 597 | 50 | 545 | | | | | (2) |
| Municipal Golf Association - San Antonio | 8,748 | 9,146 | | 35 | | | | 433 |
| Port Authority of San Antonio | 41,879 | 42,242 | 1,300 | 12 | | | | 1,675 |
| SA Energy Acquisition Corporation | 53,944 | 53,032 | | | | | | (912) |
| OUR SA | 354 | 26 | | | | | | (328) |
| San Antonio Housing Trust Foundation, Inc. | 412 | | 379 | | | | | (33) |
| **Total Component Units** | $ 2,622,653 | $ 2,554,779 | $ 2,224 | $ 87,857 | | | | 22,207 |
| **General Revenues:** | | | | | | | | |
| Taxes: | | | | | | | | |
| Property | | | | | 396,847 | | 396,847 | |
| General Sales and Use | | | | | 236,819 | | 236,819 | |
| Selective Sales and Use | | | | | 5,879 | | 5,879 | |
| Gross Receipts Business | | | | | 34,341 | | 34,341 | |
| Occupancy | | | | | 62,968 | | 62,968 | |
| Penalties and Interest on Delinquent Taxes | | | | | 3,797 | | 3,797 | |
| Revenues from Utilities | | | | | 308,838 | | 308,838 | |
| Investment Earnings | | | | | 6,184 | 772 | 6,956 | 77,041 |
| Miscellaneous | | | | | 40,217 | 450 | 40,667 | 302 |
| Adjustment for STP Pension Cost | | | | | | | | (14,072) |
| Transfers, net | | | | | 1,404 | (1,404) | | |
| **Total General Revenues and Transfers** | | | | | 1,097,294 | (182) | 1,097,112 | 63,271 |
| **Change in Net Assets** | | | | | 60,711 | 26,502 | 87,213 | 85,478 |
| Net Assets - Beginning of Fiscal Year (restated) | | | | | 2,525,269 | 352,458 | 2,877,727 | 5,212,965 |
| Net Assets - End of Fiscal Year | | | | | $ 2,585,980 | $ 378,960 | $ 2,964,940 | $ 5,298,443 |

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

*Amounts are expressed in thousands*

## Balance Sheet
## Governmental Funds
### As of September 30, 2011
(In Thousands)

| | MAJOR FUNDS | | | | | | |
|---|---|---|---|---|---|---|---|
| | GENERAL | DEBT SERVICE | CATEGORICAL GRANT-IN AID | 2007 GENERAL OBLIGATION BONDS | GENERAL OBLIGATION PROJECT FUND | NONMAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
| **Assets:** | | | | | | | |
| Cash and Cash Equivalents | $ 7,654 | $ - | $ - | $ - | $ - | $ 6,906 | $ 14,560 |
| Securities Lending Collateral | 4,308 | | | | | 2,695 | 7,003 |
| Investments | 87,835 | | | | | 53,216 | 141,051 |
| Receivables, Net | 103,647 | | | | | 4,905 | 108,552 |
| Materials and Supplies, at Cost | 4,854 | | | | | 241 | 5,095 |
| Deposits | | | | | | 75 | 75 |
| Prepaid Expenditures | 85 | | | | | | 85 |
| Due from: | | | | | | | |
| Other Funds | 84,466 | | | | | 12,085 | 96,551 |
| Other Governmental Agencies, Net | 2,943 | | | | | 17,775 | 20,718 |
| Restricted Assets: | | | | | | | |
| Cash and Cash Equivalents | 85 | 40,938 | 921 | 13,696 | 81 | 86,846 | 142,567 |
| Securities Lending Collateral | 50 | | 459 | 8,546 | | 15,927 | 24,982 |
| Investments | 1,003 | 52,482 | 9,256 | 172,163 | | 352,205 | 587,109 |
| Receivables, Net | | 8,057 | 29,495 | 121 | 7,623 | 71,373 | 116,669 |
| Materials and Supplies, at Cost | | | 75 | | | | 75 |
| Deposits | | | | | | 151 | 151 |
| Prepaid Expenditures | | | | | | 459 | 459 |
| Due from: | | | | | | | |
| Other Funds | 49 | 467 | 1,906 | 31,865 | 2,506 | 11,837 | 48,630 |
| Other Governmental Agencies, Net | | | 2 | | 10,631 | 2,457 | 13,090 |
| **Total Assets** | $ 296,979 | $ 101,944 | $ 42,114 | $ 226,391 | $ 20,841 | $ 639,153 | $ 1,327,422 |
| **Liabilities and Fund Balances:** | | | | | | | |
| **Liabilities:** | | | | | | | |
| Vouchers Payable | $ 10,996 | $ - | $ - | $ - | $ - | $ 2,994 | $ 13,990 |
| Accounts Payable - Other | 8,311 | | | | | 4,691 | 13,002 |
| Accrued Payroll | 4,096 | | | | | 404 | 4,500 |
| Accrued Leave Payable | 7,803 | | | | | 203 | 8,006 |
| Deferred Revenue | 22,682 | | | | | | 22,682 |
| Securities Lending Obligation | 4,308 | | | | | 2,695 | 7,003 |
| Due To: | | | | | | | |
| Other Funds | 4,535 | | | | | 13,272 | 17,807 |
| Other Governmental Agencies | 1,476 | | | | | | 1,476 |
| Restricted Liabilities: | | | | | | | |
| Vouchers Payable | | 18 | 1,156 | | 14,429 | 18,779 | 34,382 |
| Accounts Payable - Other | | | 5,763 | | 10,360 | 25,568 | 41,691 |
| Accrued Payroll | | | 359 | | | 494 | 853 |
| Accrued Leave Payable | | | | | | 99 | 99 |
| Deferred Revenue | | 7,349 | 3,686 | | 466 | 57,860 | 69,361 |
| Securities Lending Obligation | 50 | | 459 | 8,546 | | 15,927 | 24,982 |
| Amounts Held in Trust | | | | | | 2,429 | 2,429 |
| Due to: | | | | | | | |
| Other Funds | 30 | 1,008 | 31,160 | 70 | 42,422 | 56,356 | 131,046 |
| Other Governmental Agencies | | | 3,740 | | | 1,725 | 5,465 |
| **Total Liabilities** | 64,287 | 8,375 | 46,323 | 8,616 | 67,677 | 203,496 | 398,774 |
| **Fund Balances:** | | | | | | | |
| Nonspendable | 4,939 | | 75 | | | 4,341 | 9,355 |
| Restricted | 1,107 | 93,569 | | 217,775 | | 375,186 | 687,637 |
| Committed | 48,540 | | | | | 67,281 | 115,821 |
| Assigned | 7,413 | | | | | 13,237 | 20,650 |
| Unassigned | 170,693 | | (4,284) | | (46,836) | (24,388) | 95,185 |
| **Total Fund Balances** | 232,692 | 93,569 | (4,209) | 217,775 | (46,836) | 435,657 | 928,648 |
| **Total Liabilities and Fund Balances** | $ 296,979 | $ 101,944 | $ 42,114 | $ 226,391 | $ 20,841 | $ 639,153 | $ 1,327,422 |

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

## Reconciliation of the Balance Sheet to the Statement of Net Assets
## Governmental Funds
### As of September 30, 2011
(In Thousands)

Amounts reported for governmental activities in the Statement of Net Assets are different because

| | | |
|---|---|---|
| **Fund Balances - Total Governmental Funds** | | $ 928,648 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | | |
| **Governmental Capital Assets:** | | |
| Land | 1,371,289 | |
| Other Non-Depreciable Assets | 575 | |
| Construction In Progress | 537,441 | |
| Non-Depreciable Intangible Assets | 81,961 | |
| Depreciable Intangible Assets | 3,014 | |
| Buildings | 731,255 | |
| Improvements | 484,633 | |
| Infrastructure | 2,470,282 | |
| Machinery and Equipment | 232,071 | |
| Less: Accumulated Depreciation | (2,173,802) | |
| **Total Governmental Capital Assets** | | 3,738,719 |
| Some of the City's revenues will be collected after year-end, but are not available soon enough to pay for the current year's expenditures, and therefore, are not reported in the governmental funds as revenues, but as deferred revenues. | | |
| Revenues previously recorded as deferred in the fund financial statements | 29,416 | |
| Unearned revenues previously recorded as income in the fund financial statements | (7,810) | |
| Net revenues recognized | | 21,606 |
| Long-term receivables applicable in governmental activities are not due and payable in the current year and, therefore, are not reported in the governmental funds. | | 1,506 |
| Internal Service Funds are used by management to charge the cost of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Statement of Net Assets. | | 118,573 |
| Long-term liabilities are not due and payable in the current year, neither are associated unamortized assets' available financial resources and, therefore, are not reported in the governmental funds. | | |
| Governmental Bonds Payable | (1,882,279) | |
| Unamortized Discount/(Premium) on Bonds, Net | (73,504) | |
| Deferred Amount on Refunding | 23,168 | |
| Capital Lease Liability | (16,746) | |
| Notes Payable | (48,816) | |
| Unamortized Bond Issuance Costs | 38,055 | |
| Net OPEB Obligation | (64,411) | |
| Accrued Interest Payable | (15,638) | |
| Pollution Remediation Payable | (1,545) | |
| Compensated Absences | (181,356) | |
| | | (2,223,072) |
| **Net Assets of Governmental Activities** | | $ 2,585,980 |

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





## Statement of Revenues, Expenditures, and Changes in Fund Balances
## Governmental Funds
### Year-Ended September 30, 2011
(In Thousands)

| | MAJOR FUNDS | | | | | | |
|---|---|---|---|---|---|---|---|
| | GENERAL | DEBT SERVICE | CATEGORICAL GRANT-IN AID | 2007 GENERAL OBLIGATION BONDS | GENERAL OBLIGATION PROJECT FUND | NONMAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
| **Revenues:** | | | | | | | |
| Taxes: | | | | | | | |
| Property | $ 242,242 | $ 144,912 | $ - | $ - | $ - | $ 9,081 | $ 396,235 |
| General Sales and Use | 200,245 | | | | | 36,574 | 236,819 |
| Selective Sales and Use | 5,879 | | | | | | 5,879 |
| Gross Receipts Business | 32,534 | | | | | 1,807 | 34,341 |
| Occupancy | | | | | | 62,968 | 62,968 |
| Penalties and Interest on Delinquent Taxes | 2,298 | 1,372 | | | | 127 | 3,797 |
| Licenses and Permits | 8,680 | | | | | | 8,680 |
| Intergovernmental | 5,403 | | 165,238 | | 20,915 | 115,257 | 306,813 |
| Revenues from Utilities | 308,451 | | | | | | 308,451 |
| Charges for Services | 50,134 | | 28 | | | 67,445 | 117,607 |
| Fines and Forfeits | 13,697 | | | | | 427 | 14,124 |
| Miscellaneous | 18,880 | 4,532 | 1,883 | | 2,636 | 12,695 | 40,626 |
| Investment Earnings | 1,819 | 311 | 72 | 967 | | 2,346 | 5,515 |
| Contributions | | | 19,960 | | | 84,749 | 104,709 |
| **Total Revenues** | 890,262 | 151,127 | 187,181 | 967 | 23,551 | 393,476 | 1,646,564 |
| **Expenditures:** | | | | | | | |
| Current: | | | | | | | |
| General Government | 78,057 | 1,779 | 1,053 | 235 | | 12,673 | 93,797 |
| Public Safety | 528,319 | | 18,420 | | | 6,585 | 553,324 |
| Public Works | 43,981 | | 15,655 | | | 34,339 | 93,975 |
| Health Services | 76,307 | | 19,037 | | | 7,379 | 102,723 |
| Sanitation | 3,352 | | 430 | | | 16,238 | 20,020 |
| Welfare | 42,704 | | 130,144 | | | 12,094 | 184,942 |
| Culture and Recreation | 80,658 | | 2,062 | | | 50,081 | 132,801 |
| Convention and Tourism | | | | | | 20,043 | 20,043 |
| Urban Redevelopment and Housing | | | 3,419 | | | 9,879 | 13,298 |
| Economic Development and Opportunity | 10,504 | | | | | 13,447 | 23,951 |
| Capital Outlay | | | | | 154,642 | 256,628 | 411,270 |
| Debt Service: | | | | | | | |
| Principal Retirement | | 135,205 | | | | 5,770 | 140,975 |
| Interest | | 69,584 | | | | 14,397 | 83,981 |
| Issuance Costs | | | | 512 | | 1,114 | 1,626 |
| **Total Expenditures** | 863,882 | 206,568 | 190,220 | 747 | 154,642 | 460,667 | 1,876,726 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | 26,380 | (55,441) | (3,039) | 220 | (131,091) | (67,191) | (230,162) |
| **Other Financing Sources (Uses):** | | | | | | | |
| Issuance of Long-Term Debt | | | | 59,485 | | 117,150 | 176,635 |
| Issuance of Notes and Loans | | | | | | 14,716 | 14,716 |
| Premium/(Discount) on Long-Term Debt | | | | 5,402 | | 9,780 | 15,182 |
| Transfers In | 14,603 | 39,927 | 6,876 | | 108,805 | 165,859 | 336,070 |
| Transfers Out | (39,113) | | (4,231) | (85,653) | | (211,519) | (340,516) |
| **Total Other Financing Sources (Uses)** | (24,510) | 39,927 | 2,645 | (20,766) | 108,805 | 95,986 | 202,087 |
| **Net Change in Fund Balances** | 1,870 | (15,514) | (394) | (20,546) | (22,286) | 28,795 | (28,075) |
| Fund Balances, October 1 (restated) | 230,822 | 109,083 | (3,815) | 238,321 | (24,550) | 406,862 | 956,723 |
| **Fund Balances, September 30** | $ 232,692 | $ 93,569 | $ (4,209) | $ 217,775 | $ (46,836) | $ 435,657 | $ 928,648 |

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

## Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
### Year-Ended September 30, 2011
(In Thousands)

Amounts reported for governmental activities in the Statement of Activities are different because:

| | | |
|---|---|---|
| **Net change in Fund Balances - Total Governmental Funds** | | $ (28,075) |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current year. | | |
| Expenditures for Capital Assets | 287,180 | |
| Pollution Remediation Capitalization | 183 | |
| Less: Current Year Depreciation | (118,985) | |
| Less: Current Year Deletions | (7,122) | 161,256 |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | | 4,580 |
| The issuance of long-term debt (e.g. bonds, notes and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued. This amount is the net effect of these differences in the treatment of long-term debt and related items. | | |
| Bond, Note and Loan Amounts Issued | (191,351) | |
| (Premium)/Discount on Long-term Debt | (15,182) | |
| Bond Issuance Costs | 1,626 | |
| Amortization of Bond Premiums/Discounts, Deferred Charges, and Cost of Issuance, Net | 3,974 | |
| Principal Payments | 140,975 | (59,958) |
| The following expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds: | | |
| Interest Expense | (7,702) | |
| Compensated Absences | (9,060) | |
| Net OPEB Obligation | (16,522) | |
| Pollution Remediation | 280 | |
| Principal Amounts on Leases and Notes | 3,364 | (29,640) |
| Internal Service Funds are used by management to charge the cost of certain activities to individual funds. The net (expense) of the Internal Service Funds is reported with governmental activities. | | 12,548 |
| **Change in Net Assets of Governmental Activities** | | $ 60,711 |

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





## Statement of Net Assets
## Proprietary Funds
### As of September 30, 2011
(In Thousands)

| | BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS | | | GOVERNMENTAL ACTIVITIES |
|---|---|---|---|---|
| | **AIRPORT SYSTEM** | **NONMAJOR ENTERPRISE FUNDS** | **TOTAL** | **INTERNAL SERVICE FUNDS** |
| **Assets:** | | | | |
| **Current Assets:** | | | | |
| **Unrestricted Assets:** | | | | |
| Cash and Cash Equivalents | $ 1,123 | $ 1,011 | $ 2,134 | $ 9,589 |
| Securities Lending Collateral | 716 | 640 | 1,356 | 5,972 |
| Investments | 14,430 | 12,892 | 27,322 | 120,303 |
| Receivables, Net | 2,871 | 8,232 | 11,103 | 1,451 |
| Materials and Supplies, at Cost | 646 | 60 | 706 | 1,666 |
| Deposits | | | | 138 |
| Prepaid Expenses | | | | 977 |
| Due From: | | | | |
| Other Funds | | 5,984 | 5,984 | 3,454 |
| Other Governmental Agencies, Net | | | | 985 |
| **Total Unrestricted Assets** | 19,786 | 28,819 | 48,605 | 144,535 |
| **Restricted Assets:** | | | | |
| Debt Service Accounts: | | | | |
| Cash and Cash Equivalents | 15,201 | 947 | 16,148 | |
| Securities Lending Collateral | | 243 | 243 | |
| Investments | 11,731 | 5,332 | 17,063 | |
| Receivables, Net | | 3 | 3 | |
| Construction Accounts: | | | | |
| Cash and Cash Equivalents | 8,501 | 241 | 8,742 | |
| Securities Lending Collateral | 2,948 | 20 | 2,968 | |
| Investments | 59,390 | 406 | 59,796 | |
| Receivables, Net | 42 | | 42 | |
| Due From: | | | | |
| Other Funds | 7 | | 7 | |
| Improvement and Contingency Accounts: | | | | |
| Cash and Cash Equivalents | 4,557 | 1,107 | 5,664 | |
| Securities Lending Collateral | 2,842 | 691 | 3,533 | |
| Investments | 57,255 | 13,917 | 71,172 | |
| Receivables, Net | 2,173 | 10 | 2,183 | |
| Other Restricted Assets: | | | | |
| Cash and Cash Equivalents | 1,806 | | 1,806 | |
| **Total Restricted Assets** | 166,453 | 22,917 | 189,370 | |
| **Total Current Assets** | 186,239 | 51,736 | 237,975 | 144,535 |
| **Noncurrent Assets:** | | | | |
| **Capital Assets:** | | | | |
| Land | 5,322 | 9,063 | 14,385 | |
| Buildings | 359,139 | 26,683 | 385,822 | 178 |
| Improvements | 365,813 | 14,475 | 380,288 | 244 |
| Machinery and Equipment | 14,391 | 31,654 | 46,045 | 179,605 |
| Construction in Progress | 50,211 | 5,694 | 55,905 | 127 |
| **Total Capital Assets** | 794,876 | 87,569 | 882,445 | 180,154 |
| Less: Accumulated Depreciation | 208,385 | 27,965 | 236,350 | 112,206 |
| **Net Capital Assets** | 586,491 | 59,604 | 646,095 | 67,948 |
| Unamortized Bond Issuance Costs | 9,833 | 323 | 10,156 | |
| **Total Noncurrent Assets** | 596,324 | 59,927 | 656,251 | 67,948 |
| **Total Assets** | $ 782,563 | $ 111,663 | $ 894,226 | $ 212,483 |

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

## Statement of Net Assets
## Proprietary Funds
**As of September 30, 2011**
(In Thousands)

| | BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS | | | GOVERNMENTAL ACTIVITIES |
|---|---|---|---|---|
| | AIRPORT SYSTEM | NONMAJOR ENTERPRISE FUNDS | TOTAL | INTERNAL SERVICE FUNDS |
| **Liabilities:** | | | | |
| **Current Liabilities:** | | | | |
| **Payable from Current Unrestricted Assets:** | | | | |
| Vouchers Payable | $ 785 | $ 1,578 | $ 2,363 | $ 4,805 |
| Accounts Payable-Other | 1,608 | 2,267 | 3,875 | 5,473 |
| Claims Payable | | | | 58,868 |
| Accrued Payroll | 385 | 679 | 1,064 | 852 |
| Accrued Interest | 80 | | 80 | 1 |
| Current Portion of Accrued Leave Payable | 1,312 | 1,744 | 3,056 | 1,991 |
| Securities Lending Obligation | 716 | 640 | 1,356 | 5,972 |
| Unearned Revenue | 1,672 | 102 | 1,774 | 23 |
| Current Portion of Capital Lease Liability | 124 | 5,217 | 5,341 | 106 |
| Current Portion of Accrued Landfill Postclosure Costs | | 100 | 100 | |
| Due To: | | | | |
| Other Funds | 437 | 1,347 | 1,784 | 3,821 |
| Other Governmental Agencies | | 6 | 6 | 711 |
| **Total Payable from Current Unrestricted Assets** | 7,119 | 13,680 | 20,799 | 82,623 |
| **Payable from Restricted Assets:** | | | | |
| Vouchers Payable | 9,283 | 307 | 9,590 | |
| Accrued Bond Interest | 5,159 | 292 | 5,451 | |
| Securities Lending Obligation | 5,790 | 954 | 6,744 | |
| Current Portion of Bonds and Certificates | 17,640 | 1,315 | 18,955 | |
| Due To: | | | | |
| Other Funds | 27 | 141 | 168 | |
| Current Portion of Unamortized Premium/(Discount) | 238 | 59 | 297 | |
| Current Portion of Deferred Amount on Refunding | (869) | (180) | (1,049) | |
| Other Payables | | 28 | 28 | |
| **Total Payable from Restricted Assets** | 37,268 | 2,916 | 40,184 | |
| **Total Current Liabilities** | 44,387 | 16,596 | 60,983 | 82,623 |
| **Noncurrent Liabilities:** | | | | |
| Bonds and Certificates | 388,660 | 18,105 | 406,765 | |
| Unamortized Premium/(Discount) | 7,276 | 210 | 7,486 | |
| Deferred Amount on Refunding | (1,416) | (1,552) | (2,968) | |
| Accrued Leave Payable | 814 | 583 | 1,397 | 723 |
| Capital Lease Liability | 3,088 | 12,711 | 15,799 | 193 |
| Net OPEB Obligation | 7,119 | 13,004 | 20,123 | 13,067 |
| Pollution Remediation | 1,040 | | 1,040 | |
| Accrued Landfill Postclosure Costs | | 1,945 | 1,945 | |
| **Total Noncurrent Liabilities** | 406,581 | 45,006 | 451,587 | 13,983 |
| **Total Liabilities** | 450,968 | 61,602 | 512,570 | 96,606 |
| **Net Assets:** | | | | |
| Invested In Capital Assets, Net of Related Debt | 241,447 | 31,661 | 273,108 | 67,649 |
| Restricted: | | | | |
| Debt Service | 21,762 | 6,131 | 27,893 | |
| Capital Projects | 56,041 | 6,598 | 62,639 | |
| Unrestricted | 12,345 | 5,671 | 18,016 | 48,228 |
| **Total Net Assets** | $ 331,595 | $ 50,061 | $ 381,656 | $ 115,877 |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. | | | (2,696) | |
| **Net assets of business-type activities** | | | $ 378,960 | |

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





## Statement of Revenues, Expenses, and Changes in Fund Net Assets
## Proprietary Funds
**Year-Ended September 30, 2011**
(In Thousands)

| | BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS | | | GOVERNMENTAL ACTIVITIES |
|---|---|---|---|---|
| | AIRPORT SYSTEM | NONMAJOR ENTERPRISE FUNDS | TOTAL | INTERNAL SERVICE FUNDS |
| **Operating Revenues:** | | | | |
| Charges for Services | $ 82,901 | $ 122,495 | $ 205,396 | $ 262,649 |
| **Total Operating Revenues** | 82,901 | 122,495 | 205,396 | 262,649 |
| **Operating Expenses:** | | | | |
| Personal Services | 28,975 | 48,810 | 77,785 | 57,265 |
| Contractual Services | 7,339 | 28,010 | 35,349 | 40,890 |
| Commodities | 2,454 | 8,064 | 10,518 | 2,722 |
| Materials | | | | 24,877 |
| Claims | | | | 104,648 |
| Other | 8,058 | 21,124 | 29,182 | 17,202 |
| Depreciation | 23,558 | 4,794 | 28,352 | 15,067 |
| **Total Operating Expenses** | 70,384 | 110,802 | 181,186 | 262,671 |
| **Operating Income** | 12,517 | 11,693 | 24,210 | (22) |
| **Nonoperating Revenues (Expenses):** | | | | |
| Investment Earnings | 631 | 141 | 772 | 593 |
| Other Nonoperating Revenue | 17,304 | 450 | 17,754 | 3,437 |
| Gain (Loss) on Sale of Capital Assets | (1,183) | (333) | (1,516) | 4,047 |
| Interest and Debt Expense | (19,903) | (1,955) | (21,858) | |
| Other Nonoperating Expense | (14,145) | (1,538) | (15,683) | (63) |
| **Total Nonoperating Revenues (Expenses)** | (17,296) | (3,235) | (20,531) | 8,014 |
| **Change in Net Assets Before Contributions and Transfers** | (4,779) | 8,458 | 3,679 | 7,992 |
| Capital Contributions | 18,721 | 4,212 | 22,933 | |
| **Transfers In (Out):** | | | | |
| Transfers In | 463 | 3,850 | 4,313 | 7,796 |
| Transfers Out | (268) | (5,449) | (5,717) | (1,946) |
| **Total Transfers In (Out)** | 195 | (1,599) | (1,404) | 5,850 |
| **Change In Net Assets** | 14,137 | 11,071 | 25,208 | 13,842 |
| Net Assets - October 1 (restated) | 317,458 | 38,990 | | 102,035 |
| **Net Assets - September 30** | $ 331,595 | $ 50,061 | | $ 115,877 |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. | | | 1,294 | |
| **Change in Net Assets of Business-Type Activities.** | | | $ 26,502 | |

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

## Statement of Cash Flows
## Proprietary Funds
### Year-Ended September 30, 2011
(In Thousands)

| | BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS | | | GOVERNMENTAL ACTIVITIES |
|---|---|---|---|---|
| | AIRPORT SYSTEM | NONMAJOR ENTERPRISE FUNDS | TOTALS | INTERNAL SERVICE FUNDS |
| **Cash Flows from Operating Activities:** | | | | |
| Cash Received from Customers | $ 83,994 | $ 121,433 | $ 205,427 | $ 260,966 |
| Cash Payments to Suppliers for Goods and Services | (21,290) | (58,125) | (79,415) | (189,472) |
| Cash Payments to Employees for Service | (28,071) | (47,120) | (75,191) | (55,827) |
| **Net Cash Provided by Operating Activities** | 34,633 | 16,188 | 50,821 | 15,667 |
| **Cash Flows from Noncapital Financing Activities:** | | | | |
| Transfers In from Other Funds | 463 | 3,850 | 4,313 | 7,796 |
| Transfers Out to Other Funds | (268) | (5,449) | (5,717) | (1,946) |
| Due to Other Funds | (419) | 1,139 | 720 | 2,765 |
| Due from Other Funds | 1,219 | (4,526) | (3,307) | (1,774) |
| Cash Received from Other Nonoperating Revenues | 17,304 | 450 | 17,754 | 3,437 |
| **Net Cash Provided by (Used for) Noncapital Financing Activities** | 18,299 | (4,536) | 13,763 | 10,278 |
| **Cash Flows from Capital and Related Financing Activities:** | | | | |
| Contributed Capital | 16,083 | | 16,083 | |
| Acquisitions and Construction of Capital Assets | (50,605) | (4,588) | (55,193) | (26,977) |
| Proceeds from Issuance of Long-Term Debt | 45,445 | | 45,445 | |
| Principal Payments or Refundings on Long-Term Debt | (18,170) | (935) | (19,105) | |
| Interest and Fees Paid on Long-Term Debt | (23,634) | (1,080) | (24,714) | |
| Interest Paid on Notes and Leases | (80) | (779) | (859) | (1) |
| Principal Payments on Notes and Leases | | (7,687) | (7,687) | (103) |
| Proceeds from Sale of Assets | 30 | | 30 | 5,083 |
| **Net Cash (Used for) Capital and Related Financing Activities** | (30,931) | (15,069) | (46,000) | (21,998) |
| **Cash Flows from Investing Activities:** | | | | |
| Purchases of Investment Securities | (208,803) | (41,450) | (250,253) | (148,805) |
| Maturity of Investment Securities | 200,497 | 44,576 | 245,073 | 144,122 |
| Purchases of Investments for Securities Lending | 10,327 | 3,486 | 13,813 | 11,231 |
| Proceeds from Cash Collected for Securities Lending Cash Collateral | (10,327) | (3,486) | (13,813) | (11,231) |
| Investments Earnings | 551 | 133 | 684 | 458 |
| **Net Cash Provided by (Used for) Investing Activities** | (7,755) | 3,259 | (4,496) | (4,225) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 14,246 | (158) | 14,088 | (278) |
| Cash and Cash Equivalents, October 1 (restated) | 16,942 | 3,464 | 20,406 | 9,867 |
| **Cash and Cash Equivalents, September 30** | $ 31,188 | $ 3,306 | $ 34,494 | $ 9,589 |
| **Reconciliation of Operating Income to Net Cash Provided by Operating Activities:** | | | | |
| Operating Income | $ 12,517 | $ 11,693 | $ 24,210 | $ (22) |
| **Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:** | | | | |
| Depreciation | 23,558 | 4,794 | 28,352 | 15,067 |
| Changes in Assets and Liabilities: | | | | |
| (Increase) in Accounts Receivable | (123) | (7,783) | (7,906) | (1,678) |
| Decrease in Accrued Revenues | | 6,704 | 6,704 | 13 |
| (Increase) Decrease in Due from Other Governmental Agencies | | 6 | 6 | (41) |
| (Increase) Decrease in Materials and Supplies | (106) | 23 | (83) | (350) |
| Decrease in Prepaid Expenses | 17 | | 17 | 195 |
| Increase (Decrease) in Vouchers Payable | 125 | 68 | 193 | (2,550) |
| Increase in Claims Payable | | | | 2,437 |
| Increase (Decrease) in Accounts Payable - Other | (3,815) | (1,012) | (4,827) | 1,135 |
| (Decrease) in Accrued Payroll | (741) | (1,240) | (1,981) | (1,490) |
| (Decrease) in Accrued Leave Payable | (104) | (485) | (589) | (743) |
| (Decrease) in Landfill Postclosure Liability | | (12) | (12) | |
| Increase in Net OPEB Obligation | 1,749 | 3,415 | 5,164 | 3,671 |
| Increase in Pollution Remediation Liability | 340 | | 340 | |
| Increase in Unearned Revenue | 1,216 | 17 | 1,233 | 23 |
| **Net Cash Provided by Operating Activities** | $ 34,633 | $ 16,188 | $ 50,821 | $ 15,667 |
| **Noncash Investing, Capital and Financing Activities** | | | | |
| Acquisitions and Construction of Capital Assets from Debt Proceeds and Leases | $ 3,212 | $ - | $ 3,212 | $ - |
| Contributed Capital | 2,638 | 4,212 | 6,850 | |

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





## Statement of Fiduciary Net Assets/Balance Sheet
## Fiduciary Funds
### As of September 30, 2011
(In Thousands)

| | FIRE AND POLICE PENSION AND HEALTH CARE FUNDS | PRIVATE PURPOSE TRUST FUND - SAN ANTONIO LITERACY PROGRAM | AGENCY FUNDS |
|---|---|---|---|
| **Assets:** | | | |
| **Current Assets:** | | | |
| Cash and Cash Equivalents | $ 75,951 | $ 24 | $ 8,495 |
| Security Lending Collateral | 141,570 | | 104 |
| Investments: | | | |
| Common Stock | 781,313 | | |
| U.S. Government Securities | 87,460 | | 2,106 |
| Corporate Bonds | 413,281 | | |
| Hedge Funds | 249,719 | | |
| Real Estate | 233,849 | | |
| Alternative | 327,951 | | |
| Receivables: | | | |
| Accounts | 31,625 | | 50 |
| Accrued Interest | 4,476 | | 1 |
| Accrued Revenue | 29 | | |
| **Total Current Assets** | 2,347,224 | 24 | 10,756 |
| **Capital Assets:** | | | |
| Machinery and Equipment | 457 | | |
| Buildings | 1,469 | | |
| **Total Capital Assets** | 1,926 | | |
| Less: Accumulated Depreciation | 482 | | |
| **Net Capital Assets** | 1,444 | | |
| **Total Assets** | $ 2,348,668 | $ 24 | $ 10,756 |
| **Liabilities:** | | | |
| Vouchers Payable | $ 4,296 | $ - | $ 28 |
| Accounts Payable - Other | 30,838 | | 10,624 |
| Claims Payable | 3,069 | | |
| Accrued Payroll | 169 | | |
| Securities Lending Obligation | 141,570 | | 104 |
| **Total Liabilities** | 179,942 | | $ 10,756 |
| **Net Assets:** | | | |
| Net Held in Trust for Pension, OPEB Benefits and Other Purposes | $ 2,168,726 | $ 24 | |

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

## Statement of Changes in Fiduciary Net Assets
## Fiduciary Funds
### Year-Ended September 30, 2011
(In Thousands)

| | FIRE AND POLICE PENSION AND HEALTH CARE FUNDS | PRIVATE PURPOSE TRUST FUND - SAN ANTONIO LITERACY PROGRAM |
|---|---|---|
| **Additions:** | | |
| **Contributions:** | | |
| Employer | $ 91,470 | $ - |
| Employee | 44,171 | |
| Other Contributions | 624 | |
| **Total Contributions** | 136,265 | |
| **Investment Earnings:** | | |
| Net Increase in Fair Value of Investments | 34,072 | |
| Real Estate Income, Net | 2,231 | |
| Interest and Dividends | 33,474 | |
| Securities Lending | 400 | |
| Other Income | 117 | |
| **Total Investment Earnings** | 70,294 | |
| Less: Investment Expenses | | |
| Investment Management Fees and Custodian Fees | (10,537) | |
| Less: Securities Lending Expenses | | |
| Borrower Rebates and Lending Fees | (112) | |
| **Net Investment Earnings** | 59,645 | |
| **Total Additions** | 195,910 | |
| **Deductions:** | | |
| Benefits | 127,036 | |
| Refunds of Contributions | 356 | |
| Administrative Expense | 4,603 | |
| **Total Deductions** | 131,995 | |
| **Change in Net Assets** | 63,915 | |
| Net Assets - October 1 | 2,104,811 | 24 |
| **Net Assets - September 30** | $ 2,168,726 | $ 24 |

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





## Statement of Net Assets
## Discretely Presented Component Units
### As of September 30, 2011
(In Thousands)

| | CPS ENERGY | SAN ANTONIO WATER SYSTEM | NONMAJOR COMPONENT UNITS | TOTAL |
|---|---|---|---|---|
| **Assets:** | | | | |
| **Current Assets:** | | | | |
| **Unrestricted Assets:** | | | | |
| Cash and Cash Equivalents | $ 154,063 | $ 48,393 | $ 25,119 | $ 227,575 |
| Cash Collateral from Securities Lending | 2,055 | | | 2,055 |
| Investments | 215,881 | 95,013 | 433 | 311,327 |
| Receivables, Net: | | | | |
| Notes | | | 7,338 | 7,338 |
| Accounts | 197,367 | 47,104 | 6,512 | 250,983 |
| Accrued Interest | 1,316 | 1,809 | 153 | 3,278 |
| Materials and Supplies, at Cost | 146,098 | 5,497 | 176 | 151,771 |
| Due from Other Governmental Agencies | | | 12,732 | 12,732 |
| Prepaid Expenses | 51,235 | 2,151 | 34,311 | 87,697 |
| Other Assets | | | 1,204 | 1,204 |
| **Total Unrestricted Assets** | 768,015 | 199,967 | 87,978 | 1,055,960 |
| **Restricted Assets:** | | | | |
| Debt Service Accounts: | | | | |
| Cash and Cash Equivalents | 545 | | 15,669 | 16,214 |
| Investments | | 42,328 | 11,073 | 53,401 |
| Receivables - Accrued Interest | 3 | | 96 | 99 |
| Capital Projects Accounts: | | | | |
| Cash and Cash Equivalents | 227,622 | 41,061 | | 268,683 |
| Investments | 138,983 | 249,359 | | 388,342 |
| Receivables - Accrued Interest | 665 | | | 665 |
| Ordinance Accounts: | | | | |
| Investments | 443,955 | | | 443,955 |
| Receivables - Accrued Interest | 2,091 | | | 2,091 |
| Other Restricted Accounts: | | | | |
| Cash and Cash Equivalents | 25,631 | 275 | 1,243 | 27,149 |
| Investments | 404,204 | 99,200 | | 503,404 |
| Deferred Charges | | | 3,700 | 3,700 |
| Receivables | | | 40,189 | 40,189 |
| Receivables - Accrued Interest | 3,611 | | | 3,611 |
| **Total Restricted Assets** | 1,247,310 | 432,223 | 71,970 | 1,751,503 |
| **Total Current Assets** | 2,015,325 | 632,190 | 159,948 | 2,807,463 |
| **Noncurrent Assets:** | | | | |
| **Capital Assets:** | | | | |
| Land | 119,301 | 82,055 | 40,071 | 241,427 |
| Infrastructure | | | 74,326 | 74,326 |
| Buildings | | | 231,359 | 231,359 |
| Utility Plant in Service | 10,346,687 | 3,693,105 | | 14,039,792 |
| Machinery and Equipment | | 152,663 | 8,209 | 160,872 |
| Construction in Progress | 671,735 | 415,810 | 31,410 | 1,118,955 |
| Other Intangible Assets | | 206,896 | | 206,896 |
| Nuclear Fuel | 655,508 | | | 655,508 |
| **Total Capital Assets** | 11,793,231 | 4,550,529 | 385,375 | 16,729,135 |
| Less: Accumulated Depreciation | 4,576,190 | 1,187,662 | 101,000 | 5,864,852 |
| Assets Held for Resale | | | 382 | 382 |
| **Net Capital Assets** | 7,217,041 | 3,362,867 | 284,757 | 10,864,665 |
| **Other Noncurrent Assets:** | | | | |
| Receivables | | | 3,716 | 3,716 |
| Prepaid Expenses | 397,444 | | 525,282 | 922,726 |
| Net OPEB and Pension Asset | 32,664 | | | 32,664 |
| Other Noncurrent Assets | 72,979 | 5,575 | 5,775 | 84,329 |
| Unamortized Bond Issuance Costs | | 19,017 | | 19,017 |
| **Total Noncurrent Assets** | 7,720,128 | 3,387,459 | 819,530 | 11,927,117 |
| **Total Assets** | $ 9,735,453 | $ 4,019,649 | $ 979,478 | $ 14,734,580 |

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

## Statement of Net Assets
## Discretely Presented Component Units
### As of September 30, 2011
(In Thousands)

| | CPS ENERGY | SAN ANTONIO WATER SYSTEM | NONMAJOR COMPONENT UNITS | TOTAL |
|---|---|---|---|---|
| **Liabilities:** | | | | |
| **Current Liabilities:** | | | | |
| **Payable from Current Unrestricted Assets:** | | | | |
| Accounts Payable and Other Current Liabilities | $ 316,203 | $ 31,645 | $ 11,619 | $ 359,467 |
| Securities Lending Obligation | 2,055 | | | 2,055 |
| Unearned Revenue | | | 8,053 | 8,053 |
| Due to Other Governmental Agencies | | | 3,408 | 3,408 |
| Current Portion of Long-term Lease/Notes Payable | | | 5,919 | 5,919 |
| Current Portion of Deferred Lease/Leaseback | 22,560 | | | 22,560 |
| Current Portion of Other Payables | 28,687 | 6,596 | | 35,283 |
| **Total Payable from Current Unrestricted Assets** | 369,505 | 38,241 | 28,999 | 436,745 |
| **Payable from Restricted Assets:** | | | | |
| Accounts Payable and Other Current Liabilities | | 41,169 | | 41,169 |
| Accrued Bond and Certificate Interest | | 11,106 | 15,880 | 26,986 |
| Current Portion of Bonds and Certificates | 199,890 | 39,730 | 22,025 | 261,645 |
| Current Portion of Commercial Paper | | 2,720 | | 2,720 |
| **Total Payable from Restricted Assets** | 199,890 | 94,725 | 37,905 | 332,520 |
| **Total Current Liabilities** | 569,395 | 132,966 | 66,904 | 769,265 |
| **Noncurrent Liabilities:** | | | | |
| Bonds and Certificates (Net of Current Portion) | 4,661,130 | 1,805,255 | 597,396 | 7,063,781 |
| Commercial Paper (Net of Current Portion) | 130,000 | 241,930 | | 371,930 |
| Unamortized Premium/(Discount) on Bonds and Certificates | 117,262 | 9,268 | | 126,530 |
| Deferred Amount on Refunding | (45,844) | (27,909) | | (73,753) |
| Long-Term Lease/Notes Payable (Net of Current Portion) | | | 90,020 | 90,020 |
| Deferred Lease/Leaseback (Net of Current Portion) | 453,091 | | | 453,091 |
| Net OPEB Obligation | | 67,302 | | 67,302 |
| Other Payables (Net of Current Portion) | 552,478 | 11,776 | 3,717 | 567,971 |
| **Total Noncurrent Liabilities** | 5,868,117 | 2,107,622 | 691,133 | 8,666,872 |
| **Total Liabilities** | 6,437,512 | 2,240,588 | 758,037 | 9,436,137 |
| **Net Assets:** | | | | |
| Invested in Capital Assets, Net of Related Debt | 2,525,771 | 1,549,777 | 190,588 | 4,266,136 |
| Restricted for: | | | | |
| Debt Service | 531 | 31,222 | 761 | 32,514 |
| Capital Projects | 449,290 | | 1,243 | 450,533 |
| Operating and Other Reserves | | 84,643 | | 84,643 |
| Perpetual Care: | | | | |
| Expendable | | | 2,953 | 2,953 |
| Unrestricted | 322,349 | 113,419 | 25,896 | 461,664 |
| **Total Net Assets** | $ 3,297,941 | $ 1,779,061 | $ 221,441 | $ 5,298,443 |

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

## Statement of Activities
## Discretely Presented Component Units
### Year-Ended September 30, 2011
(In Thousands)

| | | PROGRAM REVENUES | | | NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS | | | |
|---|---|---|---|---|---|---|---|---|
| | EXPENSES | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS | CPS ENERGY | SAN ANTONIO WATER SYSTEM | NONMAJOR COMPONENT UNITS | TOTALS |
| **CPS Energy** | $ 2,072,849 | $ 2,068,686 | $ - | $ 25,107 | $ 20,944 | $ - | $ - | $ 20,944 |
| **San Antonio Water System** | 425,761 | 368,780 | | 53,692 | | (3,289) | | (3,289) |
| **Nonmajor Component Units** | 124,043 | 117,313 | 2,224 | 9,058 | | | 4,552 | 4,552 |
| **Total** | $ 2,622,653 | $ 2,554,779 | $ 2,224 | $ 87,857 | 20,944 | (3,289) | 4,552 | 22,207 |

| | CPS ENERGY | SAN ANTONIO WATER SYSTEM | NONMAJOR COMPONENT UNITS | TOTALS |
|---|---|---|---|---|
| **General Revenues:** | | | | |
| Investment Earnings | 71,919 | 3,742 | 1,380 | 77,041 |
| Miscellaneous | | | 302 | 302 |
| Adjustment for STP Pension Cost | (14,072) | | | (14,072) |
| **Total General Revenues and Special Items** | 57,847 | 3,742 | 1,682 | 63,271 |
| **Change in Net Assets** | 78,791 | 453 | 6,234 | 85,478 |
| Net Assets - Beginning of Fiscal Year (restated) | 3,219,150 | 1,778,608 | 215,207 | 5,212,965 |
| **Net Assets - End of Fiscal Year** | $ 3,297,941 | $ 1,779,061 | $ 221,441 | $ 5,298,443 |

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



*Amounts are expressed in thousands*

## Comprehensive Annual Financial Report
## Table of Notes to Financial Statements
### Year Ended September 30, 2011

## Note 1 Summary of Significant Accounting Policies

The financial statements of the City of San Antonio (the City) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted body for establishing governmental accounting and financial reporting standards. The following is a summary of significant accounting policies of the City.

### Reporting Entity

In the evaluation of how to define the City for financial reporting purposes, management considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14*. The underlying concept of the financial reporting entity is that elected officials are "accountable" to their constituents for their actions. One of the objectives of this concept is to provide users of governmental financial statements with a basis for assessing the accountability of those elected officials.

The financial reporting entity consists of: (a) the primary government (in these financial statements the primary government is the City), (b) component units, which are legally separate organizations for which the City is financially accountable or the services rendered by the component unit are provided entirely or almost entirely to the City (blended), and (c) component units, the nature and significance of their relationship with the City is such that exclusion from the reporting entity's financial statements would be misleading or incomplete (discretely presented).

Using the criteria of GASB Statements No. 14 and No. 39 outlined below, potential component units were evaluated for inclusion in or exclusion from the reporting entity, whether the organizations were financially accountable or not, and were further evaluated for financial statement presentation. Based on their individual relationships with the City, some component unit financial statements were blended as though they are part of the City and others were discretely presented.

The following criteria (as set forth in GASB Statements No. 14 and No. 39) were used in the evaluation of potential component units of the City:

1) Legally separate
2) Financial accountability
   a) Appointment of a voting majority
   b) Imposition of will
   c) Financial benefit to or burden on the City
   d) Fiscal dependency
3) The relationship with the City is such that exclusion would cause these financial statements to be misleading or incomplete
4) Service rendered by the potential component unit is provided entirely or almost entirely to the City
5) The City or its component units, are entitled to, or have the ability to access the majority of the resources received or held by the separate organization.





## Note 1 Summary of Significant Accounting Policies (Continued)

### Reporting Entity (Continued)

The criteria outlined above were excerpted from GASB Statements No. 14 and No. 39. For a more detailed explanation of the criteria established by the Statements, the reader is referred to the *Codification of Governmental Accounting and Financial Reporting Standards*, as of June 30, 2011, published by GASB, Section-2600. GASB Statement No. 39 further clarifies that a "not for profit" may not be financially accountable to the City, but may be considered a component unit based on the nature and significance of its relationship with the City. Predicated upon the application of the criteria outlined above, the following is a brief overview of component units included in the reporting entity.

### Blended Component Units

The relationships among the following component units and the City meet the criteria, as set forth in GASB Statements No. 14 and No. 39, for inclusion in the reporting entity and are such that the financial statements are blended with those of the City.

As set forth in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, the City excludes fiduciary funds and component units that are fiduciary in nature from the government-wide financial statements. The City's component units that are fiduciary in nature are the San Antonio Fire and Police Pension Fund and the San Antonio Fire and Police Retiree Health Care Fund. These component units are presented in the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. Following is a brief description of the City's blended component units:

**Convention Center Hotel Finance Corporation**
P.O. Box 839966
San Antonio, TX 78283-3966
Contact: Margaret Villegas
Telephone No. (210) 207-5734

The Convention Center Hotel Finance Corporation (CCHFC) was established in fiscal year 2005 in accordance with state laws for the purposes of, and to act on behalf of the City in local economic development to stimulate business and commercial activity in the City. The CCHFC is governed by a board of directors, which is comprised of the City Council of San Antonio.

**Empowerment Zone Development Corporation**
P.O. Box 839966
San Antonio, TX 78283-3966
Contact: Brian James
Telephone No. (210) 207-0150

The Empowerment Zone Development Corporation (EZDC) was established in fiscal year 2004 in accordance with state laws for the purposes of, and to act on behalf of the City in local economic development to stimulate business and commercial activity in the City. The EZDC is governed by a board of directors, which is comprised of the City Council of San Antonio.

**San Antonio Fire and Police Pension Fund**
11603 W. Coker Loop, Ste 201
San Antonio, TX 78216
Contact: Mark Gremmer
Telephone No. (210) 534-3262

The San Antonio Fire and Police Pension Fund (Pension Fund) is a single employer defined benefit plan established in accordance with state law. The Pension Fund is administered by a nine-member board of trustees, including two members of the City Council of San Antonio, and the Mayor or his appointee. The City and Pension Fund participants are obligated to make all contributions to the Pension Fund in accordance with rates established by state laws. Benefit levels are also set by state laws. Services rendered by the Pension Fund are exclusively for the benefit of eligible firefighters and police officers, upon retirement.

## Note 1 Summary of Significant Accounting Policies (Continued)

### Blended Component Units (Continued)

**San Antonio Fire and Police Retiree Health Care Fund**
11603 W. Coker Loop, Ste 130
San Antonio, TX 78216
Contact: James Bounds
Telephone No. (210) 494-6500

The City of San Antonio Firefighters' and Police Officers' Retiree Prefunded Group Health Plan was created in October 1989, in accordance with the provisions of the City's contracts with the local fire and police unions, respectively, to provide postemployment health care benefits to uniformed employees who retired on or after October 1, 1989. Pursuant to the passage of Senate Bill 1568 in 1997, a separate and distinct statutory trust, the Fire and Police Retiree Health Care Fund (Health Fund), was created to provide these postemployment health care benefits for eligible uniformed employees of the City. The Health Fund is administered by a nine-member board of trustees, including two members of the City Council of San Antonio and the Mayor or his appointee. The City, active employees and retirees on behalf of their dependents are obligated to make all contributions to the Health Fund in accordance with rates established by state laws. Benefits are established pursuant to legislation enacted by the State with the Health Fund Board's ability to modify those benefits within certain parameters.

**San Antonio Health Facilities Development Corporation**
100 W. Houston St., 19th Floor
San Antonio, TX 78205
Contact: Rene Dominguez
Telephone No. (210) 207-8080

The City of San Antonio Health Facilities Development Corporation (HFDC) was established by Ordinance No. 55400, dated June 3, 1982, in accordance with state laws for the purposes of, and to act on behalf of the City as, a corporation under the Texas Health Facilities Development Act of 1981. The HFDC is authorized to issue tax-exempt health facility revenue bonds, for which the City is not obligated in any manner, to finance health related projects in support of the promotion, expansion, and improvement of health facilities. The City Council of San Antonio comprises the board of directors that govern HFDC.

**San Antonio Housing Trust Finance Corporation**
P.O. Box 15915
San Antonio, TX 78212
Contact: John Kenny
Telephone No. (210) 735-2772

The San Antonio Housing Trust Finance Corporation (HTFC) was established in fiscal year 1997 under the Texas Housing Finance Corporations Act (the Act), in accordance with state laws for the purposes of, and to act on behalf of the City in, carrying out the purposes of the Act, including the issuance of single family and multi-family revenue bonds. HTFC is managed by a five-member board of directors, which is appointed by the City Council of San Antonio.

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## Note 1 Summary of Significant Accounting Policies (Continued)

### Blended Component Units (Continued)

**San Antonio Industrial Development Authority**
100 W. Houston St., 19th Floor
San Antonio, TX 78205
Contact: Rene Dominguez
Telephone No. (210) 207-8080

The City of San Antonio Industrial Development Authority (IDA) was established by Resolution No. 79-48-100 dated October 11, 1979, in accordance with state laws for the purposes of benefiting and accomplishing public purposes of, and to act on behalf of the City as a corporation under the Development Corporation Act of 1979. The IDA is authorized to issue tax-exempt industrial revenue bonds, for which the City is not obligated in any manner, to finance qualified projects, which may further the promotion and development of commercial, industrial, and manufacturing enterprises to advance and encourage employment and public welfare. The IDA is governed by a board of directors, which is comprised of the City Council of San Antonio.

**San Antonio Public Library Foundation**
625 Shook
San Antonio, TX 78212
Contact: Kaye Lenox
Telephone No. (210) 225-4728

The San Antonio Public Library Foundation (the Foundation) was created in 1983 to emphasize the important role the private sector has in helping to enhance library resources and services. The Foundation works to raise funds from several sources, including individuals, corporations and charitable foundations for the sole benefit of the City's libraries and to raise awareness of reading. The library board of trustees' Chairman and two additional members of the library board of trustees are members of the 100+ member Foundation Board. The Foundation is a self-governing agency, as such the City has no control over its board of trustees, how its funds are expended, or access to the Foundation's funds. The purpose of the Foundation is exclusively to support the San Antonio Public Library System and to increase the awareness and use of the library through financial support and programmatic efforts.

**San Antonio Texas Municipal Facilities Corporation**
P.O. Box 839966
San Antonio, TX 78283-3966
Contact: Margaret Villegas
Telephone No. (210) 207-5734

The San Antonio Texas Municipal Facilities Corporation (TMFC) was established in fiscal year 2001 in accordance with state laws for the purposes of, and to act on behalf of the City in acquiring, constructing, equipping, financing, operating, and maintaining land and other municipal facilities for the City. The TMFC is governed by a board of directors, which is comprised of the City Council of San Antonio.

**Starbright Industrial Development Corporation**
P.O. Box 839966
San Antonio, TX 78283-3966
Contact: Margaret Villegas
Telephone No. (210) 207-5734

The Starbright Industrial Development Corporation (SIDC) was established in fiscal year 2003 in accordance with state laws for the purposes of, and to act on behalf of the City in the promotion and development of commercial, industrial, and manufacturing enterprises, to advance and encourage employment and public welfare, including but not limited to the acquisition of land. The SIDC is governed by a board of directors, which is comprised of the City Council of San Antonio.

## Note 1 Summary of Significant Accounting Policies (Continued)

### Blended Component Units (Continued)

**HemisFair Park Area Redevelopment Corporation**
c/o City of San Antonio
200 E. Market St.
San Antonio, TX 78205
Contact: Lori Houston
Telephone No. (210) 207-2129

The HemisFair Park Area Redevelopment Corporation (HPARC) was established in fiscal year 2009 in accordance with state laws for the purposes of, and to act on behalf of the City in, assisting with acquiring property, planning, developing, constructing, managing and financing projects within HemisFair Park and its surrounding area in order to promote economic development, employment, and to stimulate business, housing, tourism, and commercial activity within the City. The HPARC is governed by eleven members approved by the City Council of San Antonio. As HPARC had minimal activity through September 30, an audit is not deemed necessary in fiscal year 2011.

**San Antonio Education Facilities Corporation**
100 W. Houston St., 19th Floor
San Antonio, TX 78205
Contact: Rene Dominguez
Telephone No. (210) 207-8080

City of San Antonio Higher Education Authority (HEA) was established in 1984, in accordance with state laws for the purpose of aiding nonprofit institutions of higher education in providing educational, housing, and other related facilities in accordance with, and subject to the provisions of Section 53.35 (b) Texas Education Code (the Code), all to be done on behalf of the City and its duly constituted authority and instrumentality. In 2001, the HEA changed its name to San Antonio Education Facilities Corporation (EFC). The Code authorizes EFC to issue revenue bonds for these purposes on behalf of the City. These bonds are not obligations of the City. The City Council of San Antonio comprises the board of directors that govern EFC. The City reserves the right to terminate and dissolve EFC at any time.

**Westside Development Corporation**
2300 W. Commerce, Ste 207
San Antonio, TX 78207-3839
Contact: Ramon Flores
Telephone No. (210) 207-8204

Westside Development Corporation (WDC) was established in fiscal year 2006 in accordance with state laws for the purposes of promoting economic development and redevelopment opportunities in the west side of San Antonio. WDC seeks to generate new capital investment, create more higher paying jobs, and reduce the poverty level in the area. In addition, WDC functions as a land development corporation that has the power to buy, sell, and accept land as a nonprofit without the restrictions placed upon a municipality. WDC is governed by a board of directors nominated by a City Council committee and appointed by the City Council of San Antonio. Representatives of key stakeholders and Westside advocates are the policy-setting oversight authority for WDC, comprised of 17 members.

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## Note 1 Summary of Significant Accounting Policies (Continued)

### Blended Component Units (Continued)

**San Antonio Economic Development Corporation**
100 W. Houston St., 19th Floor
San Antonio, TX 78205
Contact: Rene Dominguez
Telephone No. (210) 207-8080

The San Antonio Economic Development Corporation (EDC) was established in fiscal year 2010 as a nonprofit corporation to promote, assist, and enhance economic development activities for the City. EDC was organized for the purposes of undertaking any statute-authorized projects to benefit and accomplish the public purpose of promoting economic development in the City. The affairs of EDC are managed by a board of directors appointed by the City Council of San Antonio. The City Council may remove a director at any time without cause. EDC's budget is not effective until adopted by the City Council.

**San Antonio Housing Trust Public Facility Corporation**
2515 Blanco Rd.
San Antonio, TX 78212
Contact: John Kenny
Telephone No. (210) 735-2772

San Antonio Housing Trust Public Facility Corporation (HTPFC) was established in fiscal year 2010 as a nonprofit corporation, organized for the purpose of assisting the City in financing, refinancing, or providing public facilities. HTPFC was created to provide a tool to develop affordable housing. HTPFC enables housing resources to be better coordinated and directed to accomplish the City's revitalization goals, and gives the City another tool to establish housing in downtown and other areas targeted for development. HTPFC's board of directors is appointed by the City Council of San Antonio, and consists of five City Council members.

The blended component unit with a different fiscal year-end from the City is the Foundation with a fiscal year-end of December 31st.

It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to Pension Fund and Health Fund would be misleading. Therefore, relevant disclosures have been included in the City's financial statements.

The City noted that EDC, HTPFC and WDC did not complete audits of their fiscal year 2011 activities in time for the City to include in its financial statements. It is management's belief that the exclusion of these component units' statements does not materially misrepresent the City's financial statements. The City restated beginning fund balance/net assets for HTPFC and EDC. WDC was not reported in fiscal year 2010 and will not be reported in fiscal year 2011's financial statements so a restatement is not needed. See Note 18 Prior Period Restatement.

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## Note 1 Summary of Significant Accounting Policies (Continued)

### Discretely Presented Component Units

The relationship among the following component units and the City is such that they meet the criteria, as set forth in GASB Statements No. 14 and No. 39, for inclusion in the reporting entity as discretely presented component units.

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

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

**City South Management Authority**
c/o City of San Antonio
1901 S. Alamo
San Antonio, TX 78204
Contact: David Ellison
Telephone No. (210) 207-7833

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

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

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

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## Note 1 Summary of Significant Accounting Policies (Continued)

### Discretely Presented Component Units (Continued)

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

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

**Municipal Golf Association – San Antonio**
2315 Avenue B
San Antonio, TX 78215
Contact: James E. Roschek
Telephone No. (210) 853-2261

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

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

The Urban Renewal Agency of the City of San Antonio dba Office of Urban Redevelopment of San Antonio (Our SA) was created under the provisions of the Urban Renewal Law of the State of Texas. OUR SA was formerly known as San Antonio Development Agency (SADA), but changed its name in fiscal year 2011. Our SA is responsible for implementing the City's Urban Renewal Program and may designate for urban renewal in such areas as it deems advisable, subject to approval by the City Council of San Antonio. Our SA receives a majority of its operating funds from the sale of land owned by the entity. Our SA is governed by a six-member board of commissioners appointed by the City Council of San Antonio.

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

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

## Note 1 Summary of Significant Accounting Policies (Continued)

### Discretely Presented Component Units (Continued)

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

Greater Kelly Development Corporation (GKDC) was established in 1996 as a local development authority on an interim basis under the Development Corporation Act of 1979 for the development and redevelopment of Kelly Air Force Base (Kelly). In November 1999, the City established the Greater Kelly Development Authority (GKDA) as the successor-in-interest to the GKDC pursuant to the newly enacted Senate Bill 655. In accordance with the Act, the GKDA has the powers previously enjoyed by the GKDC, while at the same time clarifying such powers and preserving the property tax-exempt status of prior commercial tenants at Kelly. In 2006, GKDA changed its name to Port Authority of San Antonio dba Port San Antonio (the Port). The Port is a special district and political subdivision of the State of Texas that was established for the purpose of monitoring the proposed closing of Kelly; conducting comprehensive studies of all issues related to the closure, conversion, redevelopment, and future use of Kelly; reviewing all options relative to the most appropriate uses of Kelly and the surrounding area; formulating and adopting a comprehensive plan for the conversion and redevelopment of Kelly and submitting such plan to the appropriate agency or agencies of the federal government; and implementing such plan as it relates to Kelly and the surrounding area. The Port is governed by an eleven-member board of directors, appointed by the City Council of San Antonio. The City Council also has the ability to remove appointed members of the Port's governing board at will. The Port is authorized to issue bonds to finance projects as permitted by state laws. These bonds are not obligations of the City.

**San Antonio Housing Trust Foundation, Inc.**
2515 Blanco Rd.
San Antonio, TX 78212
Contact: John Kenny
Telephone No. (210) 735-2772

San Antonio Housing Trust Foundation, Inc. (HTF) is a nonprofit entity incorporated in 1990 under the laws of the State of Texas. HTF was organized for the purposes of supporting charitable, educational, and scientific undertakings, and specifically for providing housing for low- and middle-income families, promoting public health, safety, convenience, and welfare, revitalizing neighborhoods and the downtown area through appropriate housing activities, and to provide administrative and other support for the operations of the City of San Antonio Housing Trust Fund, a Permanent Fund of the City. HTF is governed by an eleven-member board of directors appointed by the City Council of San Antonio. HTF administers the HTFC. The City has the ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations of the HTF as it authorizes a contract for the administration and management of the operations on an annual basis.





## Note 1 Summary of Significant Accounting Policies (Continued)

### Discretely Presented Component Units (Continued)

**San Antonio Water System**
P.O. Box 2449
San Antonio, TX 78298-2449
Contact: Doug Evanson
Telephone No. (210) 233-3803

On May 19, 1992, the consolidation of water systems, agencies and activities into one institution through a refunding of the then outstanding water and sewer bonds of the former City Water Board, Alamo Water Conservation and Re-Use District, and the City's Sewer and Stormwater System, resulted in the creation of the San Antonio Water System (SAWS). The City Council of San Antonio determined that the interests of the citizens and the customers would best be served by placing authority for management and control of SAWS, as consolidated, with a board of trustees. This board of trustees includes the City's Mayor as an ex-officio member, along with six members appointed by the City Council for four-year staggered terms. The rates for user charges and bond issuance authorizations are approved by the City Council.

**San Antonio Housing Trust Reinvestment Corp.**
2515 Blanco Rd
San Antonio, TX 78212
Contact: John Kenny
Telephone No. (210) 735-2772

San Antonio Housing Trust Reinvestment Corporation (HTRC) was created to act as a duly constituted authority of the City and is authorized by the City Council of San Antonio to aid, assist, and act on behalf of the City to promote for the common good and general welfare of reinvestment zones. As HTRC had no activity through September 30, an audit is not deemed necessary in fiscal year 2011.

Discretely presented component units with different fiscal year-ends from the City are CPS Energy and SAEAPFC with fiscal year-ends of January 31st and SAWS with a fiscal year-end of December 31st.

It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to CPS Energy and SAWS would be misleading. CPS Energy and SAWS have been identified as major discretely presented component units as they both relate to total component units and to the primary government. Therefore, relevant disclosures have been included in the City's financial statements.

Essential disclosures related to the above mentioned discretely presented and blended component units are included in the complete financial statements of each of the individual component units. These statements may be obtained at the respective entity's administrative office.

### Related Organizations

The City Council of San Antonio appoints members to the board of commissioners for the San Antonio Housing Authority (SAHA) and a majority of the board of directors for Keep San Antonio Beautiful, Inc. However, the City's accountability for these entities does not extend beyond making appointments to their boards and the coordination and approval of strategic plans for SAHA.

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## Note 1 Summary of Significant Accounting Policies (Continued)

### Basic Financial Statements - GASB Statement No. 34

**Government-Wide and Fund Financial Statements** – The basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements report information on all nonfiduciary activities of the primary government and its component units. MD&A introduces the basic financial statements and provides an analytical overview of the City's financial activities. Additionally, for the most part, the effect of interfund activity has been removed from the statements.

**The Statement of Net Assets** – Reflects both short-term and long-term assets and liabilities. In the government-wide Statement of Net Assets, governmental activities are reported separately from business-type activities. Governmental activities are supported by taxes and intergovernmental revenues, whereas business-type activities are normally supported by user fees and charges for services. Long-term assets, such as capital assets and unamortized bond issuance costs, and long-term obligations, such as debt, are now reported in the governmental activities. The components of net assets are presented in three separate components: (1) invested in capital assets, net of related debt, (2) restricted, and (3) unrestricted. Interfund receivables and payables within governmental and business-type activities have been eliminated in the government-wide Statement of Net Assets, which minimizes the duplication of assets and liabilities within the governmental and business-type activities. The net amount of interfund transfers between governmental, proprietary and fiduciary funds is the balance reported in the Statement of Net Assets. Component units are also reported in the Statement of Net Assets.

**The Statement of Activities** – Reflects both the gross and net cost format. The net cost (by function or business-type activity) is usually covered by general revenues (property tax, sales and use tax, revenues from utilities, etc.). Direct (gross) expenses of a given function or segment are offset by charges for services, operating and capital grants and contributions. Program revenues must be directly associated with the function of program activity. The presentation allows users to determine which functions are self-supporting and which rely on the tax base in order to complete their mission. Internal Service Fund balances, whether positive or negative, have been eliminated against the expenses and program revenues shown in the governmental and business-type activities of the Statement of Activities.

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

The proprietary funds have a reconciliation presented in the proprietary funds' Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Fund Net Assets related to the Internal Service Fund allocation.

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CITY OF SAN ANTONIO, TEXAS

## Note 1 Summary of Significant Accounting Policies (Continued)

### Fund Accounting

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

The criteria used to determine if a governmental or enterprise fund should be reported as a major fund are as follows: the total assets, liabilities, revenues or expenditures/expenses of that governmental or enterprise fund are at least 10.0% of the corresponding element total for all funds of that category or type (that is, total governmental or total enterprise funds), and the same element that met the 10.0% criterion above in the governmental or enterprise fund is at least 5.0% of the corresponding element total for all governmental and enterprise funds combined.

The following is a brief description of the major governmental funds that are each presented in a separate column in the fund financial statements:

- The General Fund is always presented as a major fund.
- The Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs, except those that are accounted for in enterprise funds.
- The Categorical Grant-In-Aid Fund, a special revenue fund, accounts for the receipt and disbursement of all federal and state grants, except for Community Development Block Grants, HUD 108 loans, HOME Investment Partnership Grants, Confiscated Property, and the American Recovery and Reinvestment Act Grants.
- The 2007 General Obligation Bonds Fund, a capital projects fund, accounts for the receipt and disbursement of $550,000 in bond sales for physical infrastructure development and improvement projects approved by a bond election held on May 12, 2007. These projects were within five areas: streets and pedestrian, drainage improvements, parks and recreation, library and public health.
- The General Obligation Project Fund, a capital projects fund, accounts for the work effort activities to construct assets primarily funded by General Obligation Bonds.

The following is a brief description of the major enterprise fund that is presented separately in the fund financial statements:

- The Airport System accounts for the operation of the San Antonio International Airport and Stinson Municipal Airport. Financing for the Airport System operations is provided by user fees.

## Note 1 Summary of Significant Accounting Policies (Continued)

### Fund Accounting (Continued)

#### *Governmental Funds*

**General Fund** is the primary operating fund for the City, which accounts for and reports all financial resources of the general government not accounted for and reported in another fund.

**Special Revenue Funds** are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service and capital projects. The specific revenue sources are the foundation for the fund's designation and are expected to continue to compromise a substantial portion of the inflows reported in the fund. If the fund no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources, the fund's remaining resources and activities are reported in the General Fund.

**Debt Service Fund** is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest as well as financial resources that are being accumulated for principal and interest maturing in future years.

**Capital Projects Funds** are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets, except those financed by enterprise funds and trust funds.

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

The governmental funds that have legally adopted budgets are the General Fund, Debt Service Fund, Special Revenue Funds (excluding HOME Program, Categorical Grant-In-Aid, HUD 108 Loan Program, Community Development Program, American Recovery and Reinvestment Act, Tax Increment Reinvestment Zone, and most Community Services Funds), and City Cemeteries.

#### *Proprietary Funds*

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

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






## Note 1 Summary of Significant Accounting Policies (Continued)

### Fund Accounting (Continued)

#### *Fiduciary Funds*

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

### Measurement Focus and Basis of Accounting

#### *Primary Government (City)*

The government-wide financial statements present information about the City as a whole. Government-wide financial statements exclude both fiduciary funds and fiduciary component units. The Statement of Net Assets and the Statement of Activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The City recognizes revenue from property taxes in the period for which they were levied. Property taxes receivable includes taxes due and amounts expected to be collected within 60 days after the year-end, along with related interest and penalties. For additional disclosure related to property taxes see Note 2, Property Tax. Other taxes and fees are recognized as revenue in the year they are earned. Revenues from grants and similar items are recognized in the fiscal year the qualifying expenditures are made and all other eligibility requirements have been satisfied.

Program revenues are presented in the government-wide Statement of Activities. The City reports program revenues in three categories: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions. Further descriptions of these three categories follow. They are presented separately as a reduction of the total expense to arrive at the net expense of each functional activity. Program revenues are revenues generated by transactions with outside parties who purchase, use, or directly benefit from a program. They also include amounts such as grants and contributions received from outside parties that restrict the use of those funds to specific programs.

1) Charges for services are revenues generated by those who purchase goods or services from the City. Examples of charges for services include airport landing fees, solid waste collection and disposal fees, vacant lot clean up, and food establishment licenses. Fines and forfeitures, license and permits and intergovernmental revenues as reported in the General Fund are also reported under charges for services.
2) Operating grants and contributions are those revenues that are restricted in the way they may be spent for operations of a particular program.
3) Capital grants and contributions are also restricted revenues; the funds may only be spent to purchase or build capital assets for specified programs.

## Note 1 Summary of Significant Accounting Policies (Continued)

### Measurement Focus and Basis of Accounting (Continued)

#### *Primary Government (City) (Continued)*

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included in their balance sheets and revenues are recognized in the accounting period in which they become available and measurable. “Available” means collectible within the current period, or soon enough thereafter, to be used to pay liabilities of the current period. Revenues from property taxes, sales and use taxes, occupancy taxes, gross receipts taxes, municipal court fines and fees, licenses, revenues from utilities, investment earnings, and charges for services are recorded on the modified accrual basis of accounting, and therefore, are considered susceptible to accrual. The City’s availability period is no more than 60 days beyond the end of the fiscal year. When collections are delayed beyond the normal time of receipt due to unusual circumstances, the amounts involved are still recognized as revenues of the current period. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by the provider have been met. Grant funds received in advance and delinquent property taxes are recorded as deferred revenue until earned and available.

Gross receipts and sales and use taxes are considered available when received by intermediary collecting governments, and are recognized at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Expenditures are recognized in the accounting period in which the fund liability is incurred; however, accrued leave, debt service expenditures, claims and judgments, arbitrage rebates, postemployment obligations, and pollution remediation are recorded only when the liability is matured.

The reported fund balance (net current assets) for each fund is considered a measure of "current financial resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "current financial resources" during the period.

Special reporting treatments are applied to governmental fund materials and supplies, prepaid expenditures, and deposits to indicate that they do not represent "current financial resources," since they do not represent net current assets. Such amounts are generally offset by fund balance nonspendable accounts.

Proprietary, Pension, private purpose trust, Health Funds, and governmental and business-type activities are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses and related liabilities, including claims, judgments, and accrued leave, are recognized when they are incurred. These funds are accounted for on a cost of services or "economic resources" measurement focus. Consequently, all assets and all liabilities (whether current or noncurrent) associated with their activity are included in their balance sheets. The reported proprietary fund net assets are segregated into three components: (1) invested in capital assets, net of related debt, (2) restricted, and (3) unrestricted net assets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net assets.





## Note 1 Summary of Significant Accounting Policies (Continued)

### Measurement Focus and Basis of Accounting (Continued)

#### *Primary Government (City) (Continued)*

Proprietary funds report both operating and nonoperating revenues and expenses in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The City defines operating revenues as those receipts generated by a specified program offering either a good or service. For example, parking garage and street lot fees are operating revenues of the Parking System Fund. This definition is consistent with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* which defines operating receipts as cash receipts from customers and other cash receipts that do not result from transactions defined as capital and related financing, noncapital financing or investing activities. Operating expenses include personal services, contractual services, commodities, other expenses (such as insurance), and depreciation. Revenues and expenses not fitting the above definitions are considered nonoperating.

The City’s proprietary funds, Pension, private purpose trust and Health Funds and business-type activities, as well as its discretely presented component units, apply all applicable GASB Statements as well as FASB Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

#### *CPS Energy*

CPS Energy’s operating revenue includes receipts from energy sales and miscellaneous revenue related to the operation of electric and gas systems.

CPS Energy revenues are recorded when earned. Customers’ meters are read and bills are prepared monthly based on billing cycles. Rate tariffs include adjustment clauses that permit recovery of electric and gas fuel costs. CPS Energy has used historical information from the relative prior fiscal years as partial bases to estimate and record earned revenue not yet billed. This process has involved an extrapolation of customer usage over the days since the last meter read through the last day of the monthly period. Also included in unbilled revenue are the over/under-recoveries of electric and gas fuel costs and regulatory assessments.

CPS Energy’s electric fuel cost adjustment clause also permits recovery of regulatory assessments. Specifically, beginning in March 2000, CPS Energy began recovering assessments from the Public Utility Commission of Texas (PUCT) for transmission access charges, and from the Texas Independent System Operator, also known as the Electric Reliability Council of Texas (ERCOT), for its operating costs and other charges applicable to CPS Energy as a wholesale provider of power to other utilities.

Miscellaneous revenue includes late payment fees, rental income, jobbing and contract work, and ancillary services. Operating expenses are recorded as incurred and include those costs that result from the ongoing operations of the electric and gas systems.

## Note 1 Summary of Significant Accounting Policies (Continued)

### Measurement Focus and Basis of Accounting (Continued)

***CPS Energy (Continued)***

Nonoperating revenue consists primarily of investment income, including fair market value adjustments, and grant programs. The amortization of net gains from the lease/leaseback of J.K. Spruce Unit 1 is also included. Certain miscellaneous income amounts from renting general property and providing various services are also recorded as nonoperating revenue when they are not directly identified with the electric or gas systems. These amounts for fiscal year 2011 were recorded net of expenses.

In fiscal year 2009, CPS Energy changed its method of accounting for the Decommissioning Trusts. Under the new method, a pro rata share of total decommissioning costs (as determined by the most recent cost study) has been recognized as a liability. In subsequent years, annual decommissioning expense and an increase in the liability will include the effects of inflation and an additional year of plant usage.

Additionally, due to requirements under the Code of Federal Regulations governing nuclear decommissioning trust funds, guidance under FAS 71, *Accounting for the Effects of Certain Types of Regulation*, has been followed. Under this guidance, the zero fund net assets approach to accounting for the Decommissioning Trusts has been retained. In accordance with FAS 71, the cumulative effect of activity in the Trusts has been recorded as a regulatory liability reported on the balance sheet as net costs refundable through future rates since any excess funds are payable to customers. Going forward, prolonged unfavorable economic conditions could result in the assets of the Trusts being less than the estimated decommissioning liability. In that case, instead of an excess as currently exists, there would be a deficit that would be reported as net costs recoverable through future rates. This amount would be receivable from customers.

To more accurately reflect funding methodology, the Allowance for Funds Used During Construction (AFUDC) rate was modified in fiscal year 2010 to include both a debt and an equity component. The new blended rate is composed of 50.0% equity and 50.0% debt based on construction funding forecasts. Both the investment rate as well as the debt rate will continue to be reviewed quarterly to determine if any adjustments are necessary. Projects costing more than $100,000 use alternate AFUDC rates, which reflect the method by which they are funded.

Federal stimulus funds have been made available to CPS Energy as a subrecipient for a portion of the grant funds allocated to the State of Texas under the American Recovery and Reinvestment Act of 2009. Used primarily for the weatherization of qualifying homes, grant receipts are recorded as nonoperating income and are to reimburse CPS Energy for costs, recorded as operating expenses, incurred in the administration of the program. This accounting treatment results in no impact to fund net assets. Revenues associated with the stimulus programs are exempt from City payment.

***San Antonio Water System (SAWS)***

SAWS revenues are recorded when earned. Customers' meters are read and bills are prepared monthly based on billing cycles. SAWS uses historical information to estimate and record earned revenue not yet billed.





## Note 1 Summary of Significant Accounting Policies (Continued)

### Measurement Focus and Basis of Accounting (Continued)

***San Antonio Water System (SAWS) (Continued)***

SAWS' principal operating revenues are charges to customers for water supply, water delivery, wastewater, and chilled water and steam services. Operating expenses include the cost of service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Nonoperating revenues consist primarily of interest income earned on investments, including the changes in fair value of investments. Nonoperating expenses consist primarily of interest expense, amortization of debt related costs, sales of capital assets and payments to the City.

### Current Year GASB Statement Implementations

In fiscal year 2011, the City implemented the following GASB Statements:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements for this Statement are effective for fiscal periods beginning after June 15, 2010. The City's implementation of this Statement in fiscal year 2011 resulted in the reclassification of funds reported within the financial statements and the new classifications of governmental fund balances. See Note 15 Fund Balance Classifications.

GASB Statement No. 59, *Financial Instruments Omnibus*, updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. This Statement provides for amendments to the National Council on Governmental Accounting Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*; GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plan*s, and No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plan*s; GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools;* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures.* The City does not currently own any of the applicable financial instruments impacted by this Statement; therefore, there was no impact to the City's financial statements in fiscal year 2011.

## Note 1 Summary of Significant Accounting Policies (Continued)

### Future GASB Statement Implementations

GASB Statement No. 57, *OPEB Measurements by Agent Employees and Agent Multiple-Employer Plans*, is intended to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agency multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements for this Statement are effective for fiscal periods beginning after June 15, 2011. The City will implement this Statement in fiscal year 2012.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, improves financial reporting by addressing issues related to service concession arrangements (SCAs). The requirements of this Statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. The requirements of this Statement are effective for fiscal periods beginning after December 15, 2011. The City will implement this Statement in fiscal year 2013.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34,* improves financial reporting for a governmental financial reporting entity. The requirements of this Statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. This Statement provides amendments to Statement No. 14, *The Financial Reporting Entity,* and Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* The requirements of this Statement are effective for fiscal periods beginning after June 15, 2012. The City will implement this Statement in fiscal year 2013.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, improves financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This requirement will bring the authoritative accounting and financial reporting literature together in one place. This Statement will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, resulting in more consistent application of applicable guidance. The requirements of this Statement are effective for fiscal periods beginning after December 15, 2011. The City will implement this Statement in fiscal year 2013.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The requirements of this Statement are effective for fiscal periods beginning after December 15, 2011. The City will implement this Statement in fiscal year 2013.





## Note 1 Summary of Significant Accounting Policies (Continued)

### Future GASB Statement Implementations (Continued)

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. The City will implement this Statement in fiscal year 2012.

The City has not fully determined the effects that implementation of Statements No. 57 and Nos. 60 through 64 will have on the City's financial statements.

### Cash and Cash Equivalents and Investments

The City's investment practices are governed by state statutes and by the City's own Investment Policy. City cash is required to be deposited in Federal Deposit Insurance Corporation (FDIC)-insured banks located within the State of Texas. A pooled cash and investment strategy is utilized, which enables the City to have one central depository. Investments are pooled into two primary categories: operating funds and debt service funds. The balances in these funds are invested in an aggregate or pooled amount, with principal and interest income distributed to each respective fund on a pro rata basis. In addition, the City may purchase certain investments with the available balance of a specific fund for the sole benefit of such fund. As of September 30, 2011, the City's investment portfolio did not contain any derivative or alternative investment products, nor was it leveraged in any way, except as noted in the Pension Fund and Health Fund. For a listing of authorized investments, see Note 3 Cash and Cash Equivalents and Investments.

The City, CPS Energy, and SAWS account for, and report investments, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The Pension Fund and the Health Fund report investments at fair value, in accordance with GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. The City's policy with respect to money market investments, which have a remaining maturity of one year or less at the time of purchase, is to report those investments at amortized cost, which approximates fair value. Amortization of premium or accretion of discount is recorded over the term of the investments.

For purposes of the statement of cash flows, the City, CPS Energy, and SAWS consider all highly liquid investments with an original maturity of approximately 90 days or less to be cash equivalents.

### Materials and Supplies and Prepaid Items

Materials and supplies consist principally of expendable items held for consumption and are stated at cost, based on first-in first-out and lower of average cost or market methods. For governmental and proprietary fund types, the "consumption" method is used to account for certain materials and supplies. Under the consumption method, these acquisitions are recorded in material and supplies accounts and charged as expenditures (governmental fund types) or expenses (proprietary fund types) when used.

## Note 1 Summary of Significant Accounting Policies (Continued)

### Materials and Supplies and Prepaid Items (Continued)

Prepaid items are goods and services that are paid in advance. These payments reflect costs applicable to future accounting periods, and are recorded in both government-wide and fund financial statements. Using the consumption method, prepaid items are charged as expenditures for governmental funds and as expenses for proprietary funds as the goods or services are used.

### Capital Assets and Depreciation

***Primary Government (City)***

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Capital assets recorded under capital leases are recorded at the present value of future minimum lease payments. Depreciation on all exhaustible capital assets of the City is charged as an expense with accumulated depreciation being reported in the Statement of Net Assets. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The City has established capitalization thresholds for buildings, improvements, infrastructure, machinery and equipment, furniture and office equipment, and intangible assets (e.g. right of ways, easements, internally generated software). Some intangible assets may have an indefinite life. For those assets, depreciation is not calculated. The estimated useful lives and capitalization thresholds applied are as follows:

| Assets | Useful Life (Years) | Capitalization Threshold |
|---|---|---|
| Buildings | 15-40 | $ 100 |
| Improvements (other than buildings) | 20-40 | 100 |
| Infrastructure | 15-100 | 100 |
| Machinery and Equipment | 5-20 | 5 |
| Furniture and Office Equipment | 5-10 | 5 |
| Intangible Assets | 5-40 | 100 |

During fiscal year 2011, the useful life for machinery and equipment was modified from 2-20 years to 5-20 years to more accurately reflect the actual lives of the City's assets.

***CPS Energy***

The costs of additions and replacements of assets identified as major components or property units are capitalized. Maintenance and replacements of minor items are charged to operating expenses. Except for certain assets that may become impaired, the cost of depreciable plant retired, plus removal costs and less salvage, is charged to accumulated depreciation. Per the financial reporting requirements of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, any losses associated with capital asset impairments will be charged to operations, not to accumulated depreciation.





## Note 1 Summary of Significant Accounting Policies (Continued)

### Capital Assets and Depreciation (Continued)

***CPS Energy (Continued)***

CPS Energy's utility plant is stated at the cost of construction, including expenditures for contracted services; direct equipment, material and labor; indirect costs, including general engineering, labor, equipment and material overheads; AFUDC, which represents capitalized interest. CPS Energy computes AFUDC using rates that approximate the cost of borrowed funds measured as the investment rate for other funds used for construction. Noncash AFUDC is applied to projects estimated to require 30 days or more to complete.

Proceeds from customers to partially fund construction expenditures are reported in the Statements of Activities as increases in fund net assets in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Except for nuclear fuel, which is amortized over units of production, CPS Energy computes depreciation using the straight-line method over the estimated service lives of the depreciable property according to asset type. Total depreciation as a percent of total depreciable assets, excluding nuclear fuel, was 3.1% for fiscal year 2011.

The estimated useful lives of capital assets were as follows:

| Assets | Useful Life (Years) |
|---|---|
| Buildings and Structures | 20-60 |
| Systems and Improvements: | |
| Generation | 18-60 |
| Transmission and Distribution | 20-55 |
| Gas | 50-65 |
| Machinery and Equipment | 4-30 |
| Mineral Rights and Other | 20-40 |
| Nuclear Fuel | Units of Production |

Capitalization thresholds contained in CPS Energy's capitalization policy for fiscal year 2011 were as follows:

| Assets | Capitalization Threshold |
|---|---|
| Land, Land Improvements and Certain Easements | Capitalize All |
| Buildings and Building Improvements | $ 10 |
| Computer Software: | |
| Purchased | 10 |
| Internally Developed | 100 |
| Enhancements/Upgrades | 100 |
| Computer Hardware | 3 |
| All Other Assets | 3 |

- 47 - Amounts are expressed in thousands
- 48 - Amounts are expressed in thousands

## Note 1 Summary of Significant Accounting Policies (Continued)

### Capital Assets and Depreciation (Continued)

#### *San Antonio Water System (SAWS)*

SAWS' capital assets in service are capitalized when the unit cost is greater than or equal to $5. Utility plant additions are recorded at cost, which includes materials, labor, overhead, and interest capitalized during construction. Included in capital assets are intangible assets, which consist of purchased water rights and land easements, costs associated with acquiring additional Certificates of Convenience and Necessity (CCN) related to new service areas and development costs for internally generated computer software. Overhead consists of internal costs that are clearly related to the acquisition of capital assets. Assets acquired through capital leases are recorded on the cost basis and included in utility plant in service. Assets acquired through contributions, such as those from developers, are recorded at estimated fair market value at date of donation. Maintenance, repairs, and minor renewals are charged to operating expense; major plant replacements are capitalized. Capital assets are depreciated and property under capital lease is amortized on the straight-line method. This method is applied to all individual assets except distribution mains and intangible assets. Groups of mains are depreciated on the straight-line method using rates estimated to fully depreciate the costs of the asset group over their estimated average useful lives. Intangible assets not considered to have indefinite useful lives are amortized over their estimated useful life. All capital assets are periodically reviewed for potential impairment. The following table shows an estimated range of useful lives used in providing for depreciation of capital assets:

| Assets | Useful Life (Years) |
|---|---|
| Structures and Improvements | 25-50 |
| Pumping and Purification Equipment | 10-50 |
| Distribution and Transmission System | 25-50 |
| Collection System | 50 |
| Treatment Facilities | 25 |
| Equipment and Machinery | 5-20 |
| Furniture and Fixtures | 3-10 |
| Computer Equipment | 5 |
| Software | 3-10 |
| Intangible Assets (Definite Useful Life) | 20 |

### General Bonded Debt Service

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service Fund. Amounts estimated to be required for debt service on general bonded debt are provided by allocated property taxes, investment earnings within the Debt Service Fund, and transfers from other funds.

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## Note 1 Summary of Significant Accounting Policies (Continued)

### Accrued Leave

#### *Primary Government (City)*

In the governmental fund financial statements, the City accrues annual leave and associated employee related costs when matured (payable from available resources) for both civilian and uniformed employees. The matured portion of the City's compensatory time is also accrued annually for both civilian and uniformed employees. In addition, the City accrues the matured portion of its uniformed employees' accrued sick leave, holiday, and bonus pay.

For governmental fund types, the matured current portion of the liability resulting from the accrual of these leave liabilities is recorded in the respective governmental fund and reported in the fund financial statements, while the entire vested liability is reported in the government-wide financials. The current and long-term portions of the liability related to proprietary fund types are accounted for in the respective proprietary funds.

#### *CPS Energy*

Employees earn vacation benefits based upon their employment status and years of service.

#### *San Antonio Water System (SAWS)*

It is SAWS' policy to accrue employee vacation pay as earned as well as the employer portion of Social Security taxes and required pension contributions related to the accrued vacation pay. Sick leave is not accrued as a terminating employee is not paid for accumulated sick leave.

### Insurance

Activity for the City's self-insurance programs is recorded in the Internal Service Funds. Assets and obligations related to property and casualty liability, employee health benefits, workers' compensation, unemployment compensation, and employee wellness are included.

The City is insured for property loss on a primary basis through Great American Insurance Company of New York. Excess liability coverage for casualty losses is provided by Star Insurance Company. Related liabilities are accrued based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported prior to the end of the fiscal year. The City determines and accrues loss liabilities based on an actuarial assessment of historical claim data and industry trends performed annually.

The City also provides employee health insurance, which includes a pro rata share of retiree health benefits, workers' compensation, and unemployment benefits under its self-insurance programs. The City is a member of the Texas Municipal League Workers' Compensation Joint Insurance Fund, and uses this fund as a mechanism for administering workers' compensation claims that occurred prior to September 30, 1986. Workers' compensation claims that occurred after October 1, 1986 are administered by third-party administrators. In addition, as of September 30, 2011, the City has excess workers' compensation coverage through Star Insurance Company. The City records all workers' compensation loss contingencies, including claims incurred but not reported. The City determines and accrues workers' compensation liabilities based on an actuarial assessment of historical claim data and industry trends performed annually.

- 49 - *Amounts are expressed in thousands*
- 50 - *Amounts are expressed in thousands*

## Note 1 Summary of Significant Accounting Policies (Continued)

### Insurance (Continued)

Employee and retiree health benefit liabilities are determined and accrued based upon the City's estimates of aggregate liabilities for unpaid benefits utilizing claim lag data from the City's third party administrator. The City additionally determines and accrues postemployment liabilities based on an actuarial assessment of historical claim data performed bi-annually and reviewed annually. Current year unpaid benefit liabilities for retirees are netted against the postemployment liability as additional contributions.

Regarding unemployment compensation, the City is subject to the State of Texas Employment Commission Act. Under this Act, the City's method for providing unemployment compensation is to reimburse the State for claims paid by the State.

All insurance carriers providing coverage for the City are required to possess an A.M. Best Company rating of A- or better; where A- denotes "Excellent." A.M. Best is an industry recognized rating service for insurance companies. For a more detailed explanation of the City's self-insurance programs, see Note 13, Risk Financing.

### Fund Balance

Fund balances are classified as Nonspendable, Restricted, Committed, Assigned and Unassigned based on the extent to which the City is bound to observe constraints imposed on the use of the resources in the governmental funds. The classifications are as follows:

- Nonspendable – The nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.
- Restricted – The fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or it's imposed by law through enabling legislation.
- Committed – The committed fund balance includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for other purposes unless City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- Assigned – Amounts in the assigned fund balance are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund assigned amounts represent intended uses established by City Council.
- Unassigned – Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and does not have a specific purpose. In the governmental funds, other than the general fund, if expenditures incurred exceeded the amounts restricted, committed or assigned, the fund may report a negative unassigned fund balance.

Generally, the City would apply restricted, committed or assigned resources prior to unassigned resources when an expenditure is incurred for purposes for which more than one of the classification of fund balance is available. See Note 15 Fund Balance Classification.





## Note 1 Summary of Significant Accounting Policies (Continued)

### Allocation of Indirect Expenses

The City recovers indirect costs in the General Fund through the application of departmental indirect cost rates. These rates are developed and documented in the City's departmental indirect cost rate plan. In this plan, each department is classified by function. Indirect costs are budgeted by department and are used as a basis for the City's actual indirect cost allocation. Base rates are then applied to actual indirect costs recovered and indirect costs are reclassified to reduce general government expenditures. For fiscal year 2011, general government expenditures were reduced by $8,857, resulting in increased expenditures/expenses in other governmental functions and in business-type activities in the amounts of $6,492 and $2,365, respectively.

### Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts are amortized over the life of the debt. Debt refundings (carrying value of the debt net of any unamortized costs of the old debt) are deferred and amortized over the shorter of the life of the original bonds or the life of the refunding bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the period of issuance. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses.

### Bond Issuance Costs

In the government-wide and proprietary fund financial statements, bond issuance costs are reported as assets in the Statement of Net Assets and amortized over the life of the debt.

In the fund financial statements, governmental fund types recognize bond issuance costs as expenditures of the funds during the period in which proceeds of debt issuances are recorded.

### Elimination of Internal Activity

Elimination of internal activity, particularly related to Internal Service Fund transactions, is needed to make the transition from governmental funds to government-wide activities. The overriding objective in eliminating the effects of Internal Service Fund activity is to adjust the internal charges to cause a break-even result. Eliminating the effect of Internal Service Fund activity requires the City to look back and adjust the Internal Service Funds' internal charges. Net income derived from Internal Service Fund activity would cause a pro rata reduction in the charges made to the participating funds/functions. Conversely, an Internal Service Fund net loss would require a pro rata increase in the amounts charged to the participating funds/functions. Therefore, eliminations made to the Statement of Activities remove the doubling up effect of Internal Service Fund activity. The residual internal balances between the governmental and business–type activities are reported in the Statement of Net Assets and the internal balance amounts that exist within the governmental funds or within business-type funds are eliminated. The City reports Internal Service Fund balances in both governmental and business-type activities, based on the pro rata share of the amounts charged to the participating funds/functions.

## Note 1 Summary of Significant Accounting Policies (Continued)

### Elimination of Internal Activity (Continued)

The City has four Internal Service Funds: Other Internal Services, Information Technology Services, Self-Insurance Funds, and CIMS. Other Internal Services and Information Technology Services charge user fees for requested goods or services. Building maintenance, a component of the Other Internal Services Fund, charges are based on the space occupied by departments. Information Technology Services also charges a monthly amount based on the number of personnel positions in each department. Through the tracking of these charges to the applicable departments, the net income or loss is allocated back to the user department, based on actual charges incurred.

The Self-Insurance Funds generate their revenues through fixed assessments charged to the various funds each year. The Employee Benefits Fund charges pro rata user fees to employees, and additionally generates revenue through a pro rata user fee charged to retirees. The net income or loss generated by the Self-Insurance Funds is allocated back, based on the same allocation by which the revenues are received over time.

CIMS generates revenues by charging a capital administrative fee for projects worked on. The fund additionally generates revenue through reimbursements of costs incurred for various arts and general service activities. The net income or loss generated is allocated back to the user funds, based on actual charges incurred.

### Application of Restricted and Unrestricted Net Assets

The City may receive funding from an organization whose expenditures are restricted to certain allowable costs. In situations where both restricted and unrestricted net assets are expended to cover allowable expenses, the City will first expend the restricted net assets and cover additional costs with unrestricted net assets. The City reserves the right to selectively defer the use of restricted assets.

## Note 2 Property Taxes

Property taxes are levied and due upon receipt on October 1, attached as an enforceable lien on property as of January 1, and become delinquent the following February 1. Property tax billing and collections are performed via an inter-local agreement with the Bexar County Tax Assessor/Collector's Office.

The City is permitted by the Municipal Finance Law of the State of Texas to levy taxes up to $2.50 per $100 of taxable valuation (note amounts are not reflected in thousands). The tax rate approved by City ordinance for the fiscal year-ended September 30, 2011, was $0.56569 per $100 taxable valuation, which means that the City has a tax margin of $1.93431 per $100 taxable valuation (note that tax rate amounts are not reflected in thousands). This could raise an additional $1,373,506 per year based on the net taxable valuation of $71,007,547 before the limit is reached.

The City has approved a "TIF Manual" for the utilization of Tax Increment Financing (TIF) and the creation of Tax Increment Reinvestment Zones (TIRZ) pursuant to Chapter 311 of the Texas Tax Code. The City has utilized TIF as a vehicle to fund in whole or in part eligible capital costs for public infrastructure related to economic development, commercial, and residential projects. As of September 30, 2011, there are 24 existing TIRZ with a total taxable captured value of $2,488,758. For fiscal year 2011, this total taxable captured value produced $8,325 in tax increment revenues for use by the City to fund capital costs of certain public infrastructure improvements in the TIRZ. The existing TIRZ have terms ranging from 13 years to 30 years which are anticipated to expire starting in fiscal year 2014 through fiscal year 2038. It is estimated that the City will contribute approximately $689,378 in tax increment revenues in aggregate over the life of these TIRZ projects.





## Note 3 Cash and Cash Equivalents, Securities Lending and Investments

### Summary of Cash and Cash Equivalents, Securities Lending and Investments

A summary of cash and cash equivalents, securities lending and investments for the primary government (City), Pension Fund, Health Fund, CPS Energy, and SAWS are presented below as of each entity's respective fiscal year. The information is provided in order to facilitate reconciliation between the Statement of Net Assets and the following note disclosures:

| Totals from Statement of Net Assets | City [1] | Fire and Police Pension Fund [2] | Fire and Police Retiree Health Care Fund [2] | CPS Energy [3] | SAWS [4] |
|---|---|---|---|---|---|
| Unrestricted: | | | | | |
| Cash and Cash Equivalents | $ 26,283 | $ 72,510 | $ 3,441 | $ 154,063 | $ 48,393 |
| Security Lending Collateral | 14,331 | 133,809 | 7,761 | 2,055 | |
| Investments | 288,676 | 1,895,071 | 198,502 | 215,881 | 95,013 |
| Total Unrestricted | 329,290 | 2,101,390 | 209,704 | 371,999 | 143,406 |
| Restricted: | | | | | |
| Cash and Cash Equivalents | 183,446 | | | 253,798 | 41,336 |
| Security Lending Collateral | 31,830 | | | | |
| Investments | 737,246 | | | 987,142 | 390,887 |
| Total Restricted | 952,522 | - | - | 1,240,940 | 432,223 |
| Total Cash and Cash Equivalents, Securities Lending Collateral and Investments | $ 1,281,812 | $ 2,101,390 | $ 209,704 | $ 1,612,939 | $ 575,629 |

[1] Private Purpose Trust and Agency Funds, City South Management Authority, WDC and Our SA's cash, security lending collateral and investments are included in the City's pooled cash, security lending collateral and investments but are not available for City activities and are excluded from the primary government's Statement of Net Assets. The Private Purpose Trust and Agency assets are presented above as Restricted Cash and Cash Equivalents of $8,519, Security Lending Collateral of $104, and Investments of $2,106. City South Management Authority and Our SA's assets are presented in the Discretely Presented Component Unit's Statement of Net Assets. WDC is not included in these financial statements.

[2] The Fire and Police Pension Fund and the Fire and Police Retiree Health Care Fund are separately issued fiduciary component units and are excluded from the primary government's Statement of Net Assets.

[3] For the fiscal year ended January 31, 2011.

[4] For the fiscal year ended December 31, 2010.

| Summary of Cash and Cash Equivalents | City | Fire and Police Pension Fund | Fire and Police Retiree Health Care Fund | CPS Energy | SAWS |
|---|---|---|---|---|---|
| Deposits with Financial Institutions | $ 57,377 | $ 228 | $ 298 | $ 16,394 | $ 73,371 |
| Investments with Original Maturities of Less than Ninety Days | 151,339 | 72,282 | 3,143 | 391,350 | 16,328 |
| Cash with Other Financial Agents | 779 | | | | |
| Petty Cash Funds | 81 | | | 117 | |
| Cash on Hand | 153 | | | | 30 |
| Total Cash and Cash Equivalents | $ 209,729 | $ 72,510 | $ 3,441 | $ 407,861 | $ 89,729 |

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

### Summary of Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Summary of Investments

| | City | Fire and Police Pension Fund | Fire and Police Retiree Health Care Fund | CPS Energy | SAWS |
|---|---|---|---|---|---|
| U.S. Treasury, Government Agencies, and Money Market Mutual Funds | $ 1,172,930 | $ 159,742 | $ 3,143 | $ 1,328,310 | $ 502,228 |
| Repurchase Agreements | 1,767 | | | | |
| Fixed Income Securities [1] | 654 | | | | |
| Equity Securities [1] | 1,910 | | | | |
| Corporate Bonds | | 413,281 | | 56,340 | |
| Foreign Bonds | | | | 6,005 | |
| Government & Agency Notes | | | | | |
| Common Stock | | 739,584 | 28,787 | 203,718 | |
| Real Estate | | 197,654 | 36,195 | | |
| Hedge Funds | | 215,601 | 34,118 | | |
| International Equities - Common Stock | | | 12,942 | | |
| Alternative Investment | | 241,491 | 86,460 | | |
| Total Investments | 1,177,261 | 1,967,353 | 201,645 | 1,594,373 | 502,228 |
| Less: Investments with Original Maturities of Less than Ninety Days included in Cash and Cash Equivalents | (151,339) | (72,282) | (3,143) | (391,350) | (16,328) |
| Total | $ 1,025,922 | $ 1,895,071 | $ 198,502 | $ 1,203,023 | $ 485,900 |

[1] These investments are reported under a blended component unit (the Foundation). As the Foundation is a self-governing agency the City has no control over or rights to the Foundation's investments. Further breakout of these investments was not attainable.

City monies are deposited in demand accounts at the City's depository. The City utilizes a pooled cash and investment strategy with each fund's cash balance and pro rata shares of highly liquid investments, including U.S. Treasury securities, U.S. government agency securities, and repurchase agreements with original maturities of ninety days or less, summarized by fund type and included in the combined Statement of Net Assets as cash and cash equivalents. Overdrafts, which result from a fund overdrawing its share of pooled cash, are reported as interfund payables by the overdrawn fund and as interfund receivables of either the General Fund or another fund within a similar purpose.

The City's investment portfolio is managed in accordance with the Texas Public Funds Investment Act, as amended, and its own Investment Policy. Authorized investments include demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. government agencies, commercial paper, and repurchase agreements. The City maintains in its investment portfolio U.S. Treasury securities and U.S. government agency securities with original maturities greater than ninety days. Each fund's pro rata share of these investments with original maturities greater than ninety days is combined with similar nonpooled securities (i.e., securities purchased and held for specific funds), including U.S. Treasury securities and U.S. government agency securities, and are reported as investments in the combined Statement of Net Assets, as of September 30, 2011.





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

### Primary Government (City)

The City accounts for and reports investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The City's policy with respect to money market investments that have a remaining maturity of one year or less at the time of purchase is to report these investments at amortized cost. Amortized cost approximates fair value for these investments. The increase in fair value for investments of the City with a remaining maturity of greater than one year at the time of purchase was $231 for the year-ended September 30, 2011. The City does not participate in external investment pools.

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Exposure*, the following table and narrative addresses the interest rate risk exposure by investment type, using the weighted average maturity (WAM) method, custodial credit risk, interest rate risk, credit risk, and concentration of credit risk. The City does not hold any foreign securities; therefore, foreign currency risk is not applicable.

A summary of the City's cash and cash equivalents is provided at the beginning of Note 3, with a comparison to the Statement of Net Assets and Statement of Fiduciary Net Assets.

City Investments

| | Carrying [1] Amount | Fair [1] Value | Allocation [2] | Rating [3] | WAM |
|---|---|---|---|---|---|
| U.S. Government Agency Securities | $ 850,139 | $ 850,105 | 72.2% | AA+/A-1+ | .56 years |
| U.S. Treasuries | 172,986 | 173,251 | 14.7% | N/A | .43 years |
| Money Market Mutual Fund | 149,574 | 149,574 | 12.7% | AAAm | 1 day |
| Fixed Income Securities [4] | 654 | 654 | 0.1% | | |
| Equity Securities [4] | 1,910 | 1,910 | 0.2% | | |
| Repurchase Agreement | 1,767 | 1,767 | 0.1% | N/A | 1 day |
| Total City Investments | $ 1,177,030 | $ 1,177,261 | 100.0% | | |

[1] The Carrying Amount and Fair Value include blended component unit investments for SIDC, TMFC, CCHFC, and the Foundation, which total $31,929.
[2] The allocation is based on fair value.
[3] Standard & Poors Rating.
[4] These investments are reported under a blended component unit (the Foundation). As the Foundation is a self-governing agency the City has no control over or rights to the Foundation's investments. Further breakout of these investments, ratings and WAM were not attainable.

**Custodial Credit Risk (Deposits**) – Collateral pledged for demand accounts and certificates of deposit is required to be held in the City's name in the custody of a third-party institution that customarily provides such custodial services at 102.0% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the U.S. government and its agencies and obligations of the State and its municipalities, school districts, and district corporations.

- 55 - Amounts are expressed in thousands
- 56 - Amounts are expressed in thousands

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

### Primary Government (City) (Continued)

Written custodial agreements are required which provide, among other things, that the collateral securities are held separate from the assets of the custodial banks. The City periodically determines that the collateral has a market value adequate to cover the deposits (not less than 102.0% of the deposit amount) and that the collateral has been segregated either physically or by book entry. At fiscal year-end, cash deposits for the City were entirely collateralized by the City's depository with securities consisting of U.S. government and its agencies or U.S. government guaranteed obligations held in book entry form by the Federal Reserve Bank in the City's name.

**Custodial Credit Risk (Investments)** – The City's investment securities are held at the City's depository bank's third-party custodian, The Bank of New York Mellon, in the depository bank's name "as a custodian for the City". Assets pledged as collateral must generally be a type of security specifically authorized to be held as a direct investment; must be held by an independent third party; and must be pledged in the name of the City.

**Interest Rate Risk** – The City manages exposure to value losses resulting from rising interest rates by limiting the investment portfolio's weighted-average maturity to five years. Per the City's Investment Policy, investments are diversified across issuers and maturity dates so that fewer funds will be subject to interest rate risk occurrence at any given time. In addition, the City generally follows a laddered approach to investing, whereby blocks of roughly the same increments are invested at similarly increased maturity lengths. This approach provides security that all investments will not become due at one particularly advantageous or disadvantageous period of time, thereby spreading the risk. Weighted-average maturity is defined as the weighted-average time to the return of a dollar of principal. It is used as an estimate of the interest rate risk of a fixed income investment. The City invests in money market mutual funds with 100.0% overnight liquidity. Additionally, the City has entered into several repurchase agreements with 100.0% overnight liquidity for investment of certain bond proceeds.

**Credit Risk** – The City's Investment Policy requires the purchase of securities that are of the highest credit quality, based on current ratings provided by nationally recognized credit rating agencies. The City deems investments in U.S. Treasury securities and U.S. government agency securities that are guaranteed to be without credit risk. To limit the City's credit risk, investments in other debt securities will consist of securities rated 'A' or better by at least two nationally recognized rating agencies. As of September 30, 2011, the City's investment portfolio, with the exception of the repurchase agreement and the money market mutual fund investments, consisted only of U.S. Treasury securities and U.S. government agency securities. Investments in U.S. government agency securities, including Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Bank, and Federal Agricultural Mortgage Corporation, were rated 'AA+' (Long-term) and 'A-1+' (Short-term) by Standard & Poor's. The investments in the money market funds were rated 'AAAm' by Standard & Poor's, and all repurchase agreements were greater than 100.0% collateralized with U.S. government agency securities.

**Concentration of Credit Risk** – Although the City's Investment Policy does not limit the amount of the portfolio invested in any one U.S. government agency, the City manages exposure to concentration of credit risk through diversification. As of September 30, 2011, the U.S. government agency's 72.2% securities allocation was as follows: Federal National Mortgage Association 20.7%, Federal Home Loan Mortgage Corporation 22.8%, Federal Home Loan Bank 16.8%, Federal Agricultural Mortgage Corporation 8.5%, and Farm Federal Credit Bank 3.4%.





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

### Primary Government (City) (Continued)

**Securities Lending** – The City engages in securities lending transactions under a contract with its lending agent, Frost National Bank. Authority to engage in these transactions is authorized under the Texas Public Funds Investment Act (the Act) and the City's Investment Policy. The City has authorized Frost National Bank to loan up to 100.0% of the par value of its investments in the Pooled Operating Funds Portfolio, consisting of agency and treasury securities, in securities lending transactions for fiscal year 2011.

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions,* provides guidance for reporting and disclosing securities lending transactions. This guidance includes reporting certain securities lending collateral on the balance sheet as an asset, with a corresponding liability for the obligation to repay the collateral.

In securities lending transactions, the City, through its lending agent, transfers securities to approved borrowers in exchange for collateral and simultaneously agrees to return the collateral for the same securities in the future. Cash collateral received from borrowers may be invested in 'AAA'-rated money market mutual funds or investments that adhere to the Act and the City's Investment Policy. The liquidity provided by the money market mutual funds allows for the easy return of collateral upon termination of a security loan. As of September 30, 2011, all cash collateral was invested in next day money market funds. The money market mutual funds' overnight liquidity is a shorter maturity than the term of the securities lending loan which can vary for one day to the length of the maturity of the security.

Securities lending income is earned if the investment returns on the cash collateral exceeds the rebate paid to borrowers of the securities. The income is then split with the lending agent to cover its fees based on a contractually negotiated rate (70.0% allocated to the City and 30.0% allocated to Frost National Bank). In the event that the investment income of the cash collateral does not provide a return that exceeds the rebate or if the investment incurs a loss of principal, the payment to the borrower would come from the City and the lending agent based on the negotiated rate split.

Loans that are collateralized with securities generate income when the borrower pays a loan premium for the securities borrowed. This income is split at the same rate as the earnings for cash collateral. The collateral pledged to the City for the loaned securities is held by the lending agent or the tri-party bank. These securities are not available to the City for selling or pledging unless the borrower is in default of the loan.

All collateral received is required to have a fair value of 102.0% of the loaned securities. Securities are marked to market daily and additional cash or securities are required from the borrower if the fair value of the collateral falls below 102.0%. Cash collateral is reported on the balance sheet as an asset, with a corresponding liability for the obligation to repay the cash collateral. Noncash collateral for securities lending activities is not recorded as an asset because it remains under the control of the transferor, except in the event of default.

In the event of default, where the borrower is unable to return the securities borrowed, the City has authorized the lending agent to seize the borrower's collateral. The collateral would then be used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities may not be able to be replaced. The lending agent has indemnified the City from any loss due to borrower default in the event the collateral is insufficient to replace the securities.

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

### Primary Government (City) (Continued)

At September 30, 2011, the City had no custodial credit risk exposure to borrowers because the amount of collateral held by the City exceeded the amount of the securities loaned to the borrowers. There were no violations of legal or contractual provisions nor were there any borrower or lending agent default losses related to securities lending in fiscal year 2011.

As of September 30, 2011, the City had no credit risk exposure to borrowers because the amounts the City owed to borrowers exceeded the amounts the borrowers owed.

At September 30, 2011, there was a total of $931,099 in securities, or 100.0% of the market value of the City's Pooled Operating Funds Portfolio, plus accrued interest, on loan. In exchange, the City received $46,175 in cash collateral and $904,475 in securities collateral, or 102.1% of the market value of the corresponding securities loaned. Income generated from securities lending transactions, net of rebates to borrowers of $222, amounted to $2,175 in fiscal year 2011, of which 30.0% was paid as fees to the lending agent totaling $652. As WDC, Our SA and EZDC's cash is combined in the City's Pooled Operating Funds Portfolio, $14 of the cash collateral is recorded in their financial statements; along with $1 in net income generated from securities lending.

### *Fire and Police Pension Fund*

Investments of the Fire and Police Pension Fund (Pension Fund), a blended component unit, are administered by the Fire and Police Pension Fund board of trustees. Investments of the Pension Fund are reported at fair value and include corporate bonds; common stock; U.S. Treasury securities; U.S. government agency securities; notes, mortgages, hedge funds and contracts; and real estate. Equity and fixed income securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Notes, mortgages, and contracts are valued on the basis of future principal and interest payments discounted at prevailing interest rates. The fair value of real estate investments is based on independent appraisals and on the equity position of real estate partnerships in which the Pension Fund has invested. The fair values of private equity investments are estimated by the General Partners based on consideration of various factors, including current net asset valuations of underlying investments in limited partnerships, the financial statements of investee limited partnerships prepared in accordance with GAAP, and other financial information provided by the General Partners of investee-limited partnerships. Investment income is recognized as earned. Net appreciation/(depreciation) in fair value of investments includes gains and losses that are being recognized based on the change in the market value of the investments, but have not been realized because the assets have not been sold or exchanged as of the balance sheet date. The Pension Fund's assets are invested as authorized by Texas state law. The fair value of the Pension Fund's cash and investments are $2,101,390. A summary of the Pension Fund's cash, cash equivalents, and investments can be found at the beginning of Note 3.

**Credit Risk** – Using Standard and Poor's rating system for fixed income securities as of September 30, 2011, 11.0% of the Pension Fund's bonds were rated 'AAA', 18.0% were rated 'AA', 8.0% were rated 'A', 11.0% were rated 'BBB', 24.0% were rated 'BB', 12.0% were rated 'B', 2.0% were rated 'CCC', and 14.0% were unrated or not rated.





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

### Primary Government (City) (Continued)

### *Fire and Police Pension Fund (Continued)*

**Custodial Credit Risk** – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Pension Fund will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. As of September 30, 2011, the Pension Fund had cash deposits held by investment managers in the amount of $854 that were uninsured and uncollateralized.

**Interest Rate Risk** – Only the fixed income securities of the Pension Fund are subject to interest rate risk due to the possibility that prevailing interest rates could change before the securities reach maturity. Securities that are subject to interest rate risk as of September 30, 2011 amount to $505,287 and have a weighted-average maturity (WAM) of 8.27 years. Securities that are subject to interest rate risk are shown in the following table.

| Investment Type | Fair Value | Weighted-Average Maturity WAM (Years) |
|---|---|---|
| Corporate Bonds | $ 54,023 | 9.40 |
| Government Agencies | 5,394 | 7.92 |
| Government Bonds | 70,497 | 14.61 |
| Mortage-backed securities | 104,943 | 4.15 |
| Municipal/Provincial bonds | 11,570 | 14.83 |
| Non-Government Backed C.M.O.s | 12,034 | 24.45 |
| Pinebridge* | 63,728 | 3.60 |
| GoldenTree* | 57,379 | 9.70 |
| Ashmore* | 25,345 | 11.22 |
| Ashmore LFC* | 35,262 | 3.10 |
| Wellington Emerging Market Debt* | 65,112 | 10.00 |
| Total Interest Rate Sensitive Securities | $ 505,287 | |

*Wellington Asset Management, Ashmore and Ashmore LCF are commingled funds invested in emerging market debt and report their weighted average maturities (WAM) for the portfolio. GoldenTree is a commingled fund invested in high-yield corporate bonds, and Pinebridge is a commingled fund invested in senior bank loans. These also report their WAM for the portfolio.

**Foreign Currency Risk** – The Pension Fund's investments include investments in equities, bonds, and cash in foreign currency denominations. Equities denominated in foreign currencies as of September 30, 2011 amounted to $274,535 in equities, $114,704 in bonds and $854 in cash. Detailed as follows:

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- 59 - Amounts are expressed in thousands
- 60 - Amounts are expressed in thousands

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

### Primary Government (City) (Continued)

***Fire and Police Pension Fund (Continued)***

| Country | Equities | Bonds | Cash | Total |
|---|---|---|---|---|
| Argentine Peso | $ 19 | $ - | $ - | $ 19 |
| Australian Dollar | 9,016 | 11,645 | 80 | 20,741 |
| Bermuda Dollar | 170 | | | 170 |
| Brazilian Real | 12,516 | 9,239 | | 21,755 |
| Canadian Dollar | 3,539 | | | 3,539 |
| Swiss Franc | 12,222 | | | 12,222 |
| Chinese Yuan | 6,510 | 74 | | 6,584 |
| Chilean Peso | 535 | 651 | | 1,186 |
| Colombian Peso | 13 | 1,297 | | 1,310 |
| Czech Republic Krona | 485 | 2,828 | | 3,313 |
| Danish Krone | 1,085 | | 14 | 1,099 |
| Egyptian Pound | 13 | | | 13 |
| European Union | 62,142 | 521 | 11 | 62,674 |
| British Pound | 34,574 | 9,002 | 8 | 43,584 |
| Hong Kong Dollar | 7,930 | | 31 | 7,961 |
| Hungarian Forint | | 3,860 | | 3,860 |
| Indonesian Rupiah | 363 | 5,093 | | 5,456 |
| Israeli New Shekel | 1,112 | | | 1,112 |
| Indian Rupee | 3,313 | 3,004 | | 6,317 |
| Japanese Yen | 58,388 | | 469 | 58,857 |
| South Korean Won | 16,620 | 7,239 | | 23,859 |
| Cayman Dollar | 189 | | | 189 |
| Mexican Peso | 4,995 | 12,767 | | 17,762 |
| Morocco Dirham | 151 | | | 151 |
| Malaysian Ringgit | 1,571 | 7,922 | | 9,493 |
| Norwegian Krone | 1,564 | 4,717 | 2 | 6,283 |
| New Zealand Dollar | 60 | 4,198 | | 4,258 |
| Pakistani Rupee | 403 | | | 403 |
| Peruvian Nuevo Sol | | 391 | | 391 |
| Philippine Peso | 151 | 779 | | 930 |
| Polish Zloty | 1,803 | 9,519 | | 11,322 |
| Romanian Leu | | 1,114 | | 1,114 |
| Russian Ruble | 3,882 | 1,199 | | 5,081 |
| Swedish Krona | 4,074 | | 90 | 4,164 |
| Singapore Dollar | 3,299 | 3,660 | 16 | 6,975 |
| Thai Baht | 5,016 | 797 | | 5,813 |
| Turkey New Lira | 2,834 | 2,274 | | 5,108 |
| Taiwan Dollar | 9,718 | 1,456 | | 11,174 |
| UAE Dirham | | 1,593 | | 1,593 |
| Uruguay Peso | | 946 | | 946 |
| South African Rand | 4,260 | 6,919 | 133 | 11,312 |
| | $ 274,535 | $ 114,704 | $ 854 | $ 390,093 |







**Securities Lending** – State statutes and Pension Fund policies allow for securities lending transactions. The Pension Fund has entered into an agreement with its custodial bank to lend the Pension Fund's securities to one or more borrowers for a fee. It is the policy of the Pension Fund and the custodial bank to require that collateral equal to 102.0% and 105.0% for domestic and international securities, respectively, of the loaned securities be maintained by the custodial bank. Collateral may be in the form of cash, U.S. government securities, or irrevocable letters of credit. Until such time as the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event that the borrower fails to repay the borrowed securities, the Pension Fund may suffer a loss. Management of the Pension Fund considers the possibility of such a loss to be remote. Cash open collateral is invested in a short-term investment pool with an average weighted maturity of 38 days at September 30, 2011. For the year-ended September 30, 2009, the Pension Fund has recognized an unrealized loss amounting to $2,019. The loss is due to the write down of some of the fixed income assets in the investment pool. On December 16, 2009, a cash amount of $314 was due to the custodial bank to cover a portion of the loss that has been realized. The custodial bank has reimbursed the Pension Fund for $298 of this realized loss by contributing cash to the short term investment fund and by a reduction in the fees charged to the Pension Fund. The unrealized portion of the loss gradually reversed as the underlying securities regained their market value, and in March 2010, the loss was completely reversed. A gain of $1,740 was recognized in the year ended September 30, 2010, related to the reversal of the loss net of the amount of the loss that was realized.

As of September 30, 2011, the Pension Fund had lending arrangements outstanding with a total market value of $128,321, which were fully collateralized with cash and securities. Of this amount, cash collateral of $133,809 is recorded in the accompanying Statement of Fiduciary Net Assets. Net income for the year ended September 30, 2011, under the securities lending arrangement, was $283.

**Cash Collateral Pool**

| | 2011 |
|---|---|
| U.S. Treasury Notes | $ 8,166 |
| U.S. Asset Backed Securities | 5,186 |
| U.S. Corporate Notes | 539 |
| U.S. Repo Agreements | 26,790 |
| U.S. Sweep Vehicle | (217) |
| U.S. Agencies Bonds | 34,459 |
| U.S. Certificates of Deposit | 1,705 |
| U.S. Time Deposits | 5,138 |
| International Commercial Paper | 1,232 |
| International Certificates of Deposit | 16,143 |
| International Time Deposits | 27,813 |
| International Asset Backed Securities | 1,787 |
| International Corporate Notes | 2,696 |
| International MM demand accts. | 2,372 |
| Total | $ 133,809 |

- 61 - Amounts are expressed in thousands
- 62 - Amounts are expressed in thousands

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

### Primary Government (City) (Continued)

### *Fire and Police Pension Fund (Continued)*

**Derivatives and Structured Investments** – The Pension Fund has only limited involvement with derivatives and other structured financial instruments. The Pension Fund's investment philosophy regarding the use of derivatives and other structured financial instruments is to use derivatives to replicate exposures to equity or fixed income securities. The fair value of structured financial instruments held by the Pension Fund at September 30, 2011, was approximately $12,034, in commercial mortgage obligations and is included with investments in the Statement of Fiduciary Net Assets. The Pension Fund also invests in hedge funds which may employ the use of derivatives to reduce volatility. The Pension Fund's total investment in hedge funds was $215,601 as of September 30, 2011.

As of September 30, 2011, the fund held currency forward contracts as follows:

| | 2011 | |
|---|---|---|
| Currency | Market Value Receivable/ (Payable) | Maturity Date |
| Austrialian Dollars | $ (11,554) | 10/12/2011 |
| Brazilian Real | (3,424) | 11/3/2011 |
| British Pound | 9,146 | 12/1/2011 |
| Canadian Dollars | 4,026 | 11/15/2011 |
| Chinese Yuan | 2,897 | 1/11/2012 |
| Chinese Yuan | 2,240 | 1/13/2012 |
| New Zealand Dollar | (3,712) | 12/9/2011 |
| Norwegian Krone | (4,491) | 10/11/2011 |
| Singapore Dollar | 2,367 | 12/23/2011 |
| Turkish Lira | 4,313 | 11/10/2011 |
| U.S. Dollars | 4,755 | 10/11/2011 |
| U.S. Dollars | 12,549 | 10/12/2011 |
| U.S. Dollars | 3,848 | 11/3/2011 |
| U.S. Dollars | (4,572) | 11/10/2011 |
| U.S. Dollars | (4,020) | 11/15/2011 |
| U.S. Dollars | (9,601) | 12/1/2011 |
| U.S. Dollars | 4,028 | 12/9/2011 |
| U.S. Dollars | (2,420) | 12/23/2011 |
| U.S. Dollars | (2,897) | 1/11/2012 |
| U.S. Dollars | (2,217) | 1/13/2012 |
| Total | $ 1,261 | |

### *Fire and Police Retiree Health Care Fund*

The Fire and Police Retiree Health Care Fund (Health Fund) board of trustees administers investments of the Health Fund, a blended component unit. Investments are reported at fair value. Short-term investments are reported at amortized cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have an established market value are reported at estimated fair value.





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

### Primary Government (City) (Continued)

### *Fire and Police Retiree Health Care Fund (Continued)*

Alternative investments are substantially held in the form of nonmarketable limited partnerships interests, private real estate investment trusts, and open-ended hedge funds. These investments are subject to the terms of the respective partnerships' or other types of governing documents which may limit the Health Fund's withdrawal to specified times and conditions and restrict the transferability of the Health Fund's interest. The fair valuation of these investments is based on net asset values as set by the partnerships' fund managers or general partners. These net asset values may differ from the value that would have been used had a ready market for the investments existed. Such differences could be material.

All investment income, including changes in the fair value of investments, is reported as additions in the Statement of Changes in Fiduciary Net Assets.

The Health Fund's assets are invested as authorized by the Investment Policy. The Health Fund utilizes an investment consultant that makes recommendations to the Health Fund as to the appropriate target portfolio weightings among the major asset classes (e.g. stocks, mutual funds, limited liability partnerships, cash, etc.) within the Health Fund. Additionally, the Health Fund has hired certain investment managers to exercise full discretionary authority as to all buy, hold, and sell decisions for each security under management, subject to the guidelines as defined in the Investment Policy. All of the Health Fund's assets are held by a custodial bank, Frost National Bank of San Antonio, Texas.

Investments authorized by the Health Fund's Investment Policy include U.S. equities, including common stocks, securities convertible into common stock, and open or closed end mutual funds; international equity; certain fixed income assets such as corporate bonds and certificates of deposit; commercial paper; private equity; and alternative investments, including real estate, absolute return hedge funds, and natural resources. The cash portion of the Health Fund will be invested in a short-term money market mutual fund administered by the custodian bank.

The fair value of the Health Fund's cash and investments at September 30, 2011 is $209,704. A summary of the Health Fund's cash, cash equivalents, and investments can be found at the beginning of Note 3.

**Custodial Credit Risk (Deposits)** – The Health Fund's deposits that are held with Frost Bank in non-interest bearing demand accounts are covered under the new FDIC Transaction Account Guarantee Program. Under this program, through December 31, 2011, all non-interest bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under this program is in addition to and separate from the coverage available under the FDIC's general deposit rules. It does not appear that deposits the Health Fund holds in demand accounts are exposed to custodial credit risk as of September 30, 2011.

The Health Fund does not have deposit or investment policies related to custodial credit risk as of September 30, 2011. The Health Fund is aware of these risks and monitors such risks, if any, as part of its day-to-day operations and through its daily dealings with the custodian bank.

- 63 - *Amounts are expressed in thousands*
- 64 - *Amounts are expressed in thousands*

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

### Primary Government (City) (Continued)

#### *Fire and Police Retiree Health Care Fund (Continued)*

**Custodial Credit Risk (Investments)** – The custodial credit risk for investments is the risk that, in the event of failure of the counterparty to an investment transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At September 30, 2011, the Health Fund's common stock investments are held at Frost National Bank's third-party custodian, Bank of New York. Since the investments are maintained separately from the bank's assets, in the event of failure of the bank, the investments held in trust would not be affected.

**Credit Risk** – In accordance with the Health Fund's Investment Policy, investments in money market mutual fund must be rated at least 'A-2' by Standard and Poor's (S & P). The Health Fund's investments' rating from S & P was 'AAAm' for the money market mutual fund.

**Concentration of Credit Risk** – The Health Fund's Investment Policy to diversify equity investments states that no more than 5.0% of any investment manager's portfolio at cost and 8.0% at the market value shall be invested in the securities of any one company. For hedge funds, no individual hedge fund investment manager will comprise more than 15.0% of the total hedge funds portfolio. In multiple strategy portfolios, no single hedge fund strategy will comprise more than 35.0% of the total portfolio.

Following are the investments that represent 5.0% or more of the total investments, by issuer and amount:

| Issuer | Amount | % of Total Investment |
|---|---|---|
| M. Kingdome Offshore, Ltd. | $ 12,859 | 6.5% |
| Clovis Capital Partners Institutional, LP | 13,274 | 6.7% |
| Portfolio Advisers Privet Equity Fund IV | 10,679 | 5.4% |
| Catalyst Fund Limited Partnership II | 10,393 | 5.2% |

**Interest Rate Risk** – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Health Fund's Investment Policy limits the maturities of money market mutual funds to two years at time of purchase. At September 30, 2011, the money market fund weighted average to maturity is 34 days.

**Securities Lending** – The Health Fund participates in a securities lending program as a means to augment income. The program is operated in accordance with a contract between the Health Fund and its custodian bank, Frost National Bank, and compliance with State statutes and Health Fund policies. Securities are lent to select borrowers for a fee. It is the policy of the Health Fund and the custodian bank to require that collateral equal 100.0% of the loaned security's market value plus accrued interest for domestic government or agency securities loaned, and 102.0% of the loaned security's market value plus accrued interest for approved, domestic nongovernment or agency securities loaned. Collateral is maintained by the custodian bank and may be in the form of cash, U.S. government securities, or irrevocable letters of credit. Until such time as the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event the borrower fails to repay the borrowed securities when due and the value of the collateral is insufficient to replace the borrowed securities, the Health Fund may suffer a loss. Management of the Health Fund considers the possibility of such a loss to be remote.





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

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

At September 30, 2011, the Health Fund was not exposed to credit risk to borrowers because the amounts owed to borrowers exceeded the amount the borrowers owed. There were no violations of legal or contractual provisions nor were there any borrower or lending agent default losses in fiscal year 2011.

At September 30, 2011, there was a total of $7,306 in securities out on loan to borrowers. In exchange, the Health Fund received $7,761 in securities collateral invested in open-ended money market type mutual funds, or 106.0% of the market value of the corresponding securities loaned.

**Subscribed Capital Commitments** – As of September 30, 2011, the Fund had non-binding commitments to invest capital in thirteen investment companies under investment capital subscription agreements. These commitments are subject to periodic calls from the investment companies. The amount of this investment capital committed under the subscription agreements totaled to $96,272. As of September 30, 2011, $24,674 of this total had been called.

### CPS Energy

CPS Energy's investments with a maturity date within one year of the purchase date are reported at amortized cost, which approximates fair value. Amortization of premium and accretion of discount are recorded over the terms of the investments that mature within one year. CPS Energy's investments with a maturity date of one year or longer from the purchase date are accounted for using fair value. As available, fair values are determined by using generally accepted financial reporting services, publications, and broker/dealer information. The specific identification method is used to determine costs in computing gains or losses on sales of securities. CPS Energy reports all investments of the Decommissioning Trusts at fair market value.

Restricted funds are generally for uses other than current operations. They are designated by law, ordinance or contract and are often used to acquire or construct noncurrent assets. Restricted funds consist primarily of unspent bond or commercial paper proceeds, debt service required for the New Series Bonds, Junior Lien Obligations and Tax-Exempt Commercial Paper, the Flexible Rate Revolving Note and funds for future construction or contingencies. This category also includes customer assistance programs where proceeds are received from outside parties. The assets of the Decommissioning Trusts are also considered restricted.

The Repair and Replacement Account is restricted in accordance with CPS Energy's bond ordinances. In compliance with a bond ordinance, CPS Energy's board of trustees authorized that a portion of the Repair and Replacement Account be designated for converting overhead electric facilities to underground (also referred to as the Overhead Conversion Fund).

CPS Energy's cash deposits at January 31, 2011 were either insured by federal depository insurance or collateralized by banks. While not entirely collateralized as stipulated in CPS Energy's Investment Policy, all noninterest-bearing cash deposits were fully insured by the FDIC in accordance with the Dodd-Frank financial reform legislation that was enacted in the summer of 2010. CPS Energy's Investment Policy was revised effective March 1, 2011, to allow for a reduction in collateral to the extent of FDIC coverage. For deposits that were collateralized, the securities were U.S. government, U.S. government agency, or U.S. government-guaranteed obligations held in book entry form by the Federal Reserve Bank of New York in CPS Energy's name.

- 65 - Amounts are expressed in thousands
- 66 - Amounts are expressed in thousands

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

### CPS Energy (Continued)

Since the assets in the Decommissioning Trusts are restricted for use only for decommissioning at some future date, securities lending cash collateral has been treated as long-term and thus has been classified as an investment in the Decommissioning Trusts. Consistent with other investments in the Decommissioning Trusts, securities lending cash collateral is shown separately on the table that lists investments by type in the Decommissioning Trust section of this Note.

**Cash, Cash Equivalents and Securities Lending Cash Collateral**

| | January 31, 2011 |
|---|---|
| Cash and Cash Equivalents: | |
| Petty Cash funds on hand | $ 117 |
| Deposits with financial institutions: | |
| Unrestricted CPS Energy Deposits | 16,111 |
| Restricted CPS Energy Deposits: | |
| Debt Service | 213 |
| Project Warm | 70 |
| Investments with original maturities of less than 90 days: | |
| CPS Energy unrestricted (current) | 137,835 |
| CPS Energy restricted (noncurrent) | 235,467 |
| Decommissioning Trusts - restricted (noncurrent) | 18,048 |
| Total Cash and Cash Equivalents | 407,861 |
| CPS Energy - Securities Lending Cash Collateral | 2,055 |
| Total Cash, Cash Equivalents and Securities Lending Cash Collateral | $ 409,916 |

CPS Energy's cash, cash equivalents and investments can be separated in the following manner:

- Those directly managed by CPS Energy, and
- Those managed through the Decommissioning Trusts.

For financial reporting purposes, cash, cash equivalents and investments managed directly by CPS Energy have been consistently measured as of the end of the fiscal year. The Decommissioning Trusts are reported on a calendar-year basis.

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

### CPS Energy (Continued)

**Summary of Cash and Cash Equivalents, Along with Current and Noncurrent Investments**

| | January 31, 2011 |
|---|---|
| Cash and Cash Equivalents: | |
| CPS Energy unrestricted and restricted | $ 389,813 |
| Decommissioning Trusts - restricted | 18,048 |
| Total Cash and Cash Equivalents | 407,861 |
| Gross Investments - current and noncurrent: | |
| CPS Energy - unrestricted and restricted | 1,172,121 |
| Decommissioning Trusts - restricted | 422,252 |
| Total Gross Investments | 1,594,373 |
| Investments with original maturities of less than 90 days also included in Cash Equivalents: | |
| CPS Energy unrestricted and restricted | (373,302) |
| Decommissioning Trusts - restricted | (18,048) |
| Total Investments also included in Cash Equivalents | (391,350) |
| Net Current and Noncurrent Investments | 1,203,023 |
| Total Cash, Cash Equivalents and Investments | $ 1,610,884 |

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

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

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

- 67 - Amounts are expressed in thousands
- 68 - Amounts are expressed in thousands

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

### CPS Energy (Continued)

**Permissible Investments**

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

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

### CPS Energy (Continued)

**Cash, Cash Equivalents and Investments by Fund**

| | January 31, 2011 |
|---|---|
| Unrestricted | |
| Cash and Cash Equivalents | $ 154,063 |
| Investments | 215,881 |
| Total Unrestricted (current) | 369,944 |
| Restricted | |
| Debt Service | |
| Cash and Cash Equivalents | 545 |
| Total Debt Service | 545 |
| Capital Projects | |
| Cash and Cash Equivalents | 227,622 |
| Investments | 138,983 |
| Total Capital Projects | 366,605 |
| Ordinance | |
| Investments | 443,955 |
| Total Ordinance | 443,955 |
| Other | |
| Project Warm | |
| Cash and Cash Equivalents | 7,583 |
| Total Project Warm | 7,583 |
| Decommissioning Trusts | |
| Cash and Cash Equivalents | 18,048 |
| Investments | 404,204 |
| Total Decommissioning Trusts | 422,252 |
| Total Other | 429,835 |
| Total Restricted | |
| Cash and Cash Equivalents | 253,798 |
| Investments | 987,142 |
| Total Restricted (noncurrent) | 1,240,940 |
| Total Cash, Cash Equivalents and Investments (unrestricted and restricted) | $ 1,610,884 |

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

- 69 - Amounts are expressed in thousands
- 70 - Amounts are expressed in thousands

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

### CPS Energy (Continued)

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

| Summary of Investments by Organizational Structure and Type | January 31, 2011 |
|---|---|
| CPS Energy Investments | |
| U.S. Treasury, Government Agencies and Money Market Funds | $ 1,172,121 |
| Decommissioning Trusts | |
| U.S. Treasury, Government Agencies and Money Market Funds | 156,189 |
| Corporate Bonds | 56,340 |
| Foreign Bonds | 6,005 |
| Subtotal | 218,534 |
| Common Stock | 203,718 |
| Total Decommissioning Trusts | 422,252 |
| Grand Total - all Investments | $ 1,594,373 |

In accordance with State law, the Decommissioning Trusts' Investment Policy allows for investment in additional types of securities, such as corporate bonds and equity securities. The policy provides guidelines to ensure all funds are invested in authorized securities in order to earn a reasonable return. The primary emphasis is placed on long-term growth commensurate with the need to preserve the value of the assets and, at the time funds are needed for decommissioning costs, on liquidity. The Investment Policy continues to follow the "prudent person" concept.

In accordance with GASB Statement No. 40, additional disclosures have been provided in this Note that address investment exposure to interest rate risk, credit risk (including custodial credit risk and concentration of credit risk), and foreign currency risk, as applicable. The disclosure requirements of this Statement do not apply to equity securities since they are not directly or immediately exposed to these risks. CPS Energy and the Decommissioning Trusts do not have custodial credit risk, as all investments are held either by an independent trustee or bank and are in CPS Energy's or the Decommissioning Trusts' names.

**CPS Energy Investments** – In accordance with GASB Statement No. 40, the following tables address credit risk and interest rate risk exposure by investment type using the weighted-average maturity (WAM) method. Since CPS Energy does not hold foreign instruments in its direct investments (those held by CPS Energy), foreign currency risk is not applicable.





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

### CPS Energy (Continued)

**Interest Rate Risk** – In accordance with its Investment Policy, CPS Energy manages exposure to fair market value losses resulting from rising interest rates by limiting the portfolio's WAM to two years or less. WAM is defined as the weighted-average time to return a dollar of principal. It is used as an estimate of the interest rate risk of a fixed-income investment. CPS Energy invests the cash collateral received from securities lending and other funds in money market mutual funds that have no fixed maturities. Accordingly, a WAM in terms of years for money market mutual funds is not applicable.

**Concentration of Credit Risk** – In accordance with its Investment Policy, CPS Energy manages exposure to concentration of credit risk through diversification and by limiting its investment in each federal agency to 50.0% and investment in any other issuer of debt securities to 5.0% of the total fixed-income portfolio. Additionally, certificates of deposit are limited to 50.0% per issuer.

| Investment Type | Carrying Value | Market Value | Allocation | Weighted-Average Maturity (Years) |
|---|---|---|---|---|
| U.S. Agencies: | | | | |
| Federal Home Loan Mortgage Corp. | $ 105,850 | $ 105,879 | 9.0% | 4.1 |
| Federal National Mortgage Assn. | 292,763 | 292,750 | 25.0% | 2.6 |
| Federal Home Loan Bank | 284,297 | 284,335 | 24.3% | 0.8 |
| Federal Farm Credit Bank | 19,981 | 19,981 | 1.7% | 3.3 |
| Federal Agriculture Mortgage Corp. | 7,159 | 7,165 | 0.6% | 0.5 |
| Municipal Bonds | 58,810 | 58,806 | 5.0% | 1.8 |
| Certificates of Deposit | 10,000 | 10,000 | 0.9% | 0.7 |
| Commercial Paper | 19,969 | 19,969 | 1.7% | 0.5 |
| Repurchase Agreement | 181,904 | 181,904 | 15.5% | N/A |
| Money Market Mutual Funds | 191,388 | 191,388 | 16.3% | N/A |
| Total Fixed-Income Investments | 1,172,121 | 1,172,177 | 100.0% | 1.6 |
| Cash Collateral - Securities Lending | 2,055 | 2,055 | | |
| Total Fixed-Income Portfolio | $ 1,174,176 | $ 1,174,232 | | |

**Credit Risk** – In accordance with its Investment Policy, CPS Energy manages exposure to credit risk by limiting its fixed-income investments to a credit rating of 'A' or better. As of January 31, 2011, CPS Energy held no direct investments with a credit rating below 'A1'.

| Credit Rating | Carrying Value | Market Value | Allocation |
|---|---|---|---|
| AAA | $ 914,269 | $ 914,326 | 77.9% |
| Aaa | 7,800 | 7,800 | 0.7% |
| SP-1+ | 2,805 | 2,805 | 0.2% |
| AA+ | 4,453 | 4,453 | 0.4% |
| AA- | 2,668 | 2,668 | 0.2% |
| AA | 25,107 | 25,105 | 2.1% |
| Aa1 | 1,876 | 1,876 | 0.2% |
| Aa2 | 650 | 650 | 0.1% |
| Aa3 | 2,676 | 2,676 | 0.2% |
| A1 | 19,968 | 19,969 | 1.7% |
| Certicates of Deposits (not rated) | 191,904 | 191,904 | 16.3% |
| Total Fixed-Income Investments | $ 1,174,176 | $ 1,174,232 | 100.0% |

- 71 - *Amounts are expressed in thousands*
- 72 - *Amounts are expressed in thousands*

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

### CPS Energy (Continued)

**Decommissioning Trust Investments** – As mentioned above, the Decommissioning Trusts report their assets on a calendar-year basis; therefore, the tables in this section are as of December 31. These tables address interest rate risk exposure by investment type, credit risk, concentration of credit risk and foreign currency risk. All investments held by the Decommissioning Trusts are long-term in nature and are recorded at market value.

**Interest Rate Risk** – Generally, the long-term nature of the liabilities and the limited need for daily operating liquidity allow interim fluctuations in market value to occur without jeopardizing the ultimate value of the assets. Where long-term securities are held, the interim market value of assets can be sensitive to changes in interest rates. As the general level of interest rates moves up and down, the interim market value of longer-maturity bonds may change substantially.

To mitigate this interest rate risk, a limitation is placed on the duration of the fixed-income portfolio. Weighted-average duration is defined as the weighted-average time to return a dollar of principal and interest and also incorporates potential changes in the timing of principal and interest return that may occur as a result of changes in interest rates. It makes assumptions regarding the most likely timing and amounts of variable cash flows and is used as an estimate of the interest rate risk of a fixed-income investment – especially those with payment terms dependent on market interest rates. The overall portfolio duration should not deviate from the weighted-average duration of the Investment Strategy Committee's specified fixed-income index by more than +/- 1.5 years. The Investment Strategy Committee's fixed-income index is based on the Barclays Capital Aggregate Index, which is 5.0 for 2010.

**Concentration of Credit Risk** – In accordance with the Investment Policy, exposure to concentration of credit risk is managed through diversification and by limiting investments in each government-sponsored entity to 30.0% and investments in any nongovernment-sponsored issuer to 5.0% of the total fixed-income portfolio (excluding cash collateral from securities lending). At December 31, 2010, total nongovernment-sponsored (corporate and foreign) issuers amounted to 36.4% of the 28% Decommissioning Trust and 16.8% of the 12% Decommissioning Trust.

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CITY OF SAN ANTONIO, TEXAS

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

### CPS Energy (Continued)

The following tables list the fixed-income investment holdings by type:

| | 28% Interest | | | 12% Interest | | |
|---|---|---|---|---|---|---|
| Investment Type | Market Value [1] | Allocation | Weighted-Average Duration (Years) | Market Value | Allocation | Weighted-Average Duration (Years) |
| U.S. Treasuries | $ 16,061 | 10.6% | 4.8 | $ 13,868 | 32.2% | 4.9 |
| U.S. Agencies: | | | | | | |
| Federal National Mortgage Assn. | 34,281 | 22.6% | 2.8 | 6,812 | 15.8% | 3.2 |
| Federal Home Loan Mortgage Corp. | 15,894 | 10.5% | 3.1 | 4,902 | 11.4% | 3.0 |
| Small Business Administration | 3,774 | 2.5% | 5.9 | | | |
| Government National Mortgage Assn. | 2,802 | 1.9% | 3.5 | 3,660 | 8.5% | 6.5 |
| Municipal Bonds - Texas | 496 | 0.3% | 6.0 | 674 | 1.6% | 12.8 |
| Municipal Bonds - Other States | 7,407 | 4.9% | 9.7 | 3,375 | 7.9% | 10.5 |
| Corporate Bonds | 49,131 | 32.4% | 6.2 | 7,209 | 16.8% | 5.6 |
| Foreign Bonds | 6,005 | 4.0% | 5.3 | | | |
| AIM Money Market | 15,540 | 10.3% | N/A | 2,508 | 5.8% | N/A |
| Total Fixed-income Investments | $ 151,391 | 100.0% | 4.9 | $ 43,008 | 100.0% | 5.3 |
| Cash Collateral - Securities Lending | 17,230 | | | 6,905 | | |
| Total Portfolio | $ 168,621 | | | $ 49,913 | | |

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

**Credit Risk** – In accordance with the Investment Policy, exposure to credit risk is managed by limiting all fixed-income investments to a credit rating of 'BBB-' or better from at least two nationally recognized credit rating agencies. If a security's rating falls below the minimum investment grade rating of 'BBB-' after it has been purchased, the investment policy allows investment managers to continue to hold the security as long as the total fair value of securities rated below investment grade does not exceed 5.0% of the total fixed-income portfolio. As noted in the following tables, which list the fixed-income holdings by credit rating, investments with a credit rating below 'BBB-' totaled 1.6% and 0.8% of the fixed-income portfolio for the 28% Trust and the 12% Trust, respectively. Standard & Poor's (S&P) ratings are provided when available; if no S&P rating is available, the Moody's rating is listed.

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- 73 - Amounts are expressed in thousands
- 74 - Amounts are expressed in thousands

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

### CPS Energy (Continued)

The following table lists the fixed-income investment holdings by credit rating:

| | 28% Interest | | 12% Interest | |
|---|---|---|---|---|
| Credit Rating | Market Value [1] | Allocation | Market Value [1] | Allocation |
| U.S. Treasuries | $ 16,061 | 9.6% | $ 13,868 | 27.8% |
| AAA | 99,797 | 59.2% | 26,172 | 52.4% |
| Aaa | 1,051 | 0.6% | | |
| AA+ | 2,189 | 1.3% | 1,005 | 2.0% |
| AA | 1,322 | 0.8% | 1,648 | 3.3% |
| Aa1 | 121 | 0.1% | | |
| Aa2 | 126 | 0.1% | | |
| AA- | 3,055 | 1.8% | 846 | 1.7% |
| Aa3 | 82 | 0.1% | | |
| A+ | 3,782 | 2.2% | 492 | 1.0% |
| A | 7,926 | 4.7% | 1,316 | 2.6% |
| A- | 10,510 | 6.2% | 2,768 | 5.6% |
| A1 | 136 | 0.1% | | |
| BBB+ | 6,469 | 3.8% | 982 | 2.0% |
| BBB | 6,548 | 3.9% | 397 | 0.8% |
| BBB- | 6,624 | 3.9% | | |
| BB+ | 1,501 | 0.9% | | |
| BB- | 217 | 0.1% | 419 | 0.8% |
| B | 58 | 0.0% | | |
| B- | 47 | 0.0% | | |
| CCC | 477 | 0.3% | | |
| CC | 5 | 0.0% | | |
| Not rated | 517 | 0.3% | | |
| Total Fixed-income Portfolio | $ 168,621 | 100.0% | $ 49,913 | 100.0% |

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

**Foreign Currency Risk** – With the exception of dedicated foreign-equity portfolios, all investments authorized for purchase by the Decommissioning Trusts are U.S. dollars. This reduces the potential foreign currency risk exposure to the portfolio. All foreign bonds outstanding were issued in the U.S. and amounted to $6,005 as of December 31, 2010. In accordance with the Investment Policy, investments in international portfolios are limited to international commingled funds, American Depository Receipts and Exchange Traded Funds that are diversified across countries and industries. The international portfolio will be limited to 20.0% of the total equity portfolio. At December 31, 2010, total foreign equity securities amounted to 13.7% of the 28% Trust's equity portfolio. There were no foreign equity securities held by the 12% Trust at December 31, 2010.

**Securities Lending** – CPS Energy and the Decommissioning Trusts engage in securities lending transactions under a contract with their lending agent, Frost National Bank. Authority to engage in these transactions is granted under each entity's Investment Policy. The entities are authorized to loan up to 100.0% of their investments in securities lending transactions.







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

### CPS Energy (Continued)

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions,* provides guidance for entities reporting and disclosing securities lending transactions. This guidance includes reporting certain securities lending collateral on the balance sheet as an asset, with a corresponding liability for the obligation to repay the collateral.

In securities lending transactions, CPS Energy and the Decommissioning Trusts, through their lending agent, transfer securities to brokers/dealers in exchange for collateral and simultaneously agree to return the collateral for the same securities in the future. Cash collateral received from the borrower is invested entirely in money market mutual funds. The liquidity provided by the money market mutual funds allows for the easy return of collateral at the termination of a security loan.

Lending income is earned if the returns on the cash collateral invested exceed the rebate paid to borrowers of the securities. The income is then shared with the lending agent to cover its fees based on a contractually negotiated rate split. However, if the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, part of the payment to the borrower would come from CPS Energy's or the Decommissioning Trusts' resources and the lending agent based on the rate split.

Loans that are collateralized with securities generate income when the borrower pays a loan premium for the securities loaned. This income is split at the same ratio as the earnings for cash collateral. The collateral pledged to CPS Energy or the Decommissioning Trusts for the loaned securities is held by the lending agent. These securities are not available to CPS Energy or the Decommissioning Trusts for selling or pledging unless the borrower is in default of the loan.

Any collateral received is required to have a fair value of 102.0% of the loaned securities. Securities are marked to market daily and additional cash or securities are required from the borrower if the market value of the collateral falls below 100.0%. Cash collateral is reported on the balance sheet as an asset, with a corresponding liability for the obligation to repay the cash collateral. Noncash collateral for securities lending activities is not recorded as an asset because it remains under the control of the transferor, except in the event of default.

In the event of default, where the borrower is unable to return the securities loaned, CPS Energy and the Decommissioning Trusts have authorized the lending agent to seize the collateral held. The collateral would then be used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities may not be able to be replaced. The lending agent has indemnified CPS Energy and the Decommissioning Trusts from any loss due to borrower default in the event the collateral is not sufficient to replace the securities.

At January 31, 2011, neither CPS Energy nor the Decommissioning Trusts had any credit risk exposure to borrowers because the amounts CPS Energy and the Decommissioning Trusts owed to borrowers exceeded the amounts the borrowers owed. There were no violations of legal or contractual provisions nor were there any borrower or lending agent default losses related to securities lending in fiscal year 2011.

Amounts are expressed in thousands

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

### CPS Energy (Continued)

**Direct Investments** – At January 31, 2011, there was a total of $488,222 in securities, or 42.2% of CPS Energy's direct investments, out on loan to brokers/dealers. In exchange, CPS Energy received $2,055 in cash collateral and $496,724 in securities collateral, or 102.2% of the market value of the corresponding securities loaned. Income generated from securities lending transactions amounted to $1,238 in fiscal year 2011, of which 30.0% was paid as fees to the lending agent totaling $371.

**Decommissioning Trusts** – For the 28% Decommissioning Trust at December 31, 2010, there was a total of $25,618 in securities, or 8.6% of the Decommissioning Trust's investments, out on loan to brokers/dealers. In exchange, the Trust received $17,230 in cash collateral and $8,890 in securities collateral, or a total of 102.0% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for the Decommissioning Trust amounted to $27 in calendar year 2010, of which 30.0% was paid as fees to the lending agent totaling $8.

For the 12% Decommissioning Trust at December 31, 2010, there was a total of $12,151 in securities, or 12.2% of the Decommissioning Trust's investments, out on loan to brokers/dealers. In exchange, the Trust received $6,905 in cash collateral and $5,459 in securities collateral, or a total of 101.8% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for this Decommissioning Trust amounted to $15 in calendar year 2010, of which 30.0% was paid as fees to the lending agent totaling $5.

### San Antonio Water System (SAWS)

SAWS is permitted by City Ordinance No. 75686, SAWS' Investment Policy and Texas state law, to invest in direct obligations of the U.S. or its agencies and instrumentalities. Other allowable investments include direct obligations of the State of Texas or its agencies and instrumentalities; secured certificates of deposit issued by depository institutions that have their main office or a branch office in the State of Texas; defined bankers acceptances and commercial paper; collateralized direct repurchase agreements, reverse repurchase agreements; no-load money market mutual funds; investment pools; and other types of secured or guaranteed investments. These investments are subject to market risk, interest rate risk, and credit risk, which may affect the value at which these investments are recorded. Investments other than money market investments are reported at fair value. Under the provisions of GASB Statement No. 31, money market investments, including U.S. Treasury and agency obligations, with a remaining maturity at time of purchase of one year or less are reported at cost. A summary of SAWS cash, cash equivalents, and investments can be found at the beginning of Note 3.

**Custodial Credit Risk (Deposit)** – All funds are deposited in demand and savings accounts or certificates of deposit at Frost National Bank, SAWS' general depository bank. The general depository agreement with the bank does not require SAWS to maintain an average monthly balance. As required by state law, all deposits are fully collateralized and/or are covered by federal depository insurance. At December 31, 2010, 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, 2010, the bank balance of demand and savings account was $31,851 and the reported amount was $29,401 which included $30 of cash on hand, and certificates of deposits totaled $44,000.





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

### San Antonio Water System (SAWS) (Continued)

**Custodial Credit Risk (Investment)** – All investments, with the exception of those held in escrow, are securities issued by agencies of the United States and are held in safekeeping by SAWS' depository bank, Frost National Bank and registered as accounts of SAWS. Funds held in escrow are Money Market Funds managed by Frost National Bank or Wells Fargo Bank and are invested in securities issued by the U.S. government or by U.S. agencies.

As of December 31, 2010, SAWS had the following investments and maturities:

| | Investments Maturities (in Days) | | | | | |
|---|---|---|---|---|---|---|
| Investment Type | 90 Days or Less | 91 to 180 | 181 to 365 | Greater than 365 | Fair Value | Reported |
| U.S. Agency Discount Notes | $ 49,159 | $ 90,748 | $ 22,470 | $ - | $ 162,377 | $ 162,377 |
| U.S. Agency Coupon Notes | 123,043 | 116,861 | 69,748 | 13,839 | 323,491 | 323,523 |
| Money Market Funds: | | | | | | |
| Frost National Bank | 274 | | | | 274 | 274 |
| Wells Fargo Bank | 16,054 | | | | 16,054 | 16,054 |
| | $ 188,530 | $ 207,609 | $ 92,218 | $ 13,839 | $ 502,196 | $ 502,228 |
| Percentage of Portfolio | 37.5% | 41.3% | 18.4% | 2.8% | 100.0% | |

**Interest Rate Risk** – As a means of limiting its exposure to fair value losses due to rising interest rates, SAWS' investment policy limits its investment maturities to no more than five years. As indicated in the table above, 97.2% of SAWS' investment portfolio is invested in maturities less than one year.

**Credit Risk** – In accordance with its Investment Policy, SAWS manages exposure to credit risk by limiting its investments in obligations of other states and cities to those with a credit rating of 'A' or better. Additionally, any investments in commercial paper require a rating of at least 'A-1' or 'P-1'. As of December 31, 2010, SAWS held no direct investments with a credit rating below 'AAA'.

| Credit Rating | Carrying Value | Market Value | Allocation | Investment Policy Limit |
|---|---|---|---|---|
| December 31, 2010 | | | | |
| AAA | $ 502,228 | $ 502,196 | 100.0% | Max. = 100.0% |
| Total Portfolio | $ 502,228 | $ 502,196 | 100.0% | |

**Concentration of Credit Risk** – SAWS' Investment Policy does not limit the amount it may invest in U.S. Treasury securities, government-guaranteed securities, or government-sponsored entity securities. However, in order to manage its exposure to credit risk, SAWS' Investment Policy does limit the amount that can be invested in any one government-sponsored issuer to no more than 50.0% of the total investment portfolio, and no more than 5.0% of the total investment portfolio on any non-government issuer unless it is fully collateralized. As of December 31, 2010, SAWS has invested more than 5.0% of its investments in the following government-sponsored entities in the form of discount or coupon notes: 37.0% in Federal Home Loan Bank, 20.0% in Federal National Mortgage Association, and 32.0% in Federal Home Loan Mortgage Corporation.

- 77 - Amounts are expressed in thousands
- 78 - Amounts are expressed in thousands

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

### San Antonio Water System (SAWS) (Continued)

The following is a reconciliation of deposits and investments disclosed in the Note to the amounts presented for cash and cash equivalents and investments in the balance sheet for 2010:

| | December 31, 2010 |
|---|---|
| Reported amounts in Note for: | |
| Deposits, including certificates of deposit | $ 73,401 |
| Investments | 502,228 |
| Total Deposits and Investments | $ 575,629 |
| Totals for Balance Sheet: | |
| Cash and Cash Equivalents: | |
| Unrestricted cash and cash equivalents | $ 48,393 |
| Restricted cash and cash equivalents: | |
| Capital Projects Accounts | 41,061 |
| Other Restricted Accounts: | |
| Reserve Fund | 275 |
| Total Cash and Cash Equivalents | $ 89,729 |
| Investments: | |
| Unrestricted current investments | $ 95,013 |
| Restricted current investments: | |
| Debt Service Accounts | 42,328 |
| Capital Project Accounts | 32,570 |
| Other Restricted Accounts: | |
| Operating reserve | 33,955 |
| Customer deposits | 8,599 |
| Total Other Restricted Accounts | 42,554 |
| Total Current Investments | $ 212,465 |
| Restricted noncurrent investments: | |
| Capital Project Accounts | $ 216,789 |
| Other Restricted Accounts: | |
| Reserve Fund | 56,646 |
| Total Cash, Cash Equivalents and Investments | $ 575,629 |

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## Note 4 Capital Assets

### Primary Government (City)

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes guidance for accounting and reporting for the impairment of assets and for insurance recoveries. Impairments of $2,956 were identified and reduced in capital assets for governmental activities. Capital asset activity for governmental activities, to include Internal Service Funds, for the period-ended September 30, 2011 is as follows:

**Capital Assets - Governmental Activities**

| Governmental Activities | Beginning Balance (Restated) | Increases | Decreases | Transfers | Ending Balance |
|---|---|---|---|---|---|
| Non-Depreciable Assets: | | | | | |
| Land | $ 1,364,382 | $ 3,849 | $ - | $ 3,058 | $ 1,371,289 |
| Intangible Assets | 81,809 | 152 | | | 81,961 |
| Construction in Progress | 479,769 | 268,730 | (6,615) | (204,316) | 537,568 |
| Other Assets | 500 | 75 | | | 575 |
| Total Non-Depreciable Assets | 1,926,460 | 272,806 | (6,615) | (201,258) | 1,991,393 |
| Depreciable Assets: | | | | | |
| Buildings | 732,768 | | (1,639) | 304 | 731,433 |
| Improvements | 373,015 | 3,060 | | 108,802 | 484,877 |
| Infrastructure | 2,380,302 | 351 | | 89,629 | 2,470,282 |
| Machinery and Equipment | 388,565 | 37,616 | (14,616) | 111 | 411,676 |
| Intangible Assets | 120 | 482 | | 2,412 | 3,014 |
| Total Depreciable Assets | 3,874,770 | 41,509 | (16,255) | 201,258 | 4,101,282 |
| Accumulated Depreciation: | | | | | |
| Buildings | (278,351) | (20,121) | 1,639 | | (296,833) |
| Improvements | (100,044) | (25,230) | | | (125,274) |
| Infrastructure | (1,563,133) | (59,563) | | | (1,622,696) |
| Machinery and Equipment | (225,154) | (28,846) | 13,098 | | (240,902) |
| Intangible Assets | (11) | (292) | | | (303) |
| Total Accumulated Depreciation | (2,166,693) | (134,052) | 14,737 | | (2,286,008) |
| Total Depreciable Assets, net | 1,708,077 | (92,543) | (1,518) | 201,258 | 1,815,274 |
| Total Capital Assets, net | $ 3,634,537 | $ 180,263 | $ (8,133) | $ - | $ 3,806,667 |

| Depreciation expense was charged to governmental functions as follows: | |
|---|---|
| General Government | $ 15,888 |
| Public Safety | 8,282 |
| Public Works | 76,079 |
| Health Services | 737 |
| Sanitation | 101 |
| Welfare | 919 |
| Culture and Recreation | 12,187 |
| Convention and Tourism | 4,611 |
| Urban Redevelopment and Housing | 167 |
| Economic Development and Opportunity | 14 |
| Depreciation on Capital Assets Held by City's Internal Service Funds are Charged to Various Functions Based on Asset Usage | 15,067 |
| Total Depreciation Expense for Governmental Activities | $ 134,052 |

The capital assets of Internal Service Funds are included in governmental activities. In fiscal year 2011, Internal Service Funds capital assets increased by $26,952, and decreased by $11,337, resulting in an ending balance of $180,154. Depreciation expense of $15,067 resulted in an ending accumulated depreciation balance of $112,206, to arrive at net book value of $67,948.

*Amounts are expressed in thousands*

## Note 4 Capital Assets (Continued)

### Primary Government (City) (Continued)

The City capitalizes interest incurred on construction projects, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities That Use Proprietary Fund Accounting*. In fiscal year 2011, the City capitalized construction period interest for the Airport System in the amount of $1,094. Interest costs for nonmajor enterprise funds were not capitalized as the construction in progress in these funds during fiscal year 2011 were funded by capital contributions from governmental funds. Impairments of $7,306 were identified and reduced in capital assets for business-type activities. Capital asset activity for business-type activities for the year-ended September 30, 2011, is as follows:

**Capital Assets - Business-Type Activities**

| | Beginning Balance (Restated) | Increases | Decreases | Transfers | Ending Balance |
|---|---|---|---|---|---|
| Non-Depreciable Assets: | | | | | |
| Land: | | | | | |
| Airport System | $ 5,322 | $ - | $ - | $ - | $ 5,322 |
| Nonmajor Enterprise Funds | 9,063 | | | | 9,063 |
| Total Land | 14,385 | | | | 14,385 |
| Construction in Progress: | | | | | |
| Airport System | 317,647 | 38,260 | (3,025) | (302,671) | 50,211 |
| Nonmajor Enterprise Funds | 737 | 5,694 | | (737) | 5,694 |
| Total Construction in Progress | 318,384 | 43,954 | (3,025) | (303,408) | 55,905 |
| Total Non-Depreciable Assets | 332,769 | 43,954 | (3,025) | (303,408) | 70,290 |
| Depreciable Assets: | | | | | |
| Buildings: | | | | | |
| Airport System | 200,673 | | (5,712) | 164,178 | 359,139 |
| Nonmajor Enterprise Funds | 26,683 | | | | 26,683 |
| Total Buildings | 227,356 | | (5,712) | 164,178 | 385,822 |
| Improvements: | | | | | |
| Airport System | 225,666 | 2,728 | (809) | 138,228 | 365,813 |
| Nonmajor Enterprise Funds | 13,738 | | | 737 | 14,475 |
| Total Improvements | 239,404 | 2,728 | (809) | 138,965 | 380,288 |
| Machinery and Equipment: | | | | | |
| Airport System | 14,603 | 637 | (1,114) | 265 | 14,391 |
| Nonmajor Enterprise Funds | 29,987 | 2,124 | (457) | | 31,654 |
| Total Machinery and Equipment | 44,590 | 2,761 | (1,571) | 265 | 46,045 |
| Total Depreciable Assets | 511,350 | 5,489 | (8,092) | 303,408 | 812,155 |
| Accumulated Depreciation: | | | | | |
| Buildings: | | | | | |
| Airport System | (77,834) | (9,762) | 4,111 | | (83,485) |
| Nonmajor Enterprise Funds | (10,168) | (720) | | | (10,888) |
| Total Buildings | (88,002) | (10,482) | 4,111 | | (94,373) |
| Improvements: | | | | | |
| Airport System | (101,928) | (12,748) | 725 | | (113,951) |
| Nonmajor Enterprise Funds | (3,104) | (591) | | | (3,695) |
| Total Improvements | (105,032) | (13,339) | 725 | | (117,646) |
| Machinery and Equipment: | | | | | |
| Airport System | (10,938) | (1,048) | 1,037 | | (10,949) |
| Nonmajor Enterprise Funds | (10,022) | (3,483) | 123 | | (13,382) |
| Total Machinery and Equipment | (20,960) | (4,531) | 1,160 | | (24,331) |
| Total Accumulated Depreciation | (213,994) | (28,352) | 5,996 | | (236,350) |
| Total Depreciable Assets, net | 297,356 | (22,863) | (2,096) | 303,408 | 575,805 |
| Total Capital Assets, net | $ 630,125 | $ 21,091 | $ (5,121) | $ - | $ 646,095 |





## Note 4 Capital Assets (Continued)

### CPS Energy

CPS Energy's plant-in service includes four power stations, which are solely owned and operated by CPS Energy. In total, there are 24 generating units at these four power stations—four are coal-fired and 20 are gas-fired. The following is a list of power stations and relative generating units:

| Power Station | Generating Units | Type | Power Station | Generating Units | Type |
|---|---|---|---|---|---|
| Calaveras | 6 | Coal (4)/Gas (2) | Leon Creek | 6 | Gas |
| Braunig | 8 | Gas | Tuttle | 4 * | Gas |

* Included as a part of the 20 gas generating units are W.B. Tuttle Unit 2, which is currently not available for use, and W.B. Tuttle Units 1, 3 and 4, which were mothballed in FY 2010. All W.B. Tuttle units are fully depreciated.

In fiscal year 2011, CPS Energy brought new generation facilities on-line, J.K. Spruce Unit 2 (Spruce 2) and the four V.H. Braunig (VHB) peaking units. Construction on Spruce 2 was started on March 21, 2006. The plant went into commercial operation on May 28, 2010. Spruce 2 is a 750-megawatt unit and is the largest of the coal units at Calaveras Lake. The plant is equipped with current emissions-control technology. Construction of the VHB peaking units project began on September 10, 2008. The peaking units went into commercial operation on December 1, 2010. The peaking units will provide an additional 186 megawatts of capacity to the CPS Energy generation portfolio to meet customer demand during periods of peak load and provide quick response capacity as necessary. These facilities were tested prior to commercial operation, and the power that was produced during this testing period is referred to as precommercial generation. In accordance with Federal Energy Regulatory Commission guidance, revenues and expenses associated with precommercial generation were capitalized as components of construction costs.

Other notable capital assets in electric and gas plant include supporting coal yard assets, a fleet of railcars, a transmission network for the movement of electric power from the generating stations to substations, electric and gas distribution systems, and metering.

Included in the general plant are: the Energy Management Center; the main office complex; the construction and customer service centers; the Villita Assembly Building; and a fleet of automobiles, trucks, and work equipment. Intangible assets consist of easements and software.

**Impairments** – No capital asset impairments were identified for fiscal year 2011.

**Investment in STP** – STP is currently a two-unit nuclear power plant located in Matagorda County, Texas. It is maintained and operated by the STP Nuclear Operating Company (STPNOC), a nonprofit Texas corporation special-purpose entity. It is financed and controlled by the owners – CPS Energy; the City of Austin; and NRG South Texas LLP, a wholly owned subsidiary of NRG Energy, Inc. CPS Energy's 40.0% interest in STP Units 1 and 2 is included in plant assets. See Note 10 for more information on CPS Energy's South Texas Project.

- 81 - Amounts are expressed in thousands
- 82 - Amounts are expressed in thousands

## Note 4 Capital Assets (Continued)

### CPS Energy (Continued)

On October 29, 2007, the CPS Energy board of trustees approved a resolution enabling CPS Energy to participate in development activities related to new nuclear generation units to be constructed in Bay City, Texas, on a site where STP Units 1 and 2 currently operate. These generation units are referred to as STP Units 3 and 4. At January 31, 2010, CPS Energy held a 50.0% interest in the development. As a result of a litigation settlement with Nuclear Innovation North America, Inc. (NINA), CPS Energy's partner in the project, CPS Energy's ownership in STP Units 3 and 4 was reduced from 50.0% to 7.6% effective March 1, 2010. Excluding AFUDC of $21,000, project costs incurred by CPS Energy to date of $370,000 are included in construction in progress. For more detailed information on project development and legal issues associated with STP Units 3 and 4, see Note 10 CPS Energy South Texas Project (STP).

| STP Capital Investment (40.0% share), Net | January 31, 2010 |
|---|---|
| STP Capital Assets, net | |
| Construction in Progress | $ 415,976 |
| Land | 5,701 |
| Electric and general plant | 1,177,292 |
| Nuclear fuel | 82,572 |
| Total STP Capital Assets, net | $ 1,681,541 |
| Total CPS Energy Capital Assets, net | $ 7,217,041 |
| STP Capital Investments as a percentage of total CPS Energy Capital Assets, net | 23.3% |

The following tables provide more detailed information on the activity of CPS Energy's net capital assets as presented on the balance sheet, including capital asset activity for fiscal year 2011:

| Capital Assets - CPS Energy | Beginning Balance | Additions/ Increases | Transfers In/(Out) | Reductions/ Decreases | Ending Balance |
|---|---|---|---|---|---|
| Non-Depreciable Assets: | | | | | |
| Land | $ 107,150 | $ - | $ 12,231 | $ (80) | $ 119,301 |
| Construction in Progress | 1,893,686 | 436,072 | (1,658,023) | | 671,735 |
| Total Non-Depreciable Assets | 2,000,836 | 436,072 | (1,645,792) | (80) | 791,036 |
| Depreciable Capital Assets: | | | | | |
| Utility Plant in Service: | | | | | |
| Electric Plant | 7,318,256 | 36,247 | 1,550,519 | (26,506) | 8,878,516 |
| Gas Plant | 662,763 | 4,486 | 26,130 | (31) | 693,348 |
| General Plant | 716,339 | 10,784 | 69,143 | (21,443) | 774,823 |
| Nuclear Fuel | 643,545 | 11,963 | | | 655,508 |
| Total Depreciable Capital Assets | 9,340,903 | 63,480 | 1,645,792 | (47,980) | 11,002,195 |
| Accumulated Depreciation | | | | | |
| Depletion and Amortization: | | | | | |
| Utility Plant in Service: | | | | | |
| Electric Plant | (3,227,287) | (255,783) | | 38,187 | (3,444,883) |
| Gas Plant | (244,467) | (15,047) | | 378 | (259,136) |
| General Plant | (269,339) | (51,021) | | 21,125 | (299,235) |
| Nuclear Fuel | (536,453) | (36,483) | | | (572,936) |
| Total Accumulated Depreciation Depletion and Amortization | (4,277,546) | (358,334) | | 59,690 | (4,576,190) |
| Total Capital Assets, net | $ 7,064,193 | $ 141,218 | $ - | $ 11,630 | $ 7,217,041 |



*Amounts are expressed in thousands*



## Note 4 Capital Assets (Continued)

### CPS Energy (Continued)

**Cash flow information** – Cash paid for additions and net removal costs was $514,600. This included $487,600 in additions to construction in progress and electric, gas and general plant, partially offset by $34,400 in AFUDC and $7,300 in donated assets.

**Other** – The increases in electric plant included new substations and distribution infrastructure. Depreciation and amortization of utility plant in service totaled $321,851, which included $146,200 related to intangible assets.

### San Antonio Water System (SAWS)

SAWS' interest on debt proceeds used to finance utility plant additions is capitalized as part of the cost of capital assets. For the year-ended December 31, 2010, interest capitalized was $7,578. Capital asset activity for SAWS is as follows:

| Capital Assets - San Antonio Water System | Beginning Balance | Increases | Transfers | Decreases | Ending Balance |
|---|---|---|---|---|---|
| Non-Depreciable Assets: | | | | | |
| Land: | | | | | |
| Land | $ 78,814 | $ - | $ 3,307 | $ 66 | $ 82,055 |
| Acquisition of Water Rights | 156,704 | | 48,475 | | 205,179 |
| Other Intangible Assets | 388 | 1,329 | | | 1,717 |
| Construction in Progress | 427,971 | 300,461 | (299,348) | 13,274 | 415,810 |
| Total Non-Depreciable Assets | 663,877 | 301,790 | (247,566) | 13,340 | 704,761 |
| Depreciable Assets: | | | | | |
| Utility Plant in Service: | | | | | |
| Structures and Improvements | 444,000 | 79 | 41,375 | | 485,454 |
| Pumping and Purification | 126,234 | 254 | 16,699 | | 143,187 |
| Distribution and Transmission System | 1,508,547 | 1,101 | 110,646 | 6 | 1,620,288 |
| Treatment Facilities | 1,424,980 | | 68,127 | 48,931 | 1,444,176 |
| Machinery and Equipment: | | | | | |
| Machinery and Equipment | 102,624 | 4,348 | 8,305 | 8,101 | 107,176 |
| Furniture and Fixtures | 5,048 | | 7 | 3 | 5,052 |
| Computer Equipment | 21,451 | 2,276 | 438 | 3,608 | 20,557 |
| Software | 17,735 | 187 | 1,969 | 13 | 19,878 |
| Total Depreciable Assets | 3,650,619 | 8,245 | 247,566 | 60,662 | 3,845,768 |
| Accumulated Depreciation: | | | | | |
| Utility Plant in Service: | | | | | |
| Structures and Improvements | (99,958) | (9,908) | | | (109,866) |
| Pumping and Purification | (27,183) | (3,453) | | | (30,636) |
| Distribution and Transmission System | (412,334) | (35,750) | | (48) | (448,036) |
| Treatment Facilities | (519,499) | (46,352) | | (48,954) | (516,897) |
| Machinery and Equipment: | | | | | |
| Machinery and Equipment | (50,330) | (8,116) | | (7,694) | (50,752) |
| Furniture and Fixtures | (3,888) | (239) | | (3) | (4,124) |
| Computer Equipment | (15,122) | (2,348) | | (3,632) | (13,838) |
| Software | (11,918) | (1,595) | | | (13,513) |
| Total Accumulated Depreciation | (1,140,232) | (107,761) | | (60,331) | (1,187,662) |
| Total Depreciable Assets, net | 2,510,387 | (99,516) | 247,566 | 331 | 2,658,106 |
| Total Capital Assets, net | $ 3,174,264 | $ 202,274 | $ - | $ 13,671 | $ 3,362,867 |



*Amounts are expressed in thousands*

## Note 4 Capital Assets (Continued)

### San Antonio Water System (SAWS) (Continued)

In 2006, SAWS diverted all effluent flow from Salado Creek Treatment plant to its Dos Rios Treatment Plant in order to take advantage of the additional capacity and more efficient treatment process available at the Dos Rios Plant. At that time, SAWS began identifying and disposing of assets no longer utilized at the Salado Creek Plant. In 2010, SAWS completed the dismantling and closure of the portion of the Salado Creek Plant that was no longer in use. In connection with this effort, the $13,400 remaining book value of the assets eliminated was charged off to depreciation expense.

**Asset Impairment** – SAWS periodically reviews its capital assets for possible impairment. As part of SAWS' capital improvement program, SAWS incurs costs to design capital improvement projects. These costs are included in capital assets as Construction in Progress. Periodically the actual construction of these projects may not occur due to changes in plans. Once it has been determined that construction will not proceed, any incurred design costs are charged off to operating expenses. Design costs were charged off totaling $13,274 in 2010. Of the amount charged off in 2010, $12,400 related to the design of a pipeline to transport water expected to be produced from the Carrizo Aquifer in Gonzales County to a SAWS facility in southeastern Bexar County. In anticipation of an expected agreement with the Schertz Seguin Local Government Corporation (SSLGC), which would enable SAWS to utilize SSLGC's existing pipeline to transport water from the Carrizo Aquifer to a SAWS facility in northeast Bexar County, SAWS wrote off the design costs related to the original proposed pipeline. The agreement with SSLGC was executed in February 2011.

## Note 5 Receivables and Payables

### Primary Government (City)

#### *Disaggregation of Receivables*

Net receivables at September 30, 2011 are as follows:

| | Accounts | Taxes | Note and Loans | Accrued Interest | Other | Total Net Receivables |
|---|---|---|---|---|---|---|
| Governmental Activities | $ 163,875 | $ 21,836 | $ 39,719 | $ 636 | $ 2,112 | $ 228,178 |
| Business-Type Activities: | | | | | | |
| Airport System | $ 4,994 | $ - | $ - | $ 92 | $ - | $ 5,086 |
| Nonmajor Enterprise Funds | 8,223 | | | 22 | | 8,245 |
| Total Business-Type Activities | $ 13,217 | $ - | $ - | $ 114 | $ - | $ 13,331 |

The receivable balances for Governmental Activities have been reduced by estimated allowances for doubtful accounts of $64,152 against customer, and other receivables, $23,384 for notes and loans, and $5,229 against property and occupancy taxes. The receivable balances for Business-Type Activities have been reduced by estimated allowances for doubtful accounts of $554 against customer and other receivables.





## Note 5 Receivables and Payables (Continued)

### Primary Government (City) (Continued)

#### *Disaggregation of Receivables (Continued)*

The only receivables not expected to be collected within one year are $36,386 of notes and loans receivables, net of allowance for doubtful accounts, related to General Government, Urban Redevelopment and Housing and Economic Development and Opportunity. These notes and loans have a corresponding deferred revenue balance recorded within the respective funds. $6,935 of the notes and loans receivable balance are non-interest bearing, and relate to Urban Redevelopment and Housing and Economic Development and Opportunity functions.

#### *Disaggregation of Payables*

Payables at September 30, 2011 are as follows:

| | Accounts | Accrued Payroll | Other | Total Payables |
|---|---|---|---|---|
| Governmental Activities | $ 174,640 | $ 6,205 | $ - | $ 180,845 |
| Business-Type Activities: | | | | |
| Airport System | $ 11,676 | $ 385 | $ - | $ 12,061 |
| Nonmajor Enterprise Funds | 4,152 | 679 | 28 | 4,859 |
| Total Business-Type Activities | $ 15,828 | $ 1,064 | $ 28 | $ 16,920 |

#### *Interfund Receivable and Payable Balances*

As of September 30, 2011, the interfund receivable and payable balances represent short-term loans resulting from (1) timing differences between the dates that transactions are recorded in the accounting system and (2) short-term borrowings at year-end. Of the $84,515 due from other funds in the General Fund, $79,308 is a result of overdraws of pooled cash. Except for internal loans from the Other Internal Service Fund of $648 and $193 to the Nonmajor Governmental Fund and General Fund, respectively, all interfund balances are expected to be paid within one year. See Note 6 Long-Term Debt, for additional information regarding the internal loans.

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- 85 - Amounts are expressed in thousands
- 86 - Amounts are expressed in thousands

## Note 5 Receivables and Payables (Continued)

### Primary Government (City) (Continued)

***Interfund Receivable and Payable Balances (Continued)***

The following is a summary of interfund receivables and payables for the City as of September 30, 2011:

**Summary Table of Interfund Receivables and Payables**
**As of September 30, 2011**

| | Due from Other Funds | Due To Other Funds |
|---|---|---|
| **General Fund:** | | |
| Debt Service Fund | $ 1,008 | $ 467 |
| Categorical Grant-In-Aid | 30,844 | 1,600 |
| 2007 General Obligation Bonds | 70 | |
| General Obligation Project Fund | 10,534 | |
| Airport System Fund | 27 | |
| Nonmajor Governmental Funds | 40,789 | 1,326 |
| Nonmajor Enterprise Funds | | 712 |
| Internal Service Funds | 1,243 | 460 |
| **Total General Fund** | 84,515 | 4,565 |
| **Debt Service Fund:** | | |
| General Fund | 467 | 1,008 |
| **Total Debt Service Fund** | 467 | 1,008 |
| **Categorical Grant-In-Aid:** | | |
| General Fund | 1,600 | 30,844 |
| Nonmajor Governmental Funds | 293 | 299 |
| Internal Service Funds | 13 | 17 |
| **Total Categorical Grant-In-Aid** | 1,906 | 31,160 |
| **2007 General Obligation Bonds:** | | |
| General Fund | | 70 |
| General Obligation Project Fund | 31,865 | |
| **Total 2007 General Obligation Bonds** | 31,865 | 70 |
| **General Obligation Project Fund:** | | |
| General Fund | | 10,534 |
| 2007 General Obligation Bonds | | 31,865 |
| Nonmajor Governmental Funds | 2,506 | 20 |
| Internal Service Funds | | 3 |
| **Total General Obligation Project Fund** | 2,506 | 42,422 |
| **Airport System Fund:** | | |
| General Fund | | 27 |
| Nonmajor Governmental Funds | 7 | |
| Internal Service Funds | | 437 |
| **Total Airport System Fund** | 7 | 464 |
| **Nonmajor Governmental Funds:** | | |
| General Fund | 1,326 | 40,789 |
| Categorical Grant-In-Aid | 299 | 293 |
| General Obligation Project Fund | 20 | 2,506 |
| Airport System Fund | | 7 |
| Nonmajor Governmental Funds | 21,914 | 21,914 |
| Nonmajor Enterprise Funds | 141 | 3,241 |
| Internal Service Funds | 222 | 878 |
| **Total Nonmajor Governmental Funds** | 23,922 | 69,628 |

*(Continued)*





## Note 5 Receivables and Payables (Continued)

### Primary Government (City) (Continued)

***Interfund Receivable and Payable Balances (Continued)***

**Summary Table of Interfund Receivables and Payables (Continued)**
**As of September 30, 2011**

| | Due from Other Funds | Due To Other Funds |
|---|---|---|
| **Nonmajor Enterprise Funds:** | | |
| General Fund | $ 712 | $ - |
| Nonmajor Governmental Funds | 3,241 | 141 |
| Nonmajor Enterprise Fund | | |
| Internal Service Funds | 2,031 | 1,347 |
| **Total Nonmajor Enterprise Funds** | 5,984 | 1,488 |
| **Internal Service Funds:** | | |
| General Fund | 460 | 1,243 |
| Categorical Grant-In-Aid | 17 | 13 |
| General Obligation Project Fund | 3 | |
| Airport System Fund | 437 | |
| Nonmajor Governmental Funds | 878 | 222 |
| Nonmajor Enterprise Funds | 1,347 | 2,031 |
| Internal Service Funds | 312 | 312 |
| **Total Internal Service Funds** | 3,454 | 3,821 |
| **Total** | $ 154,626 | $ 154,626 |

### CPS Energy

**Disaggregation of Receivables** – Net customer accounts receivable as of January 31, 2011, included $33,212 for unbilled revenue receivables; $135,524 for billed utility services; $5,909 for regulatory-related receivables; and $22,722 for other miscellaneous receivables.

**Disaggregation of Payables** – At January 31, 2011, accounts payable and accrued liabilities included $184,553 related to standard operating supplier and vendor payables, including fuels payable; $34,714 for employee-related payables; and $96,936 for other miscellaneous payables and accrued liabilities.

### San Antonio Water System (SAWS)

**Accounts Receivable** – Accounts receivable, net of allowance for uncollectible accounts are broken down by core business as follows:

| | December 31, 2010 |
|---|---|
| Water Delivery | $ 14,522 |
| Water Supply | 12,753 |
| Wastewater | 18,271 |
| Chilled Water and Steam | 1,558 |
| | $ 47,104 |

Included within the receivables above are unbilled revenue receivables of $21,811 at December 31, 2010.

- 87 - *Amounts are expressed in thousands*
- 88 - *Amounts are expressed in thousands*

## Note 6 Long-Term Debt

### Primary Government (City)

#### *Governmental Activity Long-Term Debt*

#### Issuances

The City's debt management and on-going capital improvement financing for infrastructure and "quality of life" purposes resulted in the issuance of additional indebtedness during fiscal year 2011:

On July 12, 2011, the City issued $59,485 in General Improvement Bonds, Series 2011 and $79,780 in Combination Tax and Revenue Certificates of Obligation, Series 2011.

The General Improvement Bonds, Series 2011 were issued to finance improvements to streets, bridges, sidewalks, and drainage. The Bonds have maturities ranging from 2012 to 2031, with interest rates ranging from 2.0% to 5.0%.

The Combination Tax and Revenue Certificates of Obligation, Series 2011 were issued for the purpose of providing funds for: (i) public safety, fire protection, and law enforcement facilities improvements; (ii) drainage facilities, sidewalks, bridges, and streets improvements; (iii) cultural, recreation, park, and library facilities improvements; (iv) municipal facilities improvements; and (v) pedestrian walkway improvements along and within the San Antonio River Channel. The Certificates have maturities ranging from 2012 to 2031, with interest rates ranging from 2.0% to 5.0%.

On July 12, 2011, the City issued $9,445 in Tax Notes, Series 2011. The Tax Notes, Series 2011 were issued to provide funds for improving the City's technology infrastructure and business systems and renovating, improving, and equipping various City facilities and the payment of costs of various professional services necessary for and related to the design and installation, including the costs of necessary consultants, advisors, and designers and/or engineers. The Tax Notes have maturities ranging from 2012 to 2016, with interest rates ranging from 2.0% to 4.0%.

On July 12, 2011, Municipal Facilities Corporation issued $27,925 in Municipal Facilities Corporation Lease Revenue Bonds, Series 2011 (Public Safety Answering Point Project). The Bonds were issued to fund the construction of a new Fire and Police Emergency Dispatch Center, also known as the Public Safety Answering Point (PSAP) facility, construct a parking lot for joint use by the new PSAP facility and the City's Emergency Operations Center, fund 12 months of capitalized interest on the Bonds, and pay the costs of issuing the Bonds. The Bonds have maturities ranging from 2013 to 2041, with interest rates ranging from 2.0% to 5.0%.

#### Pledges

The City of San Antonio's General Obligation, Certificates of Obligation, and Tax Notes are pledged by ad-valorem taxes levied upon all taxable property located within the City, within the limitations prescribed by law. The Certificates of Obligations are additionally secured by a lien on and pledge of certain pledged revenues of the City's municipal parks system not to exceed $1 during the entire period the Certificates of Obligation or interest thereon remains outstanding in order to permit the Certificates of Obligation to be sold for cash.





## Note 6 Long-Term Debt (Continued)

### Primary Government (City) (Continued)

#### *Governmental Activity Long-Term Debt (Continued)*

The Hotel Occupancy Tax Revenue Bonds are secured by Hotel Occupancy Tax (HOT) currently levied at 9.0% of which 7.0% is designated as "General HOT" and 2.0% is designated as the "Expansion HOT". The General HOT is comprised of the pledged 1.8% HOT and the pledged 5.2% HOT. The Series 1996 HOT Bonds are secured by prior liens on revenues from the General HOT and a lien on the revenues from the Expansion HOT. The 2004A, 2006, and the 2008 HOT Bonds are secured by subordinate liens on revenues from the General HOT. The 2008 HOT Bonds are additionally supported by an irrevocable direct-pay Letter of Credit dated as of July 8, 2010 issued by Wells Fargo Bank, National Association, whom also serves as the remarketing agent. The current Letter of Credit agreement will expire July 11, 2012; however, the City is currently in negotiations to extend the agreement. As of September 30, 2011, there have been no borrowings under the Letter of Credit.

The 2008 HOT Bonds were issued as variable-rate bonds and as such have interest rates set on a weekly basis.

The Municipal Drainage Utility System Revenue Bonds are secured by a lien on Stormwater revenues.

The Municipal Facilities Corporation Lease Revenue Bonds are paid by annually appropriated lease payments made by the City which equal the annual debt service on the Bonds.

The Starbright Industrial Development Corporation Contract Revenue Bonds are secured with a pledge of utility revenue received by the City from CPS Energy.

The Convention Center Hotel Finance Corporation Contract Revenue Empowerment Zone Bonds are secured by net operating revenues to be received from the Convention Center Hotel operations. In the event the net operating revenues are insufficient to pay all debt service, City tax revenues will be pledged in the following order of priority: first, from the Convention Center Hotel State HOT revenues; second, from Convention Center Hotel State sales tax revenues; third, from Convention Center Hotel 7.0% local HOT revenues; and fourth, from available Expansion HOT revenues on a subordinate basis.

#### Prior Years' Defeased Debt

In prior years, the City advance refunded, prior to maturity, certain general obligation bonds, revenue bonds, certificates of obligation and tax notes. The refunding bonds were utilized to purchase securities, which are direct obligations of the United States of America (the Purchased Securities). The Purchased Securities plus cash were deposited into irrevocable escrow accounts in amounts scheduled to mature in principal amounts that, when added to interest earned on the Purchased Securities plus remaining balances in the escrow fund, are fully sufficient to make timely payment on the principal, premium if any, and interest scheduled to come due on the refunded obligations. The refunded obligations represent a legal defeasance and are no longer a liability of the City; therefore, they are not included in the City's financial statements. On September 30, 2011, $161,470 of previously defeased bonds was outstanding.

## Note 6 Long-Term Debt (Continued)

### Primary Government (City) (Continued)

***Governmental Activity Long-Term Debt (Continued)***

The following table is a summary of changes for the year-ended September 30, 2011 for governmental activity debt:

| Governmental Activity Long-Term Debt | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Time of Original Issuance | | | | | | |
| Issue | Original Amount | Final Principal Payment | Interest Rates (%) | Balance Outstanding October 1, 2010 | Additions During Year | Deletions During Year | Balance Outstanding September 30, 2011 |
| Tax-Exempt General Obligation Bonds: | | | | | | | |
| Series 2000A | $ 15,615 | 2021 | 5.250-5.375 | $ 735 | $ - | $ 735 | $ - |
| Series 2001 | 84,945 | 2022 | 3.000-5.250 | 2,180 | | 400 | 1,780 |
| Series 2002 Forward Refunding | 251,280 | 2013 | 4.000-5.250 | 55,960 | | 34,920 | 21,040 |
| Series 2002 | 55,850 | 2023 | 2.000-5.500 | 7,205 | | 515 | 6,690 |
| Series 2003 | 40,905 | 2014 | 2.750-5.000 | 16,015 | | 2,215 | 13,800 |
| Series 2003A | 56,515 | 2016 | 2.000-5.000 | 38,080 | | 7,410 | 30,670 |
| Series 2004 | 33,570 | 2024 | 2.375-4.750 | 14,495 | | 1,560 | 12,935 |
| Series 2005 | 116,170 | 2025 | 3.500-5.250 | 100,835 | | 1,405 | 99,430 |
| Series 2006 Forward Refunding | 33,090 | 2016 | 5.250-5.500 | 28,140 | | 5,320 | 22,820 |
| Series 2006 Refunding | 169,785 | 2026 | 3.500-5.000 | 132,175 | | 2,710 | 129,465 |
| Series 2007 Refunding | 121,220 | 2028 | 4.000-5.000 | 85,960 | | 3,995 | 81,965 |
| Series 2008 | 75,060 | 2028 | 4.000-5.500 | 75,060 | | 2,705 | 72,355 |
| Series 2010 Refunding | 155,710 | 2023 | 2.000-5.000 | 155,710 | | 8,890 | 146,820 |
| Series 2010A | 8,800 | 2020 | 5.000 | 8,800 | | | 8,800 |
| Series 2011 | 59,485 | 2031 | 2.000-5.000 | | 59,485 | | 59,485 |
| Total Tax-Exempt General Obligation Bonds | $ 1,278,000 | | | $ 721,350 | $ 59,485 | $ 72,780 | $ 708,055 |
| Taxable General Obligation Bonds: | | | | | | | |
| Series 2010B BABs | $ 191,550 | 2040 | 4.314-6.038 | $ 191,550 | $ - | $ - | $ 191,550 |
| Total Taxable General Obligation Bonds | $ 191,550 | | | $ 191,550 | $ - | $ - | $ 191,550 |
| Tax-Exempt Certificates of Obligation: | | | | | | | |
| Series 2000A | $ 8,810 | 2021 | 5.250-5.375 | $ 415 | $ - | $ 415 | $ - |
| Series 2001 | 65,195 | 2014 | 4.000-5.250 | 6,460 | | 6,460 | |
| Series 2002 | 69,930 | 2023 | 3.000-5.500 | 16,840 | | 4,935 | 11,905 |
| Series 2004 | 29,525 | 2024 | 2.000-5.000 | 20,140 | | 2,340 | 17,800 |
| Series 2005 | 10,535 | 2025 | 4.000-5.250 | 10,535 | | | 10,535 |
| Series 2006 | 72,755 | 2026 | 3.500-4.375 | 62,495 | | 2,820 | 59,675 |
| Series 2007 | 104,255 | 2028 | 4.000-5.000 | 69,080 | | 6,580 | 62,500 |
| Series 2008 | 85,005 | 2028 | 3.500-5.500 | 79,295 | | 2,995 | 76,300 |
| Series 2010 | 38,375 | 2019 | 4.000-5.000 | 38,375 | | | 38,375 |
| Series 2011 | 79,780 | 2031 | 2.000-5.000 | | 79,780 | | 79,780 |
| Total Tax-Exempt Certificates of Obligation | $ 564,165 | | | $ 303,635 | $ 79,780 | $ 26,545 | $ 356,870 |
| Taxable Certificates of Obligation: | | | | | | | |
| Series 2000B | $ 1,755 | 2021 | 7.450-7.550 | $ 80 | $ - | $ 80 | $ - |
| Total Taxable Certificates of Obligation | $ 1,755 | | | $ 80 | $ - | $ 80 | $ - |
| Tax Notes: | | | | | | | |
| Series 2007A | $ 21,270 | 2012 | 4.000-5.000 | $ 9,335 | $ - | $ 4,555 | $ 4,780 |
| Series 2008 | 15,320 | 2013 | 3.500-5.000 | 9,870 | | 3,160 | 6,710 |
| Series 2010A | 9,655 | 2013 | 2.000-4.000 | 9,655 | | 3,140 | 6,515 |
| Series 2011 | 9,445 | 2016 | 2.000-4.000 | | 9,445 | | 9,445 |
| Total Tax Notes | $ 55,690 | | | $ 28,860 | $ 9,445 | $ 10,855 | $ 27,450 |
| Revenue Bonds: | | | | | | | |
| Series 1996 Hotel Occupancy Tax [1] | $ 182,012 | 2017 | 4.500-6.200 | $ 18,112 | $ - | $ 2,837 | $ 15,275 |
| Series 2004A Hotel Occupancy Tax | 10,390 | 2029 | 5.000 | 10,390 | | | 10,390 |
| Series 2006 Hotel Occupancy Tax Ref | 72,620 | 2026 | 4.000-4.500 | 71,055 | | 280 | 70,775 |
| Series 2008 Hotel Occupancy Tax Ref | 135,000 | 2034 | Variable | 129,500 | | 395 | 129,105 |
| Series 2003 Municipal Drainage | 44,150 | 2028 | 2.000-5.000 | 36,115 | | 1,335 | 34,780 |
| Series 2005 Municipal Drainage | 61,060 | 2030 | 3.500-5.250 | 54,020 | | 1,580 | 52,440 |
| Series 2001 Municipal Facility Corp | 14,465 | 2020 | 3.370-5.200 | 725 | | 725 | |
| Series 2010 Municipal Facility Corp Ref | 9,090 | 2020 | 1.000-3.250 | 8,965 | | 140 | 8,825 |
| Series 2011 Municipal Facility Corp | 27,925 | 2041 | 2.000-5.000 | | 27,925 | | 27,925 |
| Convention Series 2005A | 129,930 | 2039 | 4.750-5.000 | 129,930 | | | 129,930 |
| Convention Series 2005B | 78,215 | 2028 | 4.500-5.310 | 76,065 | | 2,320 | 73,745 |
| Starbright Industrial Development Corp. | 24,685 | 2033 | 2.180-5.110 | 22,510 | | 585 | 21,925 |
| Total Revenue Bonds | $ 789,542 | | | $ 557,387 | $ 27,925 | $ 10,197 | $ 575,115 |
| Total | $ 2,880,702 | | | $ 1,802,862 | $ 176,635 | $ 120,457 | $ 1,859,040 |

[1] A portion of the Hotel Occupancy Tax Revenue Bonds Series 1996 was sold as Capital Appreciation Bonds (CABS). Interest on the CABS accrete from date of delivery and will be payable only at maturity or redemption. Interest accreted decreased by $4,148 due to the bond payment's maturity schedule, and increased by $7,310 for interest on the remaining maturities outstanding, resulting in an ending balance of $23,239, which increases revenue bonds payable. This increase is reflected in the combined Statement of Net Assets but is not reflected in this table.





## Note 6 Long-Term Debt (Continued)

### Primary Government (City) (Continued)

***Governmental Activity Long-Term Debt (Continued)***

**Annual Requirements**

The annual requirement to amortize all general obligation bonds, certificates of obligation, tax notes, and all revenue bonds outstanding as of September 30, 2011 are as follows:

| Principal and Interest Requirements | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | General Obligation Bonds | | | Certificates of Obligation | | Tax Notes | | Revenue Bonds | |
| Year Ending September 30, | Principal | Interest | Direct Subsidy [1] | Principal | Interest | Principal | Interest | Principal | Interest |
| 2012 | $ 62,610 | $ 44,687 | $ (3,825) | $ 24,025 | $ 16,170 | $ 13,070 | $ 1,019 | $ 10,744 | $ 27,402 |
| 2013 | 70,770 | 41,620 | (3,825) | 21,095 | 15,381 | 8,520 | 579 | 11,666 | 27,044 |
| 2014 | 58,280 | 38,344 | (3,825) | 27,715 | 14,527 | 1,875 | 204 | 11,970 | 26,673 |
| 2015 | 45,350 | 35,573 | (3,825) | 31,315 | 13,303 | 1,955 | 129 | 12,005 | 26,268 |
| 2016 | 43,255 | 33,433 | (3,825) | 21,395 | 11,880 | 2,030 | 51 | 12,398 | 25,860 |
| 2017-2021 | 244,640 | 132,726 | (19,064) | 87,755 | 45,330 | | | 97,052 | 119,341 |
| 2022-2026 | 181,490 | 78,565 | (17,034) | 96,245 | 24,999 | | | 130,225 | 92,293 |
| 2027-2031 | 92,275 | 43,568 | (13,372) | 47,325 | 5,767 | | | 131,730 | 59,014 |
| 2032-2036 | 51,755 | 24,460 | (8,561) | | | | | 107,125 | 26,657 |
| 2037-2041 | 49,180 | 7,567 | (2,649) | | | | | 50,200 | 5,521 |
| Total | $ 899,605 | $ 480,543 | $ (79,805) | $ 356,870 | $ 147,357 | $ 27,450 | $ 1,982 | $ 575,115 | $ 436,073 |

[1] The City issued Build America Bonds (BABs) in fiscal year 2010. These BABs are eligible for Direct Subsidies or rebates from the federal government for issuing the debt as taxable instruments.

In May 2007, the citizens authorized the City to sell $550,000 in debt for the 2007-2012 Municipal Bond Program. The program included 151 projects designed to improve and enhance existing, as well as acquire or construct, new local streets, bridges, sidewalks, drainage facilities, parks, athletic facilities, libraries, and public health centers. The Bonds are categorized in five areas: Streets, Bridges and Sidewalks Improvements; Drainage Improvements; Parks, Recreation, Open Space, and Athletics Improvements; Library Improvements; and Public Health Facilities Improvements. The Bonds are pledged with and will be repaid from ad valorem tax revenue the City collects on an annual basis. The Bonds authorized but unissued as of September 30, 2011 are as follows:

| Authorized but Unissued General Obligation Debt | | | | |
|---|---|---|---|---|
| Authorization Date | Purpose | Amount Authorized | Bonds Previously Issued [1] | Bonds Authorized but Unissued |
| 5/12/2007 | Streets, Bridges, and Sidewalks | $ 306,998 | $ 238,503 | $ 68,495 |
| 5/12/2007 | Drainage | 152,052 | 122,837 | 29,215 |
| 5/12/2007 | Parks, Recreation, Open Space, and Athletics | 79,125 | 78,187 | 938 |
| 5/12/2007 | Library | 11,025 | 11,025 | |
| 5/12/2007 | Public Health Facilities | 800 | 800 | |
| Total | | $ 550,000 | $ 451,352 | $ 98,648 |

[1] Includes a portion of the reoffering premium on the General Improvement Bonds, Series 2011 issuance in the amount of $4,874 allocated against the voted authorization.

*Amounts are expressed in thousands*

## Note 6 Long-Term Debt (Continued)

**Primary Government (City) (Continued)**

***Governmental Activity Long-Term Debt (Continued)***

### Debt Limitation

The amount of debt that the City may incur is limited by City Charter and by the Constitution of the State of Texas. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10.0% of the total assessed valuation. The total assessed valuation for the fiscal year 2011 was $82,736,182, which provides a debt ceiling of $8,273,618. The total outstanding debt that is secured by an ad valorem tax pledge is $1,303,345 including $19,420 that is reported in business-type activities.

The Constitution of the State of Texas provides that the ad valorem taxes levied by the City for debt service and maintenance and operation purposes shall not exceed $2.50 for each $100 of assessed valuation of taxable property. There is no limitation within the $2.50 rate for interest and sinking fund purposes; however, it is the policy of the Attorney General of the State of Texas to prohibit the issuance of debt by a city if such issuance produces debt service requirements that exceed the amount that can be paid from $1.50 tax rate calculated at 90.0% collections (please note that dollar figures in this paragraph are not reflected in thousands).

### Interfund Borrowings

In certain instances, after an evaluation of project/purchase funding requirements, it has been determined that some funds or operations may require temporary financing. As an alternative to the issuance of external debt to finance those projects/purchases, the City has authorized internal temporary financing from available cash balances in the Internal Service Equipment Replacement Fund (Other Internal Service Fund) to meet those needs.

In May 2008, a loan was authorized from the City's Other Internal Service Fund to the City's Tax Increment Reinvestment Zone to finance the purchase of the draft River North Master Plan, in an amount not to exceed $650. The principal amount of the loan was $648, with quarterly interest to be calculated at the City's pooled investment portfolio rate. The City's average rate for the year-ended September 30, 2011 was 0.4%, resulting in interest of $2. Cumulative interest incurred through fiscal year 2011 was $14. Repayment of the principal and interest on this loan will occur as funding is available and authorized for disbursement from the revenues of the TIRZ.

The following is a summary of changes in the loan for the year-ended September 30, 2011:

| Balance October 1, 2010 | Additions | Reductions | Balance September 30, 2011 |
|---|---|---|---|
| $ 648 | $ - | $ - | $ 648 |

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## Note 6 Long-Term Debt (Continued)

**Primary Government (City) (Continued)**

***Governmental Activity Long-Term Debt (Continued)***

In June 2009, a loan in the amount of $460 was authorized from the City's Other Internal Service Fund to the General Fund to finance the City's participation in an interagency agreement with the San Antonio Water System to implement a water efficiency project at the HemisFair Fountain. Upon completion of the project, the City received a one-time rebate.

The HemisFair Fountain uses an estimated 36,000 gallons of water each year which equates to an annual estimated cost of $130 to the Downtown Operations Department (General Fund). These savings, along with the one-time rebate and interest earnings, will be transferred to the Other Internal Service Fund to reimburse the Other Internal Service Fund for its loan for the capital project. Interest earned in fiscal year 2011 using the City's average rate for the year-ended September 30, 2011 of 0.4% was $1. Cumulative interest incurred through fiscal year 2011 was $11.

The following is a summary of changes in the loan for the year ended September 30, 2011:

| Balance October 1, 2010 | Additions | Reductions | Balance September 30, 2011 |
|---|---|---|---|
| $ 257 | $ - | $ 64 | $ 193 |

### Leases

The City leases property and equipment from others. Leased property having elements of ownership are recorded in the government-wide financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in the government-wide financial statements. Other leased property, not having elements of ownership, are classified as operating leases. Both capital and operating lease payments are recorded as expenditures when matured in the governmental fund financial statements. Total expenditures for operating leases for the fiscal year-ended September 30, 2011 were approximately $8,686.

The City has entered into various lease purchase agreements for the acquisition of printers and related components, fire fighting gear, self-contained breathing apparatus, a mainframe computer, various fire trucks and parts, electrocardiograms, an inventory theft detection system, hybrid vehicles, energy/water saving conservation improvements, in-car police video equipment, and various medical emergency services equipment. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council. The assets acquired through capital leases for governmental activities are as follows:

| | |
|---|---|
| Machinery and Equipment | $ 33,266 |
| Less: Accumulated Depreciation | (19,827) |
| Total | $ 13,439 |

## Note 6 Long-Term Debt (Continued)

### Primary Government (City) (Continued)

***Governmental Activity Long-Term Debt (Continued)***

As of September 30, 2011, the City had future minimum lease payments under capital and operating leases with a remaining term in excess of one year for governmental activities as follows:

| | Capital Leases | Operating Leases | Total |
|---|---|---|---|
| Fiscal Year Ending September 30: | | | |
| 2012 | $ 3,585 | $ 8,376 | $ 11,961 |
| 2013 | 2,710 | 6,953 | 9,663 |
| 2014 | 2,291 | 5,040 | 7,331 |
| 2015 | 2,011 | 3,628 | 5,639 |
| 2016 | 2,011 | 2,773 | 4,784 |
| 2017-2021 | 3,765 | 5,943 | 9,708 |
| 2022-2026 | 3,765 | 2,614 | 6,379 |
| 2027-After | 188 | 3,492 | 3,680 |
| Future Minimum Lease Payments | 20,326 | $ 38,819 | $ 59,145 |
| Less: Interest | (3,281) | | |
| Present Value of Future Minimum Lease Payments | 17,045 | | |
| Less: Current Portion | (2,851) | | |
| Capital Lease, Net of Current Portion | $ 14,194 | | |

***Business-Type Activity Long-Term Debt***

Business-Type Activity long-term debt applies to those City operations that relate to business and quasi-business activities where net income and capital maintenance are measured (Enterprise Funds). Long-term debt, which is to be repaid from enterprise fund resources, is reported in the respective proprietary fund. The long-term indebtedness of the City's Enterprise Funds is presented in the discussion that follows.

**Issuances**

On December 9, 2010, the City issued $42,220 in Airport System Revenue Improvement and Refunding Bonds, Series 2010A (2010A GARBs), $20,885 in Airport System Revenue Refunding Bonds, Taxable Series 2010B (2010B Taxable GARBs), and $37,335 in Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement and Refunding Bonds, Series 2010 (2010 PFC Bonds).

The 2010A GARBs were issued to fund various airport system capital improvements including PFC eligible airport-related projects, to refund a portion of the City's outstanding indebtedness originally issued to finance Airport System improvements, provide funds for capitalized interest, and to pay the costs of issuance. The City's net proceeds from the sale of the 2010A GARBs, which included a discount of $620, were used for the redemption of the GARB portion of the 2010 Tax Notes. As a result of converting the debt, the City will realize a total increase of $17,954 in debt service payments and total deferred charges of $68. Through this redemption, the City realized an economic loss (difference between the present values of the debt service payments on the old and new debt plus the City's cash contribution) of $1,646. The 2010A GARBs have maturities ranging from 2014 to 2040, with interest rates ranging from 2.0% to 5.3%.





## Note 6 Long-Term Debt (Continued)

### Primary Government (City) (Continued)

***Business-Type Activity Long-Term Debt (Continued)***

The 2010B Taxable GARBs were issued to refund certain GARB obligations and to pay the costs of issuance. The City's net proceeds from the sale of the 2010B Taxable GARBS were applied to fund an escrow account for the redemption, discharge, and defeasance of the refunded GARB obligations. As a result of converting the debt, the City will realize a total decrease of $19 in debt service payments and total deferred charges of $1,431. Through this defeasance, the City obtained an economic gain of $2,040. The 2010B Taxable GARBs have maturities ranging from 2014 to 2018, with interest rates ranging from 3.2% to 4.9%.

The 2010 PFC Bonds were issued to pay costs related to constructing, improving, renovating, enlarging and equipping the airport projects that qualify and have been approved by the Secretary of the United States Department of Transportation, including the payment of costs and expenses of projects included in the Airport Capital Program, to refund the remaining portion of the 2010 Tax Notes not being refunded by the 2010A GARBs, and to pay the costs of issuance. The City's net proceeds from the sale of the 2010 PFC Bonds, which included a discount of $816, were used for the redemption of the PFC portion of the 2010 Tax Notes. As a result of converting the debt, the City will realize a total increase of $19,139 in debt service payments and total deferred charges of $85. Through this redemption, the City realized an economic loss of $999. The 2010 PFC Bonds have maturities ranging from 2011 to 2040, with interest rates ranging from 2.0% to 5.4%.

**Pledges**

The Airport System includes the City of San Antonio International Airport and Stinson Municipal Airport and all land, buildings, structures, equipment, and facilities pertaining thereto. The Airport System's long-term debt consists of Airport System Revenue Improvement Bonds (GAR) and Passenger Facility Charge and Subordinate Lien Bonds (PFC). GAR Bonds are payable from and secured solely by an irrevocable first lien on and pledge of the gross revenues of the Airport System. Gross revenues of the Airport System include all revenues of any nature derived from contracts or use agreements with airlines and other users of the Airport System and its facilities. PFC Bonds are payable from and secured by an irrevocable first lien on and pledge of the PFC revenues and a first lien on and pledge of the subordinate net revenues.

The Parking System operation includes the ownership and operation of parking facilities, parking lots, parking meters, and retail/office space. Long-term debt is allocated to the Parking System on a pro rata basis from proceeds received from the issuance of taxable general obligation debt and is paid from revenues derived from the operation of the Parking System. The allocated debt is secured by an ad valorem tax pledge.

Solid Waste Management was established on a financially self-supporting basis in 1988. Revenues are received from garbage collection fees which are utilized to pay operating costs and indebtedness. Long-term debt is allocated to Solid Waste Management on a pro rata basis from proceeds received from the issuance of general obligation and certificates of obligation debt for Solid Waste Management related improvements and is paid from revenues derived from the operation of Solid Waste Management. The allocated debt is secured by an ad valorem tax pledge.

- 95 -    *Amounts are expressed in thousands*
- 96 -    *Amounts are expressed in thousands*

## Note 6 Long-Term Debt (Continued)

### Primary Government (City) (Continued)

***Business-Type Activity Long-Term Debt (Continued)***

**Capitalized Interest Costs** – Interest costs incurred on revenue bonds and other borrowing totaled $19,971 for the Airport System. For fiscal year 2011, the amount of $1,177 was capitalized for the Airport System and included as an addition to construction in progress. Interest costs for nonmajor enterprise funds were not capitalized as the construction in progress in these funds during fiscal year 2011 was funded by capital contributions from governmental funds.

### Prior Years' Defeased Debt

In prior years, the City advance refunded, prior to maturity, certain revenue bonds. The refunding bonds were utilized to purchase securities, which are direct obligations of the United States of America (the Purchased Securities). The Purchased Securities plus cash were deposited into irrevocable escrow accounts in amount scheduled to mature in principal amounts that, when added to interest earned on the Purchased Securities plus remaining balances in the escrow fund, are fully sufficient to make timely payment on the principal, premium if any, and interest scheduled to come due on the refunded obligations. The refunded obligations represent a legal defeasance and are no longer a liability of the City; therefore, they are not included in the City's financial statements. On September 30, 2011, $21,135 of previously defeased bonds was outstanding.

The following table is a summary of changes in debt obligations for the fiscal year ended September 30, 2011:

| Business-Type Long-Term Debt | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Time of Original Issuance | | | | | | |
| Issue | Original Amount | Final Principal Payment | Interest Rates (%) | Balance Outstanding October 1, 2010 | Additions During Year | Deletions During Year | Balance Outstanding September 30, 2011 |
| Airport System: | | | | | | | |
| Revenue Bonds: | | | | | | | |
| Series 2001 | $ 17,795 | 2016 | 5.375 | $ 17,795 | $ - | $ 17,795 | $ - |
| Series 2002 | 92,470 | 2027 | 5.000-5.750 | 83,040 | | 3,020 | 80,020 |
| Series 2002 PFC | 37,575 | 2027 | 4.000-5.750 | 30,360 | | 1,105 | 29,255 |
| Series 2003 Refunding | 50,230 | 2013 | 5.500-6.000 | 18,145 | | 8,400 | 9,745 |
| Series 2005 PFC | 38,085 | 2030 | 3.375-5.250 | 33,635 | | 1,000 | 32,635 |
| Series 2006 | 17,850 | 2014 | 5.000 | 11,685 | | 2,540 | 9,145 |
| Series 2007 | 82,400 | 2032 | 4.950-5.250 | 80,435 | | 2,065 | 78,370 |
| Series 2007 PFC | 74,860 | 2032 | 5.000-5.250 | 69,430 | | 1,780 | 67,650 |
| Series 2010A Refunding | 42,220 | 2040 | 2.000-5.250 | | 42,220 | | 42,220 |
| Series 2010B Refunding | 20,885 | 2018 | 3.197-4.861 | | 20,885 | | 20,885 |
| Series 2010 PFC Refunding | 37,335 | 2040 | 2.000-5.375 | | 37,335 | 960 | 36,375 |
| Tax Notes | | | | | | | |
| Series 2010 | 34,500 | 2011 | 0.600 | 34,500 | | 34,500 | - |
| Subtotal | $ 546,205 | | | $ 379,025 | $ 100,440 | $ 73,165 | $ 406,300 |
| Parking System: | | | | | | | |
| Taxable General Obligation Bonds: | | | | | | | |
| Series 2004 Refunding | $ 13,245 | 2016 | 2.800-4.650 | $ 6,755 | $ - | $ 800 | $ 5,955 |
| Series 2008 Refunding | 10,120 | 2024 | 5.820-6.570 | 10,120 | | | 10,120 |
| Subtotal | $ 23,365 | | | $ 16,875 | $ - | $ 800 | $ 16,075 |
| Solid Waste Management: | | | | | | | |
| Tax-Exempt General Obligation Bonds: | | | | | | | |
| Series 2006 Refunding | $ 1,000 | 2026 | 3.500-5.000 | $ 800 | $ - | $ 35 | $ 765 |
| Series 2010 Refunding | 545 | 2021 | 2.000-5.000 | $ 545 | | | 545 |
| Tax-Exempt Certificate of Obligations: | | | | | | | |
| Series 2006 | 400 | 2026 | 3.500-5.000 | 350 | | 15 | 335 |
| Series 2007 | 2,500 | 2028 | 4.000-5.000 | 1,785 | | 85 | 1,700 |
| Subtotal | $ 4,445 | | | $ 3,480 | $ - | $ 135 | $ 3,345 |
| Total | $ 574,015 | | | $ 399,380 | $ 100,440 | $ 74,100 | $ 425,720 |





## Note 6 Long-Term Debt (Continued)

### Primary Government (City) (Continued)

***Business-Type Activity Long-Term Debt (Continued)***

The annual requirements to amortize long-term debt for the City's Enterprise Funds related to general obligation bonds, certificates of obligation, and revenue bonds outstanding at September 30, 2011 are as follows:

| Principal and Interest Requirements | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Airport System | | | Parking System | | | Solid Waste Management | | |
| Year Ending September 30, | Principal | Interest | Total | Principal | Interest | Total | Principal | Interest | Total |
| 2012 | $ 17,640 | $ 20,634 | $ 38,274 | $ 1,175 | $ 862 | $ 2,037 | $ 140 | $ 157 | $ 297 |
| 2013 | 18,365 | 19,701 | 38,066 | 1,300 | 810 | 2,110 | 145 | 151 | 296 |
| 2014 | 18,730 | 18,718 | 37,448 | 1,480 | 750 | 2,230 | 150 | 145 | 295 |
| 2015 | 16,860 | 17,843 | 34,703 | 1,000 | 694 | 1,694 | 165 | 137 | 302 |
| 2016 | 17,645 | 17,069 | 34,714 | 1,000 | 648 | 1,648 | 165 | 129 | 294 |
| 2017-2021 | 86,650 | 72,127 | 158,777 | 5,755 | 2,482 | 8,237 | 970 | 500 | 1,470 |
| 2022-2026 | 99,630 | 49,510 | 149,140 | 4,365 | 576 | 4,941 | 1,240 | 250 | 1,490 |
| 2027-2031 | 80,380 | 24,573 | 104,953 | | | | 370 | 26 | 396 |
| 2032-2036 | 32,080 | 8,795 | 40,875 | | | | | | |
| 2037-2041 | 18,320 | 2,494 | 20,814 | | | | | | |
| Total | $ 406,300 | $ 251,464 | $ 657,764 | $ 16,075 | $ 6,822 | $ 22,897 | $ 3,345 | $ 1,495 | $ 4,840 |

### Leases

The City has entered into various lease purchase agreements for the acquisitions of refuse collection containers, refuse collections trucks, brush grappler trucks, brush tractor/trailer combinations, and energy/water saving conservation improvements. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council. While the garbage containers met the criteria for capital lease recognition these items were expensed in the initial period leased as their individual costs were below the City's capitalization threshold.

The assets acquired through capital leases for business-type activities are as follows:

| | |
|---|---|
| Machinery and Equipment | $ 15,251 |
| Less: Accumulated Depreciation | (5,734) |
| Total | $ 9,517 |

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*Amounts are expressed in thousands*

## Note 6 Long-Term Debt (Continued)

### Primary Government (City) (Continued)

***Business-Type Activity Long-Term Debt (Continued)***

As of September 30, 2011, the City had future minimum payments under capital and operating leases with a remaining term in excess of one year for business-type activities as follows:

| | Capital Leases | Operating Leases | Total |
|---|---|---|---|
| Fiscal Year Ending September 30, | | | |
| 2012 | $ 6,105 | $ 11 | $ 6,116 |
| 2013 | 4,948 | | 4,948 |
| 2014 | 3,699 | | 3,699 |
| 2015 | 3,651 | | 3,651 |
| 2016 | 2,252 | | 2,252 |
| 2017-2021 | 1,478 | | 1,478 |
| 2022-2026 | 1,382 | | 1,382 |
| 2027-After | 69 | | 69 |
| Future Minimum Lease Payments | 23,584 | $ 11 | $ 23,595 |
| Less: Interest | (2,444) | | |
| Present Value of Future Minimum Lease Payments | 21,140 | | |
| Less: Current Portion | (5,341) | | |
| Capital Leases, Net of Current Portion | $ 15,799 | | |

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## Note 6 Long-Term Debt (Continued)

### Primary Government (City) (Continued)

***Governmental and Business-Type Activities Long-Term Debt***

Long-term obligations and amounts due within one year:

| | Beginning Balance (Restated) | Increases | Decreases | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Governmental Activities: | | | | | |
| Bonds Payable: | | | | | |
| Tax-Exempt General Obligation Bonds | $ 721,350 | $ 59,485 | $ (72,780) | $ 708,055 | $ 62,610 |
| Taxable General Obligation Bonds | 191,550 | | | 191,550 | |
| Tax-Exempt Certificates of Obligation | 303,635 | 79,780 | (26,545) | 356,870 | 24,025 |
| Taxable Certificates of Obligation | 80 | | (80) | | |
| Tax Notes | 28,860 | 9,445 | (10,855) | 27,450 | 13,070 |
| Revenue Bonds | 557,387 | 27,925 | (10,197) | 575,115 | 10,744 |
| Gross Bonds Payable | 1,802,862 | 176,635 | (120,457) | 1,859,040 | 110,449 |
| Unamortized (Discount) / Premium | 64,026 | 15,182 | (5,704) | 73,504 | 9,878 |
| Deferred Amount on Refunding | (25,374) | | 2,206 | (23,168) | (2,291) |
| Net Bonds Payable | 1,841,514 | 191,817 | (123,955) | 1,909,376 | 118,036 |
| Commercial Paper [1] | 14,370 | | (14,370) | | |
| Other Payables: | | | | | |
| Capital Lease Liability | 5,796 | 14,716 | (3,467) | 17,045 | 2,851 |
| Accrued Leave Payable | 187,788 | 21,067 | (16,680) | 192,175 | 68,132 |
| Notes Payable | 50,880 | | (2,064) | 48,816 | 2,110 |
| Pollution Remediation Liability [4] | 1,825 | 435 | (715) | 1,545 | |
| Net OPEB Obligation [2] | 57,284 | 20,194 | | 77,478 | |
| Total Other Payables | 303,573 | 56,412 | (22,926) | 337,059 | 73,093 |
| Total Governmental Activities Long-Term Liabilities | $ 2,159,457 | $ 248,229 | $ (161,251) | $ 2,246,435 | $ 191,129 |
| Business-Type Activities: | | | | | |
| Bonds Payable: | | | | | |
| Tax-Exempt General Obligation Bonds | $ 1,345 | $ - | $ (35) | $ 1,310 | $ 40 |
| Taxable General Obligation Bonds | 16,875 | | (800) | 16,075 | 1,175 |
| Tax-Exempt Certificates of Obligation | 2,135 | | (100) | 2,035 | 100 |
| Tax Notes | 34,500 | | (34,500) | | |
| Revenue Bonds | 344,525 | 100,440 | (38,665) | 406,300 | 17,640 |
| Gross Bonds Payable | 399,380 | 100,440 | (74,100) | 425,720 | 18,955 |
| Unamortized (Discount) / Premium | 9,167 | (1,436) | 52 | 7,783 | 297 |
| Deferred Amount on Refunding | (3,523) | (1,583) | 1,089 | (4,017) | (1,049) |
| Net Bonds Payable | 405,024 | 97,421 | (72,959) | 429,486 | 18,203 |
| Other Payables: | | | | | |
| Capital Lease Liability | 25,615 | 3,212 | (7,687) | 21,140 | 5,341 |
| Accrued Leave Payable | 5,042 | 1,613 | (2,202) | 4,453 | 3,056 |
| Accrued Landfill Postclosure Costs [3] | 2,057 | | (12) | 2,045 | 100 |
| Pollution Remediation Liability [4] | 700 | 340 | | 1,040 | |
| Net OPEB Obligation [2] | 14,959 | 5,164 | | 20,123 | |
| Total Other Payables | 48,373 | 10,329 | (9,901) | 48,801 | 8,497 |
| Total Business-Type Activities Long-Term Liabilities | $ 453,397 | $ 107,750 | $ (82,860) | $ 478,287 | $ 26,700 |

NOTE: Interest accreted decreased by $4,148 due to the bond payment's maturity schedule, and increased by $7,310 for interest on the remaining maturities outstanding, resulting in an ending balance of $23,239, which increases governmental activities' revenue bonds payable. This increase is reflected in the combined Statement of Net Assets but is not reflected in this table.

[1] See Note 7, Commercial Paper Programs for a description of the commercial paper program.

[2] See Note 9, Postemployment Retirement Benefits for a description of the postemployment program.

[3] See Note 11, Commitments and Contingencies for a description of the Landfill Postclosure Care Costs.

[4] See Note 12, Pollution Remediation Obligation for a description of the Pollution Remediation Liability.

*Amounts are expressed in thousands*

## Note 6 Long-Term Debt (Continued)

**Primary Government (City) (Continued)**

***Governmental and Business-Type Activities Long-Term Debt (Continued)***

### Accrued Leave

The following is a summary of accrued leave for the year-ended September 30, 2011:

| Governmental Activities | | | | | |
|---|---|---|---|---|---|
| Fund Type | Short-Term Available | Short-Term Remaining | Total Short-Term | Long-Term | Total |
| Governmental Funds | $ 8,105 | $ 58,036 | $ 66,141 | $ 123,320 | $ 189,461 |
| Internal Service Funds | | 1,991 | 1,991 | 723 | 2,714 |
| Total Governmental Activities | $ 8,105 | $ 60,027 | $ 68,132 | $ 124,043 | $ 192,175 |

The General Fund accounts for approximately 70.0% of the City's employees; therefore, most of the accrued leave liability has been liquidated from the General Fund. When a City employee terminates, the fund that their salary was charged to throughout the year will be the same fund that will pay their accrued leave.

| Business-Type Activities | | | |
|---|---|---|---|
| Fund | Short-Term | Long-Term | Total |
| Airport System | $ 1,312 | $ 814 | $ 2,126 |
| Nonmajor Enterprise Funds | 1,744 | 583 | 2,327 |
| Total Business-Type Activities | $ 3,056 | $ 1,397 | $ 4,453 |

### Conduit Debt Obligations

The City facilitates the issuance of bonds to enable IDA, EFC and the EZDC, component units of the City, to provide financial assistance to various entities for the acquisition, construction, or renovation of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired property transfers to the entity served by the bond issuance. As of September 30, 2011, the aggregate principal amounts payable are as follows: eight series of EFC Revenue Bonds in the amount of $98,559; three series of IDA Revenue Bonds in the amount of $12,800; and two series of EZDC Revenue Bonds in the amount of $21,900.

The City also facilitates the issuance of tax-exempt revenue bonds to enable the HTFC to provide financing of residential developments for persons of low and moderate income. The bonds are secured by the property financed and are payable solely from, and secured by, a pledge of rental receipts. As of September 30, 2011, 29 series of tax-exempt revenue bonds were outstanding, with an aggregate principal amount payable of $225,225 and an aggregate principal amount issued of $228,459.





## Note 6 Long-Term Debt (Continued)

**Primary Government (City) (Continued)**

***Governmental and Business-Type Activities Long-Term Debt (Continued)***

To provide for the acquisition and construction of certain airport facilities, the City has issued Special Airport Facilities Revenue Refunding Bonds, Series 1995. The bond is payable pursuant to lease agreements, which stipulate that various commercial entities are obligated to pay amounts to a third-party trustee in lieu of lease payments to the City. These payments are sufficient to pay for the principal, premium, interest, and purchase price of the bond when they become due. The aggregate principal amount outstanding for the Special Airport Facilities Revenue Refunding Bonds, Series 1995 at September 30, 2011 was $2,800.

The City entered into an agreement with the Port to fund renovations at the Port, in the amount of $20,000. The Department of Housing and Urban Development (HUD) provides the funding for the loan through a Section 108 Loan. The loan is secured by pledged Port revenues and property and is payable solely from payments received by the Port. As of September 30, 2011, the aggregate amount of the outstanding loan totaled $10,825.

The City has authorized HTFC to issue single family and multi-family mortgage revenue bonds used to provide affordable housing to the citizens of San Antonio. The bonds are payable solely out of the revenues and receipts derived from any residential development or home mortgage financed by the bonds. As of September 30, 2011, the amount of conduit debt was $47,132.

The City also facilitates the issuance of tax-exempt revenue bonds for SAEAPFC to enter into long-term prepaid purchases of natural gas. SAEAPFC in turn, sells contracted volumes of the prepaid gas to CPS Energy on a monthly basis at a discounted rate, which is passed on to CPS Energy's gas customers through reduced utility costs. The bonds are secured by the gas supplier and are payable primarily from the contracted volume sales and associated gas swap payments. As of September 30, 2011, SAEAPFC has one series of tax-exempt revenue bonds with an aggregate principal amount outstanding of $565,915.

Neither the City, the State of Texas, nor any political subdivision of the State of Texas, is obligated in any manner for repayment of the aforementioned bonds, loans or leases. Accordingly, the bonds, loans, and leases are not reported as liabilities in the accompanying financial statements.

**CPS Energy**

To support its long-term capital financing needs, CPS Energy uses several types of debt instruments. As of January 31, 2011 these included fixed-rate and variable-rate bonds, as well as commercial paper. Relative to the bond instruments, provisions may be included that allow for refunding after specified time periods during the bond term.

Subject to applicable timing restrictions that may prevent early payoff, CPS Energy also has the option to defease or extinguish debt. A defeasance occurs when funds are placed in an irrevocable trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt, which fully discharges the bond issuer's obligation. At the time of an extinguishment, since the issuer no longer has the legal obligation, the defeased debt is removed from the balance sheet, the related unamortized costs are expensed, and the gain or loss is immediately recognized.

- 101 - Amounts are expressed in thousands
- 102 - Amounts are expressed in thousands

## Note 6 Long-Term Debt (Continued)

### CPS Energy (Continued)

Current refundings involve issuing new debt (refunding bonds) to redeem existing debt (refunded bonds) that can be called within 90 days of issuing the refunding bonds. Advance refunding of bonds involves issuing new debt to redeem existing debt that cannot be called within 90 days of issuing the refunding bonds. In these circumstances, the refunding bond proceeds are irrevocably escrowed with a third party. These proceeds, and income thereon, are used to pay the debt service on the refunded bonds until the refunded bonds can be called. Refunding bonds are generally issued to achieve debt service savings.

For current and advance refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a deduction or addition to the new debt liability. The deferred amount is amortized as a component of interest expense over the shorter remaining life of the refunding or the refunded debt.

As of January 31, 2011, the bond ordinances for New Series Bonds issued on and after February 1, 1994 contained, among others, the following provisions:

Revenue deposited in CPS Energy's General Account shall be pledged and appropriated to be used in the following priority for:

- Maintenance and operating expenses of CPS Energy;
- Payments of the New Series Bonds;
- Payment of prior lien bonds, including junior lien obligations;
- Payment of the notes and the credit agreement (as defined in the ordinance authorizing commercial paper);
- Payment of any inferior lien obligations issued, which are inferior in lien to the New Series Bonds, the prior lien bonds and the notes and credit agreement;
- An annual amount equal to 6.0% of the gross revenue of CPS Energy to be deposited in the Repair and Replacement Account;
- Cash payments and benefits to the General Fund of the City not to exceed 14.0% of the gross revenues of CPS Energy; and
- Any remaining net revenues of CPS Energy in the General Account to the Repair and Replacement Account, which is used to partially fund construction costs.

The maximum amount in cash to be transferred or credited to the City's General Fund from the net revenues of CPS Energy during any fiscal year shall not exceed 14.0% of the gross revenues of CPS Energy, less the value of gas and electric services of CPS Energy used by the City for municipal purposes and the amounts expended during the fiscal year for additions to the street lighting system and other authorized exclusions. The percentage of gross revenues of CPS Energy to be paid over, or credited to, the City's General Fund each fiscal year shall be determined (within the 14.0% limitation) by the governing body of the City.

The net revenues of CPS Energy are pledged to the payment of principal of and interest on the New Series Bonds, which are classified as senior lien obligations. All New Series Bonds and the interest thereon shall have a first lien upon the net revenues of CPS Energy.





## Note 6 Long-Term Debt (Continued)

### CPS Energy (Continued)

The junior lien obligations are composed of two categories of debt: fixed interest rate and variable interest rate. The junior lien fixed interest rate debt is similar to the senior lien New Series Bonds, as they have fixed and set interest rates for the life of the bonds. The junior lien, Variable-Rate Demand Obligation (VRDO) bonds are debt instruments of the City. The junior lien obligations are payable solely from, and equally and ratably secured by, a junior lien on and pledge of the net revenues of CPS Energy, subject and subordinate to liens and pledges securing the outstanding senior lien obligations and any additional senior lien obligations hereafter issued, and superior to the pledge and lien securing the currently outstanding commercial paper obligations, all as fully set forth in the ordinances authorizing the issuance of the junior lien obligations as noted below:

The City agrees that it will at all times maintain rates and charges for the sale of electric energy, gas, or other services furnished, provided, and supplied by CPS Energy to the City and all other consumers, which shall be reasonable and nondiscriminatory and which will produce income and revenues sufficient to pay:

- All operation and maintenance expenses, depreciation, replacement and betterment expenses, and other costs as may be required by Chapter 1502 of the Texas Government Code, as amended;
- The interest on, and principal of, all parity bonds, as defined in the New Series Bond ordinances, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the parity bonds;
- The interest on, and principal of, the prior lien bonds, including the junior lien obligations and any additional junior lien obligations hereafter issued (all as defined in the New Series Bond ordinances), as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the junior lien obligations and any additional junior lien obligations;
- To the extent the same are reasonably anticipated to be paid with available revenues, the interest on and principal of all notes, and the credit agreement (as defined in the ordinance authorizing the commercial paper); and
- Any legal debt or obligation of CPS Energy as and when the same shall become due.

As of January 31, 2011, the Tax-Exempt Commercial Paper (TECP) Ordinance contains, among others, the following provisions:

To secure the payment of TECP principal and interest, a pledge is made of:

- Proceeds from:
  - The sale of bonds and additional notes issued for such purposes, and
  - The sale of TECP;
- Loans under and pursuant to the revolving credit agreement; and
- The net revenues of CPS Energy, after payment on New Series Bond requirements and prior lien bond obligations.

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## Note 6 Long-Term Debt (Continued)

### CPS Energy (Continued)

#### *Revenue Bonds*

The American Recovery and Reinvestment Act of 2009 provided authority for the issuance of Build America Bonds (BABs), which are issuable in calendar years 2009 and 2010 as taxable bonds. The BABs permit the issuer to receive subsidy payments equal to 35.0% of the bond's interest costs directly from the U.S. Department of the Treasury. On March 23, 2010, CPS Energy issued $380,000 of taxable New Series 2010A Revenue Direct Subsidy BABs. Including the BABs subsidy, the true interest cost for this issue, which has two term bonds maturing in 2041, was 3.8%. The subsidy received through January 31, 2011 for the 2010A BABs was $2,800. Total bond proceeds are being used to fund generation, electric distribution, and other qualified construction projects.

On November 4, 2010, CPS Energy issued $300,000 of Junior Lien Taxable Series 2010A Revenue Direct Subsidy BABs (2010A Junior Lien BABs) and $200,000 of Junior Lien Taxable Series 2010B Revenue Refunding Direct Subsidy BABs (2010B Junior Lien BABs). Including the BABs subsidy, the true interest cost for the 2010A Junior Lien BABs, which have a term bond maturing in 2041, was 3.8%. Total bond proceeds are being used to fund general system improvements. Including the BABs subsidy, the true interest cost for the 2010B Junior Lien BABs, which have a term bond maturing in 2037, was 4.1%. On November 5, 2010, proceeds from the 2010B Junior Lien BABs issuance were used to refund $200,000 of outstanding TECP obligations.

**CPS Energy Revenue Bond Summary**

| Issuance | Maturities | Weighted-Average Yield on Oustanding Bonds at January 31, 2011 | January 31, 2011 |
|---|---|---|---|
| Tax Exempt new series bonds 1994A-2009D | 2011-2034 | 4.8% | $ 3,183,205 |
| Taxable new series bonds[1] 2009C and 2010A | 2033-2041 | 3.8% | 755,000 |
| Total New Series Bonds | | 4.4% | 3,938,205 |
| Taxable series bonds[1] 2010A-2010B | 2037-2041 | 3.8% | 500,000 |
| Tax Exempt Variable-Rate Series Bonds 2003-2004 | 2024-2033 | | 397,615 |
| Total series bonds | | | 897,615 |
| Total Long-Term Revenue Bonds Outstanding | | | 4,835,820 |
| Less: Current Maturities of Bonds | | | 174,690 |
| Total Revenue Bonds Outstanding, Net of Current Maturities | | | $ 4,661,130 |

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## Note 6 Long-Term Debt (Continued)

### CPS Energy (Continued)

#### *Revenue Bonds (Continued)*

As of January 31, 2011, principal and interest amounts due for all revenue bonds outstanding for each of the next five years and thereafter to maturity are:

**CPS Energy**
**Principal and Interest Requirements**

| Year | Principal | Interest | Direct Subsidy | Total |
|---|---|---|---|---|
| 2012 | $ 174,690 | $ 236,967 | $ (26,132) | $ 385,525 |
| 2013 | 171,175 | 228,085 | (26,132) | 373,128 |
| 2014 | 183,610 | 219,045 | (26,132) | 376,523 |
| 2015 | 157,035 | 209,328 | (26,132) | 340,231 |
| 2016 | 157,735 | 201,236 | (26,132) | 332,839 |
| 2017-2021 | 894,730 | 881,725 | (130,659) | 1,645,796 |
| 2022-2026 | 1,042,395 | 636,090 | (130,659) | 1,547,826 |
| 2027-2031 | 558,750 | 468,511 | (130,659) | 896,602 |
| 2032-2036 | 705,635 | 353,835 | (119,399) | 940,071 |
| 2037-2041 | 790,065 | 136,831 | (47,891) | 879,005 |
| Totals | $ 4,835,820 | $ 3,571,653 | $ (689,927) | $ 7,717,546 |

The above table includes senior lien and junior lien bonds. Interest on the senior lien bonds and the junior lien fixed-rate bonds are based upon the stated coupon rates of each series of bonds outstanding. The direct subsidy associated with the BABs has been presented in a separate column. CPS Energy has taken the position that the BABs direct subsidy should be deducted when calculating total debt service.

The 2003 Junior Lien Bonds were issued as variable-rate bonds and as such have interest rates that reset on a weekly basis. On December 1, 2010, the 2004 Junior Lien Bonds were remarketed for a two-year term at an interest rate of 1.2%. This interest rate will remain in effect until the next interest reset date of December 1, 2012. The total interest amounts for all revenue bonds outstanding included a blended interest rate for the 2003 and 2004 Junior Lien Bonds of 0.6% at January 31, 2011.

The interest rate term mode for the junior lien variable-rate revenue bonds, or any portion thereof, may be converted to a different mode, or to an auction rate or term rate with an interest rate period of different duration, at the direction of City Council. Following such a conversion, the junior lien bonds, or portion thereof, will bear interest at the corresponding daily, weekly, auction, commercial paper, term, or fixed rate.

On October 18, 2010, CPS Energy received notice from the Internal Revenue Service (IRS) that it would be conducting an audit of the 2009C BABs. The IRS routinely examines municipal debt issuances to confirm compliance with applicable federal tax law. CPS Energy fully complied with the requests made by the IRS in conjunction with this audit, noting no issues.

- 105 - Amounts are expressed in thousands
- 106 - Amounts are expressed in thousands

## Note 6 Long-Term Debt (Continued)

### CPS Energy (Continued)

### *Revenue Bonds (Continued)*

**Long-Term Debt Activity**

| Issue | Original Amount | Final Principal Payment | Interest Rates (%) | Balance Outstanding February 1, 2010 | Additions During Year | Decreases During Year | Balance Outstanding January 31, 2011 |
|---|---|---|---|---|---|---|---|
| Revenue and Refunding Bonds: | | | | | | | |
| 1994A Tax Exempt | $ 684,700 | 2012 | 5.008 | $ 68,965 | $ - | $ 1,500 | $ 67,465 |
| 2001 Tax Exempt | 115,280 | 2011 | 3.843 | 12,425 | | 12,425 | |
| 2002 Tax Exempt | 436,090 | 2017 | 4.055 | 361,580 | | 35,520 | 326,060 |
| 2002 Tax Exempt | 140,615 | 2015 | 4.751 | 10,525 | | | 10,525 |
| 2003 Tax Exempt Junior Lien | 250,000 | 2033 | Variable | 250,000 | | | 250,000 |
| 2003A Tax Exempt | 93,935 | 2014 | 3.675 | 81,240 | | 7,030 | 74,210 |
| 2003 Tax Exempt | 350,490 | 2013 | 3.081 | 118,950 | | 68,625 | 50,325 |
| 2004 Tax Exempt Junion Lien | 160,000 | 2027 | Variable | 152,000 | | 4,385 | 147,615 |
| 2005 Tax Exempt | 294,625 | 2020 | 4.381 | 294,625 | | | 294,625 |
| 2005 Tax Exempt | 240,675 | 2025 | 4.683 | 240,675 | | 875 | 239,800 |
| 2005A Tax Exempt | 197,335 | 2025 | 4.571 | 197,335 | | 2,120 | 195,215 |
| 2006A Tax Exempt | 384,185 | 2025 | 4.555 | 358,225 | | 13,940 | 344,285 |
| 2006B Tax Exempt | 128,845 | 2021 | 3.974 | 104,130 | | 8,880 | 95,250 |
| 2007 Tax Exempt | 46,195 | 2018 | 4.159 | 46,195 | | | 46,195 |
| 2007 Tax Exempt | 403,215 | 2032 | 4.575 | 403,215 | | 1,085 | 402,130 |
| 2008 Tax Exempt | 287,935 | 2032 | 4.582 | 287,935 | | | 287,935 |
| 2008A Tax Exempt | 158,030 | 2016 | 3.736 | 130,530 | | 23,910 | 106,620 |
| 2009A Tax Exempt | 442,005 | 2034 | 4.863 | 442,005 | | 2,505 | 439,500 |
| 2009C Taxable | 375,000 | 2039 | 3.944 | 375,000 | | | 375,000 |
| 2009D Tax Exempt | 207,940 | 2021 | 3.720 | 207,940 | | 4,875 | 203,065 |
| 2010A Taxable | 380,000 | 2041 | 3.834 | | 380,000 | | 380,000 |
| 2010A Taxable Junior Lien | 300,000 | 2041 | 3.806 | | 300,000 | | 300,000 |
| 2010B Taxable Junior Lien | 200,000 | 2037 | 4.101 | | 200,000 | | 200,000 |
| Bonds Outstanding | | | | 4,143,495 | 880,000 | 187,675 | 4,835,820 |
| Bond Current Maturities | | | | (162,235) | (12,841) | (386) | (174,690) |
| Bond (Discount)/Premium | | | | 137,332 | 6 | 20,076 | 117,262 |
| Bond Reacquisition Costs | | | | (61,308) | (2,870) | (18,334) | (45,844) |
| Revenue Bonds, Net | | | | 4,057,284 | 864,295 | 189,031 | 4,732,548 |
| Tax Exempt Commercial Paper (TECP) | | | Variable | 350,000 | | 220,000 | 130,000 |
| Total Long-Term Debt, Net | | | | $ 4,407,284 | $ 864,295 | $ 409,031 | $ 4,862,548 |

### *Flexible Rate Revolving Note*

In fiscal year 2010, the San Antonio City Council adopted an ordinance authorizing the establishment of the Flexible Rate Revolving Note (FRRN) Private Placement Program, under which CPS Energy may issue taxable or tax-exempt notes, bearing interest at fixed or variable rates in an aggregate principal amount at any one time outstanding not to exceed $100,000. This ordinance provides for funding to assist in the interim financing of eligible projects that include the acquisition or construction of improvements, additions, or extensions to CPS Energy, including capital assets and facilities incident and related to the operation, maintenance, and administration of fuel acquisition and development and facilities for the transportation thereof: capital improvements to CPS Energy; and refinancing or refunding of any outstanding obligations secured by the net revenues of CPS Energy; or with respect to the payment of any obligation of CPS Energy pursuant to any credit. Under the program, maturity dates cannot extend beyond November 1, 2028.



CITY OF SAN ANTONIO, TEXAS

## Note 6 Long-Term Debt (Continued)

### CPS Energy (Continued)

### *Flexible Rate Revolving Note (Continued)*

On May 10, 2010, CPS Energy issued a $25,200 taxable Flexible Rate Revolving Note, Series A, under its taxable Note Purchase Agreement with JPMorgan Chase Bank, N.A., which currently serves as the note purchaser under the program. On May 11, 2010, the proceeds from the note, along with cash, were used to defease $25,700 in principal amounts of the allocable portion of the debt associated with the common facilities of STP Units 1 and 2 that were assigned to NINA in March 2010 when CPS Energy reduced its ownership share of STP Units 3 and 4 to 7.6%. The outstanding FRRN balance at January 31, 2011 was $25,200.

The FRRN has been classified as short-term in accordance with the financing terms under the taxable Note Purchase Agreement and is reported on the balance sheet under current maturities of debt. At January 31, 2011, only the taxable facility was being utilized through the taxable Note Purchase Agreement. The taxable notes are being secured by a pledge of investment collateral and a limited, subordinate and inferior lien on and pledge of net revenues in the amount of $100. The current taxable Note Purchase Agreement will expire on December 31, 2012, but through an annual renewal process may be extended through November 1, 2028.

### *Accrued Leave*

As of January 31, 2011 the accruals for employee vested benefits were $16,200. These accruals are reported under Accounts Payable and Other Current Liabilities.

### San Antonio Water System (SAWS)

On April 30, 1992, the City Council approved the consolidation of City owned utilities related to water including the water, wastewater, and water reuse systems as the San Antonio Water System.

**The System** – SAWS has been defined in City Ordinance No. 75686 as all properties, facilities and plants currently owned, operated, and maintained by the City and/or the board of trustees, for the supply, treatment, transmission and distribution of treated potable water, chilled water and steam, for the collection and treatment of wastewater and for water reuse, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, and any other projects and programs of SAWS provided, however, that the City retains the right to incorporate a stormwater system as provided by the Texas Local Government Code.

**Funds Flow** – City Ordinance No. 75686 requires that gross revenues of SAWS be applied in sequence to (1) payment of current maintenance and operating expenses including a two-month reserve amount based upon the budgeted amount of maintenance and operating expenses for the current fiscal year; (2) Debt Service Fund requirements of Senior Lien Obligations; (3) Reserve Fund requirements of Senior Lien Obligations; (4) Interest and Sinking Fund and Reserve Fund requirements of Junior Lien Obligations; (5) Interest and Sinking Fund and Reserve Fund requirements of Subordinate Lien Obligations; (6) payment of amounts required on Inferior Lien Obligations; and (7) transfers to the City's General Fund and to the Renewal and Replacement Fund.

*Amounts are expressed in thousands*

## Note 6 Long-Term Debt (Continued)

### San Antonio Water System (SAWS) (Continued)

**Reuse Contract** – SAWS has a contract with CPS Energy, the City-owned electricity and gas utility, for the provision of reuse water. According to City Ordinance No. 75686, the revenues derived from the contract have been restricted in use to only reuse activities and are excluded from gross revenue for purposes of calculating any transfers to the City's General Fund.

**No Free Service** – City Ordinance No. 75686 also provides for no free services except for municipal firefighting purposes.

***Revenue Bonds***

On March 4, 2010, SAWS issued $59,145 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2010. The proceeds from the sale of the bonds were used to (i) refund $38,130 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 1999 (the 1999 Junior Lien Bonds), (ii) refund $25,070 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 1999-A (the 1999-A Junior Lien Bonds), and (iii) pay the cost of issuance. The refunding of the 1999 Junior Lien Bonds and the 1999-A Junior Lien Bonds resulted in a reduction of SAWS' total debt service payments over the next ten years of approximately $4,900 and SAWS obtained an economic gain of approximately $4,300. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on the pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On November 23, 2010, SAWS issued $110,000 City of San Antonio, Texas Water System Revenue Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds) (the Series 2010B Bonds). The proceeds from the sale of the bonds were used to (i) finance capital improvement projects, and (ii) pay the cost of issuance. The Series 2010B Bonds qualify for and were designated as Build America Bonds under and pursuant to the authority provided for in the American Recovery and Reinvestment Act of 2009 (the Stimulus Act). In connection with the issuance of the Series 2010B Bonds, and as permitted in the Stimulus Act, SAWS elected an option (which election is irrevocable pursuant to the provisions of the Stimulus Act) permitting it to receive directly from the United States Department of the Treasury (the Treasury) a subsidy payment equal to 35.0% of the taxable interest it pays on the Series 2010B Bonds (the Tax Credit). SAWS has provided for the Tax Credit to be delivered from the Treasury directly to the paying agent/registrar of the Series 2010B Bonds solely for the use to reduce the amount of the regularly scheduled debt service payment on the Series 2010B Bonds that SAWS is required to make. The Tax Credit is a general revenue of SAWS and is not directly pledged to the payment of the Series 2010B Bonds, however, SAWS anticipates that the entirety of the Tax Credit, as a result of the direct deposit from the Treasury to the paying agent/registrar will be available solely to off-set the scheduled debt service payment requirements attributable to the Series 2010B Bonds. The bonds are collateralized, together with other currently outstanding Senior Lien Obligations, solely by a lien on a pledge of net revenues.

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## Note 6 Long-Term Debt (Continued)

### San Antonio Water System (SAWS) (Continued)

***Revenue Bonds (Continued)***

On December 14, 2010, SAWS issued $17,930 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2010A through the Texas Water Development Board. The Bonds were sold under the State Revolving Fund (SRF) Program. The proceeds from the sale of the bonds were used to (i) finance capital improvement projects which qualify under the Texas Water Development Board program, (ii) refund $3,400 in outstanding commercial paper notes, and (iii) pay the cost of issuance. The bonds are secured together with other currently outstanding Junior Lien Obligations solely by a lien on a pledge of new revenues and are subordinate to outstanding Senior Lien Obligations.

Senior Lien Water System Revenue Bonds, comprised of Series 2001, Series 2002, Series 2002-A, Series 2004, Series 2005, Series 2007, Series 2009, Series 2009A, Series 2009B, and Series 2010B outstanding in the amount of $1,483,980 at December 31, 2010, are collateralized by a senior lien and pledge of the gross revenues of SAWS after deducting and paying the current expenses of operation and maintenance of SAWS and maintaining a two-month operating reserve for such expenses. Interest rates range from 1.1% to 6.3%.

Junior Lien Water System Revenue Bonds, comprised of Series 2001, Series 2001-A, Series 2002, Series 2002-A, Series 2003, Series 2004, Series 2004-A, Series 2007, Series 2007A, Series 2008, Series 2008A, Series 2009, Series 2009A, Series 2010, and Series 2010A outstanding in the amount of $361,005 at December 31, 2010, are collateralized by a junior lien and pledge of the gross revenues of SAWS after deducting the current expenses of operation and maintenance of SAWS, maintaining a two-month operating reserve for such expenses, and paying debt service on senior lien debt. Interest rates range from 0.0% to 5.0%.

The following summarizes transactions of the Revenue Bonds for the year-ended December 31, 2010:

| | Beginning Balance Jan. 1, 2010 | Additions | Reductions | Ending Balance Dec. 31, 2010 | Due Within One Year |
|---|---|---|---|---|---|
| Bonds Payable | $ 1,759,700 | $ 187,075 | $ 101,790 | $ 1,844,985 | $ 39,730 |
| Deferred Amounts for Issuance (Discounts)/Premiums | (22,190) | 4,464 | 915 | (18,641) | |
| Total Bonds payable, Net | $ 1,737,510 | $ 191,539 | $ 102,705 | $ 1,826,344 | $ 39,730 |

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- 109 - Amounts are expressed in thousands
- 110 - Amounts are expressed in thousands

## Note 6 Long-Term Debt (Continued)

### San Antonio Water System (SAWS) (Continued)

***Revenue Bonds (Continued)***

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

| Annual Debt Service Requirements<br>Revenue and Refunding Bonds | | | | | | |
|---|---|---|---|---|---|---|
| | Senior Lien | | | | Junior Lien | |
| Year Ended December 31, | Principal | Interest Expense | Direct Subsidy[1] | Net Interest | Principal | Interest Expense |
| 2011 | $ 22,360 | $ 73,657 | $ (3,971) | $ 69,686 | $ 17,370 | $ 10,201 |
| 2012 | 25,000 | 72,775 | (4,014) | 68,761 | 17,735 | 10,295 |
| 2013 | 26,055 | 71,628 | (4,006) | 67,622 | 18,265 | 9,833 |
| 2014 | 27,300 | 70,354 | (3,997) | 66,357 | 18,800 | 9,310 |
| 2015 | 28,600 | 69,016 | (3,969) | 65,047 | 19,375 | 9,081 |
| 2016-2020 | 180,505 | 320,843 | (18,960) | 301,883 | 110,780 | 36,668 |
| 2021-2025 | 281,220 | 263,119 | (16,934) | 246,185 | 69,410 | 21,816 |
| 2026-2030 | 294,660 | 185,056 | (14,006) | 171,050 | 38,735 | 13,359 |
| 2031-2035 | 293,660 | 119,003 | (9,375) | 109,628 | 26,885 | 7,710 |
| 2036-2040 | 304,620 | 36,635 | (2,274) | 34,361 | 23,650 | 1,874 |
| Total | $ 1,483,980 | $ 1,282,086 | $ (81,506) | $ 1,200,580 | $ 361,005 | $ 130,147 |

[1] Federal interest rate subsidy on Build America Bonds is utilized to pay interest on those bonds but is reported as nonoperating revenue.

**Debt Covenants** – SAWS is required to comply with various provisions included in the ordinances which authorized the bond issuances. SAWS is in compliance with all significant provisions of the ordinances.

**Defeasance of Debt** – In current and prior years, SAWS defeased certain revenue bonds by placing revenues or proceeds of new bond issues in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in SAWS' financial statements. At December 31, 2010, $38,710 of bonds outstanding were considered defeased.

**Accrued Vacation Payable** – SAWS records an accrual for vacation payable for all full-time employees and pays unused vacation hours available at the end of employment with the final paycheck. These accruals are reported under Other Payables.

| | Liability Beginning Balance | Current-Year Accruals | Payments | Liability Ending Balance | Estimated Due Within One Year |
|---|---|---|---|---|---|
| Year Ended December 31, 2010 | $ 7,202 | $ 6,002 | $ (6,591) | $ 6,613 | $ 6,591 |





## Note 7 Commercial Paper Programs

### Primary Government (City)

In May 2007, the City adopted an ordinance authorizing the issuance of up to $50,000 in Sales Tax Revenue Commercial Paper Notes, Series A. Proceeds from the sale of the Commercial Paper Notes are to provide funds to acquire property for a conservation easement or open-space preservation program with the intent of protecting water in the Edwards Aquifer as contemplated by the "Edwards Aquifer Protection Venue Project" (authorized at an election held on May 7, 2005). As of September 30, 2011, the City has no outstanding Commercial Paper Notes.

The Commercial Paper Notes were supported by an irrevocable direct-pay Letter of Credit dated as of May 23, 2007 issued by Bank of America, N.A. The role of the Letter of Credit provider was to assure the timely payment of principal and interest on the Commercial Paper Notes at maturity. The Letter of Credit provider issued its irrevocable, direct-pay Letter of Credit for the account of the City and for the benefit of the issuing and paying agent on behalf of the note holders. The dealer for the Commercial Paper Notes was Ramirez & Co., Inc. as of July 1, 2008 and the issuing and paying agent was Wells Fargo, N.A. The Letter of Credit in an amount equal to $53,699 enabled the City to pay at maturity the principal amount of the Commercial Paper Notes plus up to 270 days interest, at an assumed interest rate of 10.0% per year; provided however that none of the Commercial Paper Notes matured later than August 1, 2017. Under the terms of the Letter of Credit, the City was able to borrow up to an aggregate amount not to exceed $50,000 for the purpose of paying principal due under the Commercial Paper Notes. The Letter of Credit agreement was terminated on August 12, 2011. As of September 30, 2011, there were no borrowings under the Letter of Credit.

| Issue | Balance Outstanding October 1, 2010 | Additions | Deletions | Balance Outstanding September 30, 2011 |
|---|---|---|---|---|
| Series A (2007) | $ 14,370 | $ - | $ (14,370) | $ - |

### CPS Energy

In 1988, the City Council adopted an ordinance authorizing the issuance of up to $300,000 in TECP. This ordinance, as amended in June 1997, provides for funding to assist in the financing of eligible projects in an aggregate amount not to exceed $450,000. Eligible projects include fuel acquisition, capital improvements to the utility systems, and refinancing or refunding any outstanding obligations which are secured by and payable from a lien and/or a pledge of net revenues of CPS Energy. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing New Series Bonds and junior lien obligations. The program's scheduled maximum maturities cannot extend beyond November 1, 2028.

On April 1, 2010, the unused TECP funds issued in January 2010 were used to pay down TECP principal in the amount of $20,000. On November 5, 2010, proceeds from the 2010B Junior Lien BABs issuance were used to refund $200,000 of outstanding TECP obligations. As of January 31, 2011, the current outstanding TECP balance was $130,000.

*Amounts are expressed in thousands*

## Note 7 Commercial Paper Programs (Continued)

### CPS Energy (Continued)

The TECP has been classified as long-term in accordance with the refinancing terms under a revolving credit agreement with a consortium of banks, which supports the commercial paper. Under the terms of the amended revolving credit agreement, effective September 6, 2007, CPS Energy may borrow up to an aggregate amount not to exceed $450,000 for the purpose of paying principal due under the TECP program. On September 6, 2007, the revolving credit agreement was extended until November 1, 2012. At January 31, 2011, there was no amount outstanding under the revolving credit agreement. Further, there have been no borrowings under the agreement since inception.

| | |
|---|---|
| TECP Outstanding | $ 130,000 |
| Weighted Average Interest Rate of Outstanding TECP | 0.3% |
| Average Life of Outstanding TECP (Approximate Number of Days) | 124 |

### San Antonio Water System (SAWS)

SAWS maintains a commercial paper program that is used to provide funds for the interim financing of a portion of its capital improvements. The City Council of the City of San Antonio has authorized the commercial paper program in an amount of $500,000. Notes payable under the program cannot exceed maturities of 270 days.

The City has covenanted in the ordinance authorizing the commercial paper program (the Note Ordinance) to maintain at all times credit facilities with banks or other financial institutions which would provide available borrowing capacity sufficient to pay the principal of the commercial paper program. The credit facility is maintained under the terms of a revolving credit agreement. Pursuant to the most recent amendment to the revolving credit agreement, the capacity of the revolving credit agreement has been reduced to $350,000.

The issuance of commercial paper is further supported by the following agreements and related participants:

- Dealer Agreements with Goldman, Sachs & Co., J.P. Morgan Securities Inc., and Ramirez & Co., Inc.
- Revolving Credit Agreement with Bank of America, N.A., State Street Bank and Trust Company, and U.S. Bank National Association
- Issuing and Paying Agency Agreement with The Bank of New York Mellon Trust Company, N.A.

The borrowings under the commercial paper program are equally and ratably secured by and are payable from (i) the proceeds from the sale of bonds or additional borrowing under the commercial paper program and (ii) borrowing under and pursuant to the revolving credit agreement.

Commercial paper notes of $244,650 are outstanding as of December 31, 2010. Of this balance, $106,530 relates to the refunding of the Series 2003 Bonds while the remaining $138,120 proceeds were used solely for financing of capital improvements. Interest rates on the notes outstanding at December 31, 2010 range from 0.2% to 0.3% and maturities range from 28 to 145 days. The outstanding notes had an average rate of 0.3% and averaged 78 days to maturity.





## Note 7 Commercial Paper Programs (Continued)

### San Antonio Water System (SAWS) (Continued)

SAWS intends to reissue maturing commercial paper, in accordance with the terms of the revolving credit agreement, and ultimately refund such maturities with proceeds from the issuance of long-term revenue bonds. Consistent with this intent, and since SAWS has the available $350,000 revolving credit agreement described above, SAWS has classified nearly all outstanding commercial paper notes as long-term debt. In accordance with the amortization schedule of the interest rate swap agreement discussed in Note 13 Risk Financing, SAWS intends to redeem $2,720 of commercial paper in 2011. Therefore, this portion of the commercial paper is classified as a current liability.

The following summarizes transactions of the program for the year-ended December 31, 2010.

| | Beginning Balance January 1, 2010 | Additions | Reductions | Ending Balance December 31, 2010 |
|---|---|---|---|---|
| Tax Exempt Commercial Paper Notes | $ 173,650 | $ 77,000 | $ 6,000 | $ 244,650 |

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- 113 - Amounts are expressed in thousands
- 114 - Amounts are expressed in thousands

## Note 8 Pension and Retirement Plans

### Primary Government (City)

***General Plan Information***

The City of San Antonio, SAWS, and CPS Energy participate in several contributory retirement plans. These are funded plans covering substantially all full-time employees. Payroll and contribution information as of the year-end for each entity is presented as follows:

| Contributory Pension and Retirement Plans | | | | | | |
|---|---|---|---|---|---|---|
| Entity | Title | Type of Plan | Covered Payroll [3] | Employee Contribution | Employer Contribution | Total Contribution |
| City | Fire and Police Pension Plan | Single Employer Defined Benefit Plan | $ 273,689 | $ 33,663 | $ 67,328 | $ 100,991 |
| | Texas Municipal Retirement System (TMRS) - Civilian | Nontraditional Hybrid Defined Benefit Agent Plan | $ 270,708 | $ 16,249 | $ 33,883 | $ 50,132 |
| Component Units: | | | | | | |
| SAWS | [1] Texas Municipal Retirement System (TMRS) | Nontraditional Hybrid Defined Benefit Agent Plan | $ 86,013 | $ 2,510 | $ 4,703 | $ 7,213 |
| | [1] SAWSRP Contract | Single Employer Defined Benefit Plan | $ 83,505 | $ - | $ 7,849 | $ 7,849 |
| CPS Energy | [2] CPS All Employee Plan | Single Employer Defined Benefit Plan | $ 222,427 | $ 11,056 | $ 32,400 | $ 43,456 |

[1] Fiscal year ended December 31, 2010.

[2] Fiscal year ended January 31, 2011.

[3] Covered payroll presented in this table for the City is as of September 30, 2011.

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## Note 8 Pension and Retirement Plans (Continued)

### Primary Government (City) (Continued)

***Fire and Police Pension Plan***

The Pension Fund is a single-employer defined benefit retirement plan established in accordance with the laws of the State of Texas. The governing document for the Pension Fund is found in Vernon's Texas Civil Statutes, Article 6243o. The pension law governing the Pension Fund was amended on October 1, 2009. The Pension Fund is administered by a nine-member board of trustees (Board), which includes two City Council members, the mayor or his appointee, two police officers, two fire fighters, and two retirees. The Pension Fund meets the criteria of a "fiduciary fund" of the City as established by *Governmental Accounting Financial and Reporting Standards* and is therefore included in the City's financial statements as a pension trust fund. A more complete description of the Plan is provided in the summary plan description. At September 30, 2011, membership of the Pension Fund consisted of:

| | 2011 |
|---|---|
| Retirees and beneficiaries receiving benefits | 2,169 |
| Active participants | 3,917 |
| Total | 6,086 |

Currently, the Pension Fund provides retirement benefits to eligible employees of the fire and police departments of the City who have served for 20 years or more. Employees who terminate prior to accumulating 20 years of service may apply to receive a refund of their contributions. Upon application for a service retirement pension from the Pension Fund, retiring employees are entitled to a retirement annuity computed based on the average of the employee's total salary, excluding overtime pay, for the highest three years of the last five years. A retirement annuity under this subsection may not exceed, as of the date of retirement, 87.5% of the member's average total salary.

There is a provision for the Backwards Deferred Retirement Option Plan (BackDROP), which, as of October 1, 2009, permits retiring members who had actual service credit of at least 20 years and one month to elect to receive a lump-sum payment for a number of full months of service elected by the member that does not exceed the lesser of the number of months of service credit the member had in excess of 20 years or 60 months and a reduced annuity payment. For purposes of a BackDROP benefit calculation, the participant's salary beyond 34 years of service is used to determine the participant's average salary.

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- 115 - Amounts are expressed in thousands
- 116 - Amounts are expressed in thousands

## Note 8 Pension and Retirement Plans (Continued)

### Primary Government (City) (Continued)

***Fire and Police Pension Plan (Continued)***

There is also a provision for a thirteenth and fourteenth pension check. At the end of each fiscal year, the Board may authorize the disbursement of a thirteenth monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 100 basis points. In the same way, the Board may authorize a fourteenth monthly pension check if the annualized yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 300 basis points. The thirteenth and fourteenth pension checks are paid to each retiree and beneficiary receiving a pension at the end of the fiscal year and are in an amount equal to the pension check paid in the last month of the preceding fiscal year of the Pension Fund (retirees/beneficiaries with less than one year of benefits will receive a prorated check, and no check will be paid to members who retired after the end of the fiscal year). Authorization for one year does not obligate the Board to authorize a thirteenth and fourteenth check for any other year. The Pension Fund did not meet the criteria for the thirteenth and fourteenth checks for the year ended September 30, 2011.

The Pension Fund also provides benefits when service is terminated by reason of death or disability. The employee's beneficiary or the employee shall be entitled to one-half of the average of the employee's total salary, excluding overtime pay, or vested benefit as is provided in the computation of normal retirement benefits, whichever is higher. If a member dies after retiring, spouses or beneficiaries who were married to or dependents of the member at the time of retirement receive the same annuity paid to the member as of the date of the member's death up to the maximum benefit. The maximum benefit for surviving spouses and dependent children is equal to a 27-year service pension. As of October 1, 2009, the allocation of death benefits between a surviving spouse and the dependent children of a member is 75.0% to the spouse and 25.0% to the children. The spousal death benefit for a spouse who married a retiree after retirement and at least five years prior to the date of the retiree's death is the same as a spouse who married a member prior to retirement. At October 1, 2009 amendments establish a 55-year-old minimum age for marriage-after-retirement spouses to begin receiving annuity payments for those that qualify for such annuity payments. As of October 1, 2009, the spousal death benefit for a spouse who married a retiree after retirement, and less than five years prior to the date of the retiree's death, was $15,000 if there are no other beneficiaries (please note figure not reflected in thousands).

The Pension Fund provides a disability annuity equal to 87.5% of average total salary, if the member suffers a catastrophic injury. A catastrophic injury is described as an irreparable physical bodily injury suffered during the performance of high-risk line of duty activities, when the injury results in the individual being unable to obtain any sort of employment sufficient to generate income above the poverty level.

The surviving spouse of an active member may elect to receive benefits in the form of a lump-sum payment and reduced annuity, similar to a BackDROP election made by a retiring member.

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## Note 8 Pension and Retirement Plans (Continued)

### Primary Government (City) (Continued)

***Fire and Police Pension Plan (Continued)***

The estate of an active member who dies and does not leave a beneficiary will receive either 10 times the amount of an annuity computed according to the Annuity Computation mentioned above using the deceased member's service credit and average total salary as of the date of death or the deceased member's contributions that were picked up by the City. The estate of a retired member who dies and does not leave a beneficiary will receive a lump-sum benefit equal to 10 times the amount of the annuity awarded by the Board effective on the retiree's date of retirement, less any retirement or disability annuity and any lump-sum payments paid to the retiree.

The Pension Fund also provides benefits when an eligible member is killed in the line of duty. The member's surviving spouse and dependent children are entitled to a total pension equal to the member's base salary at the time of death.

Another important provision of the Pension Fund is the Cost of Living Adjustment (COLA). The COLA is based on the Consumer Price Index for all Urban Consumers – U.S. City Average (CPI) as published by the Bureau of Labor Statistics. Members whose retirement, disability, or death occurred before August 30, 1971, receive an increase equal to 100.0% of the increase in the CPI. Members whose retirement, disability, or death occurred after August 30, 1971, but before October 1, 1999, receive an increase equal to 100.0% of the increase in the CPI up to 8.0% and 75.0% of the increase in the CPI in excess of 8.0%. Members whose retirement, disability, or death occurred after October 1, 1999 receive an increase equal to 75.0% of the increase in the CPI.

Beginning October 1, 2009, the Pension Fund has a provision that allows the fire chief and police chief to opt out of membership in the Pension Fund.

The Pension Fund's contribution requirements are established and funded in accordance with Texas state statues and are not actuarially determined. The City was required to contribute 24.6% of salary, excluding overtime pay, in 2011. The employee contribution rate was 12.3% in 2011. New fire fighters and police officers are immediately eligible for membership after they receive state certification and complete all other requirements. The new member contributes to the Pension Fund upon becoming eligible. As part of the amendments effective October 1, 2009, from October 1, 2009 to December 31, 2009, members who served probationary time prior to becoming a member were allowed to elect to purchase service credit for that time. If the member elected to purchase the service credit, the member was responsible for paying 3 times the member's contribution rate that would have been due during the probationary period, with interest calculated from the time of the probation until the amount was paid. The interest rate was 8.0%, which was the Pension Fund's assumed actuarial rate of return on the assets.

## Note 8 Pension and Retirement Plans (Continued)

### Primary Government (City) (Continued)

***Fire and Police Pension Plan (Continued)***

The annual required contributions for fiscal year 2011 were determined as part of the October 2010 actuarial valuations, using the entry-age actuarial cost method. The actuarial assumptions included (a) an 7.8% investment rate of return and (b) a projected annual salary increase of 4.0%. Both (a) and (b) include inflation components of 4.0%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at October 1, 2010 was 9.1 years which, as reported under GASB guidelines, does not consider the assumption of payroll growth rate. The amounts of the actuarial value of assets represent estimates based upon the assumptions described above. Changes in those assumptions will result in changes in such estimates in the future. The amounts of benefits ultimately to be paid could differ materially from the current estimates.

Contributions for the year-ended September 30, 2011 were as follows:

| | 2011 | |
|---|---|---|
| | | Percentage of Covered Payroll |
| Employer | $ 67,328 | 24.6% |
| Employee | 33,663 | 12.3% |
| Total | $ 100,991 | |

The City of is responsible for funding the deficiency, if any, between the amount available to pay all retirement annuities and other benefits owed by the Pension Fund and the amount required to pay such benefits.

The Pension Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the Fire and Police Pension Fund of San Antonio, 11603 W. Coker Loop, Suite 201, San Antonio, Texas 78216 or by calling (210) 534-3262.

***Texas Municipal Retirement System (TMRS)***

The City provides benefits for all eligible employees (excluding firefighters and police officers) through a nontraditional, joint contributory, hybrid defined benefit plan in TMRS. TMRS is a statewide agent multiple-employer public employee retirement system created by law in 1948 to provide retirement and disability benefits to City employees. TMRS as of December 31, 2010, is the agent for 842 participating entities. It is the opinion of the TMRS management that the plans in TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the TMRS plan.





## Note 8 Pension and Retirement Plans (Continued)

### Primary Government (City) (Continued)

***Texas Municipal Retirement System (TMRS) (Continued)***

Since its inception, TMRS has used the traditional Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date but does not project the potential future liability of provisions adopted by a participating government. Two-thirds of the governments participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. These provisions are considered to be “committed” benefits (or likely to be guaranteed); as such, for the December 31, 2007 valuation, TMRS’ Board adopted the Projected Unit Credit (PUC) actuarial funding method, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. These changes had a significant impact on TMRS’ Unfunded Actuarial Accrued Liability (UAAL) and funded position as well as the City’s contribution requirements. As of December 31, 2006, the City’s Plan had a UAAL of $178,521 with a funded ration of 72.2%. After adoption of these changes, the City’s Plan had a UAAL of $317,720 with a funded ratio of 60.1% as of December 31, 2007.

The Board also adopted a change in the amortization period from a 25-year “open” to a 25-year “closed” period. TMRS Board rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period may be increased up to 30 years, unless a participating government requests that the period remain at 25 years. For governments with repeating features, these changes resulted initially in higher required contributions and lower funded ratios. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow governments the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate). As a result of these changes, the City’s contribution rate was projected to increase from 12.5% to 16.7%. Due to the significant increase in contribution requirements, the City selected to phase in the contribution rate in fiscal year 2009 from 12.5% to 13.1% with an ultimate projected rate to be in excess of 18.0% after phase-in (or triple the employee contribution rate).

The City additionally created a work plan to review and address the changes being made by TMRS. Six focus groups with employees and retirees were held to obtain input via a survey on their TMRS benefits and priorities to assist the City in evaluating its options and decisions made on the TMRS Board. Furthermore, the City engaged a legal firm to provide legal advice on TMRS and other pension related issues. The legal firm engaged an actuarial firm to evaluate the assumptions and results of TMRS’ report to provide a historical performance analysis of the funds within TMRS, and assist in exploring viable pension alternatives. A task force of current employees and retirees was formed to provide input regarding the work to be completed by this actuarial firm.

The City further adopted a plan change in 2010 removing the annually repeating Cost of Living Adjustment (COLA) feature as a way to mitigate future contribution increases. This change does not prevent adoption of either ad hoc or annually repeating COLAs in the future, but it did reduce the City’s contribution rate in 2010 from 13.9% to 12.3%. The City also proposed legislation to the State’s 82$^{nd}$ Legislative Session held in January 2011 which would: 1) allow cities to provide COLAs which would not be subject to current provisions requiring retroactive application of changes and 2) provide cities the ability to grant additional payments (e.g. 13$^{th}$ check) where funding is available. This proposed legislation was developed to provide additional flexibility and options for addressing the significant challenges associated with the current TMRS plan. While neither of these proposals passed, the City will continue to work on ways to manage its contribution rate.

- 119 - *Amounts are expressed in thousands*
- 120 - *Amounts are expressed in thousands*

## Note 8 Pension and Retirement Plans (Continued)

### Primary Government (City) (Continued)

***Texas Municipal Retirement System (TMRS) (Continued)***

TMRS also proposed legislation during the State's 82nd Legislative Session to combine the Municipal Accumulation Fund (MAF), Current Service Annuity Reserve Fund (CSARF), and the Employees Savings Fund (ESF), into a single city trust fund. Under TMRS, assets were held in trust in three distinct accounts, which were called "funds." The MAF holds city contributions and interest. The ESF holds member contributions and interest. When a member retires, the accumulated contributions and interest in the member's account transfer from the ESF, along with matching funds from the city's MAF into the CSARF. The basic retirement benefit is therefore fully funded at the time of a member's retirement and is then paid monthly to the retiree from the CSARF. At the time a member retires, the basic retirement benefit becomes a liability of TMRS. Since the passage of House Bill 360 in 2009, each year the ESF and CSARF are credited, by law, with 5.0% interest. This guaranteed interest credit may result in a highly leveraged (positive or negative) interest credit to the MAF. In years when TMRS as a whole earns less than the amount needed to provide the 5.0% guaranteed interest credit to the ESF and CSARF, additional funding will be needed from the MAF. Additionally, as each city's plan matures and retirements increase, more funds transfer into the CSARF from the ESF and the MAF, and the MAF balance, combined with the highly leveraged interest allocations, can result in city contribution rates that may be more volatile than a typical pension plan.

Restructuring, or combining, funds eliminated the leverage inherent in the asset structure and helped to make city contribution rates less volatile. Under a restructured pension fund, at the time of retirement, money would not be transferred to the CSARF (it would stay in the combined/single trust fund of the city). By reallocating the CSARF assets and liabilities and the ESF assets into each city's single trust fund, all future investment earnings base on that city's contributions for active and retired members would be directly applied to that specific city's trust assets and included in the funding equation, resulting in decreased liabilities and contribution rates. Additionally, a city's funded ratio would improve because the city would receive "credit" for the excess of the assets over liabilities for those retirements that are currently being paid from the CSARF; and the city's annual requirement contribution would be reduced since the city would receive interest on a larger base of assets over a longer period of time. The vast majority of defined benefit plans are funded under a similar structure. This proposal passed as Senate Bill 350 and was enacted in June 2011. This legislation permitted the actuarial valuation to be completed, as if restructuring occurred on December 31, 2010.

In addition to the restructuring, the actuarial assumptions were updated based on an actuarial experience study that was adopted by the TMRS board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). The City's UAAL as of December 31, 2010 prior to restructuring was calculated at $201,451 with a funded ratio of 73.0%. The City's UAAL using the new rate structure calculates to $100,426 with a funded ratio of 90.6%. Further, the amortization periods differed; prior to restructuring the period is 25.6 years; after restructuring the period is 24.1 years, resulting in a reduction to the contribution rate from 13.3% to 10.0% for the first quarter of fiscal year 2012.





## Note 8 Pension and Retirement Plans (Continued)

### Primary Government (City) (Continued)

***Texas Municipal Retirement System (TMRS) (Continued)***

In the fiscal year 2012 budget, City Council adopted a one-time annuity increase that will be provided to retired employees and to beneficiaries of deceased employees. The amount of the increase is computed as the sum of the prior service and current service annuities on the effective date of retirement of the person on whose service the annuities are based. This number was multiplied by 70.0% of the percentage change in the Consumer Price Index for All Urban Consumers, from December of the year immediately preceding the effective date of the person's retirement to the December that is 13 months before the effective date of the increase. This one-time annuity increase will cause the contribution rate to increase from 10.0% to 10.3%, effective January 1, 2012.

Benefits depend upon the sum of the employee's contributions to the TMRS plan, with interest, and the City-financed monetary credits, with interest. At the date the TMRS plan began, the City granted monetary credits for service rendered before the TMRS plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the TMRS plan. Monetary credits for service since the TMRS plan began are a percentage of the employee's accumulated contributions. In addition, the City may grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the TMRS plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percentage had always been in existence and if the employee's salary had always been the average salary for the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the City-financed monetary credits with interest were used to purchase an annuity.

Members are eligible to retire upon attaining the normal retirement age of 60 and above with 5 or more years of service, or with 20 years of service regardless of age. The TMRS plan also provides death and disability benefits. A member is vested after five years, but must leave accumulated contributions in the TMRS plan. If a member withdraws the contributions with interest, the member would not be entitled to the City-financed monetary credits, even if vested.

TMRS provisions and contribution requirements are adopted by the governing body of the City within the options available in the state statutes governing TMRS and within the actuarial constraints contained in the statutes.

Contribution requirements are actuarially determined by TMRS' actuary (see summary of TMRS Actuarial Assumptions and Methods at the end of Note 8). The contribution rate for the City's employees is 6.0% and the matching percent was 12.6% for calendar year 2010, both as adopted by the governing body of the City (see summary of contribution information at the beginning of Note 8). Under the state law governing TMRS, the employer's contribution rates are annually determined by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percentage of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortized the unfunded (overfunded) actuarial liability (asset) over the applicable period for the City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

## Note 8 Pension and Retirement Plans (Continued)

### Primary Government (City) (Continued)

#### *Texas Municipal Retirement System (TMRS) (Continued)*

The normal cost contribution finances the currently accruing monetary credits due to the City matching percentage, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percentage of payroll necessary to satisfy the obligation of the City to each employee at the time the employee's retirement becomes effective. The prior service contribution rate amortizes the UAAL over the remainder of the plan's 24.1-year amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased UAAL is being amortized over a new 24.1-year period. Currently, the UAAL is amortized over a constant 24.1-year period as a level percentage of payroll. Contributions are made monthly by both the employees and the City. All current year required contributions of the employees and the City were made to TMRS. Due to the fact that the City requires the contribution rates in advance for budget purposes, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

Investments are reported at fair value. The fair values of fixed income securities are valued by the custodian using the last trade date price information supplied by various pricing data vendors. Fair values of the equity index funds (comingled funds) are determined based on the funds' net asset values at the date of valuation. Short-term investment funds are reported at cost, which approximates market value. Security transactions are reported on a trade date basis.

| Membership as of the Valuation Date | 12/31/2010 |
|---|---|
| Number of : | |
| Active Members | 5,951 |
| Retirees and beneficiaries | 3,402 |
| Inactive members | 2,188 |
| Total | 11,541 |

TMRS' administration costs are funded from a portion of TMRS' annual investment earnings.

TMRS issues a publicly available financial report that includes financial information and required supplementary information for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used related to participating municipalities. The report may be obtained by writing to the TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling (800) 924-8677. In addition, the report is available on TMRS' website at www.TMRS.com. The required schedule of funding progress follows immediately the notes to the financial statements, and they present multi-year trend information regarding the actuarial value of plan assets relative to the actuarial liability for benefits.

### San Antonio Water System (SAWS)

SAWS' pension program includes benefits provided by the Texas Municipal Retirement System (TMRS), the San Antonio Water System Retirement Plan, the San Antonio Water System Deferred Compensation Plan, and Social Security. The following information related to the TMRS was prepared as of December 31, 2009, while the information related to the San Antonio Water System Retirement Plan has been prepared as of January 1, 2010.





## Note 8 Pension and Retirement Plans (Continued)

### San Antonio Water System (SAWS) (Continued)

#### *Texas Municipal Retirement System (TMRS)*

SAWS provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide TMRS, one of more than 837 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and SAWS financed monetary credits, with interest. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. Members can retire at age 60 and above with 5 or more years of services or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by SAWS within the options available and actuarial constraints in the state statutes governing TMRS.

Under the state law governing TMRS, SAWS is required to contribute at an actuarially determined rate. These rates are provided on an annual basis, following the completion of the actuarial valuation. There is a delay in the valuation and when the rate becomes effective – for example the 2010 contribution rate is based on the December 31, 2008 valuation results. If a change in plan provisions is adopted by SAWS' board of trustees, the contribution rate can change.

Beginning with the December 31, 2007 actuarial valuation, a change was made in the funding method and the amortization period used in the valuation. To assist in this transition to higher rates, TMRS approved an eight-year phase-in period beginning in 2009, which allows governments the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate). SAWS elected to transition the increase in its contribution rate over the eight-year phase-in period. As a result of these changes, SAWS' actuarially required contribution for 2010 was 5.6% while the phased-in rate of 2010 was 4.2% of salary. The current contribution rate for employees is 3.0% of salary.

**TMRS**
**Schedule of Contributions**

| | 2010 |
|---|---|
| Employer Contribution | $ 4,703 |
| Employee Contribution | $ 2,510 |
| Employer Contribution Rate | 5.6% |

#### *San Antonio Water System Retirement Plan (SAWSRP)*

The San Antonio Water System Retirement Plan (SAWSRP) is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 75686, which serves as a supplement to TMRS and Social Security benefits. SAWSRP is governed by SAWS, which may amend plan provisions and which is responsible for the management of plan assets. SAWS has delegated the authority to manage certain plan assets and administer the payment of benefits to Principal Financial Group.

- 123 - Amounts are expressed in thousands
- 124 - Amounts are expressed in thousands

## Note 8 Pension and Retirement Plans (Continued)

### San Antonio Water System (SAWS) (Continued)

#### *San Antonio Water System Retirement Plan (SAWSRP) (Continued)*

SAWS provides supplemental pension benefits for all persons customarily employed at least 20 hours per week and five months per year through this defined benefit pension plan. Employees are eligible to participate in SAWSRP on January 1 of the calendar year following date of hire. A member does not vest in this plan until completion of five years of service.

Covered employees are eligible to retire upon attaining the normal retirement age of 65. An employee may elect early retirement, with reduced benefits, upon attainment of:

- Twenty years of vesting service regardless of age, or
- Five years of vesting service and at least age 60.

The normal retirement benefit is based upon two factors: average compensation and years of vesting service. Average compensation is defined as the monthly average of total compensation received for the three consecutive years ending December 31st, out of the last ten compensation years prior to normal retirement date, which gives the highest average.

The normal retirement benefit under the Principal Financial Group contract is equal to the following:

- 1.2% of the average compensation, times years of credited service not in excess of 25 years, plus
- 0.8% of the average compensation, times years of credited service in excess of 25 years but not in excess of 35 years, plus
- 0.4% of the average compensation, times years of credited service in excess of 35 years.

Upon retirement, an employee must select from one of seven alternative payment plans. Each payment plan provides for monthly payments as long as the retired employee lives. The options available address how plan benefits are to be distributed to the designated beneficiary of the retired employee. The program also provides death and disability benefits.

An employee is automatically 100.0% vested upon attainment of age 65 or upon becoming totally and permanently disabled. The pension plan's unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities or pay administrative expenses charged by Principal Financial Group (PFG). Funds under the contract that have been allocated and applied to purchase annuities are excluded from the pension plan's assets. The pension plan's unallocated separate accounts are valued at fair value.

The plan's funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. Contribution requirements are established and may be amended by SAWS. Active members are not required to contribute to the plan. Any obligation with respect to SAWSRP shall be paid by SAWS.





## Note 8 Pension and Retirement Plans (Continued)

### San Antonio Water System (SAWS) (Continued)

#### *San Antonio Water System Deferred Compensation Plan (SAWSDCP)*

A summary of the actuarial assumptions utilized in determining SAWS' contribution requirements is as follows:

**SAWSRP Actuarial Assumptions**

| | |
|---|---|
| Actuarial Cost Method | Entry Age Normal - Frozen Initial Liability Period |
| Amortization Method | Level Dollar |
| Remaining Amortization Period | 27 Years - Closed Period |
| Asset Valuation Method | Smoothed Market Value (4 years) |
| Investment Rate of Return | 8.0% |
| Inflation Rate | None |
| Salary Scale | Table S-5 from the Actuary's Pension Handbook plus 3.4% |
| Cost of Living Adjustments | None |

The SAWSRP issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Principal Financial Group at 711 High Street, Des Moines, Iowa 50392. In addition, the report may be obtained at www.principal.com.

SAWS has a deferred compensation plan for its employees, created in accordance with Internal Revenue Code Section 457. SAWSDCP, available to all regular employees, permits them to defer a portion of their salary until future years. The compensation deferred under this plan is not available to employees until termination, retirement, death, or qualifying unforeseeable emergency. Participation in SAWSDCP is voluntary, and SAWS does not make any contributions. SAWS has no liability for losses under SAWSDCP, but does have the usual fiduciary responsibilities of a plan sponsor.

### CPS Energy

#### *All Employee Plan*

The CPS Energy Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan (Plan) covering substantially all employees who have completed one year of service. It is an unconsolidated entity within which normal retirement is age 65; however, early retirement is available with 25 years of benefit service, as well as to those employees who are ages 55 or older with at least ten years of benefit service. Retirement benefits are based on length of service and compensation, and benefits are reduced for retirement before age 55 with 25 years or more of benefit service or before age 62 with less than 25 years of service.

The plan is sponsored by and may be amended at any time by CPS Energy, acting by and through an Oversight Committee, which includes the President and CEO, the Chief Financial Officer and the Audit Committee Chair of CPS Energy's board of trustees. Plan assets are segregated from CPS Energy's assets and are separately managed by an Administrative Committee whose members are appointed by the Oversight Committee.

- 125 - Amounts are expressed in thousands
- 126 - Amounts are expressed in thousands

## Note 8 Pension and Retirement Plans (Continued)

### CPS Energy (Continued)

#### *All Employee Plan (Continued)*

The Plan reports results on a calendar-year basis, and the separately audited financial statements, which contain historical trend information, may be obtained by contacting Benefit Trust Administration at CPS Energy. Plan net assets had a market value of $1,100,000 at December 31, 2010.

In addition to the defined-benefit pension plan, CPS Energy has two Restoration Plans that were effective as of January 1, 1998, which supplement benefits paid from the Plan due to Internal Revenue Code restrictions on benefit and compensation limits. The benefits due under those Restoration Plans have been paid annually by CPS Energy.

Employees who retired prior to 1983 receive annuity payments from an insurance carrier, as well as some benefits directly from CPS Energy. The costs for the benefits directly received from CPS Energy were $109 for fiscal year 2011. These costs were recorded when paid.

**Funding Policy** – The current policy of CPS Energy is to use each actuarial valuation as the basis for determining monthly employer contributions to the Plan during the fiscal year beginning in the calendar year after the valuation year. The January 1, 2009, valuation was the basis for contributions in fiscal year 2011. CPS Energy establishes funding levels, considering annual actuarial valuations and recommendations of the Administrative Committee, which is composed of a cross-functional group of active and retired CPS Energy employees, using both employee and employer contributions. Generally, participating employees contribute 5.0% of their total compensation and are typically fully vested in CPS Energy's matching contribution after completing seven years of credited service or upon reaching age 40. Employee contributions commence with the effective date of participation and continue until normal or early retirement, completion of 44 years of benefit service, or termination of employment. The employee contribution interest crediting rate was 8.0% for fiscal year 2011.

The balance of Plan contributions is the responsibility of CPS Energy, giving consideration to actuarial information, budget controls, legal requirements, compliance, and industry and/or community norms. For fiscal year 2011, the amount to be funded was established using a general target near the 30-year funding contribution level as determined by the Plan's actuary. CPS Energy's contributions in relation to the annual required contribution (ARC) amounted to 14.6% of covered payroll in fiscal year 2011.

**Annual Pension Cost and Net Pension Obligation** – CPS Energy's annual pension cost (APC) and net pension obligation (NPO) for fiscal year 2011 is presented at the end of this Note. The NPO may be either positive, reflecting a liability, or negative, reflecting an asset. The term net pension obligation, as used in this Note, refers to either situation.

**Funded Status and Funding Progress –** The funded status of the Plan as of January 1, 2009 valuation date is noted at the end of this Note. The schedule of funding progress, presented as required supplementary information, presents multi-year trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.





## Note 8 Pension and Retirement Plans (Continued)

### CPS Energy (Continued)

#### *All Employee Plan (Continued)*

**Actuarial Methods and Assumptions** – Beginning with the 2008 Plan year, the cost method was revised to project January 1 data to February 1 of the next calendar year based on assumptions. Actuarial valuation methods used for the February 1, 2009 valuation included (a) the five-year smoothed market for asset valuation, (b) the projected unit credit for the actuarial cost method for the actuarial accrued liability, and (c) the 20-year level-dollar open for amortization of pension service costs.

The cost method was revised for the 2010 Plan year to eliminate the 13-month projection from January 1 to February 1 of the succeeding year. Instead, the January 1 valuation results were used to determine the contributions for the fiscal year commencing in the succeeding calendar year. There was no change in actuarial valuation methods for the 2010 Plan year.

Significant actuarial assumptions used for the January 1, 2009, actuarial valuation included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases averaging 5.8%, and (c) post retirement cost-of-living increases of 1.8%. The projected salary increases included an inflation rate of 3.5%.

### Three-Year Trend Information

Trend information compares the annual required contribution to annual pension cost and the resultant net pension obligation, as required by GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

**Three-Year Trend Information**

| Pension Plan | Fiscal Year | Annual Required Contribution (ARC) | Interest on Net Pension Obligation (NPO) | Adjustment To ARC | Annual Pension Cost (APC) | Contributions In Relation to ARC | Increase (Decrease) in NPO | Net Pension Obligation at Beginning of Year | Net Pension Obligation at End of Year | Percentage of ARC Contributed |
|---|---|---|---|---|---|---|---|---|---|---|
| Fire and Police | 2009 | $ 62,071 | $ - | $ - | $ 62,071 | $ (62,071) | $ - | $ - | $ - | 100.0% |
| Pension Plan City | 2010 | 64,498 | | | 64,498 | (64,498) | | | | 100.0% |
| of San Antonio | 2011 | 67,328 | | | 67,328 | (67,328) | | | | 100.0% |
| TMRS - | 2009 | $ 33,510 | $ - | $ - | $ 33,510 | $ (33,510) | $ - | $ - | $ - | 100.0% |
| City of | 2010 | 32,338 | | | 32,338 | (32,338) | | | | 100.0% |
| San Antonio | 2011 | 33,883 | | | 33,883 | (33,883) | | | | 100.0% |
| CPS All | 2009 | $ 20,561 | $ (164) | $ 193 | $ 20,590 | $ (20,561) | $ 29 | $ (1,973) | $ (1,944) | 100.0% |
| Employee Plan [1] | 2010 | 23,468 | (156) | 191 | 23,503 | (23,732) | (229) | (1,944) | (2,173) | 101.1% |
| | 2011 | 33,921 | (169) | 205 | 33,957 | (32,400) | 1,557 | (2,173) | (616) | 95.4% |
| TMRS - | 2008 | $ 2,600 | $ - | $ - | $ 2,600 | $ (2,600) | $ - | $ - | $ - | 100.0% |
| SAWS [2] | 2009 | 4,275 | | | 4,275 | (4,275) | 1,066 | | 1,066 | 100.0% |
| | 2010 | 4,703 | 80 | (64) | 4,719 | (4,703) | 1,247 | 1,066 | 2,313 | 100.0% |
| SAWRP - | 2008 | $ 4,891 | $ - | $ - | $ 4,891 | $ (4,891) | $ - | $ - | $ - | 100.0% |
| SAWS [2] | 2009 | 6,035 | | | 6,035 | (6,035) | | | | 100.0% |
| | 2010 | 7,849 | | | 7,849 | (7,849) | | | | 100.0% |

[1] Fiscal year-ended January 31, 2011.
[2] Fiscal year-ended December 31, 2010.

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*Amounts are expressed in thousands*

## Note 8 Pension and Retirement Plans (Continued)

### Three-Year Trend Information (Continued)

| Funded Status and Funding Progress | Fire and Police Pension Plan [1] | City of San Antonio TMRS [2] | SAWS TMRS | SAWS SAWSRP | CPS Energy |
|---|---|---|---|---|---|
| Actuarial value of plan assets (a) | $ 2,250,549 | $ 973,554 | $ 116,123 | $ 83,320 | $ 1,067,841 |
| Actuarial accrued liability (b) | 2,481,624 | 1,073,980 | 140,565 | 128,700 | 1,183,961 |
| Unfunded actuarial accrued liability (funding excess) (b) - (a) | $ 231,075 | $ 100,426 | $ 24,442 | $ 45,380 | $ 116,120 |
| Funded ratio (a) / (b) | 90.7% | 90.6% | 82.6% | 64.7% | 90.2% |
| Covered payroll (c) | $ 271,533 | $ 259,455 | $ 86,013 | $ 83,505 | $ 222,427 |
| Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(b) - (a)] / (c)) | 85.1% | 38.7% | 28.4% | 54.3% | 52.2% |

[1] Covered payroll presented in this table is as of 10/1/2010.

[2] Covered payroll presented in this table is as of 12/31/2010.

### Significant TMRS Actuarial Assumptions and Methods

Significant assumptions used in the actuarial valuation of December 31, 2010, by the Texas Municipal Retirement System's (TMRS) actuary are provided in the following table for both the City and SAWS. The City's actuarial assumptions and methods are based on the restructuring of the TMRS funds as enacted by SB 350.

| TMRS Actuarial Assumptions and Methods | |
|---|---|
| Actuarial Cost Method | Projected Unit Credit |
| Amortization Method | Level Percent of Payroll |
| Remaining Amortization Period - SAWS | 28 Years - Closed Period |
| Remaining Amortization Period - City | 24.1 Years - Closed Period |
| Asset Valuation Method | Amortization Cost |
| Investment Return - City | 7.0% |
| Investment Return - SAWS | 7.5% |
| Projected Salary Increases | Varies by Age and Service |
| Includes Inflation At | 3.0% |
| Cost of Living Adjustments - City | 2.1% |

## Note 9 Postemployment Retirement Benefits

### Primary Government (City)

**Plan Description** – In addition to the pension benefits discussed in Note 8, Pension and Retirement Plans, the City provides most retired employees with certain health benefits under two postemployment benefit programs. Pursuant to GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the City is required to account for and disclose its other postemployment liability for these programs. The City continues to actively review and have actuarial valuations performed for these programs as required.





## Note 9 Postemployment Retirement Benefits (Continued)

### Primary Government (City) (Continued)

The first of the two programs is a health insurance plan, which provides benefits for nonuniformed City retirees and for pre-October 1, 1989 uniformed (fire and police) retirees who are not eligible for Medicare. The program compromises 3 self-funded PPO health plans currently administered by United Healthcare. These plans may be amended at any time with approval from the City Council. This program is funded on a pay-as-you-go basis with an aggregate sharing of premium costs based on the following targets: 67.0% by the City and 33.0% by the retiree for those retirees hired prior to October 2007. With the adoption of the fiscal year 2008 Budget, additional changes were made to this retirement health plan. For all non-uniformed employees beginning employment on or after October 1, 2007, a revised schedule for sharing of the costs on a pay-as-you-go basis is effective. The revised schedule is as follows: (1) Employees who separate from the City with less than five years of service are not eligible to participate in the program; (2) Employees who separate with at least five years of service but less than 10 years of service are eligible to participate in the program but without City subsidy; and (3) Employees who separate from employment with 10 years of service or more will pay for 50.0% of the pay-as-you-go contributions to the program and the City will contribute the remaining 50.0%. The ability to participate in the program remains based on eligibility for the TMRS Pension Plan.

Currently, there are 6,068 active civilian employees who may become eligible in the future. Employees may become eligible to participate in this program based on eligibility for a retirement benefit under the rules for TMRS Pension Plan and their number of years of service to City of San Antonio. Under the TMRS Pension Plan, employees may retire at age 60 and above with five or more years of service or with 20 years of service regardless of age. Retiree medical benefits continue for the life of the retiree and their surviving eligible dependents that were covered at the time of the employee's retirement. Nonuniformed City employees who qualify for a disability pension under TMRS rules are also eligible to receive the retiree medical benefit under this plan. As of September 30, 2011, there were 435 retirees and surviving spouses participating in this program.

The second program with 893 participating retirees is available to eligible retirees who have Medicare coverage. All retirees and dependents are required to apply for and maintain Medicare Part A & B coverage once they reach age 65 or otherwise become eligible for Medicare. Of the current 893 participating Medicare retirees, 145 participate in a fully insured Medicare Advantage HMO and the remaining 748 participate in a fully insured Medicare Supplement. This program may be amended at any time by the City Council.

Participant data disclosed above is not expressed in thousands.

**Funding Policy** – The cost of the program is reviewed annually, and the costs of medical claims are funded jointly by the City and retirees on a pay-as-you-go basis, based on the allocations described above. For retirees, total program expenses were $11,618 of which $7,023 were medical claims. For the year-ended September 30, 2011, total contributions were as follows:

| Total Contributions | |
|---|---|
| City | $ 9,138 |
| Retiree Premiums | 2,480 |
| Total Contributions | $ 11,618 |

No contributions were made in fiscal year 2011 to prefund benefits.

## Note 9 Postemployment Retirement Benefits (Continued)

### Primary Government (City) (Continued)

The Health Care Reform Act, enacted March 23, 2010, provides $5,000,000 to reimburse employers for a portion of the cost of health claims for early retirees (aged 55 through 64). Reimbursements are available for 80.0% of individual medical claim costs between $15 and $90. The program's purpose is to encourage employers not to drop coverage for early retirees at least until the health insurance exchanges are available in 2014. The employer may use reimbursements to reduce plan participants' premium contributions, co-payments, deductibles, co-insurance, or other out-of-pocket costs. The City has applied for $1,887 in reimbursement and has received $1,517 to date. As $4,500,000 has been disbursed to various entities by December 2011, the program will cease taking claims incurred after December 31, 2011.

**Annual OPEB Cost and Net OPEB Obligation** – For the fiscal year-ended September 30, 2011, the City's annual postemployment benefits other than pension (OPEB) cost was not equal to its annual required contribution (ARC) to the plan. The City's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial balance over thirty years. The City will not be fully funding the ARC at this time. The City will continue to fund OPEB on a pay-as-you-go basis.

**Actuarial Methods and Assumptions** – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The table below details the actuarial methods and assumptions for the City's OPEB calculation for the fiscal year-ended September 30, 2011:

| Assumptions | |
|---|---|
| Actuarial Valuation Date | 1/1/2011 |
| Actuarial Cost Method | Projected Unit Credit |
| Amortization Method | Level Dollar, Open |
| Remaining Amortization Period | 30.0 years |
| Asset Valuation Method | N/A |
| Actuarial Assumptions: | |
| Investment Rate of Return | 3.0% |
| Projected Salary Increase | N/A |
| Healthcare Inflation Rate - Medical | |
| and Prescription | 9.0% initial (2011) |
| | 5.0% ultimate (2015) |

Below are the health care cost trend assumptions used for the City's January 1, 2011 actuarial study for the fiscal year-ended September 30, 2011.





## Note 9 Postemployment Retirement Benefits (Continued)

### Primary Government (City) (Continued)

| City's Health Care Cost Trend Assumptions | |
|---|---|
| Year | Medical & Prescription Drugs |
| 2011 | 9.0% |
| 2012 | 8.0% |
| 2013 | 7.0% |
| 2014 | 6.0% |
| 2015+ | 5.0% |

The City's retiree participation rate is estimated to be at 60.0%. This estimate is based on evaluation of City retiree's enrolled in the City's retiree plan, versus those enrolled in TMRS. Numerous City retirees are former military, or are able to obtain healthcare through spouses insurance, etc.

The required schedule of funding progress follows immediately the notes to the financial statements, and they present multi-year trend information regarding the actuarial value of plan assets relative to the actuarial liability for benefits.

### *Fire and Police Retiree Health Care Fund*

**Plan Description** – The second postemployment benefit program of the City, the Fire and Police Retiree Health Care Fund, San Antonio (Health Fund) is a Texas statutory retirement health trust for firefighters and police officers of the City. The trust holds assets and liabilities of the City's Fire and Police Retiree Health Care Plan (Plan). This Plan is a single-employer defined benefit postemployment health care plan that was created in October 1989 in accordance with provisions established by contract with the local fire and police unions to provide postemployment health care benefits to police officers and firefighters of the City retiring after September 30, 1989. Authority to establish and amend the plan's postemployment health care benefits is based on such contracts and the Texas Legislature enacts regulations that control the operation of the Health Fund. The statutory trust is governed by a board of trustees that meets on a monthly basis. The board consists of nine members: the Mayor or his appointee; two members of the City Council; one retired and two active duty police officers; and one retired and two active duty firefighters. The Health Fund board has the ability to modify benefits within certain parameters. The City is the only participating employer in the Plan.

WEB-TPA Employer Services, LLC serves as the third party administrator for the Health Fund. Additional administrative services were provided to the Health Fund by PTRX, Inc. during fiscal year 2011.

**Contributions** – Since its inception, the Health Fund has been funded primarily by contributions from the City and City active firefighters and police officers, as part of the compensation for services rendered by the union members, and by contributions made by retirees for their dependents. Effective October 1, 2007, the board implemented state-mandated changes to increase contributions from the Plan's single employer, the City, and plan members in order to reduce actuarially determined funding deficits and ensure the existence of the Health Fund for future retired firefighters and police officers. The increased contributions were initiated to take effect over a span of years through October 2011. The state-mandated changes also called for a decrease in the level of benefits.

- 131 - Amounts are expressed in thousands
- 132 - Amounts are expressed in thousands

## Note 9 Postemployment Retirement Benefits (Continued)

**Primary Government (City) (Continued)**

***Fire and Police Retiree Health Care Fund (Continued)***

The contribution amounts for each fiscal year, beginning October 1, 2007, are based on statutory contribution rates and on the average member salary expected for that fiscal year, which is to be determined by the Health Fund's actuary. For the year ending September 30, 2011, and years thereafter, the specified employee contribution rate was 4.7%. The City's contributions will be set at 9.4% of the specified wage base. The table below summarizes the actuary's determinations of the contribution amount for the fiscal year-ended September 30, 2011 (not expressed in thousands):

| | |
|---|---|
| Biweekly Contributions: | |
| Active Fire and Police Members | $101.72 |
| City of San Antonio for Each Member | $233.21 |
| Monthly Contributions for Each Retiree with Under 30 Years of Service who Retires after October 1, 2007 | $228.86 |
| Dependent Children | $157.35 |

Total contributions by active firefighters and police officers were $10,508 for the year ended September 30, 2011.

Membership in the Plan consisted of the following at September 30, 2011 (not expressed in thousands):

| | |
|---|---|
| Retirees and Beneficiaries Receiving Benefits | 2,910 |
| Active Plan Members | 3,807 |
| Total Membership | 6,717 |

**Funding Status and Funding Progress** – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of the plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by the City in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.





## Note 9 Postemployment Retirement Benefits (Continued)

**Primary Government (City) (Continued)**

***Fire and Police Retiree Health Care Fund (Continued)***

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuations follows:

| Assumptions | |
|---|---|
| Valuation Date | 10/1/2010 |
| Actuarial Cost Method | Entry Age |
| Amortization Method | Level Percentage of Pay, Open |
| Remaining Amortization Period | Open, 30 Years |
| Asset Valuation Method | 5-Year Adjusted Market Rate |
| Actuarial Assumptions: | |
| Investment Rate of Return Net of Expense | 8.0% |
| Annual Inflation Rate | 4.0% |
| Projected Annual Salary Increases | 4.5% to 14.5% |
| Health Care Cost Rate Trend: | 9.0% Initial |
| | 5.5% Ultimate |
| Annual Payroll Growth Rate | 4.0% |

**CPS Energy**

CPS Energy provides certain health, life insurance and disability income benefits for employees. Additionally, most CPS Energy employees are also eligible for these benefits upon retirement from CPS Energy. Assets of the plans are held in three separate, single-employer contributory plans:

- City Public Service of San Antonio Group Health Plan (Health Plan) – a contributory group health plan that provides health, dental and vision benefits.
- City Public Service of San Antonio Group Life Insurance Plan (Life Plan) – a contributory plan that provides life insurance benefits.
- City Public Service of San Antonio Group Disability Plan (Disability Plan) – an employer funded plan that provides disability income benefits.

The Employee Benefit Plans may be amended at any time by CPS Energy, acting by and through an Oversight Committee, which includes the President and CEO, the Chief Financial Officer and the Audit Committee Chair of CPS Energy's board of trustees.

## Note 9 Postemployment Retirement Benefits (Continued)

### CPS Energy (Continued)

The Employee Benefit Plans' assets are segregated from CPS Energy's assets and are separately managed by an Administrative Committee whose members are appointed by the Oversight Committee. The plans report results on a calendar-year basis and issue separately audited financial statements that may be obtained by contacting Benefit Trust Administration at CPS Energy.

**Funding Policy** – The funding requirements for both the plan participants and the employer are established by and may be amended by CPS Energy. Funding is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by CPS Energy. The current policy of CPS Energy is to use each actuarial valuation as the basis for determining monthly employer contributions to the plans during the fiscal year beginning in the calendar year after the valuation year. The January 1, 2009 valuation was the basis for contributions in fiscal year 2011.

Retired employees contribute to the Health Plan in varying amounts depending upon an equity formula that considers age and years of service. Individuals who retired before February 1, 1993, contribute a base rate plus 2.3% of the difference between that amount and the aggregate rate for each year that the sum of age and service is less than 95. Those who retired on or after February 1, 1993, contribute a base rate plus a percentage of the CPS Energy contribution, based on the number of years of service, if they retired with less than 35 years of service. Retirees and covered dependents contributed $4,200 in fiscal year 2011 for their health insurance benefits.

There were no contributions in relation to ARC in fiscal year 2011.

The Medicare Prescription Drug Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D entitled the Health Plan to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by the Health Plan on behalf of certain plan participants. These payments totaled $696 for fiscal year 2011. In accordance with GASB Technical Bulletin 2006-01, *Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D,* future projected payments from the federal government have not been used to lessen total projected obligations under CPS Energy's Health Plan.

Employees who retired prior to February 1, 1993, contribute to the Life Plan at a rate of $0.13 per $1,000 of insurance per month on amounts in excess of $20,000 plus 2.3% of the difference between that amount and the aggregate rate for retiree coverage for each year the sum of retirement age and service is less than 95 (amounts not expressed in thousands). Those who retired on or after February 1, 1993, contribute $0.13 per $1,000 of insurance per month on amounts in excess of $20,000 plus a percentage of the CPS Energy contribution, based on number of years of service, if they retired with less than 35 years of service (amounts not expressed in thousands). Retirees and covered dependents contributed $234 in fiscal year 2011 for their life insurance benefits. CPS Energy's contributions in relation to the ARC for the Life Plan amounted to 0.1% of covered payroll in fiscal year 2011.

The Disability Plan is funded completely by CPS Energy. CPS Energy's contributions in relation to the ARC were 0.3% of covered payroll in fiscal year 2011.





Note 9 Postemployment Retirement Benefits (Continued)

CPS Energy (Continued)

**Annual OPEB Cost and Net OPEB Obligation** – CPS Energy's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The annual OPEB cost consists of the ARC, interest on the net OPEB obligation and adjustments to the ARC for the Health, Life and Disability Plans. The annual OPEB cost was $7,404 for fiscal year 2011. The net OPEB obligation may be either positive, reflecting a liability, or negative, reflecting an asset. The term net OPEB obligation, as used in this Note, refers to either situation.

**Actuarial Methods and Assumptions** – Actuarial valuations of ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plans and the ARCs of the employer are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information, present multiyear trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

For the Health Plan, the actuarial cost method used was the projected unit credit actuarial cost method. For the Life and Disability Plans, the aggregate actuarial cost method was used to determine the cost of benefits. Since this method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress was prepared using the entry age actuarial cost method, which is intended to approximate the funding progress of the plans.

The amortization method used for all three Plans was the level-dollar open method, with an amortization period of 20 years. The asset valuation method used for all three plans was the five-year smoothed market valuation method. Beginning with the 2008 plan year, the cost method was revised to project January 1 data to February 1 of the next calendar year based on assumptions. The cost method was revised for the 2010 plan year to eliminate the 13-month projection from January 1 to February 1 of the succeeding year. Instead, the January 1 valuation results were used to determine the contributions for the fiscal year commencing in the succeeding calendar year.

Significant actuarial assumptions used in the calculations for the January 1, 2009 actuarial valuation included (a) a rate of return on the investment of present and future assets of 8.0% for the Health, Life and Disability Plans, (b) a Consumer Price Index increase of 4.0% for the Disability Plan, (c) projected salary increases for the Health Plan ranging from 4.1% to 10.5% depending on age for base and other salaries and an inflation rate for salary increases of 3.5% for the Life and Disability Plans, and (d) medical cost increases projected at 8.5% for 2009, decreasing annually to 5.5% in 2016 and thereafter.

## Note 9 Postemployment Retirement Benefits (Continued)

### San Antonio Water System (SAWS)

SAWS provides certain healthcare and life insurance benefits for eligible retirees, their spouses, and their dependents through a single-employer defined benefit plan administered by SAWS. The authority to establish and amend the OPEB provisions is vested in the SAWS board of trustees.

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

The following is the participant summary as of January 1, 2009 (the most recent actuarial valuation date, not expressed in thousands):

| | |
|---|---|
| Active employees | 1,548 |
| Retired employees | 625 |
| Spouses of retired employees | 448 |
| Total | 2,621 |

**Funding Policy** – The contribution requirements of plan members and SAWS are established and may be amended by the SAWS board of trustees. To date, SAWS has funded all obligations arising under these plans on a pay-as-you-go basis. Going forward, SAWS' required contribution will be based on a projected pay-as-you-go financing requirement, with an additional amount, if any, to prefund benefits as determined annually by SAWS' board of trustees. SAWS is currently evaluating ways to phase-in full funding of the actuarially determined ARC.

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, 2010, SAWS' contribution to the plan equaled the current premiums of $6,162, while plan members receiving benefits contributed $246 through their required contribution. No contributions were made in 2010 to prefund benefits.

**Annual OPEB Cost and Net OPEB Obligation** – For the year-ended December 31, 2010, SAWS' annual OPEB cost is calculated based on the ARC.

**Actuarial Methods and Assumptions** – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

Since no portion of SAWS' OPEB obligation has been funded in a separate trust as of December 31, 2010, SAWS does not issue a separate financial report for its OPEB plan.





## Note 9 Postemployment Retirement Benefits (Continued)

### San Antonio Water System (SAWS) (Continued)

In the January 1, 2009 actuarial valuation, the projected unit credit funding method was used. The investment return assumption used in the calculation of the AAL was 4.8%, which is a blended rate of the estimated long-term investment return on the investments that are expected to be used to finance the payment of benefits. The investment return assumes SAWS will phase-in fully funding the ARC over the years. There is not an inflation rate projected for this actuarial valuation. As of December 31, 2009, the UAAL is being amortized as a level dollar amount over a 28 year closed period.
Health care cost trend rates are used to anticipate increases in medical benefit costs expected to be experienced by the retiree health plan in each future year. The trend rates used are as follows:

| | Annual Rate of Increase | | |
|---|---|---|---|
| Year Beginning January 1 | Pre-Medicare Medical | Medicare Eligible Medical | Prescription Drugs |
| 2010 | 7.4% | 6.1% | 8.3% |
| 2011 | 7.3% | 6.2% | 8.0% |
| 2012 | 7.2% | 6.3% | 7.8% |
| 2013 | 7.1% | 6.4% | 7.6% |
| 2014 | 7.1% | 6.5% | 7.4% |
| 2015 | 7.0% | 6.6% | 7.2% |
| 2016 | 6.9% | 6.7% | 7.0% |
| 2017 | 6.8% | 6.8% | 6.8% |
| 2018 | 6.6% | 6.6% | 6.6% |
| 2019 | 6.4% | 6.4% | 6.4% |
| 2020 | 6.2% | 6.2% | 6.2% |
| 2021 | 6.0% | 6.0% | 6.0% |
| 2022 | 5.8% | 5.8% | 5.8% |
| 2023 | 5.6% | 5.6% | 5.6% |
| 2024 | 5.4% | 5.4% | 5.4% |
| 2025 | 5.2% | 5.2% | 5.2% |
| 2026 | 5.0% | 5.0% | 5.0% |
| 2027 | 4.9% | 4.9% | 4.9% |
| 2028+ | 4.5% | 4.5% | 4.5% |

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## Note 9 Postemployment Retirement Benefits (Continued)

### Three-Year Trend Information

The City's, CPS Energy's and SAWS' annual OPEB cost, employer contributions, percentage cost contributed to the plan, and net OPEB obligation for the three most recent fiscal years were as follows:

**Three-Year Trend Information**

| Pension Plan | Fiscal Year | Annual Required Contribution (ARC) | Interest on Net OPEB Obligation | Adjustment To ARC | Annual OPEB Cost | Contributions In Relation to ARC | Increase (Decrease) in Net OPEB | Net OPEB Obligation at Beginning of Year | Net OPEB Obligation at End of Year | Percentage of ARC Contributed |
|---|---|---|---|---|---|---|---|---|---|---|
| City of San Antonio | 2009 | $ 35,818 | $ 656 | $ (1,116) | $ 35,358 | $ (7,279) | $ 28,079 | $ 21,872 | $ 49,951 | 20.6% |
| | 2010 | 35,818 | 1,499 | (2,549) | 34,768 | (12,475) | 22,293 | 49,951 | 72,244 | 35.9% |
| | 2011 | 36,012 | 2,168 | (3,685) | 34,495 | (9,138) | 25,357 | 72,244 | 97,601 | 26.5% |
| Fire and Police Retiree Health Care Fund | 2009 | $ 30,893 | $ 804 | $ (549) | $ 31,148 | $ (21,560) | 9,588 | $ 10,044 | $ 19,632 | 69.2% |
| | 2010 | 28,889 | 1,571 | (1,073) | 29,387 | (22,265) | 7,122 | 19,632 | 26,754 | 75.8% |
| | 2011 | 29,733 | 2,140 | (1,462) | 30,411 | (23,896) | 6,515 | 26,754 | 33,269 | 78.6% |
| CPS - Health Plan[1] | 2009 | $ 12,337 | $ (2,384) | $ 2,810 | $ 12,763 | $ (15,192) | $ (2,429) | $ (29,803) | $ (32,232) | 119.0% |
| | 2010 | 7,940 | (2,578) | 3,040 | 8,402 | (13,820) | (5,418) | (32,232) | (37,650) | 164.5% |
| | 2011 | 6,507 | (3,012) | 3,551 | 7,046 | | 7,046 | (37,650) | (30,604) | 0.0% |
| CPS - Life Plan[1] | 2009 | $ - | $ (35) | $ 42 | $ 7 | $ (127) | $ (120) | $ (438) | $ (558) | 1814.3% |
| | 2010 | | (45) | 58 | 13 | (140) | (127) | (558) | (685) | 1076.9% |
| | 2011 | | (55) | 65 | 10 | (140) | (130) | (685) | (815) | 1400.0% |
| CPS - Disability Plan[1] | 2009 | $ 285 | $ 2 | $ (2) | $ 285 | $ (433) | $ (148) | $ 23 | $ (125) | 151.9% |
| | 2010 | 381 | (10) | 12 | 383 | (617) | (234) | (125) | (359) | 161.1% |
| | 2011 | 341 | (40) | 47 | 348 | (617) | (269) | (359) | (628) | 177.3% |
| SAWS - OPEB[2] | 2008 | $ 17,696 | $ 765 | $ - | $ 18,461 | $ (5,132) | $ 13,329 | $ 13,217 | $ 26,546 | 27.8% |
| | 2009 | 25,759 | 1,261 | (1,655) | 25,365 | (5,884) | 19,481 | 26,546 | 46,027 | 23.2% |
| | 2010 | 25,759 | 2,189 | (2,824) | 25,124 | (6,162) | 18,962 | 46,027 | 64,989 | 24.5% |

[1] Fiscal year-ended January 31, 2011
[2] Fiscal year-ended December 31, 2010

The City's, Health Fund, SAWS' and CPS Energy's funded status for the most recent year are as follows:

**Funded Status and Funding Progress**

| Pension Plan | City of San Antonio | Fire and Police Health Care Fund | SAWS | CPS Energy Health Plan | CPS Energy Life Plan | CPS Energy Disability Plan |
|---|---|---|---|---|---|---|
| Actuarial value of plan assets (a) | $ - | $ 219,404 | $ - | $ 199,195 | $ 46,815 | $ 3,631 |
| Actuarial accrued liability (b) | 324,516 | 606,861 | 242,388 | 198,286 | 36,091 | 6,945 |
| Unfunded actuarial accrued liability (funding excess) (b) - (a) | $ 324,516 | $ 387,457 | $ 242,388 | $ (909) | $ (10,724) | $ 3,314 |
| Funded ratio (a) / (b) | 0.0% | 36.2% | 0.0% | 100.5% | 129.7% | 52.3% |
| Covered payroll (c) | $ 270,708 | $ 255,010 | $ 83,505 | $ 222,427 | $ 200,342 | $ 200,342 |
| Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(b) - (a)] / (c)) | 119.9% | 151.9% | 290.3% | (0.4)% | (5.4)% | 1.7% |

## Note 10 CPS Energy South Texas Project (STP)

### Joint Operations

**Units 1 and 2** – CPS Energy is one of three participants in STP, currently a two-unit nuclear power plant with each unit having a nominal output of approximately 1,350 megawatts. The other participants in STP Units 1 and 2 are NRG South Texas LLP, a wholly owned subsidiary of NRG Energy, Inc. (NRG) and the City of Austin. The units, along with their support facilities and administrative offices, are located on a 12,220-acre site in Matagorda County, Texas. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. On October 28, 2010, STP submitted license renewal applications to the NRC. Upon approval of these applications, it is expected that STP Units 1 and 2 will be licensed for a total of 60 years of operation.



*Amounts are expressed in thousands*



## Note 10 CPS Energy South Texas Project (STP) (Continued)

### Joint Operations (Continued)

Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated. At that time, the STPNOC, a Texas nonprofit, nonmember corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC. STPNOC is financed and controlled by the owners pursuant to an operating agreement among the owners and STPNOC. Currently, a four-member board of directors governs STPNOC, with each owner appointing one member to serve with STPNOC's chief executive officer.

CPS Energy amortizes its share of nuclear fuel for STP to fuel expense on a units-of-production method. Under the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS Energy is charged a fee for disposal of spent nuclear fuel, which is based upon CPS Energy's share of STP generation that is available for sale to CPS Energy customers. This charge is included in fuel expense monthly.

CPS Energy's 40.0% ownership in STP Units 1 and 2 represents approximately 1,080 megawatts of total plan capacity. See Note 4, Capital Assets for more information about CPS Energy's capital investments in STP.

**Units 3 and 4 Project** – In September 2007, NRG and CPS Energy signed the South Texas Project Supplemental Agreement (Supplemental Agreement) under which CPS Energy elected to participate in the development of STP Units 3 and 4 pursuant to the terms of the participation agreement among the STP owners and agreed to potentially own up to 50.0% of STP Units 3 and 4. The Supplemental Agreement provided for CPS Energy to reimburse NRG for its pro rata share, based on its ownership percentage, of initial project costs incurred and to pay its pro rata share of future development costs. The Boards of CPS Energy and NRG subsequently approved the Supplemental Agreement, which was effective on October 29, 2007. CPS Energy's adoption of its resolution to participate in the initial development of STP Units 3 and 4 did not constitute a commitment to make the complete investment in the proposed construction and operation of new nuclear units at STP.

Also in September 2007, STPNOC, on behalf of CPS Energy and NRG, filed with the NRC a combined construction and operating license application (COLA) to build and operate STP Units 3 and 4. This COLA was the first complete application for new commercial nuclear units to be filed with the NRC in nearly 30 years. On November 29, 2007, the NRC announced it had accepted the COLA for review.

On March 26, 2008, NRG announced the formation of Nuclear Innovation North America, LLC (NINA). NRG has an 88.0% ownership interest in NINA, while Toshiba American Nuclear Energy Corporation (TANE) owns the remaining 12.0%. Upon the formation of NINA, NRG contributed its 50.0% ownership of, and its development rights to, STP Units 3 and 4 to NINA. As a result, NINA became CPS Energy's partner for the co-development of STP Units 3 and 4.

On September 24, 2008, STPNOC, on behalf of CPS Energy and NINA, filed with the NRC an updated COLA naming TANE as the provider of STP Units 3 and 4. The project expects to receive the final Safety Evaluation Report in 2012. Receipt of the NRC-approved combined operating license is a condition precedent to starting significant project construction.



*Amounts are expressed in thousands*

## Note 10 CPS Energy South Texas Project (STP) (Continued)

### Joint Operations (Continued)

Also in September 2008, CPS Energy filed a Phase I application for a Department of Energy (DOE) loan guarantee related to its portion of the estimated project costs. Following the DOE's evaluation of all Phase I applications, the DOE ranked the project third out of a field of fourteen nuclear loan guarantee project applications that were submitted. Subsequently, the DOE narrowed the list of nuclear project candidates for DOE loan guarantees to four projects, including STP Units 3 and 4.

On November 5, 2008, STPNOC and the DOE executed a Standard Contract in which the DOE undertook the obligation to provide for permanent disposal of used nuclear fuel from the proposed STP Units 3 and 4 project.

On January 20, 2009, the Board authorized CPS Energy to work with STPNOC to enter into an engineering, procurement and construction (EPC) agreement with TANE for STP Units 3 and 4. The EPC agreement did not commit CPS Energy to build the new nuclear units. Instead, it enabled CPS Energy to lock in favorable terms and conditions with the contractor prior to a final construction decision once the NRC issues a license for the project. The agreement was subsequently signed by all parties on February 24, 2009.

Following notice published on February 19, 2009, on April 21, 2009, three individuals and three groups joined to file one Petition to Intervene against the STP Units 3 and 4 COLA. This initial petition contained 28 contentions. Interveners subsequently filed seven additional contentions. As a result of NRC Licensing Board decisions, most of the contentions were dismissed. The remaining contentions have been combined into a single contention which has been admitted for further consideration. STPNOC, as agent for the owners, plans to file supporting information as required to address any open issues, and the STPNOC staff believes these contentions can be resolved without hearings. The project schedule has time built into it for hearings as part of the COLA process; however, it is unclear whether contentions may result in hearings and whether hearings will affect the timing for issuance of the COLA.

On October 13, 2009, the Board approved selection of STP Units 3 and 4 as the next baseload generation resource and approved a request for $400,000 in bonds to support the project. However, amid reports that CPS Energy had knowledge that costs of the project might be significantly higher than previously reported, the City Council of San Antonio's vote on the bonds was postponed. This higher project cost estimate prompted the City Council to reevaluate CPS Energy's stake in the project and members of CPS Energy's management to engage in negotiations with representatives from TANE in November 2009.

Following the postponement of the City Council's vote, the Board undertook an investigation to determine whether CPS Energy's management had knowledge of an increase in the preliminary cost estimate for STP Units 3 and 4 and why that information was not previously communicated to the Board. The results of this investigation were reported to the Board in late 2009 and, based on the report, the Board adopted a resolution finding that there was a failure of the communication from certain members of CPS Energy executive management to the Board and the City Council regarding a revised cost estimate that was publicly disclosed in October 2009. The investigation report also concluded that there was no malicious intent on the part of any member of the management team in connection with the failure of the communication. Further, the report found that no member of management instructed any other employee to conceal or withhold any information from the Board and that lack of information flowing to the Board was, at worst, due to a difference of opinion about what information should be deemed material and deserving of the Board's attention.





## Note 10 CPS Energy South Texas Project (STP) (Continued)

### Joint Operations (Continued)

While the project's cost controversy was being investigated, CPS Energy explored all its options regarding participation in or withdrawal from the project. On December 6, 2009, CPS Energy filed a petition in Bexar County district court to clarify the roles and obligations of CPS Energy and NINA to define the rights of both parties should either decide to withdraw from the project. NRG escalated the litigation when it sued CPS Energy and claimed CPS Energy should forfeit all investment to date and lose all value in the project's land and water rights. CPS Energy amended its petition on December 23, 2009, and raised significant issues concerning misconduct by NRG and NINA. CPS Energy specified actual and exemplary damages of $32,000,000.

On February 17, 2010, CPS Energy and NINA announced that a proposed settlement had been reached that ended the parties' legal disagreement and allowed the proposed expansion of STP Units 3 and 4 to proceed. As a result of the settlement, CPS Energy's ownership stake in STP Units 3 and 4 was reduced from 50.0% to 7.6%, while NINA retained 92.4% ownership. CPS Energy is not liable for any project development costs incurred after January 31, 2010. Project costs incurred by CPS Energy as of January 31, 2011 totaled $391,000. However, once the new units reach commercial operation, CPS Energy will be responsible for its 7.6% share of ongoing costs to operate and maintain the units. CPS Energy has withdrawn its pending application for a DOE loan guarantee. Also as a result of the settlement, NINA also agreed to pay CPS Energy $80,000, in two $40,000 payments, upon DOE issuance of a conditional loan guarantee. NINA also agreed to make a contribution of $10,000 over a four-year period to the Residential Energy Assistance Partnership (REAP), which provides emergency bill payment assistance to low-income customers in San Antonio and Bexar County. The settlement agreement was finalized on March 1, 2010. As of January 31, 2011, CPS Energy had received $2,500 from NINA for REAP.

Shortly after the announcement on February 17, Tokyo Electric Power Company (TEPCO) expressed conditional interest in participating in the project. TEPCO operates multiple nuclear units in Japan, including six that were in operation at its Fukushima plant.

On March 11, 2011, a region of Japan sustained significant loss of life and destruction as a result of a major earthquake and resulting tsunami. Included in the damage areas were the Fukushima nuclear units, which lost power to components of the backup and safety control systems and began emitting radiation into the surrounding environment. Following the incident, the NRC began looking into the safety aspects of nuclear plant operations in the United States with the objective of assuring that events such as those at the Fukushima plant do not occur in this country. The NRC's assessments confirmed the safety of U.S. nuclear power plants and included 12 recommendations to the NRC to enhance readiness to safely manage severe events. The NRC Commissioners have directed the staff to implement several of the recommendations that were identified as those that should be implemented without delay. The NRC staff is developing the strategy and the regulatory activities needed to implement these recommendations. In addition, the Commissioners have directed the staff to identify the schedule and resource needs associated with the Near-Term Task Force recommendations that were identified as long-term actions and/or that require additional staff study to inform potential regulatory changes.

On March 21, 2011, NINA initially announced that it was reducing the scope of development of STP Units 3 and 4 to allow time for the NRC to assess the lessons that can be learned from the events in Japan. They further stated that continuing work, for the time being, would be limited to licensing and securing the DOE loan guarantee.

## Note 10 CPS Energy South Texas Project (STP) (Continued)

### Joint Operations (Continued)

In the wake of the disaster, TEPCO is now expected to focus its most immediate efforts in Japan. It is currently unknown whether TEPCO will continue with its planned investment in STP Units 3 and 4 in the long-term.

On April 19, 2011, NRG announced that it will not invest additional capital in STP Units 3 and 4 development effort and in the first quarter it would write off the entire value of its investment to date in the project while continuing to own a legal interest. 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. After extensive evaluation and consideration of several factors, CPS Energy's management has made an assessment that the STP Units 3 and 4 project is not impaired.

Excluding AFUDC of $21,000, project costs incurred by CPS Energy to date of $370,000 are included in construction in progress.

### Nuclear Insurance

The Price-Anderson Act is a comprehensive statutory arrangement for providing limitations on liability and governmental indemnities with respect to nuclear accidents or events. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $100,600, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at $10,000 per year per reactor for each nuclear incident. CPS Energy and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests. For purposes of these assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC in accordance with the financial protection requirements of the Price-Anderson Act. A Master Worker Nuclear Liability policy, with a maximum limit of $300,000 for the nuclear industry as a whole, provides protection from nuclear-related claims.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of approximately $1,100,000. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP Units 1 and 2 currently maintain approximately $2,800,000 of nuclear property insurance, which is above the legally required amount of $1,100,000. The $2,800,000 of nuclear property insurance consists of $500,000 in primary property damage insurance and $2,300,000 of excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited (NEIL). A retrospective assessment could occur if property losses, as a result of an accident at any nuclear plant insured by NEIL, exceed the accumulated funds available to NEIL.





## Note 10 CPS Energy South Texas Project (STP) (Continued)

### Nuclear Decommissioning

In 1991, CPS Energy started accumulating the decommissioning funds for their original 28.0% portion in an external trust in accordance with the NRC regulations. The 28% Decommissioning Trust's assets and related liabilities are included in CPS Energy's financial statements as a component unit. Excess or deficient funds related to the 28% Trust will be received from or distributed to CPS Energy's ratepayers after decommissioning is complete.

In conjunction with the acquisition of the additional 12.0% interest in STP in May 2005, CPS Energy also assumed control of a relative portion of the Decommissioning Trust previously established by the prior owner, American Electric Power (AEP). This is referred to as the 12% Decommissioning Trust, and its assets and related liabilities are also included in CPS Energy's financial statements as a component unit. Subject to PUCT approval as requested in the future, excess or deficient funds related to the 12% Trust will be received from or distributed to AEP customers after decommissioning is complete.

CPS Energy, together with the other owners of STP Units 1 and 2, files a certificate of financial assurance with the NRC for the decommissioning of the nuclear power plant every two years or upon transfer of ownership. The certificate assures that CPS Energy and the other owners meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. The most recent cost study conducted by the owners in March 2008 showed that decommissioning costs for CPS Energy's 28.0% ownership in STP Units 1 and 2 were estimated at $386,300 in 2007 dollars. Included in the cost study was a 10.0% contingency component as required to comply with the PUCT. Based on the level of funds accumulated in the 28.0% Decommissioning Trust and an analysis of this cost study, CPS Energy determined that no further decommissioning contributions will be required to be deposited into the Decommissioning Trust.

CPS Energy has determined that some decommissioning activities will be required prior to shutdown of STP Units 1 and 2 at the end of the plant's life. Since the NRC prohibits any spending out of the Decommissioning Trusts for other than administrative expenses prior to shutdown, CPS Energy established a preshutdown account to fund decommissioning expenses incurred prior to shutdown. Contributions to fund preshutdown decommissioning costs for CPS Energy's 28.0% ownership in STP amounted to $2,200 in fiscal year 2011. Preshutdown decommissioning expenses for the 28.0% ownership totaled $80 for fiscal year 2011. For the 12.0% ownership, preshutdown costs were funded by AEP's ratepayers; preshutdown decommissioning expenses for this ownership totaled $33 for fiscal year 2011.

Excluding securities lending collateral, as of December 31, 2010, CPS Energy had accumulated approximately $301,700 in the 28% Trust. Total funds are allocated to decommissioning costs, spent fuel management and site restoration. Based on the most recent annual calculation of financial assurance required by the NRC, the 28% Trust funds allocated to decommissioning costs totaled $209,000, which exceeded the calculated financial assurance amount of $139,500 at December 31, 2010.

## Note 10 CPS Energy South Texas Project (STP) (Continued)

### Nuclear Decommissioning (Continued)

The March 2008 cost study estimated decommissioning costs for the 12.0% ownership in STP Units 1 and 2 at $165,600 million in 2007 dollars. Excluding securities lending cash collateral, as of December 31, 2010, approximately $100,100 had been accumulated in the 12% Trust. Total funds are allocated to decommissioning costs, spent fuel management and site restoration. Based on the most recent annual calculation of financial assurance required by the NRC, the 12% Trust funds allocated to decommissioning costs totaled $68,900, which exceeded the calculated financial assurance amount of $59,800 at December 31, 2010.

In fiscal year 2009, CPS Energy changed its method of accounting for the Decommissioning Trusts. Under the new method, a pro rata share of total decommissioning costs (as determined by the March 2008 cost study) has been recognized as a liability. In subsequent years, annual decommissioning expense and an increase in the liability will reflect the effects of inflation and an additional year of plant usage. Additionally, guidance under FASB Statement 71, *Accounting for the Effects of Certain Types of Regulation*, will be followed to retain the zero fund net assets approach to accounting for the Decommissioning Trusts. There was no impact to fund net assets as a result of this change in accounting method.

Both Decommissioning Trusts have separate calendar-year financial statements, which are separately audited and can be obtained by contacting the Controller at CPS Energy.

### STP Pension Plan and Other Postretirement Benefits

STP maintains a noncontributory defined-benefit pension plan covering most employees. Retirement benefits are based on length of service and compensation. Plan assets are invested in various equity and fixed-income securities. Pension contributions totaling $8,665 were made in fiscal year 2010, of which approximately $8,300 related to the 2010 plan year, while approximately $400 related to plan year 2009. A final contribution of $6,200 for plan year 2010 will be required to be made by September 15, 2011, in order to meet minimum funding requirements of the Internal Revenue Code.

In September 2006, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – An Amendment of FASB Statements No. 87, 88, 106 and 132(R).* FASB Statement No. 158 required STP, as the sponsor of a plan, to (a) recognize on its balance sheet as an asset the plan's overfunded status or as a liability the plan's underfunded status, (b) measure the plan's assets and obligations as of the end of the calendar year, and (c) recognize changes in the funded status of the plans in the year in which changes occur. Additional minimum liabilities are also derecognized upon adoption of the new standard. FAS No. 158 required STP to recognize additional liabilities and eliminate the intangible asset related to certain of its qualified and nonqualified plans. The effect of the defined benefit funding obligations to CPS Energy was $(14,700) for fiscal year 2011 and was reflected as a reduction in Other Changes in Fund Net Assets on the Statements of Revenues, Expenses and Changes in Fund Net Assets.

Employees whose pension benefits exceed $245 for the 1974 Employee Retirement Income Security Act limitations are covered by a supplementary nonqualified, unfunded pension plan, which is provided for by charges to operations sufficient to meet the projected benefit obligation. The accruals for the cost of that plan are based on substantially the same actuarial methods and economics as the noncontributory defined-benefit pension plan. STPNOC has a supplemental retirement plan for certain key individuals.

 *Amounts are expressed in thousands*



## Note 10 CPS Energy South Texas Project (STP) (Continued)

### STP Pension Plan and Other Postretirement Benefits (Continued)

STPNOC approved a change to the pension plan, effective January 1, 2007, to preclude the eligibility of employees hired after December 31, 2006, in the plan. Employees hired after this date will receive enhanced matching contributions under the STP Nuclear Operating Company Savings Plan.

STPNOC also maintains a defined-benefit postretirement plan that provides medical, dental and life insurance benefits for substantially all retirees and eligible dependents. The cost of these benefits is recognized in the project statements during an employee's active working career. STPNOC has a trust to partially meet the obligations of the plan.

The owners of STP, including CPS Energy, share in all plan costs in the same proportion as their respective ownership percentages.

**Schedule of Funding Status (RSI-Unaudited)**
**Calendar Year 2010**

| | Pension Benefits | Other Benefits |
|---|---|---|
| Change in Benefit Obligation: | | |
| Benefit Obligation - Beginning | $ 259,244 | $ 76,990 |
| Service Cost | 8,652 | 6,264 |
| Interest Cost | 15,415 | 4,511 |
| Actuarial Loss | 29,732 | 16,827 |
| Benefits Paid | (3,943) | (2,487) |
| Benefit Obligation - Ending | 309,100 | 102,105 |
| Change in Plan Assets: | | |
| Fair Value of Plan Assets - Beginning | 161,845 | 9,665 |
| Actual Return on Plan Assets | 16,747 | 1,332 |
| Employer Contributions | 8,665 | 2,125 |
| Benefits Paid | (3,943) | (2,487) |
| Fair Value of Plan Assets - Ending | 183,314 | 10,635 |
| Funded Status - Ending | (125,786) | (91,470) |
| Unrecognized Net Actuarial Loss | 100,137 | 38,668 |
| Unrecognized Prior Service Cost | 5,581 | (10,597) |
| Unrecognized Transition Obligation | | 196 |
| Net Amount Recognized | (20,068) | (63,203) |
| Accrued Benefit Cost | $ (20,068) | $ (63,203) |
| Weighted-Average Assumptions: | | |
| Discount Rate | 5.5% | 5.3% |
| Expected Return on Plan Assets | 8.0% | 8.0% |
| Rate of Compensation Increase | 3.0% | 3.0% |

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 *Amounts are expressed in thousands*

## Note 11 Commitments and Contingencies

### Primary Government (City)

*Grants*

The City has received significant financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a materially adverse effect on the City's financial position at September 30, 2011. Grants awarded by federal, state, and other governmental agencies but not yet earned as of September 30, 2011 were $60,871.

*Capital Improvement Program*

The City will be undertaking various capital improvements during fiscal year 2012. The estimated cost of these improvements is $565,474, which consist of the following:

| Function/Program | | FY 2012 |
|---|---|---|
| **General Government** | | |
| Information Technology | $ | 10,185 |
| Municipal Facilities | | 46,753 |
| **Total General Government** | $ | 56,938 |
| **Public Health & Safety** | | |
| Drainage | $ | 100,147 |
| Fire Protection | | 22,097 |
| Law Enforcement | | 41,547 |
| **Total Public Health & Safety** | $ | 163,791 |
| **Recreation & Culture** | | |
| Libraries | $ | 3,600 |
| Municipal Facilities | | 14,848 |
| Parks | | 38,438 |
| **Total Recreation & Culture** | $ | 56,886 |
| **Transportation** | | |
| Air Transportation | $ | 88,689 |
| Street | | 199,170 |
| **Total Transportation** | $ | 287,859 |
| **Total Capital Plan** | $ | 565,474 |

These projects are scheduled to be funded with a combination of grants, contributions from others, bonds, certificates, notes and other designated City resources.







## Note 11 Commitments and Contingencies (Continued)

### Primary Government (City) (Continued)

*Litigation*

The City is a party to various lawsuits alleging personal and property damages, wrongful death, breach of contract, property tax assessment disputes, environmental matters, class actions, employment claims and cases. The estimated liability, including an actuarially determined amount of incurred but not reported claims, is recorded in the Insurance Reserve Fund in the amount of $21,545. The City estimates the amounts of unsettled claims under its self-insurance program and believes that the self-insurance reserves recorded in the Insurance Reserve Fund are adequate to cover losses for which the City may be liable. Whether additional claims or revisions to estimates required for settlement on existing claims could have a material effect on the general purpose financial statements cannot be determined.

***Kopplow Development, Inc. v. City of San Antonio.*** Plaintiff contends that the construction of a regional storm water detention facility was an inverse condemnation of its property by increasing the flood plain elevation on its property. The City also filed a statutory condemnation to acquire an easement involving Plaintiff's property to construct and maintain part of the facility. This matter was tried in July 2008, but the City's motion for new trial was granted. After a retrial, the jury awarded approximately $600 to Plaintiff for the inverse condemnation and statutory condemnation. The City and Plaintiff appealed. The Fourth Court of Appeals recently issued its opinion affirming the trial court's ruling awarding Kopplow $5 as compensation for the land taken, but reversed the other portion of the judgment for the remainder of the damages. Kopplow's motion for rehearing was denied on December 29, 2010. Kopplow filed a Petition for Review to the Texas Supreme Court, which was granted. Kopplow filed their brief on the merits in October, and the City filed its reply in December 2011. The matter has not yet been set for submission to the court.

***Shawn Rosenbaum, et. al. v. City of San Antonio, et. al.*** Plaintiff's decedent, Diane Rosenbaum, was operating her motorized wheelchair, crossing a parking area where she allegedly was struck by a City vehicle. Ms. Rosenbaum later died, allegedly as a result of this incident. Damages in this matter are capped by the Texas Tort Claims Act at $250. The case was stayed pending the prosecution of an interlocutory appeal of Judge's denial of the City's plea to the jurisdiction, motion for traditional summary judgment and no-evidence Motion for Summary Judgment to the Fourth Court of Appeals. On December 21, 2011, the Fourth Court of Appeals issued its opinion reversing the trial court's denial of the plea to the jurisdiction and dismissing the case. Plaintiffs have not yet indicated whether or not they will seek further appellate review.

***Daniel Thomas, et. al. v. City of San Antonio, et. al.*** Plaintiffs' decedent was involved in two vehicle accidents in a short period of time and fled the scene of the second one on foot. After decedent refused commands to stop and drop his weapon, and in fear for their safety, the officers shot and killed the decedent. Plaintiffs filed suit in Federal Court against the City and the officers in their individual capacities. If liability is determined, damages could be in excess of $250. In December 2011, the court granted the City's Motion for Summary Judgment. The remaining claims against the officers are set for trial on March 5, 2012.

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

*Amounts are expressed in thousands*

## Note 11 Commitments and Contingencies (Continued)

**Primary Government (City) (Continued)**

***Litigation (Continued)***

***KGME, Incorporated v. City of San Antonio.*** Plaintiff entered into a contract with the City to provide construction services. The parties determined that work on portions of the contract had become impracticable and further work would cease. Plaintiff sued for Breach of Contract and Violations of the Prompt Payment Act. Damages could exceed $250. The City filed a plea to the jurisdiction, which was denied by the Court. The Fourth Court of Appeals issued its opinion on February 16, 2011, affirming the Trial Court's denial of the City's Plea to the Jurisdiction. The case was remanded back to State Court. As of this date, there is no trial setting.

***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 Plaintiff's decedent was killed. Plaintiff filed suit against the officer and the City alleging violations of civil rights under 42 U.S.C. §1983. This case is in the early discovery stages. Damages could exceed $250.

***Headwaters Coalition, et. al. v. City of San Antonio.*** The Headwaters Coalition, owners of the property alleged to contain the headwaters of the San Antonio River, and a local homeowners association filed suit to prevent the use of 2007 General Obligation Bond funds for constructing a drainage system to run down Hildebrand Avenue from Broadway to the San Antonio River, intending to alleviate floodwaters on Broadway. Plaintiffs contend that the wording of the 2007 bond election documents strictly limits the construction of the drainage system to Broadway and that no work may be done off of that street. The City contends that the intent of the 2007 General Obligation Bond proposition election documents was to alleviate the flooding on Broadway and that placement of the drainage system on Hildebrand is the most efficient and cost-effective means of achieving that goal. Alternatively, the City contends that the Hildebrand drainage system plan substantially complies with the 2007 General Obligation Bond proposition documents. A State District Court Judge entered a temporary injunction preventing the City not only from using the 2007 bond proceeds on the Hildebrand system, but prohibiting any further construction work or the expenditures of any other City funds on the Hildebrand drainage system project during the pendency of the suit. The City filed an interlocutory appeal to the Fourth Court of Appeals. Court-ordered mediation has been ordered on this matter and will commence on March 20, 2012.

***Abilmelch Garcia v. City of San Antonio.*** Plaintiff claims he was operating his wheelchair at the intersection of E. Commerce and Soledad when he was struck by a City of San Antonio Waste Management truck operated by a City employee. 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 exceeds $250. Damages are capped by the Texas Tort Claims Act at $250. Case is set for trial on April 16, 2012.

***Maria Elena Rodriquez v. City of San Antonio.*** Plaintiffs sued under the Texas Tort Claims Act for negligence, gross negligence, and wrongful death alleging that the San Antonio Police Officer negligently struck and killed the driver in a motor vehicle accident on Loop 1604 on March 7, 2010. Maria Elena Rodriguez was riding as a passenger in the vehicle. She allegedly sustained injuries to both knees and her back, and alleges damages in excess of $250. Damages are capped by the Texas Tort Claims Act at $250. Plaintiff has until March 7, 2012 to refile her suit due to Motion for Continuance being denied by the judge on February 27, 2012.





## Note 11 Commitments and Contingencies (Continued)

**Primary Government (City) (Continued)**

***Litigation (Continued)***

***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 stage. Damages could reach $250.

### *Arbitrage*

The City has issued certain tax-exempt obligations that are subject to IRS arbitrage regulations. Noncompliance with these regulations, which pertain to the utilization and investment of proceeds, can result in penalties, including the loss of the tax-exempt status of the applicable obligations retroactive to the date of original issuance. In addition, the IRS requires that interest income earned on proceeds in excess of the arbitrage rate on applicable obligations be rebated to the federal government. The City monitors its bond proceeds in relation to arbitrage regulations, and "arbitrage rebate" is estimated and recorded in the government-wide and proprietary financial statements when susceptible to accrual, and in the governmental fund type when matured. As of September 30, 2011, the City has no arbitrage liability for its governmental or proprietary funds.

### *Leases*

The City leases City-owned property to others consisting of buildings, real property, and parking spaces. Costs of specific leased components are not readily determinable. The Airport System's revenue is net of Ground Abatement Credits and Building Improvement Credits allowed to lessees per signed contracts. Total rental revenue on operating leases for the fiscal year-ended September 30, 2011 was $65,534. As of September 30, 2011, the leases provide for the following future minimum rentals:

| Lease Revenues | Governmental Activities | Airport System | Nonmajor Enterprise Funds | Total |
|---|---|---|---|---|
| Fiscal year ending September 30: | | | | |
| 2012 | $ 5,804 | $ 43,383 | $ 1,229 | $ 50,416 |
| 2013 | 5,534 | 39,368 | 1,218 | 46,120 |
| 2014 | 5,245 | 29,758 | 937 | 35,940 |
| 2015 | 5,132 | 28,113 | 195 | 33,440 |
| 2016 | 2,516 | 8,358 | 183 | 11,057 |
| 2017-2021 | 9,560 | 28,584 | 913 | 39,057 |
| 2022-2026 | 3,342 | 9,757 | 720 | 13,819 |
| 2027-2031 | 1,149 | 5,029 | | 6,178 |
| 2032-2036 | 142 | 1,277 | | 1,419 |
| Future Minimum Lease Rentals | $ 38,424 | $ 193,627 | $ 5,395 | $ 237,446 |

- 149 - *Amounts are expressed in thousands*
- 150 - *Amounts are expressed in thousands*

## Note 11 Commitments and Contingencies (Continued)

**Primary Government (City) (Continued)**

***Landfill Postclosure Care Costs***

In October 1993, the City Council approved closure of the Nelson Gardens Landfill, which immediately stopped accepting solid waste. Subsequent to landfill closure, federal and state laws required the City to incur certain postclosure care costs over a period of 30 years. As of September 30, 1994, the City estimated these costs for postclosure of the Nelson Gardens Landfill at $3,825. The estimate was based on estimated costs for installation of a leachate and groundwater collection system, installation of a methane recovery system, geotechnical and environmental engineering services, and monitoring and maintaining the facility for a 30-year period. In accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Cost*, the estimated postclosure cost of $3,825 for the Nelson Gardens Landfill was recorded as a liability and expensed in the Solid Waste Management Fund in fiscal year 1994. This cost is an estimate and is subject to changes resulting from inflation/deflation, advances in technology, or changes in applicable laws or regulations. Each fiscal year, the City performs an annual re-evaluation of the postclosure care costs associated with the Nelson Gardens Landfill. The annual re-evaluation conducted for the fiscal year-ended September 30, 2011 resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of $2,045. This represents a decrease of $12 from the prior fiscal year for expenditures incurred for geotechnical and environmental engineering services.

***Texas Commission on Environmental Quality (TCEQ) Financial Assurance***

The City is required under the provision of the Texas Administrative Code to provide financial assurance to the Texas Commission on Environmental Quality (TCEQ) related to the closure of municipal solid waste operations including, but not limited to, storage, collection, handling, transportation, processing, and disposal of municipal solid waste. As such, financial assurance is required to ensure that funds are available, when needed, to meet costs associated with the closure of the City's North East Transfer Station. As of September 30, 2001, the permit for the North East Transfer Station has been transferred from the City, and the new permitee has provided adequate financial assurance and assumes all liabilities for this facility. Additionally, financial assurance is required to demonstrate financial responsibility for underground storage petroleum facilities. Based on the number of underground petroleum storage tanks, the City is required to provide $1,000 of financial assurance related to the underground storage facilities.

***Brooks City-Base – Electric and Gas Utilities***

The Brooks City-Base Project is a collaborative effort between the U.S. Air Force (the Air Force) and the City designed to retain the Air Force missions and jobs at Brooks Air Force Base, improve mission effectiveness, assist in reducing operating costs, and promote and enhance economic development at Brooks City-Base. On July 22, 2002, the land and improvements were transferred to the Brooks Development Authority (BDA) for the purpose of creating the Brooks Technology and Business Park, a facility that will foster the development of key targeted industries. The City is currently the Park's anchor tenant.









***Brooks City-Base – Electric and Gas Utilities (Continued)***

In fiscal year 2003, CPS Energy entered into a 20-year agreement with BDA to upgrade the electric and gas utility systems located within the Brooks City-Base. CPS Energy and BDA have each committed to invest $6,300 ($4,200 in year 2002 dollars, which accumulates interest at the rate of 3.7% compounded annually) to upgrade the infrastructure at that location. BDA is required to pay its annual minimum payment from incremental revenues to the City for electric and gas sales to customers that reside on the BDA-developed property. Annual reductions to BDA's obligation are also made in accordance with contract terms for economic development at Brooks City-Base that benefits CPS Energy's Systems. If BDA's operating revenues cannot cover the annual minimum payment, then, as BDA's obligation is backed by the City, the City will fund the obligation for that fiscal year. Obligations for fiscal year 2011 were fully funded through BDA operating revenues. BDA's obligations are additionally reduced annually, in accordance with contract terms, for economic development that benefits CPS Energy's electric and gas systems at the Brooks City-Base.

To the extent that the capital renewals and upgrades do not total $12,600 by September 2022, BDA's and CPS Energy's committed investments each will be reduced equally. To date, CPS Energy has invested $5,600 and BDA has invested, net of annual interest, $4,200. BDA has fully funded its commitment.

**CPS Energy**

***Litigation***

In the normal course of business, CPS Energy is involved in legal proceedings related to alleged personal and property damages, breach of contract, condemnation appeals, and discrimination cases. In addition, CPS Energy's power generation activities and other utility operations are subject to extensive state and federal environmental regulation. In the opinion of CPS Energy's management, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS Energy.

***Leases***

**Capital Leases** – As of January 31, 2011, CPS Energy had no capital leases in which CPS Energy was the lessee. The only capital lease arrangement for which CPS Energy was the lessee, a four year lease for the use of computer servers, ended October 31, 2010. As such there were no future lease payments associated with this capital lease. The value of the assets acquired through the completed computer capital lease at January 31, 2011 was as follows:

| | January 31, 2011 |
|---|---|
| Equipment | $ 2,723 |
| Accumulated Depreciation | (2,723) |
| Net book value | $ - |

- 151 - Amounts are expressed in thousands
- 152 - Amounts are expressed in thousands

## Note 11 Commitments and Contingencies (Continued)

### CPS Energy (Continued)

***Leases (Continued)***

**Operating Leases** – CPS Energy has entered into operating lease agreements to secure the usage of railroad cars, natural gas storage facilities, land, a building, office space, parking lot space and engineering equipment. The lease of the building contains an escalation clause whereby the minimum monthly lease payments will increase by $3 per month beginning in the sixth year of the lease. The leases for the parking lot space contain a provision for a slight escalation in the monthly payment amount after the first year of each lease.

The future minimum lease payments made by CPS Energy for noncancelable operating leases with terms in excess of one year were as follows:

| Year Ended January 31, | Operating Lease Payments |
|---|---|
| 2012 | $ 5,852 |
| 2013 | 4,072 |
| 2014 | 2,130 |
| 2015 | 1,770 |
| 2016 | 738 |
| Total future minimum lease payments | $ 14,562 |

CPS Energy's minimum lease payments for all operating leases for which CPS Energy was the lessee amounted to $8,000 in fiscal year 2011. There were no contingent lease or sublease payments in fiscal year 2011.

CPS Energy has entered into operating lease agreements allowing cable and telecommunication companies to attach telephone, cable and fiber-optic lines to CPS Energy's electric poles. Operating leases also exist between CPS Energy and telecommunication companies allowing the companies to attach communication equipment to CPS Energy's communication towers. New leases pertaining to the use of CPS Energy's communication towers contain an escalation clause whereby the annual lease payments will increase by 4.0% per year after the first year of each lease.

Additionally, CPS Energy has three operating leases for the use of land that CPS Energy owns, and it has entered into multiple agricultural leases allowing the lessees to use CPS Energy's land for sheep and cattle grazing. The majority of the operating leases pertaining to the use of CPS Energy's communication towers contain a provision for contingent lease receipts that will equal the lesser of a 15.0% increase in the prior five-year lease payment or the percentage increase in the Consumer Price Index over the same five-year period. Furthermore, the three land leases also contain a provision for contingent lease receipts based on the Consumer Price Index.

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## Note 11 Commitments and Contingencies (Continued)

### CPS Energy (Continued)

***Leases (Continued)***

The future minimum lease receipts to CPS Energy for noncancelable operating leases with terms in excess of one year were as follows:

| Year Ended January 31, | Operating Lease Receipts |
|---|---|
| 2012 | $ 2,746 |
| 2013 | 2,756 |
| 2014 | 2,701 |
| 2015 | 2,679 |
| 2016 | 2,182 |
| Later years | 10,307 |
| Total future minimum lease payments | $ 23,371 |

CPS Energy's minimum lease receipts for all operating leases for which CPS Energy was the lessor amounted to $8,900 in fiscal year 2011. Contingent lease receipts amounted to $328 for fiscal year 2011. There were no sublease receipts in fiscal year 2011.

**Lease/Leaseback** – In June 2000, CPS Energy entered into a lease/leaseback transaction with an affiliate of Exelon involving CPS Energy's Spruce 1 coal-fired electric generating unit. The transaction included a lease for a term of approximately 65 years in combination with a leaseback of the facility by CPS Energy for approximately 32 years.

CPS Energy retains fee simple title to, and operating control of, the facility and retains all revenues generated from sales of electricity produced from the facility. CPS Energy received the appraised fair value of the unit, $725,000, which is being amortized over 381 months. The transaction expenses and leaseback costs of $628,300 were recorded as prepaid items in 2001 and are being amortized over 381 months.

CPS Energy has the option to cancel the leaseback after it expires by making a payment to Exelon's affiliate. CPS Energy entered into a collateralization payment-undertaking agreement that will generate amounts sufficient to fund the cancellation option.

CPS Energy's net benefits associated with the transaction were approximately $88,000. The City was paid $12,300 in accordance with the provisions of the New Series Bond Ordinance that permit 14.0% of this net benefit to be distributed. The distribution was recorded as a prepayment in 2001 and is being amortized over 381 months. As a result, net proceeds from the transaction of approximately $75,700 are being reported over the 32-year leaseback term. In fiscal year 2011, the net amount recorded as income by CPS Energy was $2,800.

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- 153 - Amounts are expressed in thousands
- 154 - Amounts are expressed in thousands

## Note 11 Commitments and Contingencies (Continued)

### CPS Energy (Continued)

*Other*

Purchase and construction commitments amounted to approximately $2,400,000 at January 31, 2011. This amount includes provisions for natural gas purchases expected through June 2027; the actual amount to be paid will depend upon CPS Energy's actual requirements during the contract period and the price of gas. Also included are provisions for coal purchases through December 2021 and for coal transportation through December 2014.

CPS Energy also has other purchase commitments totaling $2,700,000. This amount includes provisions for wind power through May 2030, solar power through December 2040, landfill power through December 2020, and raw uranium associated with STP fabrication and conversion services needed for refueling through May 2026.

On January 20, 2009, the Board approved a policy statement on sustainability. The basis of the policy is to affirm that CPS Energy's strategic direction centers on transforming from a company focused on providing low-cost power from traditional generation sources to a company providing competitively priced power from a variety of sources. To be sustainable, CPS Energy has to balance its financial viability, environmental commitments and social responsibility as a community-owned provider. Further, the objective of sustainable energy development is to meet current needs without compromising the ability of future generations to meet their needs. CPS Energy committed more than $5,000,000 by 2020 toward sustainability initiatives.

During fiscal year 2008, CPS Energy entered into a Natural Gas Supply Agreement with the SAEAPFC to purchase, to the extent of its gas utility requirements, all natural gas to be delivered under a Prepaid Natural Gas Sales Agreement. Under the Prepaid Natural Gas Sales Agreement between the SAEAPFC and a third-party gas supplier, the SAEAPFC has prepaid the cost of a specified supply of natural gas to be delivered over 20 years. CPS Energy's 20-year commitment under the Natural Gas Supply Agreement is included in the aforementioned $2,400,000 purchase and construction commitments amount.

In December 2007, CPS Energy and Exelon Generation Company LLC (Exelon) signed an agreement granting CPS Energy an option to participate in a possible joint investment in a nuclear-powered electric generation facility in Southeast Texas (the Exelon Project). Preliminary plans indicate that the Exelon Project would be located in Victoria County, Texas, and would involve the development of two Economic Simplified Boiling Water Reactors (ESBWR), nominally rated at 1,520 megawatts each. Under this agreement, CPS Energy has the option to acquire between a 25.0% and 40.0% ownership in the Exelon Project. Exelon submitted the COLA for the Exelon Project to the NRC on September 3, 2008. On October 30, 2008, the NRC accepted the application for a detailed review. Exelon announced on November 24, 2008, that they intended to select an alternate technology, other than the ESBWR, for the Exelon Project. Subsequently on December 18, 2008, the NRC placed the review of Exelon's COLA on hold. On March 27, 2009, Exelon announced that it had selected Hitachi's Advanced Boiling Water Reactor design for the Exelon Project, and that it planned to revise the COLA and its DOE loan guarantee application accordingly. The Exelon Project failed to qualify for the initial round of DOE loan guarantees. Exelon has delayed development of the Exelon Project but will continue to pursue an Early Site Permit for the Victoria County location. CPS Energy's investment in the Exelon Project totaled $2,700 as of January 31, 2011.





## Note 11 Commitments and Contingencies (Continued)

### CPS Energy (Continued)

*Other (Continued)*

In fiscal year 2003, CPS Energy entered into a 20-year agreement with BDA to upgrade the electric and gas utility systems located within the Brooks City-Base. CPS Energy and BDA have each committed to invest $6,300 ($4,200 in year 2002 dollars, which accumulates interest at the rate of 3.7% compounded annually) to upgrade the infrastructure at that location. BDA is required to pay its annual minimum payment from incremental revenues to the City for electric and gas sales to customers that reside on the BDA-developed property. Annual reductions to BDA's obligation are also made in accordance with contract terms for economic development at Brooks City-Base that benefits CPS Energy's Systems. To the extent that the capital renewals and upgrades do not total $12,600 by September 2022, BDA's and CPS Energy's committed investments each will be reduced equally. To date, CPS Energy has invested $5,600 and BDA has met its obligation, net of annual interest, $4,200.

On June 8, 2010, CPS Energy committed to partner in the Texas Sustainable Energy Research Institute at the University of Texas at San Antonio for sustainable energy research. The agreement calls for CPS Energy to invest up to $50,000 over 10 years in the institute. The first two years' investment will be $3,500, from funds currently allocated to research and development. Future funding will be developed by the scope of the projects defined by the partnership and subject to annual approval by the Board.

CPS Energy sells its excess power into the wholesale market. While the majority of these transactions are conducted in the short-term market, from time to time, CPS Energy enters into long-term wholesale power supply agreements with other public power entities. CPS Energy currently has two such agreements, one covering the period from 2011 through 2016 and one from 2016 through 2023. The volumes committed under these agreements represent less than 2.0% of current capacity. CPS Energy regularly monitors the market values of these transactions to manage contract provisions with the counterparties.

*Save for Tomorrow Energy Program (STEP)*

During fiscal year 2009, CPS Energy projected to spend approximately $849,000 over the next 12 years on energy efficiency and conservation through its Save for Tomorrow Energy Program (STEP). Annually, the first $8,000 of STEP expenses are funded through the base rate and are reported as CPS Energy operation and maintenance (O&M) expenses.

STEP expenses over the initial $8,000 per year are recovered through the fuel adjustment factor over a twelve-month period beginning in the subsequent fiscal year after they are incurred and have been independently validated. These STEP recoveries will be deferred as STEP net costs recoverable in accordance with guidance provided by FAS 71, *Accounting for the Effects of Certain Types of Regulation*. This guidance requires that certain costs be capitalized as a regulatory asset until they are recovered through future rates.

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## Note 11 Commitments and Contingencies (Continued)

### San Antonio Water System (SAWS)

*Litigation*

SAWS is the subject of various claims and potential litigation, which arise in the ordinary course of its operations. Management, in consultation with legal counsel, makes an estimate of potential costs that are expected to be paid in the future as a result of known claims and potential litigation and records this estimate as a contingent liability. The amount of such contingent liability totaled $6,596 at December 31, 2010. While the exact amount of any potential liability that may arise from these claims and potential litigation is indeterminable, management believes that the amounts recorded are a reasonable estimate.

In March 2007, SAWS was notified by of the Environmental Protection Agency (EPA) Region 6 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 (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 eight occasions, with the Ninth Tolling Agreement currently set to expire on April 30, 2012. Since 2007, SAWS has engaged in settlement negotiations with the EPA and the DOJ to resolve the allegations. SAWS last met with EPA/DOJ representatives in November 2011 to discuss resolution of the enforcement action. Additional negotiations are anticipated. While these negotiations are ongoing, SAWS expects that any settlement, consent decree, or enforcement action will result in required capital improvements and increased annual maintenance and operating expenses that will be phased in over the term of any settlement agreement or consent decree between SAWS and EPA/DOJ. SAWS' very preliminary estimates of the cost of capital improvements and other actions that may be required to settle this matter range from approximately $250,000 to approximately $1,000,000; however, the total final costs may significantly exceed SAWS preliminary estimates, and will depend on the course of action ultimately agreed upon between SAWS and EPA/DOJ or ordered by a Federal District Court if the parties are unable to settle the matter. SAWS currently expects that negotiations with the EPA and DOJ may conclude during calendar year 2012. Since 2007, SAWS has spent approximately $159,800 in capital projects to address and prevent sanitary sewer overflows.

The Lower Colorado River Authority-San Antonio Water System (LCRA-SAWS) Water Project was conceived to develop and make available up to 150,000 acre feet per year of surface water supplies for San Antonio in 2025 while firming up water supplies in the Colorado River Basin. In 2002, SAWS and LCRA executed a Definitive Agreement outlining SAWS' and LCRA's obligations. The agreement called for a multi-year study period, at the end of which both SAWS and LCRA were to determine whether or not to proceed with implementation of the project. Finalization of studies and obtaining appropriate permits for the project were expected to be completed between 2013 and 2015 (figures in this paragraph are not in thousands).

Throughout the study period, SAWS and LCRA evaluated the project's viability on an ongoing basis. In 2008, the LCRA Board of Directors adopted several water supply planning guidance resolutions which led to a conclusion by LCRA that there would be no firm water supply available to San Antonio from the planned project. In May 2009, SAWS' Board of Trustees declared LCRA in breach of the 2002 Definitive Agreement between the parties. The parties unsuccessfully conducted formal mediation in August 2009 and SAWS filed suit against LCRA.






## Note 11 Commitments and Contingencies (Continued)

### San Antonio Water System (SAWS) (Continued)

*Litigation (Continued)*

In September 2009, LCRA filed a plea asserting full or partial governmental immunity from suit. In February 2010, the District Judge in the 200$^{th}$ Judicial District Court of Travis County, Texas granted LCRA's plea asserting full or partial governmental immunity from suit and dismissed SAWS' law suit. SAWS' filed an appeal to the Court of Appeals for the Third Appellate District of Texas in Austin, Texas. Following a decision by the Court of Appeals, either party may further appeal to the Supreme Court of Texas. However, consideration by the Supreme Court is discretionary with the Court and may be refused. Resolution of the appeal on the issue of governmental immunity is expected to take from two to five years, although the time is very difficult to predict.

SAWS has expensed $39,300 in study period costs through December 31, 2010. Under the terms of the 2002 Definitive Agreement with LCRA, SAWS is entitled to receive a reimbursement from LCRA of approximately one-half of those study period costs in the event the agreement is terminated by SAWS. No receivable for this reimbursement has been recorded due to the ongoing litigation.

*Other*

As of December 31, 2010, 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 2011 and others continuing until 2020. Some of the leases include price escalations and the average annual cost per acre foot ranges from $121 to $145 (these figures are not in thousands). The future commitments under these leases are as follows:

| | 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter |
|---|---|---|---|---|---|---|
| Lease obligations | $ 4,735 | $ 3,927 | $ 2,170 | $ 1,421 | $ 1,435 | $ 4,100 |
| Lease obligations (acre feet) | 34,793 | 28,839 | 17,922 | 11,127 | 10,927 | 28,929 |

SAWS has various commitments relating to the production of water supplies. A summary of these commitments is provided below. As with any estimates, the actual amounts paid could differ materially.

| | 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter |
|---|---|---|---|---|---|---|
| Firm purchased water obligations | $ 4,913 | $ 5,009 | $ 5,106 | $ 5,203 | $ 5,301 | $ 123,559 |
| Firm purchased water obligations (acre feet) | 6,700 | 6,700 | 6,700 | 6,700 | 6,700 | 101,500 |
| Variable purchased water obligations | $ 3,991 | $ 3,898 | $ 3,795 | $ 3,685 | $ 3,195 | $ 99,149 |
| Variable purchased water obligations (acre feet) | 4,853 | 4,613 | 4,373 | 4,133 | 3,529 | 90,528 |

SAWS' firm and variable purchased water obligations relate to the contractual commitments made in connection with SAWS' wholesale water contracts with Guadalupe Blanco River Authority (GBRA) and two wholesale agreements for the supply of raw water from the Trinity Aquifer. All water provided under these contracts is subject to availability. Under the contract with GBRA, SAWS will receive between 4,000 and 11,000 acre feet of water annually during the years 2011-2037 at prices ranging from $893 to approximately $1,527 per acre foot. SAWS has an option to extend this contract until 2077 under new payment terms. (Figures in this paragraph are not in thousands.)

## Note 11 Commitments and Contingencies (Continued)

### San Antonio Water System (SAWS) (Continued)

***Other (Continued)***

In 2000, SAWS entered into a wholesale contract with the Massah Development Corporation to deliver raw water from the Lower Glen Rose/Cow Creek formations of the Trinity Aquifer in northern Bexar County. This agreement expired in February 2010. In 2010, SAWS and Massah Development Corporation negotiated a new Water Supply Agreement for a term of 15 years beginning July 1, 2010. The minimum take or pay commitment for the contract is 100 acre feet per month or 1,200 acre feet per year. The initial price is $550 per acre foot with an escalator based on the Producers Price Index. SAWS has an option at the end of the primary term to extend the contract for 10 years. (Figures in this paragraph are not in thousands)

In 2006, SAWS renegotiated the terms of a contract with Sneckner Partners, Ltd. to supply raw water from the Trinity Aquifer. Under this contract, SAWS is required to take or pay for 1,500 acre feet annually at a minimum annual cost of $225 per acre foot through 2020 (these figures are not in thousands). SAWS has an option to extend the contract through 2026, if it desires. As part of this contract, SAWS agreed to make payments quarterly for any residential customers within a defined, currently undeveloped geographical area that begin taking water service from SAWS. While it is impossible to estimate the exact amount of any potential future payments associated with this provision of the agreement, management estimates of this potential contingent liability are less than $5,000. (Figures in this paragraph are not in thousands)

In July 2010, SAWS was granted a permit by the Gonzales County Underground Water Conservation District (the District) to pump 11,688 acre feet from the Carrizo Aquifer. In December 2010, opponents filed an appeal from the District's decision in the Judicial District Court of Gonzales County. Resolution of the appeal could take from one to four years. SAWS has entered into 20 separate agreements to pump water from the Carrizo Aquifer. SAWS makes minimum water payments under the terms of these agreements until such time as the necessary infrastructure to produce and transport the water has been completed. At December 31, 2010, SAWS is committed to make payments under only three of these agreements. Minimum water payments are required under these three agreements through 2029 even if no water is produced. The remaining agreements are currently subject to cancellation by SAWS. The table below summarizes both the required minimum water payments under these agreements as well as the projected additional payments under the agreements assuming that water production begins in 2014.

| | 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter |
|---|---|---|---|---|---|---|
| Required minimum water payments | $ 580 | $ 700 | $ 824 | $ 865 | $ 891 | $ 16,654 |
| Projected additional payments | $ - | $ - | $ - | $ 319 | $ 328 | $ 4,809 |
| Produced water (acre feet) | | | | 11,688 | 11,688 | 163,632 |

SAWS is also committed under various contracts for completion of construction or acquisition of utility plant totaling approximately $270,000 as of December 31, 2010. Funding of this amount will come from excess revenues, contributions from developers, restricted assets and available commercial paper capacity.





## Note 12 Pollution Remediation Obligation

### Primary Government (City)

The City follows the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

The general nature of existing pollution that has been identified on City property is consistent with City operations of acquiring properties for infrastructure and improvement development. Under most circumstances, the triggering event relevant to the City is the voluntary commencement of activities to clean up the pollution. Costs were estimated using the expected cash flow technique prescribed under GASB Statement No. 49 utilizing information provided by the City's respective departments which included previous knowledge of clean-up costs, existing contracts, etc. Depending on the length of time it takes the City to remediate the pollution, costs may be different from that estimated below as a result of market rate changes, improvements to technology, etc.

| | Balance at 10/1/2010 | Additions | Deletions | Balance at 9/30/2011 |
|---|---|---|---|---|
| Governmental Activities: | | | | |
| Liabilities | $ 1,825 | $ 435 | $ (715) | $ 1,545 |
| Construction in Progress | 1,205 | 183 | (527) | 861 |
| Business-Type Activities: | | | | |
| Liabilities | $ 700 | $ 340 | $ - | $ 1,040 |

The Governmental Activities' liabilities were a result of cost estimates to clean existing pollution found on land acquired by the City's CIMS and Parks Departments for the construction of streets and drainage and parks, respectively. Any net changes in the Governmental Activities pollution liability that was not capitalized under Construction in Progress was expensed under the City's public works and culture and recreation activities.

The Business-Type Activities' liability was a result of cost estimates to clean existing pollution found on land acquired by the Airport System for the construction of airport structures. As the City acquired this property in the early 1940s, the liability did not meet the criteria to be capitalized, and as such was expensed in fiscal year 2009. The additional $340 of costs recorded in fiscal year 2011 relate to incremental estimates for the same property which was expensed in both Business-Type Activities and the Airport System Fund.

The City does not foresee receiving any recoveries from third parties for the costs associated with cleaning up these pollution obligations.

### CPS Energy

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, requires that a liability be recognized for expected outlays for cleaning up existing pollution when certain triggering events occur. The general nature of existing pollution that has been identified at CPS Energy sites is consistent with that experienced within the electric and gas utilities industry. Under most circumstances, the triggering event most relevant to CPS Energy is the voluntary commencement of activities to clean up pollution.

## Note 12 Pollution Remediation Obligation (Continued)

### CPS Energy (Continued)

Under the FERC guidance, reserves have been established for dismantling and closure costs. In fiscal year 2008, in preparation for implementation of GASB Statement No. 49, a portion of those reserves were reclassified to remediation and dismantling reserve accounts reported on the balance sheet within other liabilities and deferred credits. When a triggering event occurs, those reserves will be reclassified as a pollution remediation liability also reported within other liabilities and deferred credits.

The pollution remediation liability was $2,600 as of January 31, 2011. Costs were estimated using the expected cash flow technique prescribed under GASB Statement No. 49 utilizing information provided by CPS Energy's environmental staff and consultants.

### San Antonio Water System (SAWS)

SAWS had no material pollution remediation liabilities at December 31, 2010.

## Note 13 Risk Financing

### Primary Government (City)

***Property and Casualty Liability***

At September 30, 2011, the City maintains excess liability insurance coverage through Star Insurance Company. The policy provides coverage in excess of the City's self-insured retention of $500 for general liability, law enforcement legal liability, public official's liability, and employee benefits liability. The City utilizes a third-party administrator to adjust its claims. Great American Insurance Company provides coverage for the City's real property and contents. The City's deductible for property damage is $200, and the insurance will reimburse up to $2,510,577.

Obligations for claims under these programs are accrued in the City's Self-Insurance Reserve Fund based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported. The departments are assessed contributions to cover expenditures. There were no significant reductions in insurance coverage. Claims settlements have not exceeded insurance coverage limits for the past four years.

***Workers' Compensation***

As of September 30, 2011, the City maintains excess workers' compensation insurance coverage through Star Insurance Company. The policy provides coverage for claims by or on behalf of injured workers where the total liability exceeds the City's self-insured retention of $500. The City utilizes a third-party administrator to adjust its claims.

Obligations for claims under these programs are accrued in the City's Self-Insurance Workers' Compensation Fund based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported. The departments are assessed contributions to cover expenditures. There were no significant reductions in insurance coverage. Claims settlements have not exceeded insurance coverage limits for the past four years.





## Note 13 Risk Financing (Continued)

### Primary Government (City) (Continued)

***Employee Health Benefits***

The City offers employees and their eligible dependents a comprehensive employee benefits program including medical, dental, vision and basic and supplemental life insurance. Employees may also participate in healthcare or dependent care spending accounts through our Section 125 Cafeteria Plan. The City's health and dental programs are self-funded. Obligations for benefits are accrued in the Employee Health Benefits Fund based upon the City's estimates of the aggregate liability for unpaid benefits.

***Retiree Health Benefits***

The City offers medical coverage for its retirees and their dependents. The City offers both self insured and fully insured plans to participating retirees who retire from the TMRS Pension Plan immediately following retirement from the City. Self Funded obligations for benefits are accrued in the City's Retiree Health Benefits Insurance Fund (a subfund of the Employee Health Benefits Fund) based upon the City's estimates of the aggregate liability for unpaid benefits. The City additionally, determined and accrued OPEB liabilities based on an actuarial assessment of historical self funded claims data performed bi-annually and reviewed annually. Current year unpaid benefit liabilities for retirees are netted against the OPEB liability as additional contributions.

***Unemployment Compensation Program***

The Unemployment Compensation Program provides a central account for payment of unemployment compensation claims. As of the fiscal year-end, claims were being administered externally and are paid to the Texas Workforce Commission on a reimbursement basis. All costs incurred are recorded on a claim paid basis in the Employee Health Benefits Fund.

***Extended Sick Leave Program***

The Extended Sick Leave Program is used to pay benefits associated with the City's employee long-term disability plan. Benefits are administered by the City. Actual costs are incurred when extended leave is taken. The Extended Sick Leave Program is currently administered out of the Employee Health Benefits Fund.

***Employee Wellness Program***

The Employee Wellness Program is designed to mitigate future health and productivity loss costs by creating awareness of health risks and providing education about healthy lifestyle choices. In 2008, the City opened the COSA Health and Wellness Center in partnership with Gonzaba Medical Group. The Center is available exclusively to provide primary and occupational medicine to active employees. Additionally, the City provides every employee and members of their household an Employee Assistance Program to assist employees with basic situational and behavioral counseling, as well as, financial counseling and legal referral services. The Employee Wellness Program is managed out of the Employee Health Benefits Fund.

## Note 13 Risk Financing (Continued)

### Primary Government (City) (Continued)

***Claims Liability***

The liability for the Employee Health Benefits Program is based on the estimated aggregate amount outstanding at the statement of net assets date for unpaid benefits. Liabilities for the Insurance Reserve and Workers' Compensation Programs are reported when it is probable that a loss has occurred as of the statement of net assets date, and the amount of the loss can be reasonably estimated. These liabilities include allocable loss adjustment expenses, specific incremental claim adjustment expenses such as the cost of outside legal counsel, and a provision for claims that have been incurred but not reported (IBNR). Unallocated claim adjustment expenses have not been included in the calculation of the outstanding claims liability, as management of the City feels it would not be practical or cost beneficial. In addition, based on the difficulty in determining a basis for estimating potential recoveries and the immateriality of prior amounts, no provision for subrogation or salvage has been included in the calculation of the claims liability. The claims liability reported in the accompanying financial statements for both the Insurance Reserve and Workers' Compensation Programs is based on a 3.0% discount rate due to the multi-year life cycle to close out these claims and the average historical as well as forecasted yield on the City's investments.

The following is a summary of changes in claims liability for the City's Insurance Reserve, Employee Health Benefits, and Workers' Compensation Programs Funds for the year-ended September 30, 2011:

| Fund | October 1, | Estimates | Claims | Payments | September 30, |
|---|---|---|---|---|---|
| Insurance Reserve[2]: | | | | | |
| Fiscal Year 2010 | $ 18,497 | $ 4,638 | $ 4,031 | $ (4,031) | $ 23,135 |
| Fiscal Year 2011 | 23,135 | (1,590) | 5,259 | (5,259) | 21,545 |
| Employee Health Benefits: [1] | | | | | |
| Fiscal Year 2010 | $ 8,654 | $ (289) | $ 85,058 | $ (85,058) | $ 8,365 |
| Fiscal Year 2011 | 8,365 | (496) | 87,068 | (87,068) | 7,869 |
| Workers' Compensation: | | | | | |
| Fiscal Year 2010 | $ 26,217 | $ 1,703 | $ 12,270 | $ (12,270) | $ 27,920 |
| Fiscal Year 2011 | 27,920 | 1,534 | 12,333 | (12,333) | 29,454 |

[1] FY11 fund financial claims expense reflects an additional $525 paid for Unemployment Claims that are not included in the calculation of claims liability.

[2] FY11 fund financial claims expense reflects an additional $15 paid for claims handled outside of the reserves.

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## Note 13 Risk Financing (Continued)

### CPS Energy

**Insurance and Reserves** – CPS Energy is exposed to various risks of loss including, but not limited to, those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS Energy maintains property and liability insurance programs that combine self-insurance with commercial insurance policies to cover major risks. The property insurance program provides $5,900,000 of replacement-value coverage for property and boiler machinery loss, including comprehensive automobile coverage, fire damage coverage for construction equipment, and valuable papers coverage. The deductible for the property insurance policy is $5,000 per occurrence with a secondary deductible of $1,000 per occurrence applicable to non-power-plant. The liability insurance program includes:

- $100,000 of excess general liability coverage over a retention amount of $3,000;
- $25,000 of fiduciary liability coverage;
- $100,000 of employment practice liability coverage; and
- Other property and liability insurance coverage, which includes commercial crime, employee travel, event insurance.

CPS Energy also manages its own workers' compensation program. Additionally, to support this program, $35,000 of excess workers' compensation coverage over a retention amount of $3,000 is maintained. No claims settlements exceeded insurance coverage and there were no decreases in the last three fiscal years.

Actuarial studies are performed periodically to assess and determine the adequacy of insurance reserve retentions. Actuarial valuations include nonincremental claims expenses. An actuarial study was performed during the third quarter of fiscal year 2011.

In the table below, the remaining balance under the property reserves column at January 31, 2011, relates to estimated obligations for the clean up, closure, and post-closure care requirements of CPS Energy's landfills. CPS Energy has seven landfill sites, four of which are at full capacity. The estimates for landfill liability are based upon capacity to date and are subject to change due to inflation or deflation, as well as new developments in technology, applicable laws or regulations.

Under CPS Energy's reserve program, all claims are recorded against the reserve.

| Schedule of Changes in Claims Liability | | | | |
|---|---|---|---|---|
| Fund | Liability February 1, | Claims Adjustments | Claims Payments | Liability January 31, |
| Property Reserves: | | | | |
| Fiscal Year 2010 | $ 3,105 | $ 799 | $ - | $ 3,904 |
| Fiscal Year 2011 | 3,904 | 344 | | 4,248 |
| Employee and Public Liability Claims: | | | | |
| Fiscal Year 2010 | $ 10,303 | $ 4,314 | $ (4,254) | $ 10,363 |
| Fiscal Year 2011 | 10,363 | 6,343 | (4,427) | 12,279 |

*Amounts are expressed in thousands*

## Note 13 Risk Financing (Continued)

### CPS Energy (Continued)

**Counterparty Risk** – CPS Energy is exposed to counterparty risk associated with various transactions primarily related to debt, investments, a lease/leaseback transaction and wholesale power. Counterparty risk is the risk that a counterparty will fail to meet its obligations in accordance with the terms and conditions of its contract with CPS Energy. CPS Energy has policies and practices in place to ensure the solvency of counterparties is assessed accurately, monitored regularly and managed actively through its Enterprise Risk Management & Solution Division.

**Hedging** – The 1999 Texas utility deregulation legislation, Senate Bill 7, contained provisions modifying the Texas PFIA to allow municipal utilities the ability to purchase and sell energy-related financial instruments in order to hedge or mitigate the effect of market price fluctuations of natural gas, fuel oil, and electric energy. In 2002, CPS Energy began hedging its exposure to changes in natural gas prices, with the goal of controlling fuel costs to native load customers and stabilizing the expected cash flows associated with wholesale power transactions.

In fiscal year 2010, CPS Energy implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses recognition, measurement and disclosures related to derivative instruments. CPS Energy does not use derivative instruments for speculative purposes. The only derivative instruments entered into are for the purposes of risk mitigation; therefore, these instruments are considered potential hedging derivative instruments under GASB Statement No. 53.

On December 20, 2010, the CPS Energy board of trustees reaffirmed the Energy Price Risk Management Policy, which sets forth the guidelines for the purchase and sale of certain financial instruments and certain physical products, collectively defined as hedge instruments. The essential goal of the Energy Price Risk Management Policy is to provide a framework for the operation of a fuel and energy price hedging program to better manage CPS Energy's risk exposures in order to stabilize pricing and costs for the benefit of CPS Energy and its customers.

In accordance with the requirements of GASB Statement No. 53, all fuel hedges are reported on the balance sheet at fair value. The fair value of option contracts is determined using New York Mercantile Exchange (NYMEX) closing settlement prices as of the last day of the reporting period. For futures and basis swap contracts, the fair value is calculated by deriving the difference between the closing futures prices on the last day of the reporting period and the futures or basis swap purchase prices at the time the positions were established, less applicable commissions.

All potential hedging derivative instruments were evaluated for effectiveness at January 31, 2011, and were determined to be effective in substantially offsetting the changes in cash flows of the hedgeable items. The instruments were categorized into two broad groups for purposes of this testing. In one category, hedges utilize only NYMEX natural gas futures and options that are priced based on the underlying Henry Hub natural gas price, while the physical gas is typically purchased at prices based on either the Western Area Hub Association (WAHA) or the Houston Ship Channel (HSC). Therefore, effectiveness testing was based on the extent of correlation between the first of the month index prices of natural gas at each of these locations and the settlement price at Henry Hub. The correlation coefficient was established at the critical term to be evaluated, with 0.89 established as the minimum standard tolerated. The testing, based on two different location hubs (WAHA and HSC), demonstrated a substantial offset in the fair values, as evidenced by their calculated R values, 0.91 and 0.97, respectively, indicating that the changes in cash flows substantially offset the changes in cash flows of the hedgeable item. Additionally, the substantive characteristics of the hedge have been considered, and the evaluation of this effectiveness measure has been sufficiently completed and documented such that a different evaluator, using the same method and assumptions, would reach substantially similar results.





## Note 13 Risk Financing (Continued)

### CPS Energy (Continued)

The second category includes hedges with both Henry Hub priced swaps and basis swaps to appropriate natural gas hub (WAHA or HSC) with volumes matching the underlying expected physical transaction. Considering the substantive characteristics of these hedge transactions, these instruments were determined to be effective utilizing the consistent critical terms method prescribed under GASB Statement No. 53.

As of January 31, 2011, the total fair value of outstanding hedge instruments was a net liability of $14,230. Fuel hedging instruments with a fair value of $(6,287) are reported as a current liability and classified on the balance sheet as a component of accounts payable and accrued liabilities. Long-term fuel hedging instruments with a fair value of $(7,943) are reported as a noncurrent asset and classified as a component of noncurrent and other assets.

Consistent with hedge accounting treatment required for derivative instruments that are determined to be effective in offsetting changes in the cash flows of the hedged item, changes in fair value are reported as deferred (inflows) outflows of resources on the balance sheet until the contract expiration that occurs in conjunction with the hedged expected fuel purchase transaction. When fuel hedging contracts expire, at the time the purchase transactions occur, the deferred balance is recorded as an adjustment to fuel expense. The current deferred (inflows) outflows of resources related to fuel hedges totaled $6,905 at January 31, 2011. These amounts are reported on the balance sheet as current assets and are classified as a component of prepayments, deferred and other current assets. The noncurrent deferred (inflows) outflows of resources totaled $7,943 at January 31, 2011. These amounts are reported on the balance sheet as noncurrent assets and are classified as a component of other deferred costs.

Following is information related to CPS Energy's outstanding fuel hedging derivative instruments:

**Fuel Derivative Transactions as of January 31, 2011**

| Type of Transaction | | Duration | Volumes in MMBTU | Fair Value | Changes in Fair Value |
|---|---|---|---|---|---|
| Long | Call | Feb 2011 - Sep 2011 | 2,130,000 | $ 4 | $ (1,328) |
| Short | Call | Mar 2011 - Mar 2011 | 260,000 | | 35 |
| Long | Put | Mar 2011 - Mar 2011 | 260,000 | 193 | 29 |
| Short | Put | Feb 2011 - Jul 2011 | 1,560,000 | (1,179) | 186 |
| Long | Fixed Price Natural Gas | Feb 2011 - Jan 2014 | 22,374,416 | (13,883) | (13,160) |
| Short | Fixed Price Natural Gas | Feb 2011 - Mar 2011 | 600,000 | 676 | 676 |
| Long | HSC Basis Swap | Feb 2011 - Jun 2011 | 1,400,000 | (3) | (106) |
| Short | WAHA Basis Swap | Feb 2011 - Mar 2011 | 600,000 | (38) | (38) |
| | | | | $ (14,230) | $ (13,706) |

In the event purchased options are allowed to expire, the related premiums paid to acquire those options will be lost. When a short position is established and options are sold, premiums are received and an obligation to honor the terms of the option contract, if exercised, is created. The decision to exercise the options or let them expire rests with the purchasing party.

- 165 - Amounts are expressed in thousands
- 166 - Amounts are expressed in thousands

## Note 13 Risk Financing (Continued)

### CPS Energy (Continued)

Futures contracts represent a firm obligation to buy or sell the underlying asset. If held to expiration, the contract holder must take delivery of, or deliver, the underlying asset at the established contract price. Basis swap contracts represent a financial obligation to buy or sell the underlying delivery point basis. If held to expiration, the financial difference determined by mark-to-market valuation must be settled on a cash basis. Only if expressly requested in advance may an exchange for physical assets take place.

**Preassigned Congestion Rights** – In the normal course of business, CPS Energy acquires Preassigned Congestion Rights (PCRs) and Transmission Congestion Rights (TCRs) as a hedge against unexpected congestion costs. The TCRs are purchased at auction, annually and monthly, at market value. Municipally owned utilities are granted the right to purchase PCRs annually at 15.0% of the cost of TCRs. This low initial investment is an indication of the leverage characteristic of derivatives. Additionally, PCRs exhibit the other two characteristics of derivatives as defined by GASB Statement No. 53 (settlement factors and net settlement). Therefore, PCRs are reported at fair value on the balance sheet in accordance with GASB Statement No. 53, with fair value determined by the cost of annual TCRs purchased at the same time.

The effectiveness of these hedges is satisfied utilizing the consistent critical terms method prescribed under GASB Statement No. 53, whereby the forward contract is for the same quantity of the hedgeable item (one Megawatt per PCR) and covers the same time (15-minute intervals over the course of a month) and location (a specified directional constraint). When combined with the hedgeable item (congestion cost), the contract value is zero since the reference rate of the contract is consistent with the rate of the hedgeable item.

Due to ERCOT's conversion from a zonal to nodal market in December 2010, annual auction rights will not be available until later in 2011. Consequently, there were no PCRs held at January 31, 2011.

**Credit Risk** – CPS Energy began executing over-the-counter hedge transactions directly with approved counterparties in April 2010. These counterparties are generally highly rated entities that are leaders in their respective industries. CPS Energy monitors the creditworthiness of these entities on a daily basis and manages the resulting financial exposure via a third-party, vertically integrated risk system. Contractual terms with each existing counterparty vary, but each is structured so that should the counterparty's credit rating fall below BBB- with S&P or Baa3 with Moody's, no unsecured credit would be granted and the counterparty would be required to post collateral for any calculated credit exposure. In the event of default or nonperformance by counterparties, brokers or NYMEX, the operations of CPS Energy could be materially affected. However, CPS Energy does not expect these entities to fail to meet their obligations given the level of their credit ratings and the monitoring procedures in place with which to manage this risk. As of January 31, 2011, the exposure to all hedge-related counterparties was such that no counterparty credit risk existed.

**Termination Risk** – For CPS Energy's fuel hedges that are executed over the counter directly with approved counterparties, the possibility exists that one or more of these derivative instruments may end earlier than expected, thereby depriving CPS Energy of the protection from the underlying risk that was being hedged or potentially requiring CPS Energy to make a significant termination payment. This termination payment between CPS Energy and its counterparty is determined based on current market prices. In the event a transaction is terminated early, CPS Energy would likely be able to replace the transaction at current market prices with similar, although not exact, terms with one of its other approved counterparties.





## Note 13 Risk Financing (Continued)

### CPS Energy (Continued)

**Basis Risk** – CPS Energy is exposed to basis risk on its fuel hedges because the expected commodity purchases being hedged will price based on a pricing point (HSC or WAHA) different than that at which the contracts are expected to settle (Henry Hub). For January 2011, the HSC price was $4.10 per MMBtu, the WAHA price was $3.91 per MMBtu, and the Henry Hub price was $4.22 per MMBtu.

### San Antonio Water System (SAWS)

***Risk Management***

SAWS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. SAWS is self-administered and self-insured for the first $500 of each workers' compensation, general liability, automobile liability and public official's liability claim and for the first $250 for each pollution remediation, legal liability and commercial property claim. Claims that exceed the self-insured retention limit are covered through SAWS' comprehensive commercial insurance program. For the year-ended December 31, 2010, there were no reductions in insurance coverage from the previous year and there were no new claims incurred during the period that exceeded the self-insured retention limit. Settled claims have never exceeded the insurance coverage in any year. SAWS has recorded accrued claims liability in the amount of $6,596 as of December 31, 2010, which is reported as a current liability. The claims liability, including incurred but not reported claims, is based on the estimated ultimate cost of settling the claims. Changes in the liability amount for the last two fiscal years were as follows:

**San Antonio Water System**
**Schedule of Changes in Claims Liability**

| Year Ended | Balance at Beginning of Fiscal Year | Estimates | Claims and Payments | Balance at End of Fiscal Year | Estimated Due Within One Year |
|---|---|---|---|---|---|
| December 31, 2010 | $ 5,504 | $ 2,701 | $ (1,609) | $ 6,596 | $ 6,596 |
| December 31, 2009 | $ 5,401 | $ 2,050 | $ (1,947) | $ 5,504 | $ 5,504 |

**Pay-Fixed, Receive-Variable Interest Rate Swap** – On March 27, 2003, SAWS entered into an interest rate swap agreement in connection with its City of San Antonio, Texas Water System Subordinate Lien Revenue and Refunding Bonds, Series 2003-A and 2003-B (the Series 2003 Bonds) issued in a variable interest rate mode. The Series 2003 Bonds were issued to provide funds for the SAWS' Capital Improvement Program and to refund certain outstanding commercial paper notes.

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- 167 - *Amounts are expressed in thousands*
- 168 - *Amounts are expressed in thousands*

## Note 13 Risk Financing (Continued)

### San Antonio Water System (SAWS) (Continued)

The swap was used to hedge interest rates on the Series 2003 Bonds to a synthetic fixed rate that produced a lower expected interest rate cost than traditional long-term fixed rate bonds. In August 2008, SAWS issued a Notice of Partial Redemption for $110,615 of the outstanding principal amount of $111,615 of the Series 2003 Bonds due to continued unfavorable market conditions relating to the ratings downgrade of MBIA Insurance Corporation. In 2009, SAWS redeemed the remaining $1,000 of the Series 2003 Bonds through the issuance of additional commercial paper. The interest rate swap agreement was not terminated upon the redemption of the 2003 Bonds and instead serves as an off-market hedge for that portion of the commercial paper notes outstanding which pertain to the redemption of the 2003 Bonds. SAWS currently intends to maintain a portion of its outstanding commercial paper in amounts matching the notional amounts of the swap. SAWS did not recognize any economic gain or loss as a result of this refunding since the debt service requirements of the commercial paper are expected to closely match the debt service requirements of the refunded debt. At December 31, 2010, $106,530 of commercial paper notes are hedged by the interest rate swap agreement.

**Terms** – The swap agreement contains scheduled reductions to the outstanding notional amounts that are expected to follow the original scheduled reductions in the Series 2003 Bonds. The Series 2003 Bonds were issued on March 27, 2003, with a principal amount of $122,500. The swap agreement matures on May 1, 2033. At the time the swap was entered into, the counterparty was Bear Stearns Financial Products, Inc. (Bear Stearns FPI), with the index for the variable rate leg of the SWAP being the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index.

In March 2008, JP Morgan Chase & Co. announced its acquisition of The Bear Stearns Companies, Inc., the parent of Bear Stearns FPI. JP Morgan Chase & Co. has guaranteed the trading obligations of Bear Stearns and its subsidiaries. Effective June 16, 2009, the swap agreement was amended between SAWS, JP Morgan Chase & Co. , and MBIA to provide for JP Morgan Chase Bank N.A. to become the swap counterparty and allow for the remainder of outstanding Series 2003 Bonds to be redeemed, while maintaining the swap agreement as an obligation to all parties. The amendment provides for the conditional release of MBIA's swap insurance policy upon the occurrence of certain future events. The combination of commercial paper notes and a floating-to-fixed swap creates a synthetic fixed-rate of 4.2%. The synthetic fixed-rate protects against the potential of rising interest rates.

**Fair Value** – The swap had a negative fair value of approximately $11,800 at December 31, 2010. 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 has been deemed an effective hedge and therefore qualifies for hedge accounting treatment. Since the fair value is negative, the fair value is recorded as a non-current liability. Changes in the swap's fair value are recorded as a deferred outflow and included in unrestricted non-current assets. At the time the 2003 Bonds were redeemed in 2008, the fair value of the swap was $6,200. The deferred outflow at the time of redemption was included in the carrying value of the 2003 Bonds and resulted in a loss on redemption of $6,200. This loss is amortized over the remaining life of the 2003 Bonds.



CITY OF SAN ANTONIO, TEXAS



## Note 13 Risk Financing (Continued)

### San Antonio Water System (SAWS) (Continued)



**Credit Risk** – As of December 31, 2010, SAWS was not exposed to credit risk on its outstanding swap because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, SAWS would be exposed to credit risk in the amount of the swap's fair value. The swap counterparty, JP Morgan Chase Bank, N.A. was rated 'AA-' by Fitch Ratings and Standard & Poor's and 'Aa1' by Moody's Investors Service as of December 31, 2010. The amended swap agreement contains a credit support annex which will become effective upon the release of MBIA from the swap insurance policy. Collateralization would be required by either party should the fair market value of the swap reach applicable thresholds as stated in the amended swap agreement.

**Basis Risk** – SAWS is exposed to basis risk to the extent that the interest payments on its hedged commercial paper notes do not match the variable-rate payments received on the associated swap. SAWS attempts to mitigate this risk by (a) matching the outstanding hedged commercial paper notes associated with the redemption of the variable-rate debt to the notional amount and amortization schedule of the swap and (b) selecting an index for the variable-rate leg of the swap that is reasonably expected to closely match the interest rate on the hedged commercial paper notes.

**Termination Risk** – SAWS may terminate the swap at any time for any reason. JP Morgan Chase may terminate the swap if SAWS fails to perform under the terms of the agreement. The ongoing payment obligations under the swap are insured as provided for in the swap amendment and JP Morgan Chase cannot terminate as long as the insurer does not fail to perform. Also, if at the time of the termination the swap has a negative fair value, SAWS would be liable to the counterparty for a payment equal to the swap's fair value.

**Market-access Risk** – SAWS is subject to market-access risk as $106,530 of variable-rate debt hedged by the swap is outstanding commercial paper notes with current maturities less than 49 days. As previously noted, SAWS intends to reissue the commercial paper notes in amounts matching the notional amounts.

**Swap Payments and Associated Debt** – As of December 31, 2010, debt service requirements of the hedged commercial paper notes and net swap payments, assuming current interest rates remain the same, are detailed in the following table. As rates vary, variable-rate interest payments and net swap payments will vary. Principal payments assume that commercial paper will be repaid in accordance with the amortization schedule of the swap.

**Pay-Fixed, Receive-Variable Interest Rate Swap**
**Estimated Debt Service Requirements of Variable-Rate**
**Debt Outstanding and Net Swap Payments**

| Year | Principal | Interest Paid on Debt | Interest Rate Swap, Net | Total |
|---|---|---|---|---|
| 2011 | $ 2,720 | $ 318 | $ 4,021 | $ 7,059 |
| 2012 | 2,840 | 310 | 3,913 | 7,063 |
| 2013 | 2,970 | 301 | 3,801 | 7,072 |
| 2014 | 3,105 | 292 | 3,684 | 7,081 |
| 2015 | 3,245 | 282 | 3,561 | 7,088 |
| 2016-2020 | 18,590 | 1,247 | 15,757 | 35,594 |
| 2021-2025 | 23,235 | 928 | 11,728 | 35,891 |
| 2026-2030 | 29,035 | 530 | 6,692 | 36,257 |
| 2031-2033 | 20,790 | 86 | 1,088 | 21,964 |
| Total | $ 106,530 | $ 4,294 | $ 54,245 | $ 165,069 |

- 169 - Amounts are expressed in thousands
- 170 - Amounts are expressed in thousands

## Note 14 Interfund Transfers

The following is a summary of interfund transfers for the City for the year-ended September 30, 2011:

**Summary Table of Interfund Transfers**
**Year-Ended September 30, 2011**

| | Transfers From Other Funds | Transfers To Other Funds |
|---|---|---|
| General Fund: | | |
| Airport System Fund | $ 196 | $ - |
| Categorical Grant-In-Aid | | 6,664 |
| General Obligation Project Fund | | 745 |
| Internal Service Funds | 820 | 7,565 |
| Nonmajor Governmental Funds | 9,653 | 20,605 |
| Nonmajor Enterprise Funds | 3,934 | 3,534 |
| Total General Fund | 14,603 | 39,113 |
| Debt Service Fund: | | |
| Internal Service Funds | 173 | |
| Nonmajor Governmental Funds | 39,754 | |
| Total Debt Service Fund | 39,927 | |
| Categorical Grant-In-Aid: | | |
| General Fund | 6,664 | |
| General Obligation Project Fund | | 469 |
| Airport System | 38 | |
| Internal Service Funds | 26 | |
| Nonmajor Governmental Funds | 148 | 3,762 |
| Total Categorical Grant-In-Aid | 6,876 | 4,231 |
| 2007 General Obligation Bonds: | | |
| General Obligation Project Fund | | 85,378 |
| Nonmajor Governmental Funds | | 275 |
| Total 2007 General Obligation Bonds | | 85,653 |
| General Obligation Project Fund: | | |
| General Fund | 745 | |
| Categorical Grant-In-Aid | 469 | |
| 2007 General Obligation Bonds | 85,378 | |
| Nonmajor Governmental Funds | 21,763 | |
| Nonmajor Enterprise Funds | 450 | |
| Total General Obligation Project Fund | 108,805 | |

*(Continued)*

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## Note 14 Interfund Transfers (Continued)

**Summary Table of Interfund Transfers (Continued)**
**Year-Ended September 30, 2011**

| | Transfers From Other Funds | Transfers To Other Funds |
|---|---|---|
| Airport System Fund: | | |
| General Fund | $ - | $ 196 |
| Categorical Grant-In-Aid | | 38 |
| Internal Service Funds | 463 | 34 |
| Total Airport System Fund | 463 | 268 |
| Internal Service Funds: | | |
| General Fund | 7,565 | 820 |
| Debt Service Fund | | 173 |
| Categorical Grant-In-Aid | | 26 |
| Airport System Fund | 34 | 463 |
| Internal Service Funds | 85 | 85 |
| Nonmajor Governmental Funds | 112 | 361 |
| Nonmajor Enterprise Funds | | 18 |
| Total Internal Service Funds | 7,796 | 1,946 |
| Nonmajor Governmental Funds: | | |
| General Fund | 20,605 | 9,653 |
| Debt Service Fund | | 39,754 |
| Categorical Grant-In-Aid | 3,762 | 148 |
| 2007 General Obligation Bonds | 275 | |
| General Obligation Project Fund | | 21,763 |
| Internal Service Funds | 361 | 112 |
| Nonmajor Governmental Funds | 140,001 | 140,001 |
| Nonmajor Enterprise Funds | 855 | 88 |
| Total Nonmajor Governmental Funds | 165,859 | 211,519 |
| Nonmajor Enterprise Funds: | | |
| General Fund | 3,534 | 3,934 |
| General Obligation Project Fund | | 450 |
| Internal Service Funds | 18 | |
| Nonmajor Governmental Funds | 88 | 855 |
| Nonmajor Enterprise Funds | 210 | 210 |
| Total Nonmajor Enterprise Funds | 3,850 | 5,449 |
| Total | $ 348,179 | $ 348,179 |

Transfers are made to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds. These transfers are in the form of operating subsidies, grant matches, and funding for capital projects. In addition, transfers are routinely made from other funds to fund debt service payments and for other restricted purposes. All transfers are in accordance with budgetary authorizations or comply with other direction from the City Council of San Antonio.

- 171 - *Amounts are expressed in thousands*
- 172 - *Amounts are expressed in thousands*

## Note 15 Fund Balance Classifications

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented in the following table. Please see the definitions of the various fund balance classifications in Note 1 Summary of Significant Accounting Policies, Fund Balance.

| | General Fund | Debt Service Fund | Categorical Grant-In-Aid | 2007 General Obligation Bonds | General Obligation Project Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|---|
| **Fund Balances:** | | | | | | | |
| **Nonspendable:** | | | | | | | |
| **In nonspendable form:** | | | | | | | |
| Inventory | $ 4,854 | $ - | $ 75 | $ - | $ - | $ 241 | $ 5,170 |
| Prepaid | 85 | | | | | 459 | 544 |
| **Legally or contractually intact:** | | | | | | | |
| Permanent Fund Corpus | | | | | | 3,641 | 3,641 |
| **Total Nonspendable** | 4,939 | | 75 | | | 4,341 | 9,355 |
| **Restricted for:** | | | | | | | |
| General Government | | | | | | 25,455 | 25,455 |
| Public Safety | | | | | | 4,632 | 4,632 |
| Public Works | | | | | | 47,560 | 47,560 |
| Health Services | 133 | | | | | 79 | 212 |
| Welfare | 14 | | | | | | 14 |
| Culture and Recreation | 930 | | | | | 38,592 | 39,522 |
| Urban Redevelopment and Housing | 30 | | | | | 1,870 | 1,900 |
| Economic Development and Opportunity | | | | | | 5,615 | 5,615 |
| Capital Projects | | | | 217,775 | | 218,806 | 436,581 |
| Debt Service | | 93,569 | | | | 32,577 | 126,146 |
| **Total Restricted** | 1,107 | 93,569 | | 217,775 | | 375,186 | 687,637 |
| **Committed:** | | | | | | | |
| General Government | 8,667 | | | | | | 8,667 |
| Public Safety | 2,635 | | | | | 32 | 2,667 |
| Public Works | 26,790 | | | | | | 26,790 |
| Health Services | 311 | | | | | | 311 |
| Sanitation | 2 | | | | | | 2 |
| Welfare | 1,638 | | | | | | 1,638 |
| Culture and Recreation | 2,608 | | | | | 670 | 3,278 |
| Convention and Tourism | | | | | | 17,995 | 17,995 |
| Economic Development and Opportunity | 5,889 | | | | | | 5,889 |
| Capital Projects | | | | | | 48,584 | 48,584 |
| **Total Committed** | 48,540 | | | | | 67,281 | 115,821 |
| **Assigned:** | | | | | | | |
| General Government | 6,747 | | | | | | 6,747 |
| Public Safety | 15 | | | | | | 15 |
| Public Works | | | | | | 1,320 | 1,320 |
| Sanitation | 281 | | | | | | 281 |
| Welfare | 16 | | | | | | 16 |
| Culture and Recreation | 3 | | | | | 382 | 385 |
| Urban Redevelopment and Housing | | | | | | 11,535 | 11,535 |
| Economic Development and Opportunity | 351 | | | | | | 351 |
| **Total Assigned** | 7,413 | | | | | 13,237 | 20,650 |
| **Unassigned** | 170,693 | | (4,284) | | (46,836) | (24,388) | 95,185 |
| **Total Fund Balance** | $ 232,692 | $ 93,569 | $ (4,209) | $ 217,775 | $ (46,836) | $ 435,657 | $ 928,648 |

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## Note 15 Fund Balance Classifications (Continued)

The City utilizes encumbrance accounting to ensure appropriated funds are adequately committed and remaining unspent balances are carried forward into the next fiscal year. Encumbrances are created for purchase order, grant match requirements, and capital project funding. The City further carries forward available unspent uncommitted funds identified through the Closing Ordinance into the next fiscal year as authorized by City Council. These amounts are reported in fund balance as follows:

| | General Fund | Debt Service Fund | Categorical Grant-In-Aid | 2007 General Obligation Bonds | General Obligation Project Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|---|
| **Encumbrances:** | | | | | | | |
| **Restricted** | $ 392 | $ - | $ - | $ 323,132 | $ - | $ 233,977 | $ 557,501 |
| **Committed** | 31,188 | | | | | 17,683 | 48,871 |
| **Assigned** | | | | | | 164 | 164 |
| **Unassigned** | | | 45,932 | | 156,702 | 144,479 | 347,113 |
| **Total Encumbrances** | $ 31,580 | $ - | $ 45,932 | $ 323,132 | $ 156,702 | $ 396,303 | $ 953,649 |

The City further maintains a 9.0% of General Fund expenditures' Budgeted Financial Reserve which was adopted by City Council. This Reserve is reviewed and adopted by City Council annually in the City's Budget Ordinance. Additions to the balance are considered annually as part of the City's overall budget adoption process and is contingent upon the General Fund's overall estimated expenditures and related funding.

The Reserve may be utilized to meet one of more of the following events upon subsequent adoption by the City Council.

- Unforeseen operational or capital requirements which arise during the course of the fiscal year;
- Unforeseen or extraordinary occurrence such as a natural disaster, catastrophic change in the City's financial position, or the occurrence of a similar event; or
- To assist the City in managing fluctuations in available General Fund resources from year to year in stabilizing the budget.

The balance within the Budgeted Financial Reserve as of September 30, 2011 was $83,416. This Reserve balance is presented in the General Fund under the unassigned fund balance classification. The City does not have a minimum fund balance policy.

## Note 16 Deficits in Fund Balances / Net Assets

### Special Revenue Funds

As of September 30, 2011, deficit fund balances are reported in the Categorical Grant-in-Aid Fund and the Community Development Program Fund in the amounts of $4,209 and $606 respectively. The deficit fund balance in Categorical Grant-in-Aid is a result of providing additional program services to the community beyond what monies were provided by grantor agencies. The uncollectible amounts were incorporated into the City's annual budget process to be funded over five years of which the City has one year remaining to fund. The deficit balance in the Community Development Program Fund is a result of utilizing grant monies for activities that were determined not to benefit the mission/purpose of the grant. The City has created an obligation to reimburse the grantor and will incorporate the funding of this deficit as well as the remaining deficits within CGIA into future adopted budgets.

*Amounts are expressed in thousands*

## Note 16 Deficits in Fund Balances / Net Assets (Continued)

### Capital Projects Funds

As of September 30, 2011, deficit fund balances are reported in the General Obligation Project Fund, Certificates of Obligation Project Fund, and Improvement Projects in the amounts of $46,836, $10,825, and $12,699, respectively. The deficit balances in these work effort funds are a result of a one year reimbursement clause allowing departments to spend up to one year in advance of bonds being sold and proceeds transferred in to fund the work efforts. Another contribution to this deficit is the timing of invoices billed to third party contributors. The deficits will be addressed by identifying the appropriate funding source and transferring funds from a bond authorization (when sold), operating funds, grants, and/or by billing and collecting contributions from third party contributors.

### Internal Service Funds

As of September 30, 2011, the Workers' Compensation Fund had deficit net assets of $1,337. The deficit balance was a result of higher than expected actuarially determined accruals in fiscal year 2011 that were more than the amount considered in the annual Workers' Compensation Fund assessment. The City will fund the deficit by revising the future assessment charged to various City funds over the course of the next three years.

As of September 30, 2011, a deficit fund balance was reported in CIMS in the amount of $3,719. The deficit in CIMS is due to the fund not including long-term liabilities (OPEB and Accrued Leave) in its assessments. Due to the fund's GASB Statement No. 54 reclassification the long-term liabilities not previously recorded in the fund are now included, and resulted in a negative fund balance. Reevaluation of assessments, fees, and other funding sources will be reviewed to determine future capacity.

### Enterprise Funds

As of September 30, 2011, a deficit fund balance was reported in the Development Services Fund in the amount of $619. The deficit in the Development Services Fund is due to the fund not including long-term liabilities (OPEB and Accrued Leave) in its assessments. Due to the fund's GASB Statement No. 54 reclassification, the long-term liabilities not previously recorded in the fund are now included, and resulted in a negative fund balance. Reevaluation of assessments, fees, and other funding sources will be reviewed to determine future capacity.

## Note 17 Other Disclosures

### Donor Restricted Endowment

The City has five Permanent Funds: the City Cemeteries Fund, the Carver Cultural Center Endowment Fund, the San Antonio Housing Trust Fund, the William C. Morris Endowment Fund, and the Boza Becica Endowment Fund. The City is only allowed to spend interest proceeds generated from the principal amount for each of these funds. The City's endowments' spending policy for authorizing and spending investment income is a total return policy. Income will include not only interest and dividends, but also include increase and/or decreases in the market value of the endowed assets, if applicable. Market value fluctuations are included as an integral part of investment returns. The net assets from these endowment funds are classified as restricted net assets and are reported in the government-wide financial statements.





## Note 17 Other Disclosures (Continued)

### Donor Restricted Endowment (Continued)

The City Cemeteries Fund generated $11 in investment earnings to be expended for specified purposes. Chapter 713 of the Texas Health and Safety Code governs what expenditures the City may incur when spending the interest income. Per Chapter 713, the revenue can be spent for the maintenance and care of the graves, lots, and burial places, and to beautify the entire cemetery. The principal amount of this fund is increased each year by sales of lots from the San Jose Cemetery. The principal is required to be retained in perpetuity.

The Carver Cultural Center Endowment Fund generated $2 in investment earnings. These earnings can be used for the Carver Community Cultural Center's operating program, or reinvestment expenses (as detailed in the grant agreement). This fund is managed in accordance with the Uniform Prudent Management of Institutional Funds Act, which is codified as Section 163.001 in the Texas Property Code. The principal portion of the fund came from a one-time grant from the National Endowment for the Arts.

The San Antonio Housing Trust Fund generated $100 in investment earnings. These earnings may be disbursed to projects with particular emphasis on housing programs as grants or secured loans. All distributions or disbursements of San Antonio Housing Trust shall be made for the primary purpose of providing additional and continuing housing opportunities for low and moderate income families. This trust shall at all times be governed, regulated, and administered in all respects under the laws of the State of Texas.

The William C. Morris Endowment Fund generated $1 in investment earnings. These earnings are used on an annual basis to enhance the City Library's Educational Programming and Services for Children. The earnings of the funds will be expended in accordance with the spending policy of the Library's board of directors or trustees.

The Boza Becica Endowment Fund generated $2 in investment earnings. These earnings will be used for the acquisition of books and materials for the San Antonio Public Library in accordance with the terms and conditions of the Last Will and Testament of Boza Becica. The principal is required to be retained in perpetuity.

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## Note 18 Prior Period Restatement

During fiscal year 2011, the following restatements were made to implement GASB Statement No. 54; to adjust for the addition/removal of various blended component units reported in the financial statements due to the availability of their respective reports for inclusion in the current year; to account for the business consolidation of Market Square; and to properly account for the construction of an asset under the Municipal Facilities Corporation (Blended Component Unit) rather than under the City's capital projects fund.

| | | Reconciliation of the Balance Sheet to Statement of Net Assets | | | | | |
|---|---|---|---|---|---|---|---|
| | Total Governmental Activities Net Assets | Revenues/ Receivables | Internal Service Fund Allocation | Capital Assets | Long-term Liabilities | Total Governmental Funds' Fund Balances | Total Business-type Activities Net Assets |
| **Beginning Balances, October 1** | **$ 2,526,951** | **$ 18,596** | **$ 108,773** | **$ 3,580,613** | **$ (2,139,752)** | **$ 958,721** | **$ 351,892** |
| Increase/(Decrease) | | | | | | | |
| General Fund: | | | | | | | |
| Capital Improvements Reserve | | | | | | 4,770 | |
| Community Services | | | | | | 4,750 | |
| Community Services (PEG) | | | | | | (11,795) | |
| International Center | | | | | | 1,906 | |
| Job Training | | | | | | 1,555 | |
| Total General Fund | | | | | | 1,186 | |
| Categorical Grant-In-Aid: | | | | | | | |
| Improvement Projects | | | | | | 356 | |
| Community Services | | | | | | 226 | |
| Total Categorical Grant-In-Aid | | | | | | 582 | |
| Nonmajor Governmental: | | | | | | | |
| Special Revenue Funds: | | | | | | | |
| Confiscated Property | 240 | | | | | 240 | (240) |
| Development Services | 2,587 | | | (176) | 3,388 | (625) | (2,587) |
| CIMS | | | (2,748) | (32) | 2,826 | (46) | |
| Capital Improvements Reserve | | | | | | (4,770) | |
| International Center | | | | | | (1,906) | |
| Job Training | | | | | | (1,555) | |
| Community Services: | | | | | | | |
| Noise Abatement | (7) | | | | | (7) | 7 |
| Market Square | (3,386) | | | (2,942) | | (444) | 3,386 |
| PEG | | | | | | 11,795 | |
| Starbright | | | | | | (105) | |
| Equipment Acquisition | | | | | | 1,647 | |
| General Fund | | | | | | (4,750) | |
| Categorical Grant-In-Aid | | | | | | (226) | |
| Special Event Security Trust | (449) | | | | | (449) | |
| Blended Component Units: | | | | | | | |
| HFDC | 12 | | | | | 12 | |
| EFC | 68 | | | | | 68 | |
| IDA | 9 | | | | | 9 | |
| EDC | (700) | | | | | (700) | |
| HTPFC | (56) | | | | | (56) | |
| Municipal Facilities Corp. | | | | | | (1,653) | |
| Starbright | | | | | | 105 | |
| Capital Project Funds: | | | | | | | |
| Improvement Projects | | | | | | | |
| Categorical Grant-In-Aid | | | | | | (356) | |
| Municipal Facilities Corp. | | | | | | 1,653 | |
| Equipment Acquisition | | | | | | (1,647) | |
| Total Nonmajor Governmental | (1,682) | | (2,748) | (3,150) | 6,214 | (3,766) | 566 |
| **Restated Beginning Balances, October 1** | **$ 2,525,269** | **$ 18,596** | **$ 106,025** | **$ 3,577,463** | **$ (2,133,538)** | **$ 956,723** | **$ 352,458** |







## Note 19 Subsequent Events

### Primary Government (City)

On February 16, 2012, the City Council approved calling an election on Saturday, May 12, for the City's proposed 2012-2017 Bond Program. If approved, the $596,000 140-project program will be the largest in the City's history and will not require a property tax increase to fund the debt service obligations. These projects will be divided into the following five categories:

- Streets, Bridges and Sidewalks: 41 projects – $338,000
- Drainage and Flood Control: 17 projects – $128,000
- Parks, Recreation and Open Space: 68 projects – $87,000
- Library, Museum and Cultural Arts Facilities: 11 projects – $29,000
- Public Safety Facilities: 3 projects – $14,000

### Fire and Police Pension Fund

The Pension Fund had their actuarial study as of October 1, 2011 completed and issued in January 2012. The results of the study include an increase in the Fund's Unfunded Actuarially Accrued Liability (UAAL) from $231,075 as of October 1, 2010 to $242,741. The years to amortize the UAAL remained at 9.1 years as a level percent of payroll.

As is the case with most public pension plans, the Pension Fund has incurred substantial investment losses due to financial market conditions. The actuarial valuation includes a smoothed market approach for the value of assets which provides for asset gains or losses to be smoothed over a five-year period. Smoothing of the Pension Fund's investment returns as of September 30, 2011 resulted in the deferral of $360,467 in investment losses. These investment losses will be recognized in future year's actuarial valuations to the extent they are not offset by recognition of investment gains above the Fund's assumed investment return of 7.8% or other actuarial gains.

Contribution rates for the members of the Pension Plan and the City are established under Texas state statutes and do not change with the results of the annual actuarial valuations. Staff of the Pension Fund and the City will continue to monitor the situation closely. Please see Note 8 Pension and Retirement Plans for more information on the Fire and Police Pension Plan.

### Fire and Police Retiree Health Care Fund

The Fire and Police Retiree Health Care Fund had its actuarial study as of October 1, 2011 completed in February 2012. The results of the study include an increase in the Fund's Unfunded Actuarially Accrued Liability (UAAL) from $387,457 as of October 1, 2010 to $403,614. In order to maintain an amortization of the UAAL over a period of 30 years, contribution and benefit rates would have to increase beyond those currently included in the Fund's governing statue. However, these contribution and benefit rates would only be required to be implemented if the amortization period of the UAAL exceeds 30 years with the actuarial valuation to be conducted in 2019.

*Amounts are expressed in thousands*

## Note 19 Subsequent Events (Continued)

### CPS Energy

#### *Long-Term Debt*

In September 2011, the City Council approved an ordinance authorizing the issuance of the City's Electric and Gas Systems Revenue Refunding Bonds, New Series 2011, in a principal amount not to exceed $60,000, and other financial matters as necessary to refund certain portions of the City's Electric and Gas Systems Revenue and Refunding Bonds, New Series 2002 for debt service savings. Approximately $50,900 in bonds were issued in November 2011 to refund $57,400 of the outstanding New Series 2002 bonds. The transaction resulted in a net present value savings of $7,700.

#### *Solar Power Agreement*

In January 2012, CPS Energy entered into negotiations for a power purchase agreement relating to one of the nation's largest solar projects. The project will mean new corporate headquarters and U.S. manufacturing operations for global companies in San Antonio. The offer from OCI Solar Power is expected to result in 400 megawatts (MW) of zero-emissions solar energy, 800-plus professional and technical jobs, and more than $1,000,000 in construction investment.

The OCI Solar Power proposal outlines a partnership that should result in:

- Multiple solar manufacturing facilities in the San Antonio area to produce proven components of solar power plants;
- More than $100,000 in capital investment;
- 800+ jobs with an annual payroll of nearly $40,000; and
- A 25-year purchased power agreement for up to 400 MW of solar generation.

OCI Solar will begin construction of the first plant in 2013 and plans to build additional facilities through 2016, subject to power purchase agreements.

### San Antonio Water System (SAWS)

#### *Long-Term Debt*

In August 2011, the City Council approved an ordinance that authorized SAWS to refund $381,000 of its Series 2002 and 2002A bonds via three options: an advanced refunding, a current refunding, or a forward refunding. In addition, the ordinance authorized SAWS to convert $60,000 of tax-exempt commercial paper to long-term debt. SAWS priced the advanced refunding and commercial paper takeout in September 2011 and closed the deal in October 2011. The par amount of the bonds that were issued totaled $165,090, which included an advance refunding of $115,080 of Series 2002 and Series 2002-A Bonds and proceeds to redeem $60,000 of outstanding commercial paper notes. The refunding netted savings of $15,700 over the life of the bonds, with $10,500 net present value savings. After the advance refunding, $265,885 of Series 2002 Bonds remain, which will be eligible for a current refunding starting February 2012. SAWS anticipates pricing the current refunding in February 2012, should market conditions remain favorable.





## Note 19 Subsequent Events (Continued)

### San Antonio Water System (SAWS) (Continued)

#### *BexarMet Consolidation*

In November 2011, 74.0% of BexarMet ratepayers voted to dissolve the utility and consolidate it into SAWS. In January 2012, the DOJ certified the vote and the BexarMet Board of Directors was dissolved. The Texas Commission on Environmental Quality will transfer all of BexarMet's assets and liabilities to SAWS within 90 days after the DOJ certification is received, and then dissolve the district entirely. Texas Senate Bill 341 provides SAWS up to five years to completely integrate the former BexarMet system.

#### *Litigation*

The Lower Colorado River Authority-San Antonio Water System (LCRA-SAWS) Water Project was conceived to develop and make available up to 150,000 acre-feet per year of surface water supplies for San Antonio in 2025 while firming up water supplies in the Colorado River Basin. In 2002, SAWS and LCRA executed a Definitive Agreement outlining SAWS' and LCRA's obligations. The agreement called for a multi-year study period, at the end of which both SAWS and LCRA were to determine whether or not to proceed with implementation of the project. Finalization of studies and obtaining appropriate permits for the project were expected to be completed between 2013 and 2015. Throughout the study period, SAWS and LCRA evaluated the project's viability on an ongoing basis. In 2008, the LCRA Board of Directors adopted several water supply planning guidance resolutions which led to a conclusion by LCRA that there would be no firm water supply available to San Antonio from the planned project. In May 2009, SAWS' Board of Trustees declared LCRA in breach of the 2002 Definitive Agreement between the parties. The parties unsuccessfully conducted formal mediation in August 2009 and SAWS filed suit against LCRA. In November 2011, the SAWS Board agreed to settle the lawsuit. The settlement called for the LCRA to reimburse SAWS $18,800 immediately and $1,400 annually for eight years.

#### *Rate Increase Approval*

In December 2011, the City Council approved an overall 7.9% system wide increase applied to each business unit as follows: 3.4% for Water Delivery; 3.0% for Water Supply; and 13.6% for Wastewater. The rate increase is expected to produce an annual increase in revenues of $26,100. The Council also authorized SAWS to adjust some miscellaneous service charges that are expected to generate $1,500 in additional annual revenue. The increases became effective January 2012.

# CITY OF SAN ANTONIO, TEXAS

## Comprehensive Annual Financial Report

**Year-Ended September 30, 2011**

# *Required Supplementary Information Other Than MD&A (Unaudited)*

## Budgetary Comparison Schedule
## General Fund
### Year-Ended September 30, 2011
(In Thousands)

| | 2011 | | | |
|---|---|---|---|---|
| | BUDGETED AMOUNTS | | BUDGETARY BASIS | VARIANCE WITH FINAL BUDGET POSITIVE |
| | ORIGINAL | FINAL | ACTUAL | (NEGATIVE) |
| **Resources (Inflows):** | | | | |
| Taxes | $ 469,952 | $ 474,859 | $ 483,198 | $ 8,339 |
| Licenses and Permits | 5,651 | 7,416 | 8,680 | 1,264 |
| Intergovernmental | 7,534 | 6,475 | 5,403 | (1,072) |
| Revenues from Utilities | 285,628 | 296,590 | 308,451 | 11,861 |
| Charges for Services | 43,940 | 46,873 | 50,134 | 3,261 |
| Fines and Forfeits | 14,794 | 14,902 | 13,697 | (1,205) |
| Miscellaneous | 9,229 | 15,298 | 18,880 | 3,582 |
| Investment Earnings | 1,259 | 786 | 1,819 | 1,033 |
| Transfers from Other Funds | 23,563 | 15,946 | 14,603 | (1,343) |
| **Amounts Available for Appropriation** | 861,550 | 879,145 | 904,865 | 25,720 |
| **Charges to Appropriations (Outflows):** | | | | |
| General Government | 107,560 | 89,243 | 81,729 | 7,514 |
| Public Safety | 527,607 | 536,765 | 530,955 | 5,810 |
| Public Works | 40,505 | 44,905 | 45,357 | (452) |
| Health Services | 72,194 | 74,826 | 76,619 | (1,793) |
| Sanitation | 3,276 | 3,312 | 3,354 | (42) |
| Welfare | 41,856 | 46,294 | 44,342 | 1,952 |
| Culture and Recreation | 81,829 | 83,884 | 83,291 | 593 |
| Economic Development and Opportunity | 12,205 | 12,334 | 13,428 | (1,094) |
| Transfers to Other Funds | 52,070 | 55,616 | 55,500 | 116 |
| **Total Charges to Appropriations:** | 939,102 | 947,179 | 934,575 | 12,604 |
| Surplus (Deficiency) of Resources Over (Under) Charges to Appropriations | (77,552) | (68,034) | (29,710) | 38,324 |
| Fund Balance Allocation | 77,552 | 68,034 | 29,710 | (38,324) |
| **Excess (Deficiency) of Resources Over (Under) Charges to Appropriations** | $ - | $ - | $ - | $ - |

**Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures**

| | |
|---|---|
| **Sources/Inflows of Resources:** | |
| Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule | $ 904,865 |
| Differences - budget to GAAP: | |
| Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes | (14,603) |
| **Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds** | $ 890,262 |
| **Uses/Outflows of Resources:** | |
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule | $ 934,575 |
| Differences - budget to GAAP: | |
| Encumbrances for supplies, equipment, and services ordered but not received are reported in the year the orders are placed for budgetary purposes, but in the year the supplies, equipment and services are received for financial reporting purposes | (31,580) |
| Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes | (39,113) |
| **Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds** | $ 863,882 |

**General Fund Budgetary Information**

The City Charter establishes requirements for the adoption of budgets and budgetary control. Under provisions of the Charter, expenditures of each City function within individual funds cannot legally exceed the final budget approved by the City Council. Amendments to line items within a departmental budget may be initiated by Department Directors.

The City prepares an annual budget for the General Fund on a budgetary basis, which is consistent with generally accepted accounting principles. The annual budgetary data reported for the General Fund represents the original appropriation ordinance and amendments thereto as adopted by the City Council, adjusted for encumbrances outstanding at the beginning of the fiscal year. All annual appropriations not encumbered or earmarked lapse at fiscal year-end.

The City noted budget violations within Public Works, Health Services, Sanitation, and Economic Development and Opportunity. However, as sufficient fund balances covered individual functional excesses these were not deemed to be material violations.

(unaudited - see accompanying auditors' report)

City of San Antonio, Texas

# *Pension and Postemployment Schedules*

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

**FIRE AND POLICE PENSION PLAN - CITY OF SAN ANTONIO**

| ACTUARIAL VALUATION DATE | ACTUARIAL VALUE OF ASSETS | ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL) | UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) | FUNDED RATIO | COVERED PAYROLL | UAAL AS A PERCENTAGE OF COVERED PAYROLL |
|---|---|---|---|---|---|---|
| 10-01-10 | $ 2,250,549 | $ 2,481,624 | $ 231,075 | 90.7% | $ 271,533 | 85.1% |
| 10-01-09 | 2,166,924 | 2,442,620 | 275,696 | 88.7% | 269,359 | 102.4% |
| 10-01-08 | 2,096,072 | 2,350,132 | 254,060 | 89.2% | 243,904 | 104.2% |

**TEXAS MUNICIPAL RETIREMENT SYSTEM - CITY OF SAN ANTONIO[4]**

| ACTUARIAL VALUATION DATE | ACTUARIAL VALUE OF ASSETS | ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL) | UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) | FUNDED RATIO | COVERED PAYROLL | UAAL AS A PERCENTAGE OF COVERED PAYROLL |
|---|---|---|---|---|---|---|
| 12-31-10 | $ 973,554 | $ 1,073,980 | $ 100,426 | 90.6% | $ 259,455 | 38.7% |
| 12-31-09 | 515,884 | 712,223 | 196,339 | 72.4% | 259,835 | 75.6% |
| 12-31-08 | 492,604 | 825,180 | 332,576 | 59.7% | 259,224 | 128.3% |

**CPS ENERGY - ALL EMPLOYEE PLAN**

| ACTUARIAL VALUATION DATE [2, 3] | ACTUARIAL VALUE OF ASSETS | ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL) [1] | UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) | FUNDED RATIO | COVERED PAYROLL | UAAL AS A PERCENTAGE OF COVERED PAYROLL |
|---|---|---|---|---|---|---|
| 01-01-09 | $ 1,067,841 | $ 1,183,961 | $ 116,120 | 90.2% | $ 227,427 | 52.2% |
| 02-01-09 | 1,145,029 | 1,169,302 | 24,273 | 97.9% | 219,716 | 11.0% |
| 02-01-08 | 1,084,569 | 1,103,865 | 19,296 | 98.3% | 217,018 | 8.9% |

[1] Actuarial assumptions were changed for the January 1, 2007, valuation as a result of an experience study and actuarial assumption review covering 2001 through 2006 actuarial valuation data.

[2] Subsequent to the January 1, 2007, valuation, the cost method was revised to project January 1 data to February 1 of the next calendar year based on assumptions

[3] The cost method was revised to eliminate the 13-month projection from January 1 to February 1 of the succeeding year. Instead, the January 1 valuation results were used to determine the contribution for the fiscal year in the succeeding calendar year.

[4] In December 2007, TMRS adopted the projected unit credit actuarial funding method. Previously TMRS used the traditional unit credit method

(unaudited - see accompanying auditors' report)

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

**SAN ANTONIO WATER SYSTEM - TMRS**

| ACTUARIAL VALUATION DATE | ACTUARIAL VALUE OF ASSETS | ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL) | UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) | FUNDED RATIO | COVERED PAYROLL | UAAL AS A PERCENTAGE OF COVERED PAYROLL |
|---|---|---|---|---|---|---|
| 12-31-10 | $ 116,123 | $ 140,565 | $ 24,442 | 82.6% | $ 86,013 | 28.4% |
| 12-31-09 | 68,756 | 107,311 | 38,555 | 64.1% | 81,821 | 47.1% |
| 12-31-08 | 63,674 | 96,539 | 32,865 | 66.0% | 74,448 | 44.1% |

**SAN ANTONIO WATER SYSTEM - SAWSRP**

| ACTUARIAL VALUATION DATE | ACTUARIAL VALUE OF ASSETS | ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL) | UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) | FUNDED RATIO | COVERED PAYROLL | UAAL AS A PERCENTAGE OF COVERED PAYROLL |
|---|---|---|---|---|---|---|
| 01-01-11 | $ 83,320 | $ 128,700 | $ 45,380 | 64.7% | $ 83,505 | 54.3% |
| 01-01-10 | 77,365 | 112,263 | 34,898 | 68.9% | 82,923 | 42.1% |
| 01-01-09 | 74,611 | 99,144 | 24,533 | 75.3% | 70,252 | 34.9% |

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

**CPS ENERGY - HEALTH PLAN**

| ACTUARIAL VALUATION DATE | ACTUARIAL VALUE OF ASSETS | ACTUARIAL ACCRUED LIABILITY (AAL) [1] | UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) | FUNDED RATIO | COVERED PAYROLL | UAAL AS A PERCENTAGE OF COVERED PAYROLL |
|---|---|---|---|---|---|---|
| 02-01-09 | $ 199,195 | $ 198,286 | $ (909) | 100.5% | $ 222,427 | (0.4)% |
| 02-01-09 | 204,246 | 219,364 | 15,118 | 93.1% | 219,716 | 6.9% |
| 02-01-08 | 194,876 | 247,283 | 52,407 | 78.8% | 217,018 | 24.1% |

**CPS ENERGY - DISABILITY PLAN**

| ACTUARIAL VALUATION DATE | ACTUARIAL VALUE OF ASSETS | ACTUARIAL ACCRUED LIABILITY (AAL) | UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) [2] | FUNDED RATIO | COVERED PAYROLL | UAAL AS A PERCENTAGE OF COVERED PAYROLL |
|---|---|---|---|---|---|---|
| 02-01-09 | $ 3,631 | $ 6,945 | $ 3,314 | 52.3% | $ 200,342 | 1.7% |
| 02-01-09 | 3,763 | 6,575 | 2,812 | 57.2% | 198,669 | 1.4% |
| 02-01-08 | 3,734 | 5,712 | 1,978 | 65.4% | 185,090 | 1.1% |

**CPS ENERGY - LIFE PLAN**

| ACTUARIAL VALUATION DATE | ACTUARIAL VALUE OF ASSETS | ACTUARIAL ACCRUED LIABILITY (AAL) | UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) [2] | FUNDED RATIO | COVERED PAYROLL | UAAL AS A PERCENTAGE OF COVERED PAYROLL |
|---|---|---|---|---|---|---|
| 02-01-09 | $ 46,815 | $ 36,091 | $ (10,724) | 129.7% | $ 200,342 | (5.4)% |
| 02-01-09 | 49,614 | 35,491 | (14,123) | 139.8% | 198,669 | (7.1)% |
| 02-01-08 | 49,098 | 33,024 | (16,074) | 148.7% | 185,090 | (8.7)% |

[1] The AAL consisted of the liability for both retired employees and active employees. The AAL for retired employees was $87,900 for February 1, 2009, and $94,200 for February 1, 2008.

[2] CPS Energy has selected the aggregate cost method for determining Disability and Life Plans' funding amounts. Since this method does not identify or separately amortize unfunded actuarial liabilities, information about the funded status and funding progress has been prepared using the entry age actuarial cost method, which approximates the funding progress of the Plan.

(unaudited - see accompanying auditors' report)

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

**CITY OF SAN ANTONIO RETIREE HEALTH BENEFITS FUND**

| ACTUARIAL VALUATION DATE [1] | ACTUARIAL VALUE OF ASSETS | ACTUARIAL ACCRUED LIABILITY (AAL) | UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) | FUNDED RATIO | COVERED PAYROLL | UAAL AS A PERCENTAGE OF COVERED PAYROLL |
|---|---|---|---|---|---|---|
| 01-01-11 | $ - | $ 324,516 | $ 324,516 | 0.0% | $ 270,708 | 119.9% |
| 01-01-09 | | 342,018 | 342,018 | 0.0% | 259,224 | 131.9% |
| 01-01-06 | | 258,428 | 258,428 | 0.0% | 231,262 | 111.7% |

**FIRE AND POLICE RETIREE HEALTH CARE FUND**

| ACTUARIAL VALUATION DATE | ACTUARIAL VALUE OF ASSETS | ACTUARIAL ACCRUED LIABILITY (AAL) | UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) | FUNDED RATIO | COVERED PAYROLL | UAAL AS A PERCENTAGE OF COVERED PAYROLL |
|---|---|---|---|---|---|---|
| 10-01-10 | $ 219,404 | $ 606,861 | $ 387,457 | 36.2% | $ 255,010 | 151.9% |
| 10-01-09 | 200,329 | 549,466 | 349,137 | 36.5% | 236,372 | 147.7% |
| 10-01-08 | 208,384 | 561,035 | 352,651 | 37.1% | 226,707 | 155.5% |

**SAN ANTONIO WATER SYSTEM - OPEB PLAN**

| ACTUARIAL VALUATION DATE [2] | ACTUARIAL VALUE OF ASSETS | ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL) | UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) | FUNDED RATIO | COVERED PAYROLL | UAAL AS A PERCENTAGE OF COVERED PAYROLL |
|---|---|---|---|---|---|---|
| 01-01-11 | $ - | $ 242,388 | $ 242,388 | 0.0% | $ 83,505 | 290.3% |
| 01-01-09 | | 297,259 | 297,259 | 0.0% | 75,270 | 394.9% |
| 01-01-07 | | 200,083 | 200,083 | 0.0% | 69,288 | 288.8% |

[1] City will perform actuarial studies bi-annually and review annually assumptions and changes in plan design to compute OPEB liability for the Retiree Health Benefits Fund.

[2] SAWS will perform actuarial studies bi-annually and review annually assumptions and changes in plan design to compute OPEB liability.

# CITY OF SAN ANTONIO, TEXAS

## Comprehensive Annual Financial Report

**Year-Ended September 30, 2011**

## City of San Antonio, Texas

# *Supplementary Budget and Actual Schedules for Legally Adopted Funds*

***GENERAL FUND***

***DEBT SERVICE FUND***

***SPECIAL REVENUE FUNDS:***

- *Advanced Transportation District*
- *Community and Visitor Facilities*
- *Confiscated Property*
- *Hotel/Motel Tax 2% Revenue*
- *Parks Development and Expansion – 2005 and 2000 Venue Projects*
- *Right of Ways*
- *Stormwater Operations*
- *Tax Increment Financing**
- *<u>Community Service Funds:</u>*
  - *Child Safety*
  - *Golf Course Operating and Maintenance*
  - *Juvenile Case Manager*
  - *Municipal Court Security*
  - *Municipal Court Technology*
  - *Tree Canopy Investment*
  - *Tree Preservation Mitigation*

***PERMANENT FUND:***

- *City Cemeteries*

* This fund is incorporated within the Tax Increment Reinvestment Zone reporting unit.

## Schedules of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual (Budgetary Basis)
## General Fund
**Year-Ended September 30, 2011**
(In Thousands)

| | 2011 FINAL BUDGET | 2011 ACTUAL | 2011 VARIANCE - POSITIVE (NEGATIVE) |
|---|---|---|---|
| **Revenues:** | | | |
| Taxes | $ 474,859 | $ 483,198 | $ 8,339 |
| Licenses and Permits | 7,416 | 8,680 | 1,264 |
| Intergovernmental | 6,475 | 5,403 | (1,072) |
| Revenues from Utilities | 296,590 | 308,451 | 11,861 |
| Charges for Services | 46,873 | 50,134 | 3,261 |
| Fines and Forfeits | 14,902 | 13,697 | (1,205) |
| Miscellaneous | 15,298 | 18,880 | 3,582 |
| Investment Earnings | 786 | 1,819 | 1,033 |
| **Total Revenues** | 863,199 | 890,262 | 27,063 |
| **Expenditures:** | | | |
| General Government | 89,243 | 81,729 | 7,514 |
| Public Safety | 536,765 | 530,955 | 5,810 |
| Public Works | 44,905 | 45,357 | (452) |
| Health Services | 74,826 | 76,619 | (1,793) |
| Sanitation | 3,312 | 3,354 | (42) |
| Welfare | 46,294 | 44,342 | 1,952 |
| Culture and Recreation | 83,884 | 83,291 | 593 |
| Economic Development and Opportunity | 12,334 | 13,428 | (1,094) |
| **Total Expenditures** | 891,563 | 879,075 | 12,488 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | (28,364) | 11,187 | 39,551 |
| **Other Financing Sources (Uses):** | | | |
| Transfers In | 15,946 | 14,603 | (1,343) |
| Transfers Out | (55,616) | (55,500) | 116 |
| **Total Other Financing Sources (Uses)** | (39,670) | (40,897) | (1,227) |
| **(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)** | (68,034) | (29,710) | $ 38,324 |
| Fund Balances, October 1 (Restated) | 230,822 | 230,822 | |
| Add Encumbrances | | 31,580 | |
| **Fund Balances, September 30** | $ 162,788 | $ 232,692 | |





## Schedule of Revenues Compared to Budget
## Budget and Actual (Budgetary Basis)
## General Fund
**Year-Ended September 30, 2011**
(In Thousands)

| | 2011 FINAL BUDGET | 2011 ACTUAL | 2011 VARIANCE - POSITIVE (NEGATIVE) |
|---|---|---|---|
| **Revenues:** | | | |
| **Taxes:** | | | |
| Property: | | | |
| Current | $ 239,079 | $ 239,760 | $ 681 |
| Delinquent | 1,605 | 2,482 | 877 |
| General Sales and Use: | | | |
| City Sales | 195,315 | 200,245 | 4,930 |
| Selective Sales and Use: | | | |
| Alcoholic Beverages | 5,921 | 5,879 | (42) |
| Gross Receipts Business: | | | |
| Telecommunication Access Lines Fees | 15,148 | 16,679 | 1,531 |
| Cablevision Franchise | 14,579 | 14,532 | (47) |
| Bingo | 700 | 1,030 | 330 |
| Other | 195 | 293 | 98 |
| Penalties and Interest on Delinquent Taxes | 2,317 | 2,298 | (19) |
| **Total Taxes** | 474,859 | 483,198 | 8,339 |
| **Licenses and Permits:** | | | |
| Alcoholic Beverages Licenses | 460 | 494 | 34 |
| Health Licenses | 3,500 | 4,447 | 947 |
| Amusement Licenses | 148 | 130 | (18) |
| Professional and Occupational Licenses | 2,228 | 2,258 | 30 |
| Animal Licenses | 141 | 93 | (48) |
| Street Permits | 939 | 1,258 | 319 |
| **Total Licenses and Permits** | 7,416 | 8,680 | 1,264 |
| **Intergovernmental:** | | | |
| Library Aid from Bexar County | 3,697 | 3,697 | |
| Park Reservation Services | 40 | 40 | |
| Bexar County - Child Support | 73 | 50 | (23) |
| Magistration and Detention - Bexar | 1,143 | 13 | (1,130) |
| Health Aid from Bexar County | 1,170 | 1,266 | 96 |
| VIA Contributions | 302 | 302 | |
| Hotel/Motel Tax Collection Fee | 50 | 35 | (15) |
| **Total Intergovernmental** | 6,475 | 5,403 | (1,072) |
| **Revenues from Utilities:** | | | |
| CPS Energy | 286,553 | 297,630 | 11,077 |
| San Antonio Water System | 10,037 | 10,821 | 784 |
| **Total Revenues from Utilities** | 296,590 | 308,451 | 11,861 |

(Continued)

## Schedule of Revenues Compared to Budget
## Budget and Actual (Budgetary Basis)
## General Fund
**Year-Ended September 30, 2011**
(In Thousands)

| | 2011 FINAL BUDGET | 2011 ACTUAL | 2011 VARIANCE - POSITIVE (NEGATIVE) |
|---|---|---|---|
| **Charges for Services:** | | | |
| General Government | $ 5,586 | $ 7,712 | $ 2,126 |
| Public Safety: | | | |
| Police Department | 7,003 | 6,203 | (800) |
| Fire Department | 707 | 709 | 2 |
| Sanitation: | | | |
| Abatement of Nuisances | 352 | 407 | 55 |
| Health | 22,733 | 24,434 | 1,701 |
| Culture and Recreation: | | | |
| Tower of the Americas | 501 | 523 | 22 |
| Hemisphere Plaza | 96 | 122 | 26 |
| La Villita | 466 | 471 | 5 |
| Recreation Fees | 1,627 | 1,366 | (261) |
| Concessions in Other Parks | 61 | 70 | 9 |
| River Boats | 5,526 | 5,748 | 222 |
| Governor's Palace | 76 | 87 | 11 |
| Swimming Pools | 137 | 139 | 2 |
| Community Centers | 485 | 483 | (2) |
| Library | 853 | 951 | 98 |
| Cemeteries | 27 | 27 | |
| Miscellaneous Recreation Revenue | 637 | 682 | 45 |
| **Total Charges for Services** | 46,873 | 50,134 | 3,261 |
| **Fines and Forfeits:** | | | |
| Municipal Court Fines | 14,902 | 13,697 | (1,205) |
| **Investment Earnings:** | | | |
| Interest | 786 | 1,819 | 1,033 |
| **Miscellaneous:** | | | |
| Sales | 3,644 | 4,912 | 1,268 |
| Recovery of Expenditures | 2,273 | 3,622 | 1,349 |
| Interfund Charges | 1,463 | 1,838 | 375 |
| Rents, Leases, and Concessions | 2,375 | 2,064 | (311) |
| Other | 5,543 | 6,444 | 901 |
| **Total Miscellaneous** | 15,298 | 18,880 | 3,582 |
| **Total Revenues** | $ 863,199 | $ 890,262 | $ 27,063 |

(End of Statement)






## Schedule of Expenditures Compared to Budget
## Budget and Actual (Budgetary Basis)
## General Fund
**Year-Ended September 30, 2011**
(In Thousands)

| | 2011 FINAL BUDGET | 2011 ACTUAL | 2011 VARIANCE - POSITIVE (NEGATIVE) |
|---|---|---|---|
| **Expenditures:** | | | |
| **General Government:** | | | |
| **Legislative:** | | | |
| Personal Services | $ 7,080 | $ 7,049 | $ 31 |
| Contractual Services | 2,757 | 2,341 | 416 |
| Commodities | 385 | 287 | 98 |
| Other Expenditures | 3,281 | 3,082 | 199 |
| Capital Outlay | | 18 | (18) |
| **Total Legislative** | 13,503 | 12,777 | 726 |
| **Judicial:** | | | |
| Personal Services | 11,019 | 10,514 | 505 |
| Contractual Services | 733 | 833 | (100) |
| Commodities | 155 | 271 | (116) |
| Other Expenditures | 1,536 | 1,532 | 4 |
| **Total Judicial** | 13,443 | 13,150 | 293 |
| **Executive:** | | | |
| Personal Services | 34,880 | 28,397 | 6,483 |
| Contractual Services | 19,779 | 19,559 | 220 |
| Commodities | 2,724 | 2,220 | 504 |
| Other Expenditures | 4,914 | 5,267 | (353) |
| Capital Outlay | | 359 | (359) |
| **Total Executive** | 62,297 | 55,802 | 6,495 |
| **Total General Government** | 89,243 | 81,729 | 7,514 |
| **Public Safety:** | | | |
| **Police:** | | | |
| Personal Services | 261,169 | 261,881 | (712) |
| Contractual Services | 8,325 | 8,014 | 311 |
| Commodities | 1,762 | 1,693 | 69 |
| Other Expenditures | 17,152 | 17,332 | (180) |
| **Total Police** | 288,408 | 288,920 | (512) |
| **Fire:** | | | |
| Personal Services | 141,338 | 139,694 | 1,644 |
| Contractual Services | 3,387 | 3,149 | 238 |
| Commodities | 2,917 | 3,074 | (157) |
| Other Expenditures | 15,300 | 16,129 | (829) |
| Capital Outlay | 1,195 | 1,207 | (12) |
| **Total Fire** | 164,137 | 163,253 | 884 |

(Continued)

## Schedule of Expenditures Compared to Budget
## Budget and Actual (Budgetary Basis)
## General Fund
**Year-Ended September 30, 2011**
(In Thousands)

| | 2011 FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
|---|---|---|---|
| **Public Safety (Continued):** | | | |
| **Building Inspection and Regulations:** | | | |
| Personal Services | $ 221 | $ 227 | $ (6) |
| Contractual Services | 7 | 5 | 2 |
| Commodities | 3 | 3 | |
| Other Expenditures | 34 | 35 | (1) |
| **Total Building Inspection and Regulations** | 265 | 270 | (5) |
| **Administration:** | | | |
| Personal Services | 19,332 | 15,820 | 3,512 |
| Contractual Services | 2,205 | 2,227 | (22) |
| Commodities | 1,422 | 1,088 | 334 |
| Other Expenditures | 7,793 | 7,470 | 323 |
| **Total Administration** | 30,752 | 26,605 | 4,147 |
| **Other Protection:** | | | |
| Personal Services | 28,919 | 27,399 | 1,520 |
| Contractual Services | 6,988 | 4,908 | 2,080 |
| Commodities | 3,711 | 4,588 | (877) |
| Other Expenditures | 13,585 | 14,901 | (1,316) |
| Capital Outlay | | 111 | (111) |
| **Total Other Protection** | 53,203 | 51,907 | 1,296 |
| **Total Public Safety** | 536,765 | 530,955 | 5,810 |
| **Public Works:** | | | |
| **Streets:** | | | |
| Personal Services | 11,763 | 11,333 | 430 |
| Contractual Services | 2,804 | 4,443 | (1,639) |
| Commodities | 11,961 | 10,281 | 1,680 |
| Other Expenditures | 6,101 | 6,310 | (209) |
| **Total Streets** | 32,629 | 32,367 | 262 |
| **Lighting:** | | | |
| Contractual Services | 90 | | 90 |
| Commodities | 12,186 | 12,990 | (804) |
| **Total Lighting** | 12,276 | 12,990 | (714) |
| **Total Public Works** | 44,905 | 45,357 | (452) |

(Continued)





## Schedule of Expenditures Compared to Budget
## Budget and Actual (Budgetary Basis)
## General Fund
**Year-Ended September 30, 2011**
(In Thousands)

| | 2011 FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
|---|---|---|---|
| **Health Services:** | | | |
| Personal Services | $ 56,396 | $ 57,486 | $ (1,090) |
| Contractual Services | 7,608 | 7,809 | (201) |
| Commodities | 3,447 | 3,824 | (377) |
| Other Expenditures | 7,152 | 7,246 | (94) |
| Capital Outlay | 223 | 254 | (31) |
| **Total Health Services** | 74,826 | 76,619 | (1,793) |
| **Sanitation:** | | | |
| Personal Services | 2,565 | 2,636 | (71) |
| Contractual Services | 126 | 160 | (34) |
| Commodities | 87 | 57 | 30 |
| Other Expenditures | 524 | 486 | 38 |
| Capital Outlay | 10 | 15 | (5) |
| **Total Sanitation** | 3,312 | 3,354 | (42) |
| **Welfare:** | | | |
| Personal Services | 14,287 | 14,221 | 66 |
| Contractual Services | 22,760 | 21,500 | 1,260 |
| Commodities | 955 | 887 | 68 |
| Other Expenditures | 8,115 | 7,357 | 758 |
| Capital Outlay | 177 | 377 | (200) |
| **Total Welfare** | 46,294 | 44,342 | 1,952 |
| **Culture and Recreation:** | | | |
| **Libraries:** | | | |
| Personal Services | 20,276 | 18,893 | 1,383 |
| Contractual Services | 3,037 | 3,301 | (264) |
| Commodities | 4,078 | 4,221 | (143) |
| Other Expenditures | 4,185 | 3,912 | 273 |
| **Total Libraries** | 31,576 | 30,327 | 1,249 |
| **Parks:** | | | |
| Personal Services | 28,647 | 27,804 | 843 |
| Contractual Services | 9,820 | 10,727 | (907) |
| Commodities | 4,294 | 4,055 | 239 |
| Other Expenditures | 9,266 | 10,030 | (764) |
| Capital Outlay | 281 | 348 | (67) |
| **Total Parks** | 52,308 | 52,964 | (656) |
| **Total Culture and Recreation** | 83,884 | 83,291 | 593 |
| **Economic Development and Opportunity:** | | | |
| Personal Services | 2,334 | 2,225 | 109 |
| Contractual Services | 9,713 | 10,832 | (1,119) |
| Commodities | 152 | 88 | 64 |
| Other Expenditures | 135 | 283 | (148) |
| **Total Economic Development and Opportunity** | 12,334 | 13,428 | (1,094) |
| **Total Expenditures** | $ 891,563 | $ 879,075 | $ 12,488 |

(End of Statement)

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual (Budgetary Basis)
## Debt Service Fund
### Year-Ended September 30, 2011
(In Thousands)

| | 2011 FINAL BUDGET | 2011 ACTUAL | 2011 VARIANCE - POSITIVE (NEGATIVE) |
|---|---|---|---|
| **Revenues:** | | | |
| Property Taxes: | | | |
| Current | $ 142,847 | $ 143,429 | $ 582 |
| Delinquent | 650 | 1,483 | 833 |
| Penalties and Interest on Delinquent Taxes | 1,383 | 1,372 | (11) |
| Miscellaneous | 4,401 | 4,532 | 131 |
| Investment Earnings | 430 | 311 | (119) |
| **Total Revenues** | 149,711 | 151,127 | 1,416 |
| **Expenditures:** | | | |
| General Government: | | | |
| Contractual Services | 115 | 1,779 | (1,664) |
| Debt Service: | | | |
| Principal Retirement | 135,205 | 135,205 | |
| Interest | 76,077 | 69,584 | 6,493 |
| **Total Expenditures** | 211,397 | 206,568 | 4,829 |
| **(Deficiency) of Revenues (Under) Expenditures** | (61,686) | (55,441) | 6,245 |
| **Other Financing Sources:** | | | |
| Transfers In | 41,615 | 39,927 | (1,688) |
| **Total Other Financing Sources** | 41,615 | 39,927 | (1,688) |
| **(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures** | (20,071) | (15,514) | $ 4,557 |
| Fund Balances, October 1 | 109,083 | 109,083 | |
| Add Encumbrances | | | |
| **Fund Balances, September 30** | $ 89,012 | $ 93,569 | |





## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual (Budgetary Basis)
## Special Revenue Funds
## Advanced Transportation District
### Year-Ended September 30, 2011
(In Thousands)

| | 2011 FINAL BUDGET | 2011 ACTUAL | 2011 VARIANCE - POSITIVE (NEGATIVE) |
|---|---|---|---|
| **Revenues:** | | | |
| General Sales and Use: | | | |
| City Sales Tax | $ 11,048 | $ 11,544 | $ 496 |
| Investment Earnings | 37 | 52 | 15 |
| **Total Revenues** | 11,085 | 11,596 | 511 |
| **Expenditures:** | | | |
| General Government: | | | |
| Other Expenditures | | 9 | (9) |
| Total General Government | | 9 | (9) |
| Public Works: | | | |
| Personal Services | 1,407 | 1,327 | 80 |
| Contractual Services | 240 | 217 | 23 |
| Commodities | 58 | 15 | 43 |
| Other Expenditures | 290 | 347 | (57) |
| Capital Outlay | 10 | 1 | 9 |
| Total Public Works | 2,005 | 1,907 | 98 |
| **Total Expenditures** | 2,005 | 1,916 | 89 |
| **Excess of Revenues Over Expenditures** | 9,080 | 9,680 | 600 |
| **Other Financing (Uses):** | | | |
| Transfers Out | (14,577) | (14,514) | 63 |
| **Total Other Financing (Uses)** | (14,577) | (14,514) | 63 |
| **(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)** | (5,497) | (4,834) | $ 663 |
| Fund Balances, October 1 | 12,629 | 12,629 | |
| Add Encumbrances | | 5,147 | |
| **Fund Balances, September 30** | $ 7,132 | $ 12,942 | |

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual (Budgetary Basis)
## Special Revenue Funds
## Community and Visitor Facilities
### Year-Ended September 30, 2011
(In Thousands)

| | 2011 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Taxes: | | | |
| Occupancy | $ 47,777 | $ 48,975 | $ 1,198 |
| Penalties and Interest on Delinquent Taxes | 82 | 99 | 17 |
| Intergovernmental | | 20,915 | 20,915 |
| Charges for Services | 17,034 | 17,114 | 80 |
| Miscellaneous | 1,173 | 1,458 | 285 |
| Investment Earnings | 68 | 161 | 93 |
| **Total Revenues** | 66,134 | 88,722 | 22,588 |
| **Expenditures:** | | | |
| General Government: | | | |
| Contractual Service | | 3 | (3) |
| Other Expenditures | | 26 | (26) |
| Total General Government | | 29 | (29) |
| Cultural and Recreation: | | | |
| Arts and Cultural Affairs: | | | |
| Personal Services | 951 | 962 | (11) |
| Contractual Services | 1,078 | 990 | 88 |
| Commodities | 43 | 41 | 2 |
| Other Expenditures | 70 | 71 | (1) |
| Total Arts and Cultural Affairs | 2,142 | 2,064 | 78 |
| Convention Facilities: | | | |
| Personal Services | 17,394 | 16,570 | 824 |
| Contractual Services | 3,436 | 3,209 | 227 |
| Commodities | 969 | 943 | 26 |
| Other Expenditures | 13,584 | 13,187 | 397 |
| Total Convention Facilities | 35,383 | 33,909 | 1,474 |
| Nondepartmental: | | | |
| Personal Services | 87 | 54 | 33 |
| Contractual Services | 985 | 1,670 | (685) |
| Commodities | 2 | | 2 |
| Other Expenditures | 4 | 5 | (1) |
| Total Nondepartmental | 1,078 | 1,729 | (651) |
| Contributions to Other Agencies | 5,374 | 5,235 | 139 |
| Total Cultural and Recreation | 43,977 | 42,937 | 1,040 |
| Convention and Tourism: | | | |
| Convention and Visitors Bureau: | | | |
| Personal Services | 7,702 | 7,438 | 264 |
| Contractual Services | 11,890 | 11,904 | (14) |
| Commodities | 309 | 316 | (7) |
| Other Expenditures | 528 | 595 | (67) |
| Total Convention and Tourism | 20,429 | 20,253 | 176 |
| Economic Development and Opportunity: | | | |
| Personal Services | 527 | 395 | 132 |
| Contractual Services | 427 | 438 | (11) |
| Commodities | 52 | 54 | (2) |
| Other Expenditures | 29 | 33 | (4) |
| Total Economic Development and Opportunity | 1,035 | 920 | 115 |
| **Total Expenditures** | 65,441 | 64,139 | 1,302 |
| **Excess of Revenues Over Expenditures** | 693 | 24,583 | 23,890 |
| **Other Financing Sources (Uses):** | | | |
| Transfers In | 14,579 | 13,515 | (1,064) |
| Transfers Out | (34,802) | (43,043) | (8,241) |
| **Total Other Financing Sources (Uses)** | (20,223) | (29,528) | (9,305) |
| **(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)** | (19,530) | (4,945) | $ 14,585 |
| Fund Balances, October 1 | 27,305 | 27,305 | |
| Add Encumbrances | | 17,828 | |
| **Fund Balances, September 30** | $ 7,775 | $ 40,188 | |

Note: Includes revenues and expenditures generated from Convention and Tourism activities relating to the promotion of City of San Antonio owned facilities to be used for conventions, community and entertainment venues; the marketing and promotion of San Antonio through the Convention and Visitors Bureau and support for arts and cultural organizations in the Office of Cultural Affairs and International Affairs.





## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual (Budgetary Basis)
## Special Revenue Funds
## Confiscated Property
### Year-Ended September 30, 2011
(In Thousands)

| | 2011 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Miscellaneous | $ 1,643 | $ 1,068 | $ (575) |
| Investment Earnings | 14 | 22 | 8 |
| **Total Revenues** | 1,657 | 1,090 | (567) |
| **Expenditures:** | | | |
| Public Safety: | | | |
| Personal Services | 349 | 339 | 10 |
| Contractual Services | 918 | 504 | 414 |
| Commodities | 338 | 179 | 159 |
| Other Expenditures | 124 | 185 | (61) |
| Capital Outlay | 689 | 690 | (1) |
| **Total Expenditures** | 2,418 | 1,897 | 521 |
| **(Deficiency) of Revenues (Under) Expenditures** | (761) | (807) | (46) |
| **Other Financing (Uses):** | | | |
| Transfers In | | | |
| Transfers Out | (381) | (381) | |
| **Total Other Financing (Uses)** | (381) | (381) | |
| **(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)** | (1,142) | (1,188) | $ (46) |
| Fund Balances, October 1(Restated) | 5,251 | 5,251 | |
| Add Encumbrances | | 46 | |
| **Fund Balances, September 30** | $ 4,109 | $ 4,109 | |

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual (Budgetary Basis)
## Special Revenue Funds
## Hotel/Motel 2% Revenue
**Year-Ended September 30, 2011**
(In Thousands)

| | 2011 FINAL BUDGET | 2011 ACTUAL | 2011 VARIANCE - POSITIVE (NEGATIVE) |
|---|---|---|---|
| **Revenues:** | | | |
| Taxes: | | | |
| Occupancy | $ 13,655 | $ 13,993 | $ 338 |
| Penalties and Interest on Delinquent Taxes | 25 | 28 | 3 |
| Miscellaneous | | 22 | 22 |
| Investment Earnings | 1 | 64 | 63 |
| **Total Revenues** | 13,681 | 14,107 | 426 |
| **Expenditures:** | | | |
| General Government: | | | |
| Other Expenditures | | 11 | (11) |
| Convention and Tourism: | | | |
| Contractual Service | 204 | 269 | (65) |
| **Total Expenditures** | 204 | 280 | (76) |
| **Excess of Revenues Over Expenditures** | 13,477 | 13,827 | 350 |
| **Other Financing Sources (Uses):** | | | |
| Transfer In | | 6,952 | 6,952 |
| Transfers Out | (32,112) | (25,078) | 7,034 |
| **Total Other Financing Sources (Uses)** | (32,112) | (18,126) | 13,986 |
| **(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)** | (18,635) | (4,299) | $ 14,336 |
| Fund Balances, October 1 | 19,523 | 19,523 | |
| Add Encumbrances | | 360 | |
| **Fund Balances, September 30** | $ 888 | $ 15,584 | |





## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual (Budgetary Basis)
## Special Revenue Funds
## Parks Development and Expansion - 2005 and 2000 Venue Projects
**Year-Ended September 30, 2011**
(In Thousands)

| | 2011 FINAL BUDGET | 2011 ACTUAL | 2011 VARIANCE - POSITIVE (NEGATIVE) |
|---|---|---|---|
| **Revenues:** | | | |
| General Sales and Use: | | | |
| City Sales Tax | $ 21,690 | $ 25,030 | $ 3,340 |
| Investment Earnings | 86 | 119 | 33 |
| **Total Revenues** | 21,776 | 25,149 | 3,373 |
| **Expenditures:** | | | |
| General Government: | | | |
| Other Expenditures | 53 | 43 | 10 |
| Total General Government | 53 | 43 | 10 |
| Culture and Recreation: | | | |
| Contractual Services | 434 | 497 | (63) |
| Total Culture and Recreation | 434 | 497 | (63) |
| **Total Expenditures** | 487 | 540 | (53) |
| **Excess of Revenues Over Expenditures** | 21,289 | 24,609 | 3,320 |
| **Other Financing (Uses):** | | | |
| Transfers Out | (42,854) | (42,201) | 653 |
| **Total Other Financing (Uses)** | (42,854) | (42,201) | 653 |
| **(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)** | (21,565) | (17,592) | $ 3,973 |
| Fund Balances, October 1 | 30,371 | 30,371 | |
| Add Encumbrances | | 20,257 | |
| **Fund Balances, September 30** | $ 8,806 | $ 33,036 | |

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual (Budgetary Basis)
## Special Revenue Funds
## Right of Ways
**Year-Ended September 30, 2011**
(In Thousands)

| | 2011 FINAL BUDGET | 2011 ACTUAL | 2011 VARIANCE - POSITIVE (NEGATIVE) |
|---|---|---|---|
| **Revenues:** | | | |
| Charges for Services | $ 1,407 | $ 1,594 | $ 187 |
| Investment Earnings | | 3 | 3 |
| **Total Revenues** | 1,407 | 1,597 | 190 |
| **Expenditures:** | | | |
| General Government: | | | |
| Other Expenditures | | 1 | (1) |
| Total General Government | | 1 | (1) |
| Streets and Roadways: | | | |
| Personal Services | 1,157 | 1,104 | 53 |
| Contractual Services | 96 | 77 | 19 |
| Commodities | 17 | 14 | 3 |
| Other Expenditures | 237 | 244 | (7) |
| Capital Outlay | 88 | 59 | 29 |
| Total Public Works | 1,595 | 1,498 | 97 |
| **Total Expenditures** | 1,595 | 1,499 | 96 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | (188) | 98 | 286 |
| **Other Financing (Uses):** | | | |
| Transfers Out | (42) | | 42 |
| **Total Other Financing (Uses)** | (42) | | 42 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing (Uses)** | (230) | 98 | $ 328 |
| Fund Balances, October 1 | 1,222 | 1,222 | |
| Add Encumbrances | | | |
| **Fund Balances, September 30** | $ 992 | $ 1,320 | |





## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual (Budgetary Basis)
## Special Revenue Funds
## Stormwater Operations
**Year-Ended September 30, 2011**
(In Thousands)

| | 2011 FINAL BUDGET | 2011 ACTUAL | 2011 VARIANCE - POSITIVE (NEGATIVE) |
|---|---|---|---|
| **Revenues:** | | | |
| Charges for Services | $ 39,630 | $ 40,415 | $ 785 |
| Intergovernmental | | | |
| Miscellaneous | - | 15 | 15 |
| Investment Earnings | 183 | 157 | (26) |
| **Total Revenues** | 39,813 | 40,587 | 774 |
| **Expenditures:** | | | |
| General Government: | | | |
| Other Expenditures | | 27 | (27) |
| Total General Government | | 27 | (27) |
| Public Works: | | | |
| Administration: | | | |
| Personal Services | 1,169 | 1,092 | 77 |
| Contractual Services | 4,582 | 4,620 | (38) |
| Commodities | 31 | 23 | 8 |
| Other Expenditures | 135 | 219 | (84) |
| Capital Outlay | 22 | 91 | (69) |
| Total Administration | 5,939 | 6,045 | (106) |
| Vegetation Control: | | | |
| Personal Services | 3,519 | 4,040 | (521) |
| Contractual Services | 848 | 954 | (106) |
| Commodities | 333 | 283 | 50 |
| Other Expenditures | 883 | 1,042 | (159) |
| Capital Outlay | 480 | 623 | (143) |
| Total Vegetation Control | 6,063 | 6,942 | (879) |
| River Maintenance: | | | |
| Personal Services | 4,009 | 4,210 | (201) |
| Contractual Services | 672 | 1,302 | (630) |
| Commodities | 455 | 490 | (35) |
| Other Expenditures | 2,042 | 2,033 | 9 |
| Capital Outlay | | 72 | (72) |
| Total River Maintenance | 7,178 | 8,107 | (929) |
| Street Sweeping: | | | |
| Personal Services | 2,479 | 2,557 | (78) |
| Contractual Services | 534 | 628 | (94) |
| Commodities | 172 | 382 | (210) |
| Other Expenditures | 1,038 | 1,060 | (22) |
| Total Street Sweeping | 4,223 | 4,627 | (404) |
| Tunnel Maintenance: | | | |
| Personal Services | 1,392 | 1,435 | (43) |
| Contractual Services | 422 | 421 | 1 |
| Commodities | 247 | 228 | 19 |
| Other Expenditures | 511 | 565 | (54) |
| Capital Outlay | | 75 | (75) |
| Total Tunnel Maintenance | 2,572 | 2,724 | (152) |
| Design Engineering: | | | |
| Personal Services | 1,487 | 1,499 | (12) |
| Contractual Services | 535 | 516 | 19 |
| Commodities | 8 | 16 | (8) |
| Other Expenditures | 163 | 152 | 11 |
| Total Design Engineering | 2,193 | 2,183 | 10 |
| **Total Expenditures** | 28,168 | 30,655 | (2,487) |
| **Excess of Revenues Over Expenditures** | 11,645 | 9,932 | (1,713) |
| **Other Financing (Uses):** | | | |
| Transfers Out | (49,513) | (38,755) | 10,758 |
| **Total Other Financing (Uses)** | (49,513) | (38,755) | 10,758 |
| **(Deficiency) of Revenues (Under) Expenditures and Other Financing (Uses)** | (37,868) | (28,823) | $ 9,045 |
| Fund Balances, October 1 | 36,779 | 36,779 | |
| Add Encumbrances | | 27,070 | |
| **Fund Balances, September 30** | $ (1,089) | $ 35,026 | |

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual (Budgetary Basis)
## Special Revenue Funds
## Tax Increment Financing
**Year-Ended September 30, 2011**
(In Thousands)

| | 2011 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Charges for Services: | | | |
| Administrative Fee | $ 793 | $ 175 | $ (618) |
| Processing Fee | 62 | 46 | (16) |
| **Total Revenues** | 855 | 221 | (634) |
| **Expenditures:** | | | |
| Economic Development and Opportunity: | | | |
| Personal Services | 429 | 322 | 107 |
| Contractual Services | 23 | 28 | (5) |
| Commodities | 7 | 28 | (21) |
| Other Expenditures | 26 | 26 | |
| Capital Outlay | 5 | 2 | 3 |
| **Total Expenditures** | 490 | 406 | 84 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | 365 | (185) | (550) |
| **Other Financing (Uses):** | | | |
| Transfers Out | (73) | (73) | |
| **Total Other Financing (Uses)** | (73) | (73) | |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing (Uses)** | 292 | (258) | $ (550) |
| Fund Balances, October 1 | 77 | 77 | |
| Add Encumbrances | | 28 | |
| **Fund Balances, September 30** | $ 369 | $ (153) | |





## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual (Budgetary Basis)
## Special Revenue Funds
## Community Service Funds - Child Safety
**Year-Ended September 30, 2011**
(In Thousands)

| | 2011 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Charges for Services: | | | |
| Parking Fines | $ 172 | $ 128 | $ (44) |
| Moving Violations | 272 | 298 | 26 |
| Intergovernmental | 1,618 | 1,901 | 283 |
| **Total Revenues** | 2,062 | 2,327 | 265 |
| **Expenditures:** | | | |
| Public Safety: | | | |
| Personal Services | 1,748 | 1,333 | 415 |
| Contractual Services | 3 | 11 | (8) |
| Commodities | 33 | 8 | 25 |
| Other Expenditures | 441 | 607 | (166) |
| **Total Expenditures** | 2,225 | 1,959 | 266 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | (163) | 368 | 531 |
| **Other Financing (Uses):** | | | |
| Transfers Out | (289) | (289) | |
| **Total Other Financing (Uses)** | (289) | (289) | |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing (Uses)** | (452) | 79 | $ 531 |
| Fund Balances, October 1 | 164 | 164 | |
| Add Encumbrances | | | |
| **Fund Balances, September 30** | $ (288) | $ 243 | |

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual (Budgetary Basis)
## Special Revenue Funds
## Community Services Funds - Golf Course Operating and Maintenance
**Year-Ended September 30, 2011**
(In Thousands)

| | 2011 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Miscellaneous | $ 600 | $ 404 | $ (196) |
| **Total Revenues** | 600 | 404 | (196) |
| **Expenditures:** | | | |
| **Total Expenditures** | | | |
| **Excess of Revenues Over Expenditures** | 600 | 404 | (196) |
| **Other Financing (Uses):** | | | |
| Transfers Out | (106) | (106) | |
| **Total Other Financing (Uses)** | (106) | (106) | |
| **Excess of Revenues Over Expenditures and Other Financing (Uses)** | 494 | 298 | $ (196) |
| Fund Balances, October 1 | (2,254) | (2,254) | |
| Add Encumbrances | | | |
| **Fund Balances, September 30** | $ (1,760) | $ (1,956) | |





## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual (Budgetary Basis)
## Special Revenue Funds
## Community Service Funds - Juvenile Case Manager
**Year-Ended September 30, 2011**
(In Thousands)

| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
|---|---|---|---|
| **Revenues:** | | | |
| Charges for Services: | | | |
| Juvenile Case Manager Fee | $ 543 | $ 744 | $ 201 |
| Investment Earnings | | 1 | 1 |
| **Total Revenues** | 543 | 745 | 202 |
| **Expenditures:** | | | |
| General Government: | | | |
| Personal Services | 539 | 490 | 49 |
| Other Expenditures | 33 | 33 | |
| Capital Outlay | | 47 | (47) |
| **Total Expenditures** | 572 | 570 | 2 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | (29) | 175 | 204 |
| **Other Financing Sources:** | | | |
| Transfers In | 33 | 33 | |
| **Total Other Financing Sources** | 33 | 33 | |
| **Excess of Revenues and Other Financing Sources Over Expenditures** | 4 | 208 | $ 204 |
| Fund Balances, October 1 | 211 | 211 | |
| Add Encumbrances | | | |
| **Fund Balances, September 30** | $ 215 | $ 419 | |

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual (Budgetary Basis)
## Special Revenue Funds
## Community Service Funds - Municipal Court Security
**Year-Ended September 30, 2011**
(In Thousands)

| | 2011 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Charges for Services: | | | |
| Building Security | $ 485 | $ 505 | $ 20 |
| **Total Revenues** | 485 | 505 | 20 |
| **Expenditures:** | | | |
| General Government: | | | |
| Personal Services | 414 | 394 | 20 |
| Contractual Services | 36 | 63 | (27) |
| Commodities | 8 | 2 | 6 |
| Other Expenditures | 37 | 52 | (15) |
| **Total Expenditures** | 495 | 511 | (16) |
| **(Deficiency) of Revenues (Under) Expenditures** | (10) | (6) | $ 4 |
| Fund Balances, October 1 | 82 | 82 | |
| Add Encumbrances | | | |
| **Fund Balances, September 30** | $ 72 | $ 76 | |

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





## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual (Budgetary Basis)
## Special Revenue Funds
## Community Service Funds - Municipal Court Technology
**Year-Ended September 30, 2011**
(In Thousands)

| | 2011 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Charges for Services: | | | |
| Technology Improvements | $ 647 | $ 672 | $ 25 |
| Investment Earnings | | 9 | 9 |
| **Total Revenues** | 647 | 681 | 34 |
| **Expenditures:** | | | |
| General Government: | | | |
| Personal Services | 60 | 9 | 51 |
| Contractual Services | | 125 | (125) |
| Commodities | | 91 | (91) |
| Other Expenditures | 7 | 16 | (9) |
| Capital Outlay | | 17 | (17) |
| **Total Expenditures** | 67 | 258 | (191) |
| **Excess of Revenues Over Expenditures** | 580 | 423 | (157) |
| **Other Financing (Uses):** | | | |
| Transfers Out | (1,130) | (134) | 996 |
| **Total Other Financing (Uses)** | (1,130) | (134) | 996 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing (Uses)** | (550) | 289 | $ 839 |
| Fund Balances, October 1 | 1,768 | 1,768 | |
| Add Encumbrances | | | |
| **Fund Balances, September 30** | $ 1,218 | $ 2,057 | |

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual (Budgetary Basis)
## Special Revenue Funds
## Community Service Funds - Tree Canopy Investment
**Year-Ended September 30, 2011**

(In Thousands)

| | 2011 FINAL BUDGET | 2011 ACTUAL | 2011 VARIANCE - POSITIVE (NEGATIVE) |
|---|---|---|---|
| **Revenues:** | | | |
| Charges for Services: | | | |
| Canopy Fee - Residential | $ 118 | $ 72 | $ (46) |
| Canopy Fee - Commercial | 112 | 113 | 1 |
| Investment Earnings | 3 | 2 | (1) |
| **Total Revenues** | 233 | 187 | (46) |
| **Expenditures:** | | | |
| Culture and Recreation: | | | |
| Commodities | 515 | 371 | 144 |
| Other Expenditures | 3 | 3 | |
| **Total Expenditures** | 518 | 374 | 144 |
| **(Deficiency) of Revenues (Under) Expenditures** | (285) | (187) | 98 |
| **Other Financing:** | | | |
| Transfers Out | | | |
| **Total Other Financing** | | | |
| **(Deficiency) of Revenues (Under) Expenditures** | (285) | (187) | $ 98 |
| Fund Balances, October 1 | 499 | 499 | |
| Add Encumbrances | | | |
| **Fund Balances, September 30** | $ 214 | $ 312 | |





## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual (Budgetary Basis)
## Special Revenue Funds
## Community Service Funds - Tree Preservation Mitigation
**Year-Ended September 30, 2011**

(In Thousands)

| | 2011 FINAL BUDGET | 2011 ACTUAL | 2011 VARIANCE - POSITIVE (NEGATIVE) |
|---|---|---|---|
| **Revenues:** | | | |
| Charges for Services: | | | |
| Tree Mitigation Fee | $ 118 | $ 251 | $ 133 |
| Investment Earnings | 3 | 3 | - |
| **Total Revenues** | 121 | 254 | 133 |
| **Expenditures:** | | | |
| Culture and Recreation: | | | |
| Personal Services | 101 | 32 | 69 |
| Contractual Services | 265 | 252 | 13 |
| Commodities | 284 | 213 | 71 |
| Other Expenditures | 45 | 48 | (3) |
| Capital Outlay | 361 | 217 | 144 |
| **Total Expenditures** | 1,056 | 762 | 294 |
| **(Deficiency) of Revenues (Under) Expenditures** | (935) | (508) | 427 |
| **Other Financing:** | | | |
| Transfers Out | | | |
| **Total Other Financing** | | | |
| **(Deficiency) of Revenues (Under) Expenditures** | (935) | (508) | $ 427 |
| Fund Balances, October 1 | 1,005 | 1,005 | |
| Add Encumbrances | | 4 | |
| **Fund Balances, September 30** | $ 70 | $ 501 | |

## Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
## Budget and Actual (Budgetary Basis)
## Permanent Fund
## City Cemetaries
### Year-Ended September 30, 2011
(In Thousands)

| | 2011 | | |
|---|---|---|---|
| | FINAL BUDGET | ACTUAL | VARIANCE - POSITIVE (NEGATIVE) |
| **Revenues:** | | | |
| Charges for Services: | | | |
| Sales | $ 546 | $ 265 | $ (281) |
| Miscellaneous | | | |
| Investment Earnings | 12 | 11 | (1) |
| **Total Revenues** | 558 | 276 | (282) |
| **Expenditures:** | | | |
| Culture and Recreation: | | | |
| Personal Services | 404 | 134 | 270 |
| Contractual Services | 18 | 79 | (61) |
| Commodities | 12 | 5 | 7 |
| Other Expenditures | 113 | 75 | 38 |
| **Total Expenditures** | 547 | 293 | 254 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | 11 | (17) | (28) |
| **Other Financing Sources (Uses):** | | | |
| Transfers In | 146 | 146 | |
| Transfers Out | (157) | | 157 |
| **Total Other Financing Sources (Uses)** | (11) | 146 | 157 |
| **Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing (Uses)** | | 129 | $ 129 |
| Fund Balances, October 1 | 2,366 | 2,366 | |
| Add Encumbrances | | 40 | |
| **Fund Balances, September 30** | $ 2,366 | $ 2,535 | |

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# APPENDIX E

## FORMS OF CO-BOND COUNSEL OPINIONS

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**McCall, Parkhurst & Horton L.L.P.**
**700 N. St. Mary's, Suite 1525**
**San Antonio, Texas 78205**

**LM Tatum, PLLC**
**111 Soledad Street, Suite 358**
**San Antonio, Texas 78205**

May __, 2012

**CITY OF SAN ANTONIO, TEXAS**
**AIRPORT SYSTEM REVENUE REFUNDING BONDS, SERIES 2012 (AMT)**
**DATED APRIL 15, 2012**
**IN THE AGGREGATE PRINCIPAL AMOUNT OF $70,135,000**

***AS CO-BOND COUNSEL FOR THE CITY OF SAN ANTONIO, TEXAS*** (the "***City***"), the issuer of the Bonds described above (the "***Bonds***"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds until maturity or prior redemption at the rates, and payable on the dates, as stated in the text of the Bonds, and which are subject to redemption prior to maturity, all in accordance with the terms and conditions stated in the text of the Bonds.

***WE HAVE EXAMINED*** the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the City relating to the issuance of the Bonds, including (i) two ordinances (collectively, the "***Ordinance***") of the City (the *"Master Ordinance Establishing the Airport System Revenue Bond Financing Program,"* adopted by the City Council of the City on April 19, 2001, as amended by the City Council on March 29, 2012, and the *"Thirteenth Supplement to the Master Ordinance,"* adopted by the City Council of the City on March 29, 2012, which authorized the issuance of the Bonds), (ii) the Escrow Agreement, dated as of April 15, 2012, between the City and Wilmington Trust, National Association, Dallas, Texas, as Escrow Agent (the "***Escrow Agreement***"), (iii) the report and mathematical verifications of Causey Demgen & Moore Inc., certified public accountants, with respect to the adequacy of certain escrowed funds to accomplish the refunding purposes of the Bonds (the "***Verification Report***"), (iv) the City's Federal Tax Certificate of even date herewith, and (v) other pertinent instruments authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Number T-1).

***BASED ON SAID EXAMINATION, IT IS OUR OPINION*** that the Bonds have been authorized, issued and delivered in accordance with law; that the Bonds constitute valid and legally binding special revenue obligations of the City in accordance with their terms (except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally); and that the Bonds, together with the "Outstanding Parity Obligations" and any "Additional Parity Obligations" (as such terms are defined in the Ordinance), are equally and ratably secured by and payable from an irrevocable first lien on and pledge of the "Gross Revenues" of the City's "Airport System" (as such terms are defined in the Ordinance). The owners of the Bonds shall never have the right to demand payment of money raised or to be raised by taxation, or from any source whatsoever other than the Gross Revenues of the City's Airport System.

***THE CITY HAS RESERVED THE RIGHT***, subject to the requirements stated in the Ordinance, to issue Additional Parity Obligations which also may be secured by and made payable from a first lien on and pledge of the aforesaid Gross Revenues of the City's Airport System on a parity with the Bonds and all other Parity Obligations then outstanding.

***IT IS FURTHER OUR OPINION*** that the Escrow Agreement has been duly authorized, executed and delivered by the City and constitutes a binding and enforceable agreement in accordance with its terms and that the "***Refunded Bonds***" (as defined in the Ordinance) being refunded by the Bonds are outstanding under the ordinances authorizing their issuance only for the purpose of receiving the funds provided by, and are secured solely by and payable solely from, the Escrow Agreement and the cash and investments, if any, including the income therefrom, held by the Escrow Agent pursuant to the Escrow Agreement. In rendering this opinion, we have relied upon the certifications contained in the Verification Report as to the sufficiency of the cash and securities, if any, deposited pursuant to the Escrow Agreement for the purpose of paying the principal of, redemption premium, if any, and interest on the Refunded Bonds.

***IT IS FURTHER OUR OPINION***, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. The exceptions are as follows:

(1) interest on the Bonds will be includable in the gross income of the holder during any period that the Bonds are held by either a "substantial user" of the facilities financed with the proceeds of the Bonds or a "related person" of such user, as provided in section 147(a) of the Internal Revenue Code of 1986 (the "Code"); and

(2) interest on the Bonds will be included as an item of tax preference in determining the alternative minimum taxable income of the owner under section 57(a)(5) of the Code.

***IN EXPRESSING THE AFOREMENTIONED OPINIONS*** as to the exclusion of interest from federal income taxes, we have relied on certain representations, the accuracy of which we have not independently verified, and we have assumed compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property refinanced therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

***EXCEPT AS STATED ABOVE***, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds.

***WE EXPRESS NO OPINION*** as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

***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 a result and are not binding on the Internal Revenue Service (the "***Service***"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

***OUR SOLE ENGAGEMENT*** in connection with the issuance of the Bonds is as Co-Bond Counsel for the City, and in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds, and we have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the City as to the current outstanding Parity Obligations and as to the historical and projected Gross Revenues of the City's Airport System. 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.

Respectfully,

**McCall, Parkhurst & Horton L.L.P.**
**700 N. St. Mary's, Suite 1525**
**San Antonio, Texas 78205**

**LM Tatum, PLLC**
**111 Soledad Street, Suite 358**
**San Antonio, Texas 78205**

May __, 2012

**CITY OF SAN ANTONIO, TEXAS**
**PASSENGER FACILITY CHARGE AND SUBORDINATE LIEN**
**AIRPORT SYSTEM REVENUE REFUNDING BONDS, SERIES 2012 (AMT)**
**DATED APRIL 15, 2012**
**IN THE AGGREGATE PRINCIPAL AMOUNT OF $25,790,000**

***AS CO-BOND COUNSEL FOR THE CITY OF SAN ANTONIO, TEXAS*** (the "***City***"), the issuer of the Bonds described above (the "***Bonds***"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds until maturity or prior redemption at the rates and payable on the dates as stated in the text of the Bonds, and which are subject to redemption prior to maturity, all in accordance with the terms and conditions stated in the text of the Bonds.

***WE HAVE EXAMINED*** the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the City relating to the issuance of the Bonds, including (i) three ordinances (collectively, the "***Ordinance***") of the City (A) the *"Master PFC Ordinance,"* adopted by the City Council of the City on March 7, 2002, which established the City's Airport System revenue bond financing program with respect to the issuance of obligations by the City payable in whole or in part from "Passenger Facility Charges," (B) the *"Fifth Supplement to the Master PFC Ordinance,"* adopted by the City Council of the City on March 29, 2012, which authorized the issuance of the Bonds, and (C) the *"Master Ordinance Establishing the Airport System Revenue Bond Financing Program,"* adopted by the City Council of the City on April 19, 2001, as amended by the City Council on March 29, 2012, which established the City's Airport System revenue bond financing program with respect to the issuance of obligations secured with a lien on and pledge of the "Gross Revenues" of the Airport System), (ii) the Escrow Agreement, dated as of April 15, 2012, between the City and Wilmington Trust, National Association, Dallas, Texas, as Escrow Agent (the "***Escrow Agreement***"), (iii) the report and mathematical verifications of Causey Demgen & Moore Inc., certified public accountants, with respect to the adequacy of certain escrowed funds to accomplish the refunding purposes of the Bonds (the "***Verification Report***"), (iv) the City's Federal Tax Certificate of even date herewith, and (v) other pertinent instruments authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Number T-1).

***BASED ON SAID EXAMINATION***, ***IT IS OUR OPINION*** that the Bonds have been authorized, issued and delivered in accordance with law; that the Bonds constitute valid and legally binding special revenue obligations of the City in accordance with their terms (except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally); and that the Bonds, together with the "Outstanding PFC Obligations" and any "Additional Parity PFC Obligations" (as such terms are defined in the Ordinance) are equally and ratably secured by and payable from (i) a first lien on and pledge of the revenues received by the City from the imposition of passenger facility fees or charges on each paying passenger of an air carrier or foreign air carrier boarding an aircraft at the San Antonio International Airport in accordance with the provisions of 49 USC §40117, as may be amended from time to time, or other applicable federal law (defined and referred to in the Master PFC Ordinance as the "PFC Revenues"), and (ii) a lien on and pledge of the "Subordinate Net Revenues" of the City's Airport System, all as further described and provided in the Ordinance. The owners of the Bonds shall never have the right to demand payment of money raised or to be raised by taxation, or from any source whatsoever other than the PFC Revenues and the Subordinate Net Revenues of the City's Airport System.

***THE CITY HAS RESERVED THE RIGHT***, subject to the requirements stated in the Ordinance, to issue Additional Parity PFC Obligations which also may be secured by and made payable from a first lien on and pledge of the aforesaid PFC Revenues and a lien on and pledge of the Subordinate Net Revenues of the City's Airport System on a parity with the Bonds and all other Parity PFC Obligations then outstanding.

***IT IS FURTHER OUR OPINION*** that the Escrow Agreement has been duly authorized, executed and delivered by the City and constitutes a binding and enforceable agreement in accordance with its terms and that the "***Refunded Bonds***" (as defined in the Ordinance) being refunded by the Bonds are outstanding under the ordinances authorizing their issuance only for the purpose of receiving the funds provided by, and are secured solely by and payable solely from, the Escrow Agreement and the cash and investments, if any, including the income therefrom, held by the Escrow Agent pursuant to the Escrow Agreement. In rendering this opinion, we have relied upon the certifications contained in the Verification Report as to the sufficiency of the cash and securities, if any, deposited pursuant to the Escrow Agreement for the purpose of paying the principal of, redemption premium, if any, and interest on the Refunded Bonds.

***IT IS FURTHER OUR OPINION***, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. The exceptions are as follows:

(1) interest on the Bonds will be includable in the gross income of the holder during any period that the Bonds are held by either a "substantial user" of the facilities financed with the proceeds of the Bonds or a "related person" of such user, as provided in section 147(a) of the Internal Revenue Code of 1986 (the "Code"); and

(2) interest on the Bonds will be included as an item of tax preference in determining the alternative minimum taxable income of the owner under section 57(a)(5) of the Code.

***IN EXPRESSING THE AFOREMENTIONED OPINIONS*** as to the exclusion of interest from federal income taxes, we have relied on certain representations, the accuracy of which we have not independently verified, and we have assumed compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property refinanced therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

***EXCEPT AS STATED ABOVE***, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds.

***WE EXPRESS NO OPINION*** as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

***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 a result and are not binding on the Internal Revenue Service (the "***Service***"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

***OUR SOLE ENGAGEMENT*** in connection with the issuance of the Bonds is as Co-Bond Counsel for the City, and in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds, and we have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the City as to the current outstanding Parity Obligations and as to the historical and projected PFC Revenues and Subordinate Net Revenues of the City's Airport System. 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.

Respectfully,

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