OFFICIAL STATEMENT DATED NOVEMBER 20, 2019

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 2019A GARBs and the 2019A 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 2019A GARBs or the 2019A PFC Bonds or a "related person" to such user. Interest on the 2019A GARBs and the 2019A 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 by section 55 of the Code. Interest on the Taxable 2019B GARBs and the Taxable 2019B PFCs (each as defined below) is not excludable from gross income for federal income tax purposes under existing law. For further information, see "CERTAIN FEDERAL INCOME TAX CONSIDERATIONS" herein.

CITY OF SAN ANTONIO, TEXAS

$47,255,000
AIRPORT SYSTEM REVENUE REFUNDING BONDS, SERIES 2019A (AMT)

$63,405,000
PASSENGER FACILITY CHARGE AND SUBORDINATE LIEN AIRPORT SYSTEM REVENUE REFUNDING BONDS, SERIES 2019A (AMT)

$36,280,000
AIRPORT SYSTEM REVENUE REFUNDING BONDS, TAXABLE SERIES 2019B

$31,535,000
PASSENGER FACILITY CHARGE AND SUBORDINATE LIEN AIRPORT SYSTEM REVENUE REFUNDING BONDS, TAXABLE SERIES 2019B

Dated: December 1, 2019 (interest accrues from date of delivery) **Due: July 1, as shown herein**

The $47,255,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2019A (AMT)" (the "2019A GARBs"), and the $36,280,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Taxable Series 2019B" (the "Taxable 2019B GARBs" and together with the 2019A GARBs, the "2019 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 Sixteenth Supplemental Ordinance thereto adopted by the City Council on October 17, 2019, for the purposes described herein. See "THE BONDS – Authority for Issuance" and "PLAN OF FINANCE – Purpose" herein. The 2019 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 2019 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 2019 GARBs" herein.

The $63,405,000 "City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Refunding Bonds, Series 2019A (AMT)" (the "2019A PFC Bonds") and the $31,535,000 "City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Refunding Bonds, Taxable Series 2019B" (the "Taxable 2019B PFC Bonds" and together with the 2019A PFC Bonds, the "2019 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 Sixth Supplemental Ordinance thereto (which also will serve as the Seventeenth Supplemental Ordinance to the Master GARB Ordinance) adopted by the City Council on October 17, 2019, for the purposes described herein. See "THE BONDS – Authority for Issuance" and "PLAN OF FINANCE – Purpose" herein. The 2019 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 2019 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 2019 PFC Bonds" herein. The 2019 GARBs and the 2019 PFC Bonds are referred to collectively herein as the "Bonds."

The Bonds are dated December 1, 2019, 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 December 5, 2019. Interest on the Bonds will be payable January 1 and July 1 of each year, commencing July 1, 2020, 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 U.S. Bank National Association, Houston, 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.

SEE PAGES ii and iii FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, OFFERING YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE BONDS

The Bonds are offered for delivery, when, as, and if issued and received by the Underwriters and are subject to the approving 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, both of San Antonio, Texas, Co-Bond Counsel. 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, Norton Rose Fulbright US LLP and Kassahn & Ortiz, P.C., both of San Antonio, Texas. The Bonds are expected to be available for delivery through the services of DTC on or about December 5, 2019.

Jefferies Samuel A. Ramirez & Co., Inc.

Frost Bank M.E. Allison & Co., Inc. Raymond James

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

CUSIP No. Prefix[1]: 796242

$47,255,000 AIRPORT SYSTEM REVENUE REFUNDING BONDS, SERIES 2019A (AMT)

Maturity (July 1)	Principal Amount ($)	Interest Rate (%)	Offering Yield (%)	CUSIP No. Suffix[1]	Maturity (July 1)	Principal Amount ($)	Interest Rate (%)	Offering Yield (%)	CUSIP No. Suffix[1]
2020	1,245,000	5.000%	1.290%	TD7	2027	3,870,000	5.000%	1.850%	TL9
2021	2,890,000	5.000%	1.320%	TE5	2028	4,065,000	5.000%	1.960%	TM7
2022	3,040,000	5.000%	1.390%	TF2	2029	4,270,000	5.000%	2.060%	TN5
2023	3,190,000	5.000%	1.460%	TG0	2030	4,485,000	5.000%	2.150% [2]	TP0
2024	3,345,000	5.000%	1.550%	TH8	2031	4,705,000	5.000%	2.230% [2]	TQ8
2025	3,515,000	5.000%	1.640%	TJ4	2032	4,945,000	5.000%	2.290% [2]	TR6
2026	3,690,000	5.000%	1.750%	TK1					

Redemption. On July 1, 2029, and on any date thereafter, the 2019A GARBs maturing on and after July 1, 2030 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. See “THE BONDS – Redemption” herein.

$36,280,000 AIRPORT SYSTEM REVENUE REFUNDING BONDS, TAXABLE SERIES 2019B

Maturity (July 1)	Principal Amount ($)	Interest Rate (%)	Offering Yield (%)	CUSIP No. Suffix[1]	Maturity (July 1)	Principal Amount ($)	Interest Rate (%)	Offering Yield (%)	CUSIP No. Suffix[1]
2021	1,235,000	2.020%	2.020%	UF0	2027	1,415,000	2.636%	2.636%	UM5
2022	1,260,000	2.058%	2.058%	UG8	2028	1,455,000	2.736%	2.736%	UN3
2023	1,290,000	2.129%	2.129%	UH6	2029	1,490,000	2.786%	2.786%	UP8
2024	1,315,000	2.229%	2.229%	UJ2	2030	1,535,000	2.886%	2.886%	UQ6
2025	1,350,000	2.386%	2.386%	UK9	2031	1,580,000	2.986%	2.986%	UR4
2026	1,380,000	2.536%	2.536%	UL7	2032	1,625,000	3.086%	3.086%	US2

$19,350,000 3.527% Term Bond due 7/1/2040; Priced at 100% to Yield 3.527%; CUSIP No. Suffix UT0

Redemption. On July 1, 2029, and on any date thereafter, the Taxable 2019B GARBs maturing on and after July 1, 2030 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. 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 S&P Capital IQ 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 Underwriters, the City, or the Co-Financial Advisors shall be 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, 2029, the first optional call date for the Bonds, at a redemption price of par plus accrued interest to the redemption date.

CUSIP No. Prefix[1]: 796242

$63,405,000 PASSENGER FACILITY CHARGE AND SUBORDINATE LIEN AIRPORT SYSTEM REVENUE REFUNDING BONDS, SERIES 2019A (AMT)

Maturity (July 1)	Principal Amount ($)	Interest Rate (%)	Offering Yield (%)	CUSIP No. Suffix[1]	Maturity (July 1)	Principal Amount ($)	Interest Rate (%)	Offering Yield (%)	CUSIP No. Suffix[1]
2020	2,105,000	5.000%	1.370%	TS4	2027	5,630,000	5.000%	1.950%	TZ8
2021	4,200,000	5.000%	1.420%	TT2	2028	5,900,000	5.000%	2.060%	UA1
2022	4,405,000	5.000%	1.490%	TU9	2029	6,200,000	5.000%	2.160%	UB9
2023	4,630,000	5.000%	1.560%	TV7	2030	6,510,000	5.000%	2.250% (2)	UC7
2024	4,860,000	5.000%	1.650%	TW5	2031	4,150,000	5.000%	2.320% (2)	UD5
2025	5,100,000	5.000%	1.740%	TX3	2032	4,355,000	5.000%	2.380% (2)	UE3
2026	5,360,000	5.000%	1.850%	TY1					

Redemption. On July 1, 2029, and on any date thereafter, the 2019A PFC Bonds maturing on and after July 1, 2030 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. See "THE BONDS – Redemption" herein.

$31,535,000 PASSENGER FACILITY CHARGE AND SUBORDINATE LIEN AIRPORT SYSTEM REVENUE REFUNDING BONDS, TAXABLE SERIES 2019B

Maturity (July 1)	Principal Amount ($)	Interest Rate (%)	Offering Yield (%)	CUSIP No. Suffix[1]	Maturity (July 1)	Principal Amount ($)	Interest Rate (%)	Offering Yield (%)	CUSIP No. Suffix[1]
2021	1,190,000	2.120%	2.120%	UU7	2026	1,335,000	2.636%	2.636%	UZ6
2022	1,215,000	2.158%	2.158%	UV5	2027	1,365,000	2.736%	2.736%	VA0
2023	1,245,000	2.229%	2.229%	UW3	2028	1,405,000	2.836%	2.836%	VB8
2024	1,270,000	2.329%	2.329%	UX1	2029	1,445,000	2.886%	2.886%	VC6
2025	1,300,000	2.486%	2.486%	UY9					

$19,765,000 3.707% Term Bond due 7/1/2040; Priced at 100% to Yield 3.707%; CUSIP No. Suffix VD4

Redemption. On July 1, 2029, and on any date thereafter, the Taxable 2019B PFC Bonds maturing on July 1, 2040 may be redeemed prior to their scheduled maturity, 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. 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 S&P Capital IQ 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 Underwriters, the City, or the Co-Financial Advisors shall be 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, 2029, the first optional call date for the Bonds, at a redemption price of par plus accrued interest to the redemption date.

CITY OF SAN ANTONIO, TEXAS
ADMINISTRATION

CITY COUNCIL:

Name	Years on City Council	Term Expires	Occupation
Ron Nirenberg, Mayor	6 Years, 5 Months	May 31, 2021	Broadcast General Manager
Roberto C. Treviño, District 1	4 Years, 11 Months	May 31, 2021	Architect
Jada L. Andrews-Sullivan, District 2	5 Months	May 31, 2021	Disabled Army Veteran
Rebecca J. Viagran, District 3	6 Years, 6 Months	May 31, 2021	Business Owner
Dr. Adriana Rocha Garcia, District 4	5 Months	May 31, 2021	Assistant Professor
Shirley Gonzales, District 5	6 Years, 5 Months	May 31, 2021	Business Owner
Melissa Cabello Havrda, District 6	5 Months	May 31, 2021	Attorney at Law
Ana Sandoval, District 7	2 Years, 6 Months	May 31, 2021	Entrepreneur
Manny Peláez, District 8	2 Years, 5 Months	May 31, 2021	Attorney at Law
John Courage, District 9	2 Years, 5 Months	May 31, 2021	Teacher
Clayton Perry, District 10	2 Years, 5 Months	May 31, 2021	Retired

CITY OFFICIALS:

Name	Position	Years with City of San Antonio	Years in Current Position
Erik J. Walsh [1]	City Manager	25 Years, 6 Months	9 Months
Maria Villagomez	Deputy City Manager	22 Years, 2 Months	9 Months
Lori Houston	Assistant City Manager	17 Years, 6 Months	4 Years, 4 Months
Carlos Contreras	Assistant City Manager	10 Years, 10 Months	7 Years
Dr. Colleen Bridger	Assistant City Manager	2 Years, 8 Months	9 Months
Roderick Sanchez	Assistant City Manager	26 Years, 10 Months	2 Years, 10 Months
Andrew Segovia	City Attorney	3 Years, 3 Months	3 Years, 3 Months
Leticia M. Vacek	City Clerk	15 Years, 5 Months	15 Years, 5 Months
Ben Gorzell, Jr.	Chief Financial Officer	29 Years	9 Years, 4 Months
Troy Elliott	Deputy Chief Financial Officer	23 Years, 3 Months	3 Years, 4 Months
Justina Tate	Director of Management and Budget	9 Years, 10 Months	2 Years, 10 Months
Russell J. Handy [2]	Director of Aviation	2 Years, 10 Months	2 Years, 10 Months

[1] Erik Walsh was appointed City Manager on January 31, 2019, effective March 1, 2019. Prior to his appointment, Mr. Walsh served as Deputy City Manager from 2011-2019 and has been employed by the City for over 25 years.

[2] Russell Handy's resignation was recently announced, effective on December 31, 2019. The City is conducting a nationwide search for his replacement.

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	FHN Financial Municipal Advisors, a division of First Horizon Bank, San Antonio, Texas
	Hilltop Securities 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. The Bonds may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

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

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

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

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

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, New York, New York, ("DTC") or its Book-Entry-Only System, as such information has been provided by DTC.

The remainder of this page is intentionally left blank.

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.

OFFICIAL STATEMENT
RELATING TO THE

CITY OF SAN ANTONIO, TEXAS

$47,255,000 **AIRPORT SYSTEM REVENUE REFUNDING BONDS, SERIES 2019A (AMT)**	**$63,405,000** **PASSENGER FACILITY CHARGE AND SUBORDINATE LIEN AIRPORT SYSTEM REVENUE REFUNDING BONDS, SERIES 2019A (AMT)**
$36,280,000 **AIRPORT SYSTEM REVENUE REFUNDING BONDS, TAXABLE SERIES 2019B**	**$31,535,000** **PASSENGER FACILITY CHARGE AND SUBORDINATE LIEN AIRPORT SYSTEM REVENUE REFUNDING BONDS, TAXABLE SERIES 2019B**

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 (i) the $47,255,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2019A (AMT)" (the "2019A GARBs"), (ii) the $36,280,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Taxable Series 2019B" (the "Taxable 2019B GARBs" and together with the 2019A GARBs, the "2019 GARBs"), (iii) the $63,405,000 "City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Refunding Bonds, Series 2019A" (the "2019A PFC Bonds"), and (iv) the $31,535,000 "City of San Antonio, Texas Passenger Facility Charge and Subordinate Lien Airport System Revenue Refunding Bonds, Taxable Series 2019B" (the "Taxable 2019B PFC Bonds" and together with the 2019A PFC Bonds, the "2019 PFC Bonds"). The 2019 GARBs and the 2019 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, FHN Financial Municipal Advisors, a division of First Horizon Bank, 17721 Rogers Ranch Parkway, Suite 145, San Antonio, Texas 78258, or Hilltop Securities, Inc., 70 NE Loop 410, Suite 710, San Antonio, Texas 78216, 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" or "SAT") 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.

PLAN OF FINANCE

Purpose

The 2019A GARBs. The 2019A GARBs are being issued for the purposes of: (i) currently refunding a portion of the City's outstanding indebtedness originally issued to finance or refinance Airport System improvements, which are identified in Schedule I attached hereto as the Refunded GARBs to be redeemed on January 1, 2020 (the "Current Refunded GARBS"), and (ii) paying the costs of issuing the 2019A GARBs.

The Taxable 2019B GARBs. The Taxable 2019B GARBs are being issued for the purposes of: (i) advance refunding a portion of the City's outstanding indebtedness originally issued to finance or refinance Airport System improvements, which are identified in Schedule I attached hereto as the Refunded GARBs to be redeemed on July 1, 2020 (the "Advance Refunded GARBS"), and (ii) paying the costs of issuing the Taxable 2019B GARBs.

The 2019A PFC Bonds. The 2019A 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 to be redeemed on January 1, 2020 (the "Current Refunded PFC Bonds"), (ii) making a deposit into the PFC Bond Reserve Fund (see "SECURITY FOR THE BONDS AND CERTAIN ORDINANCE PROVISIONS – The 2019 PFC Bonds - PFC Bond Reserve Fund"), and (iii) paying the costs of issuing the 2019A PFC Bonds.

The Taxable 2019B PFC Bonds. The Taxable 2019B PFC Bonds are being issued for the purposes of: (i) advance refunding a portion of the City's outstanding indebtedness originally issued to finance or refinance Airport System improvements, which are identified in Schedule I attached hereto as the Refunded PFC Bonds to be redeemed on July 1, 2020 (the "Advance Refunded PFC Bonds"), (ii) making a deposit into the PFC Bond Reserve Fund (see "SECURITY FOR THE BONDS AND CERTAIN ORDINANCE PROVISIONS – The 2019 PFC Bonds - PFC Bond Reserve Fund"), and (iii) paying the costs of issuing the Taxable 2019B PFC Bonds.

The Current Refunded GARBs, the Advance Refunded GARBs, the Current Refunded PFC Bonds, and the Advance 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 four separate Escrow Agreements (each separately related to the Current Refunded GARBs, the Advance Refunded GARBs, the Current Refunded PFC Bonds, and the Advance Refunded PFC Bonds; such agreements are collectively herein referred to as the "Escrow Agreements") between the City and U.S. Bank National Association, Houston, Texas (the "Escrow Agent"). The Ordinances provide that from the proceeds of the respective sale of the Bonds received from the Underwriters, the City will deposit with the Escrow Agent the amounts necessary, together with other lawfully available funds of the City, if any, to accomplish the discharge and final payment of the Current Refunded GARBs, the Advance Refunded GARBs, the Current Refunded PFC Bonds, and the Advance Refunded PFC Bonds, respectively, on their scheduled maturity or redemption dates. Such funds will be held by the Escrow Agent in respective escrow funds established under each Escrow Agreement (together, the "Escrow Funds") and, only with respect to the Advance Refunded GARBs and the Advance Refunded PFC Bonds, used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreements, the Escrow Funds are irrevocably pledged to the payment of the principal of and interest on the Current Refunded GARBs, the Advance Refunded GARBs, the Current Refunded PFC Bonds, and the Advance Refunded PFC Bonds, respectively. Such maturing principal of and interest on the Federal Securities will not be available to pay the Bonds.

With respect to the Current Refunded GARBs and the Current Refunded PFC Bonds, Hilltop Securities Inc., as a Co-Financial Advisor to the City, will provide a sufficiency certificate at the time of delivery of the 2019A GARBs and the 2019A PFC Bonds to the Underwriters thereof certifying that the cash deposited in the related Escrow Funds will be sufficient to pay, when due, the principal of and interest on the Current Refunded GARBs and the Current Refunded PFC Bonds.

With respect to the Advance Refunded GARBs and the Advance Refunded PFC Bonds, Robert Thomas CPA, LLC, a nationally recognized accounting firm, will verify at the time of delivery of the 2019B GARBs and the 2019B PFC 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 related Escrow Funds, will be sufficient to pay, when due, the principal of and interest on the Advance Refunded GARBs and the Advance Refunded PFC Bonds. See "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS" herein.

By the deposit of the cash and Federal Securities with the Escrow Agent pursuant to the Escrow Agreements, the City will have effected the defeasance of the Refunded Bonds in accordance with law and pursuant to the terms of the ordinances authorizing the issuance of such Refunded Bonds. Thereafter, the City will have no further responsibility with respect to amounts available in the Escrow Funds for the payment of the Refunded Bonds from time to time. It is the opinion of Co-Bond Counsel (defined herein) that as a result of such defeasance and in reliance upon the sufficiency certificate provided by Hilltop Securities Inc. and the report of Robert Thomas CPA, LLC, 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 the 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.

Sources and Uses of Funds

The 2019A GARBs. The proceeds from the sale of the 2019A GARBs, along with a contribution from the City, will be applied approximately as follows:

Sources of Funds	
Principal Amount of the 2019A GARBs	$47,255,000.00
Plus: Original Issue Premium	9,012,101.70
City Contribution	3,340,104.46
Total Sources of Funds	$59,607,206.16
Uses of Funds	
Deposit to Escrow Fund	$59,172,745.00
Costs of Issuance (including Underwriters' Discount and additional proceeds)	434,461.16
Total Uses of Funds	$59,607,206.16

The Taxable 2019B GARBs. The proceeds from the sale of the Taxable 2019B GARBs, along with a contribution from the City, will be applied approximately as follows:

Sources of Funds	
Principal Amount of the Taxable 2019B GARBs	$36,280,000.00
City Contribution	1,743,729.38
Total Sources of Funds	$38,023,729.38
Uses of Funds	
Deposit to Escrow Fund	$37,673,558.27
Costs of Issuance (including Underwriters' Discount and additional proceeds)	350,171.11
Total Uses of Funds	$38,023,729.38

The 2019A PFC Bonds. The proceeds from the sale of the 2019A PFC Bonds will be applied approximately as follows:

Sources of Funds	
Principal Amount of the 2019A PFC Bonds	$63,405,000.00
Plus: Original Issue Premium	11,379,642.85
City Contribution	3,340,494.80
Total Sources of Funds	$78,125,137.65
Uses of Funds	
Deposit to Escrow Fund	$74,183,593.75
Deposit to PFC Bond Reserve Fund	3,387,600.97
Costs of Issuance (including Underwriters' Discount and additional proceeds)	553,942.93
Total Uses of Funds	$78,125,137.65

The Taxable 2019B PFC Bonds. The proceeds from the sale of the Taxable 2019B PFC Bonds will be applied approximately as follows:

Sources of Funds	
Principal Amount of the Taxable 2019B PFC Bonds	$31,535,000.00
City Contribution	997,677.10
Total Sources of Funds	$32,532,677.10
Uses of Funds	
Deposit to Escrow Fund	$30,534,033.60
Deposit to PFC Bond Reserve Fund	1,684,851.30
Costs of Issuance (including Underwriters' Discount and additional proceeds)	313,792.20
Total Uses of Funds	$32,532,677.10

THE BONDS

General Bond Description

The Bonds are dated as of December 1, 2019 (the "Dated Date"), but interest thereon shall accrue from their date of initial delivery to the Underwriters (anticipated to occur on or about December 5, 2019). Interest on the Bonds is payable on January 1 and July 1 in each year, commencing July 1, 2020, 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 pages ii and iii, respectively, of this Official Statement.

The Bonds will be issued only as fully registered bonds in denominations of $5,000 principal or any integral multiple thereof within a maturity. Principal of and interest on the Bonds are payable in the manner described herein under "THE BONDS - Book-Entry-Only System." In the event the Book-Entry-Only System is discontinued, the interest on the Bonds will be payable to the registered owner as shown on the security register (the "Register") maintained by U.S. Bank National Association, Houston, 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 2019 GARBs. The 2019 GARBs are being issued by the City pursuant to the laws of the State of Texas (the "State"), 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 Sixteenth Supplemental Ordinance thereto adopted by the City Council on October 17, 2019 (such Supplement, along with the Master GARB Ordinance, collectively, the "GARB Ordinance"). In the Sixteenth Supplemental Ordinance to the Master GARB Ordinance, the City Council delegated authority to certain City officials to execute an "Approval Certificate" in order to approve the final terms of the 2019 GARBs. Such Approval Certificate was executed by the Chief Financial Officer of the City on November 20, 2019.

The 2019 PFC Bonds. The 2019 PFC Bonds are being issued by the City pursuant to the laws of the State, 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 Sixth Supplemental Ordinance thereto adopted by the City Council on October 17, 2019, which also will serve as the Seventeenth 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"). In the Sixth Supplemental Ordinance to the Master PFC Bond Ordinance, the City Council delegated authority to certain City officials to execute an "Approval Certificate" in order to approve the final terms of the 2019 PFC Bonds. Such Approval Certificate was executed by the Chief Financial Officer of the City on November 20, 2019.

Redemption

Optional Redemption. On July 1, 2029, and on any date thereafter, the Bonds maturing on and after July l, 2030 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.

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 series and maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such series and 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 U.S. Bank National Association, Houston, 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 15th 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 at least 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.

Defeasance

Each Ordinance provides for the defeasance of the applicable series of Bonds when the payment of the principal of such Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided for by irrevocably depositing with a paying agent (or other financial institution permitted by applicable State law), in trust money sufficient to make such payment, and/or Defeasance Securities (defined below), of such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or a combination of money and Defeasance Securities together so certified sufficient to make such payment. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the City's Co-Financial Advisors, the Paying Agent/Registrar, or such other qualified financial institution (as provided in each of the Ordinances). The City has additionally reserved the right, subject to satisfying the requirements, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested money on deposit for such defeasance, and to withdraw for the benefit of the City money in excess of the amount required for such defeasance.

The term "Defeasance Securities" means (1) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (2) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (3) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (4) any additional securities and obligations hereafter authorized by State law as eligible for use to accomplish the discharge of obligations such as the Bonds. City officials may limit permitted Defeasance Securities in connection with the sale of the Bonds. There is no assurance that the ratings for United States Treasury securities acquired to defease any Bonds, or those for any other Defeasance Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (1) through (3) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinances do not contractually limit such permissible defeasance securities and expressly recognize the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under Texas law as permissible defeasance securities.

Upon such deposit as described above, such Bonds will no longer be regarded as being outstanding or unpaid and no longer entitled to the rights and benefits afforded under the applicable Ordinance; provided, however, that the City may reserve the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their maturity date, if the City in the proceedings for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and directs that notice of the reservation be included in any redemption notices that it authorizes.

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

If the City defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the applicable Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the applicable Ordinance, the bondholders may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the applicable Ordinance and the City's obligations are not uncertain or disputed. 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 Ordinances, 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 bondholders. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) ("Tooke"), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Furthermore, Tooke, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the "Proprietary-Governmental Dichotomy"). Governmental functions are those that are enjoined on a municipality by law and are given by the State as a part of the State's sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of the municipality.

In *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("Wasson"), the Texas Supreme Court (the "Court") addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that "a city's proprietary functions are not done pursuant to the "will of the people" and protecting such municipalities "via the [S]tate's immunity is not an efficient way to ensure efficient allocation of [S]tate resources." While the Court recognized that the distinction between governmental and proprietary functions is not clear, the Wasson opinion held that Proprietary-Governmental Dichotomy applies in contract-claims context. The Court reviewed Wasson for a second time and issued an opinion on October 5, 2018, clarifying that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of inception of the contractual relationship.

Notwithstanding the foregoing, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgment, is justiciable against a municipality.

If a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the bondholders cannot themselves foreclose on property within the City or sell property within the City to enforce the lien on the particular Airport System revenues pledged as security therefor to pay the principal of and interest on the Bonds. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such as the pledge of Airport System revenues. 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 bondholders' rights 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 as to 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, New York, New York ("DTC"), while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Co-Financial Advisors, and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, 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 DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, who will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of the Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 2019 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 Paying Agent/Registrar and request that copies of notices are provided directly to them.

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

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

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners, bondholders, or holders should be read to include the person for which the Direct Participant or Indirect 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 any of the Ordinances will be given only to DTC.

Payment Record

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

SECURITY FOR THE BONDS AND CERTAIN ORDINANCE PROVISIONS

The 2019 GARBs

Outstanding Parity GARBs. The 2019 GARBs will be issued as "Additional Parity Obligations" which, upon issuance of the 2019 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 and Refunding Bonds, Series 2010A	$ 940,000
Airport System Revenue Refunding Bonds, Series 2012 (AMT)	43,090,000
Airport System Revenue Improvement Bonds, Series 2015 (AMT)	38,805,000
Airport System Revenue Refunding Bonds, Series 2019A	47,255,000
Airport System Revenue Refunding Bonds, Taxable Series 2019B	36,280,000
Total Outstanding GARBs	$ 166,370,000

Excludes the Refunded GARBs.

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 2019 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 2019 GARBs. THE 2019 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 2019 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 2019 GARBs, see Sections 6 through 12 of the Master GARB Ordinance and Sections 8 and 9 of the Sixteenth 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 25th 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 1/60th 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 2019 GARBs, the GARB Reserve Fund will have cash and investments on deposit therein of approximately $12,103,832 (unaudited), which amount exceeds the GARB Required Reserve Amount of $12,043,997 determined on September 30, 2019.

The GARB Required Reserve Amount for all Parity GARBs will decrease upon delivery of the 2019 GARBs to an amount equal to $10,797,160 due to the refunding of the Refunded GARBs resulting in decreased aggregate debt service on the Parity GARBs. 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 2019 GARBs. Upon the delivery of the 2019 GARBs, $1,322,690 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 2019 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 2019 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 2019 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 2019 PFC Bonds and all other Parity PFC Bonds under certain situations described in Section 11 of the Sixteenth Supplemental Ordinance to the Master GARB Ordinance, which is included in APPENDIX B 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 2019 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 2019 PFC Bonds

Outstanding PFC Bonds. The 2019 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 2019 PFC Bonds) are referred to herein, collectively, as the "Outstanding PFC Bonds."

Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement and Refunding Bonds, Series 2010	$ 875,000
Passenger Facility Charge and Subordinate Lien Airport System Revenue Refunding Bonds, Series 2012 (AMT)	16,145,000
Passenger Facility Charge and Subordinate Lien Airport System Revenue Refunding Bonds, Series 2019A (AMT)	63,405,000
Passenger Facility Charge and Subordinate Lien Airport System Revenue Refunding Bonds, Taxable Series 2019B	31,535,000
	$111,960,000

Excludes the Refunded PFC Bonds.

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 2019 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 August 31, 2019, the City has collected $251,725,046 (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 2019 PFC BONDS. THE 2019 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 2019 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 8 and 9 of the Sixth 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 2019 PFC Bonds, the PFC Bond Reserve Fund will have on deposit therein approximately $9,185,893 (unaudited), which amount exceeds the PFC Bond Required Reserve Amount of $8,037,153 determined on September 30, 2019. The amount on deposit in the PFC Bond Fund consists of cash and investments (approximately $2,122,814) 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 and $4,378,079, respectively (the "Existing Surety Policies"). The Existing Surety Policies will terminate upon the defeasance of the Refunded PFC Bonds being accomplished by the issuance of the 2019 PFC Bonds.

The PFC Bond Required Reserve Amount will decrease upon delivery of the 2019 PFC Bonds to an amount equal to $7,201,315 due to the refunding of the Refunded PFC Bonds resulting in decreased aggregate debt service on the Parity PFC Bonds. The difference between the new PFC Bond Required Reserve Amount and the cash and investments on deposit in the PFC Bond Reserve Fund (excluding the Existing Surety Policies) described in the preceding paragraph will be funded upon the date of issuance of the 2019 PFC Bonds with a deposit of proceeds of the 2019 PFC Bonds in the amount of $5,072,452.

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 2019 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

Airport Tax Notes

On September 21, 2017, the City approved a $100,000,000 authorization in taxable tax notes to serve as interim financing for airport capital improvements to be issued and delivered in installments as funds are required. On November 14, 2017, the City engaged in a private placement of $36,000,000 City of San Antonio, Texas Tax Notes, Taxable Series 2017 (the "Tax Notes") representing the first issuance or installment. The Tax Notes are secured by ad valorem taxes but paid with excess Gross Airport Revenues. The Tax Notes are planned to be refunded with Additional Parity GARBs once the Airport Master Plan and financing plan are developed and finalized.

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, 2019, 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 $1,200,000.

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 Sixteenth Supplemental Ordinance under the conditions permitted by Section 11 thereof. Certain amendments may be made without the consent of any holders of the 2019 GARBs; other amendments would require the consent of the holders of at least a majority in aggregate principal amount of the 2019 GARBs. For a complete description of the manner in which the Sixteenth 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 Sixth Supplemental Ordinance under the conditions permitted by Section 10 thereof. Certain amendments may be made without the consent of any holders of the 2019 PFC Bonds; other amendments would require the consent of the holders of at least a majority in aggregate principal amount of the 2019 PFC Bonds. For a complete description of the manner in which the Sixth Supplemental Ordinance may be amended, see Section 10 thereof included in APPENDIX C attached hereto.

The remainder of this page is intentionally left blank.

DEBT SERVICE REQUIREMENTS

The 2019 GARBs

The following schedule reflects the total principal and interest requirements on all outstanding Parity GARBs, taking into account the issuance of the 2019 GARBs and the refunding of the Refunded GARBs.

Fiscal Year Ended 09/30	Outstanding GARB Debt Service ($)[1]	Less: Refunded GARB Debt Service ($)	2019 GARBs Principal ($)	2019 GARBs Interest ($)	2019 GARBs Total Debt Service ($)	Total GARB Debt Service ($)
2020	18,323,096	8,051,496	1,245,000	1,991,523	3,236,523	13,508,123
2021	18,327,659	9,027,709	4,125,000	3,418,082	7,543,082	16,843,032
2022	18,345,196	9,030,996	4,300,000	3,248,634	7,548,634	16,862,834
2023	18,353,945	9,030,696	4,480,000	3,070,704	7,550,704	16,873,953
2024	18,363,770	9,028,771	4,660,000	2,883,740	7,543,740	16,878,739
2025	18,371,150	9,030,150	4,865,000	2,687,178	7,552,178	16,893,178
2026	18,376,925	9,031,175	5,070,000	2,479,217	7,549,217	16,894,967
2027	18,391,050	9,027,550	5,285,000	2,259,720	7,544,720	16,908,220
2028	11,726,863	9,029,113	5,520,000	2,028,921	7,548,921	10,246,671
2029	11,731,575	9,029,825	5,760,000	1,785,862	7,545,862	10,247,612
2030	11,726,650	9,028,900	6,020,000	1,530,851	7,550,851	10,248,601
2031	11,731,563	9,030,563	6,285,000	1,262,301	7,547,301	10,248,301
2032	11,730,925	9,029,925	6,570,000	979,872	7,549,872	10,250,872
2033	7,172,350	4,474,600	3,340,000	682,474	4,022,474	6,720,224
2034	7,153,925	4,452,675	3,440,000	564,673	4,004,673	6,705,923
2035	5,508,613	2,807,613	1,915,000	443,344	2,358,344	5,059,344
2036	5,506,200	2,809,200	1,985,000	375,802	2,360,802	5,057,802
2037	5,509,263	2,810,012	2,055,000	305,791	2,360,791	5,060,042
2038	5,507,038	2,809,788	2,130,000	233,311	2,363,311	5,060,561
2039	5,509,263	2,808,262	2,205,000	158,186	2,363,186	5,064,187
2040	5,510,175	2,810,175	2,280,000	80,416	2,360,416	5,060,416
2041	2,699,250					2,699,250
2042	2,698,500					2,698,500
2043	2,697,500					2,697,500
2044	2,701,000					2,701,000
2045	2,698,500					2,698,500
Total	266,371,944	142,189,194	83,535,000	32,470,602	116,005,602	240,188,352

[1] Includes the Refunded Garbs

The 2019 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 2019 PFC Bonds and the refunding of the Refunded PFC Bonds.

Fiscal Year Ended 09/30	Outstanding PFC Bond Debt Service ($)[1]	Less: Refunded PFC Bond Debt Service ($)	2019 PFC Bonds Principal ($)	2019 PFC Bonds Interest ($)	2019 PFC Bonds Total Debt Service ($)	Total PFC Bond Debt Service ($)
2020	12,852,312	9,501,612	2,105,000	2,402,257	4,507,257	7,857,957
2021	12,859,938	10,413,238	5,390,000	4,092,869	9,482,869	11,929,569
2022	12,852,312	10,409,113	5,620,000	3,857,641	9,477,641	11,920,840
2023	12,872,587	10,417,137	5,875,000	3,611,171	9,486,171	11,941,621
2024	12,876,075	10,413,625	6,130,000	3,351,920	9,481,920	11,944,370
2025	12,862,412	10,408,213	6,400,000	3,079,342	9,479,342	11,933,541
2026	12,881,250	10,415,050	6,695,000	2,792,024	9,487,024	11,953,224
2027	12,885,888	10,415,888	6,995,000	2,488,834	9,483,834	11,953,834
2028	10,409,288	10,409,288	7,305,000	2,169,987	9,474,987	9,474,987
2029	10,410,581	10,410,581	7,645,000	1,835,141	9,480,141	9,480,141
2030	10,413,287	10,413,287	7,995,000	1,483,439	9,478,439	9,478,439
2031	7,728,038	7,728,038	5,695,000	1,102,890	6,797,890	6,797,890
2032	7,721,213	7,721,213	5,950,000	838,117	6,788,117	6,788,117
2033	2,393,713	2,393,712	1,660,000	561,240	2,221,240	2,221,241
2034	2,395,763	2,395,763	1,720,000	499,704	2,219,704	2,219,704
2035	2,393,350	2,393,350	1,785,000	435,943	2,220,943	2,220,943
2036	2,396,475	2,396,475	1,855,000	369,773	2,224,773	2,224,773
2037	2,392,306	2,392,306	1,920,000	301,008	2,221,008	2,221,008
2038	2,393,031	2,393,031	1,990,000	229,834	2,219,834	2,219,834
2039	2,393,113	2,393,112	2,065,000	156,065	2,221,065	2,221,066
2040	2,397,281	2,397,281	2,145,000	79,515	2,224,515	2,224,515
Total	168,780,213	148,231,313	94,940,000	35,738,714	130,678,714	151,227,614

[1] Includes the Refunded PFCs

THE AIRPORT SYSTEM

General

The Airport, located on a 2,600-acre site that is adjacent to Loop 410 freeway and U.S. Highway 281, is eight miles north of the City's downtown business district. The Airport consists of three runways with the main runway measuring 8,502 feet and able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 24 second-level gates. Presently, the Airport offers an average of 140 daily departures to 41 nonstop destinations. This service is provided by 11 airlines (eight domestic and three international carriers). The Airport has, over the past several years, added two carriers (Frontier and Sun Country) and 18 new flights (six of which are to new nonstop destinations and 12 to existing markets). The growth of new and existing carriers has increased total available seats by over 3,000 daily seats and lowered fares to levels comparable to competing airports.

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 48th based on total U.S. passenger traffic for calendar year 2017. For the calendar year ended December 31, 2018, the Airport enplaned approximately 5.03 million passengers. Airport management has determined that approximately 98% 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 280 commercial businesses which lease facilities at the Airport and Stinson.

In 2018, the Airport System initiated a two-phased Strategic Development Plan as part of its update to the Master Plan of the Airport. The focus of the first phase was to determine if the current location of the San Antonio International Airport could grow to accommodate the region's long-term aviation needs in the next 20 to 50 years. This phase concluded that the current location could be adapted to meet the region's needs which were briefed to City Council on October 31, 2018. Phase 2 will identify and develop the plan the Airport System will follow for the next 20-year period by evaluating a range of potential policy and development alternatives and by producing a preferred airport development plan for the airfield, terminal, and airport access. Phase 2 will also consider airspace and land use flexibility for the next 50 years.

Stinson ("SSF"), 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. On November 15, 2012, City Council authorized its more recent update to the Stinson Master Plan. This program informed the Airport of projects to be undertaken on the airfield, terminal and support in the next 20 years to meet the demand of operations growth of 3.2% ACGR between 2011 and 2031. In December 2018, SSF completed the construction of a new air traffic control tower on the south side of the SSF campus. The new tower eliminates a potential line of sight issue that would have hindered tenant development. In 2019, the City Council authorized a new project that will design and construct a new parallel taxiway to SSF's Runway 14/32 which will enhance future development of adjacent land and promote airfield safety by reducing runway crossing once land is developed.

Capital Improvement Plan

The approved six-year (FY 2020 – FY 2025) Capital Improvement Plan (the "CIP") totals approximately $181.83 million and is comprised of certain projects for the design and construction of airfield improvements, road improvements, terminal expansions, IT upgrade projects and updates to the Master Plan for the San Antonio International Airport.

The CIP consists of the following:

Terminal Facilities

- Terminal A Renovations and Refurbishments, Phase II: This project is for design and construction of the expansion of the customs facility in Terminal A which will be constructed in phases along with addressing building infrastructure not captured in the first phase.
- Terminal A Renovations Phase III: This project addresses various infrastructure needs in Terminal A, which includes installing Curbside Canopies, a backup Sewer Lift Station, improvements to roof and vaulted ceiling, an HVAC Unit replacement and rental car space repurposing.
- Terminal B Expansion: This project includes design and construction for the expansion and other requirements in Terminal B including a new airline gate, an additional passenger screening lane at the Transportation Security Administration ("TSA") security screening checkpoint, additional concessions, airline lounge space at the central marketplace and additional office space at the ramp level.
- Terminal A - Phase III - Front Door Modernization: This project installs new vestibule canopies at Terminal A Departures, provides shelter at the commercial sidewalk and drive, improves accessibility at Terminal A and B Departure curbs, improves accessibility at Terminal A and B Arrivals curbs, and improves accessibility at Terminal A and B Commercial curbs.
- Terminal A Gate Expansion: The project includes the design and construction for the expansion and other requirements in Terminal A. It modifies a hold room, adjusts adjacent aircraft parking positions and provides for the procurement and installation of additional passenger boarding bridges.

Airfield Improvements

- Taxiway H Reconstruction: This project provides for the design and construction of a portion of aircraft apron taxi-lane, installation of "No Taxi" islands and shoulders, installation of new connecting Taxiways and for the installation of guidance signage to allow the taxi-lane to be designated as Taxiway H.
- Runway 13R Decouple, Reconstruction and Rehabilitation: The project consists of the decoupling of Runway 13R from Runway 4/22, reconstruction of two separate sections of concrete runway pavement on Runway 13R, the rehabilitation of portions of adjacent taxiways, runway lighting improvements, the reconstruction of Runway 13R, in phases, beyond the current six-year capital program and includes an environmental assessment and Memorandum of Agreement ("MOA") with the FAA.
- Taxiway E Reconstruction: This project will reconstruct Taxiway E to a new location, including associated grading, lighting, signage and markings.
- Airfield Package 6-7: Package 6 - Taxiway R Rehab Phases 2 and 3. Constructs a new taxiway bypass to connect to TW RC to TW R. Install new FAA communications duct bank in order to remove the in-ground bridge. Package 7 - Removes a bridge and remediates an abandoned municipal solid waste site and constructs a new Taxiway R on grade.
- Electrification of Ground Support Equipment for Emission Reduction: Installs 60 Ground Support Equipment ("GSE") vehicle charging stations to reduce diesel GSE off of the Airport Terminal A and B apron areas to reduce ozone emissions.

Other Projects

- Master Plan Update, SAT: This project updates the Master Plan for the San Antonio International Airport. This update will be used as a planning and programming tool for future capital development up to the next 50 years. The project includes corresponding updates to the Part 150 Noise Compatibility Program and Drainage Master Plan and includes an Electronic Airport Landing Plan ("EALP").
- Multi-User Flight Information Display System ("MUFIDS") Modernization: This project replaces the aged MUFIDS monitors in Terminal B and adds monitors in new locations throughout the campus.
- Airport Integrated Control Center ("AICC"): This project provides for the planning, design and construction of a new AICC for the Airport.

- Airside Security Program: This project is focused on improving airside security around the airside apron area with increased video surveillance and a limited Perimeter Intrusion Detection System ("PIDS") rollout. This project will also provide airport vehicle gate access control improvements and will include limited airside operational wireless access.
- Rehabilitate West Cargo Facilities: The project installs a new roof on the building, new exterior metal siding of building including soffits and fascia, security camera and cabling upgrades, new overhead and pedestrian doors, plumbing improvements, electrical installation, ADA access ramps, and new interior walls between tenant areas.
- Parking, CCTV for Economy and Cell Lots: This project installs CCTV and emergency call boxes for the parking areas to provide safety and security. This project scope is to install 27 cameras and 16 blue emergency phones and the required supporting infrastructure in the Red, Orange and Green surface parking lots at SAT.
- Other Capital Projects: Miscellaneous projects at the Airport and at Stinson.

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

Funding Sources	Projected Funding ($)
Federal Grants	
Entitlement Grants	8,725,384
Discretionary Grants	46,126,495
Noise Discretionary Grant	895,437
TxDOT Grant	3,101,000
FAA VALE Grant	1,875,000
Other Funding	
Airport Improvement & Contingency Fund	55,265,940
Stinson Revolving Fund	2,359,518
Interim Airport Financing[(1)]	63,474,444
Total	**181,823,218**

(1) Represents the Tax Notes. See "SECURITY FOR THE BONDS AND CERTAIN ORDINANCE PROVISIONS – Other Airport System Debt – Airport Tax Notes" herein.

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

Improvement	Amount ($)
Airport	
Airfield	78,239,540
Common Use and IT Upgrade	7,036,197
Transit/Roadways	2,235,403
Parking	4,549,387
Terminal	38,165,860
Residential Acoustic Treatment Program	1,075,000
Other Projects	40,603,729
Stinson	9,918,102
Total	**181,823,218**

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 49 USC § 40117 (herein defined and referred to as the PFC Act), and the implementing regulations issued by the FAA.

The FAA issued a "Record of Decision" on August 29, 2001 approving the City's initial PFC application. The City, as the owner and operator of the Airport, received authority to impose a $3.00 PFC and to collect, in the aggregate, approximately $102,500,000 in PFC Revenues. On February 15, 2005, the FAA approved an application amendment increasing the PFC funding by a net amount of $13,893,537. On February 22, 2005, the FAA approved the City's application for an additional $50,682,244 in PFC revenues 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 March 18, 2015, the City submitted an amendment to reduce the PFC Collection authority from the amount of approximately $573.8 million to approximately $463.7 million (a reduction of approximately $110.1 million). This reduction was due to (i) estimated finance and interest costs that were overstated in the submittals compared to actual finance and interest costs and (ii) lower project costs in some cases. The FAA issued the Final Agency Decision on April 13, 2015, approving the proposed PFC amendment.

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 August 31, 2019, the City has collected $251,725,046 (unaudited) in PFC Revenues since authority to impose and collect the PFC was received. The estimated PFC collection expiration date is June 1, 2028. Prior to the estimated PFC collection expiration date, the City expects to apply to the FAA for an additional amendment to its PFC collection authority to enable the City to continue collecting PFC Revenues to pay for debt service relating to the City's Outstanding Parity PFC Bonds and to fund additional PFC-eligible capital improvement projects at the Airport.

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

- Replace Remain Overnight Apron
- Implement Terminal Modifications
- Reconstruct Perimeter Road
- Construct New Terminal B
- Acoustical Treatment Program
- Construct Elevated Terminal Roadway
- Upgrade Central Utility Plant
- Construct Apron – Terminal Expansion
- Install Utilities – Terminal Expansion
- Replace Two Aircraft Rescue and Fire Fighting Vehicles
- Conduct Environmental Impact Statement
- Reconstruct Terminal Area Roadway
- Install Noise Monitoring Equipment
- Install Terminal and Airfield Security Improvements
- Install Airfield Electrical Improvements
- PFC Development and Administration Costs

CFC Projects. The City Council, by ordinance adopted on March 8, 2012, authorized the Airport to impose the collection of a $4.50 per transaction day Customer Facility Charge ("CFC") for rental car customers to pay for all costs and expenses associated with the planning, financing, and construction and certain other costs for a Consolidated Rental Car Facility (the "ConRAC") to open in three to five years. The rental car companies ("RACs") began collecting the CFC on all car rentals at the Airport on April 1, 2012. The CFC was reapproved at a collection rate of $5.00 per transaction day, effective July 1, 2015, pursuant to the ordinance adopted by the City Council on June 18, 2015. The CFC rate was further increased to $5.50 per transaction day, effective October 1, 2018. The ConRAC project cost was $167.8 million. As of August 31, 2019, the City has received $78,775,968 (unaudited) in CFC Revenues since the April 1, 2012 inception of the CFC.

ConRAC Opening. ConRAC opened for business on January 17, 2018. This 1.8 million square feet facility houses up to 14 rental car companies, a quick turnaround area for fueling, vacuuming, washing and light maintenance and approximately 2,600 ready/return parking spaces. ConRAC is within walking distance to the Airport terminals, eliminating the need for shuttles to take passengers to their rental car locations, thus enabling the Airport to initiate significant improvements to traffic flow in the arrivals area.

Airport Operations

Direct supervision of airport operations is managed by 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.

Russell J. Handy, Director of Aviation, has overall responsibility for the management, administration and planning of the Airport System. Mr. Handy 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 Deputy Aviation Director, the Assistant Aviation Director of Operations, the Chief Administration Officer, and the Assistant Aviation Director of Asset and Planning 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 firefighters 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 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.

As of October 1, 2019, the Airport System has approximately 499 authorized positions as follows:

Administration	109	Parking/GT	63
Police/Security	96	Airport Operations	48
Fire Rescue	33	Stinson Airport	8
Facilities Maintenance	142		

Senior Management

Director of Aviation. In January 2017, Russell J. Handy was appointed to serve as the City's Aviation Director. In this role, he oversees the day-to-day operations of the Airport System. A retired Air Force Lieutenant General, Mr. Handy previously oversaw multiple commands and held numerous leadership roles in his 34-year military career including oversight of air fields and large-scale command operations. Most recently, Mr. Handy served as Commander of Alaskan Command, Eleventh Air Force and the Alaskan Region of the North American Aerospace Defense Command, at Joint Base Elmendorf-Richardson, Alaska. He was the senior military officer in Alaska, responsible for the integration of all military activities in the Alaskan joint operations area, synchronizing the activities of more than 21,000 active-duty and reserve forces from all services and the training and readiness for all major U.S. Air Force installations and personnel in Alaska, Hawaii, and Guam. His responsibilities included planning and execution of all Homeland Defense operations within the theater, including security and civil support actions. Mr. Handy recently announced his resignation, effective December 31, 2019.

Deputy Aviation Director. Thomas (Tom) Bartlett joined the City of San Antonio in May 2017 as Deputy Director for the Airport System. Mr. Bartlett exercises broad authority for overseeing airport operations, maintenance, airport safety/security, aircraft rescue and firefighting, terminal and passenger services, capital improvement projects, air service development, and parking ground transportation through the Assistant Directors for the Airport System. Mr. Bartlett has highly diverse credentials in airport and aviation management, as demonstrated by his 40-plus years of experience. He previously served as Executive Vice President and Chief Operating Officer for AvPORTS. Prior to this position, Mr. Bartlett served as Chief Operating Officer at Steward International Airport in Newburgh, NY. Mr. Bartlett was also the Chief Operating Officer for the airport operator at Juan Santamaria International Airport in San Jose, Costa Rica. Before that, he spent 26 years at the Houston Airport System ("HAS"), rising to Airport Manager at Bush Intercontinental Airport and then to Chief Operating Officer of HAS for 7 years. Mr. Bartlett also spent two years with US Airways.

Chief Administration Officer. Mukesh (Mookie) Patel was hired in October of 2017 as the Chief Aviation Administration Officer for the Airport System. Mr. Patel is responsible for Fiscal Operations, IT, Properties, Concessions, Procurement, Small Business, and the administrative team. Mr. Patel is an experienced Airport/Airline industry professional with 26 years of experience. Mr. Patel began his career at Kansas City International Airport. He went on to work for a specialty airline consulting firm, where he worked on Capital program budgets at T1 at JFK International Airport and San Francisco International Airport. Mr. Patel also worked as an Airport Planner and Technology Consultant in New Orleans, and spent a decade working for Alaska Airlines in Seattle, in Corporate Real Estate. Before joining the leadership with the Department, Mr. Patel was the Senior Vice President for Airline Affairs and Commercial property at Denver International Airport, and was Managing Partner at MP Consultancy, LLC a strategic advisory services firm that provided Airport Real Estate Advisory services during the Virgin America/Alaska merger.

Assistant Aviation Director – Asset and Planning. Loyce D. Clark joined the Department in January 2011 and has more than 40 years in aviation management including the areas of airport consulting, airport management and development, real estate and property development, planning and regulatory affairs, and passenger transport. In the Airport System, Mr. Clark is responsible for the oversight of Planning and Development, Facilities Maintenance, Environmental Stewardship, Custodial, and Terminal Services. Mr. Clark's previous experience includes serving as the Director of Planning and Development with the Birmingham Airport Authority where he managed over $900 million in capital improvement projects over 20 years; Project Manager and Properties and Facilities Manager with Federal Express Corporation; and, Design Manager with Trammell-Crow Corporation. Mr. Clark served as the President and CEO of Excel Aviation Consulting Service, a small airport consulting firm. He holds a degree in Architectural Engineering from the West Tennessee Community College and is a Commissioned Kentucky Colonel.

Assistant Aviation Director - Operations. Ryan E. Rocha, A.A.E., IAP has served as Chief of Operations for the Airport since February 2016, and has worked in aviation for 25 years. As Chief of Operations, Mr. Rocha oversees a $25 million operating budget for Airport Operations, Parking and Ground Transportation, Security, Fire & Rescue, Police, Control Center, and Emergency Management. Mr. Rocha specializes in airport operations with previous occupations at the Airport as the Airport Integrated Control Center Manager where he led the AICC concept and design and served as Airport Operations Manager for 8 years where he was influential toward the Airport receiving the 2011 FAA Southwest Region Airport Safety Award. Prior to joining the Airport, he served as the Operations Manager at the Salina Municipal Airport ("SLN") where SLN earned the 2006 FAA Central Region Airport Safety Enhancement Award. While at SLN, Mr. Rocha was on the operations team for the successful Virgin Atlantic GlobalFlyer flight around the world. Mr. Rocha has also worked in operations at John Wayne Airport-Orange County and San Bernardino International Airport. Mr. Rocha also worked at upstart Vanguard airlines in 1995 as an Operations Supervisor. Mr. Rocha has a passion for educating others in aviation and had the privilege to serve as an adjunct instructor teaching airport management at Kansas State University-Salina for four years and at Embry-Riddle Aeronautical University for five years where he received the 2012 Faculty of the Year award. Mr. Rocha serves on various operations and safety committees with A.A.A.E. and ACI. Mr. Rocha earned his Master of Aeronautical Science from Embry-Riddle Aeronautical University and Bachelor of Business Administration from Wichita State University and is an Accredited Airport Executive and International Airport Professional. Mr. Rocha is native to San Antonio and a private pilot who learned to fly at Stinson.

Chief Air Service Development Officer. Brian Pratte has lead the effort to attract and retain domestic and international air service at the Airport since April 2016. In this position, Mr. Pratte and his team have developed and implemented a five-year growth and retention plan with a goal that was exceeded in just over two years. During his three years at the Airport, capacity at the Airport has grown over 20% with new air carriers, increased flights to underserved markets and new service to domestic and international markets. Prior to joining the San Antonio team, Mr. Pratte oversaw the launch of a new west coast sales team for an all-cargo freighter airline, with a target of over $8 million in revenue. Previously, Mr. Pratte served as the Director of Air Service & Cargo Development for the

Reno-Tahoe Airport Authority for nearly ten years. Mr. Pratte currently serves on the ACI-NA Air Service Committee and provides leadership on its steering group. He previously also held the position of Chair, Air Cargo Committee. Mr. Pratte is an aviation and logistics professional with more than 20 years' experience in developing air service, air cargo and supply chain business cases, and strategic business and marketing plans. In his career, he has established and maintained relationships with key community stakeholders, air carriers, primary companies and airports in support of global development strategic plans.

Chief Customer Experience Officer. Karen W. Ellis has served as the Chief Customer Experience Officer for the Airport System since 2016, and has over 20 years of leadership and customer service experience in the aviation industry for the Houston Airport System and Hartsfield-Jackson Atlanta International Airport. In addition to overseeing the customer experience team, she is also responsible for the marketing, strategic communications and art programs for the Airport System. Ms. Ellis holds a Master of Science Degree in Human Resources Management from Troy State University and a Bachelor of Science Degree from Jacksonville State University. In conjunction with her educational background, Ms. Ellis is a Certified Customer Care Manager by the Customer Service Institute and a certified Customer Service Manager by the Customer Service Institute of America. Through Toastmaster's International, she has achieved the status of Competent Toastmaster, Advanced Toastmaster Bronze and Competent Leader with Toastmasters International and served as President of the International Customer Service Association – Georgia Chapter. She currently serves as the Co-Chair of the Customer Service Working Group for Airport Council International and is the past Chair of the Training Committee for the American Association of Airport Executives.

Fiscal Year 2020 Budget

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

The FY 2020 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 2020 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 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 the level of surplus or deficit the City may face during the next five years. On May 8, 2019, the Forecast was presented to the City Council.

Public and Employee Input. The City's budget is a reflection of the community's priorities. In a coordinated effort to reach and receive feedback from residents, the City conducts a comprehensive community input campaign to ask the community for their budget priorities for the upcoming year. In March, prior to the development of the City's annual budget, the City initiated its SASpeakUp campaign to ask residents for their service priorities. The SASpeakUp campaign is unique in that the City gathers feedback by going to "where the residents are," whether online, at community events, or at City facilities in the neighborhood. Through this campaign, the City reaches out to the community through a multi-faceted campaign to collect data on residents' use of City services and their ideas for spending in the upcoming year. Community input is gathered through the SASpeakUp bilingual (English and Spanish) street teams that attend events throughout the community to capture feedback, through digital media, email blasts, and an online survey. Additionally, the Budget Input Box is available for residents to provide suggestions on how the City may become more efficient, generate revenues, and make effective changes to service delivery. The Budget Input Box is available online and at various public libraries, City office lobbies, and other venues. Information across all feedback mediums is offered in both English and Spanish. All feedback collected through the SASpeakUp campaign and the Budget Input Boxes was compiled and used in preparing the FY 2020 Budget recommendations.

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 policy direction to City staff on budget priorities for the upcoming fiscal year. This work is focused on establishing strategic goals and service delivery priorities to lead the City's efforts and resources for the FY 2020 and FY 2021 Budget development. The outcome of the Goal Setting Work Session guides City staff to align service delivery and spending plans with the City Council priorities.

Proposed Budget Preparation. Prior to the Proposed Budget Presentation, each City department's base budget was 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 may be adjusted to meet current market demands. Concurrent to these reviews, the Executive Leadership Team and Budget Staff review preliminary fund schedules in order to determine the financial position for each City department and fund. Other items discussed in these meetings included performance measures, capital and grant programs, policy issues, revenue changes, and potential reductions. As part of the Budget Development Process, City departments were asked to look for efficiency and operational proposals that reflect the City Council strategic goals and the community service delivery priorities.

FY 2020 Proposed Budget. After obtaining the priorities of the community and City Council, as well as conducting reviews of each City department, the City Manager presented the FY 2020 Proposed Operating and Capital Budget to City Council on August 8, 2019.

Public Input on Budget Priorities. Community input is an important part of the budget process. The SASpeakUp campaign and the Budget Input Box connects residents to information regarding the FY 2020 Proposed Budget. After the budget was presented to the City Council in early August, the City conducted a series of budget open houses in English and Spanish across the City, as well as two public hearings at City Council Chambers to obtain input from the community on the proposed budget. These meetings were in addition to the social media opportunities available to the residents to provide their input about the proposed budget. All community feedback gained from these initiatives were provided to City Council and City staff for consideration in the FY 2020 Proposed Budget. The FY 2020 Proposed Budget represented City staff's professional recommendation reflecting the priorities of the community and City Council.

FY 2020 Adopted Budget. After receipt of the FY 2020 Proposed Budget, the City Council held several work sessions to review the proposed service program details, and discuss potential City Council budget amendments. The budget work sessions provided a forum for discourse on significant policy issues as well as an opportunity to review departmental service plans highlighting proposed program enhancements, efficiencies, redirections, and revenue adjustments. After considering all the recommendations and receiving input from citizens, the budget was presented to City Council and adopted on September 12, 2019.

The remainder of this page is intentionally left blank.

Airport Activity

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

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**

	2014	2015	2016	2017	2018
January	301,855	304,944	317,076	320,803	346,337
February	278,607	277,783	296,745	299,339	332,140
March	363,472	367,525	350,929	381,951	415,899
April	350,667	368,268	354,699	370,083	433,856
May	365,538	376,596	381,202	393,097	425,095
June	394,884	392,157	406,877	424,010	452,373
July	409,555	406,359	401,579	423,640	466,620
August	355,064	348,495	351,536	368,516	433,588
September	317,860	316,003	341,918	342,893	389,342
October	358,858	368,700	368,156	397,974	447,736
November	333,621	364,134	369,881	403,764	442,041
December	361,410	366,724	369,163	395,541	443,631
Total	4,191,391	4,257,688	4,309,761	4,521,611	5,028,658
Increase (Decrease)					
Over Prior 12-Month Period		66,297	52,073	211,850	507,047
% Increase (Decrease)					
Over Prior 12-Month Period		1.58%	1.22%	4.92%	11.21%

The remainder of this page is intentionally left blank.

The total enplanements at the Airport by airline for each of the last five calendar years are shown below:

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

Airlines	2014		2015		2016		2017		2018	
	Number	% Total	Number	% Total	Number	% Total	Number	% Total	Number	% Total
ABC Aerolineas dba InterJet	101,527	2.42	114,079	2.68	103,847	2.41	99,861	2.21	114,028	2.27
Aeromexico	56,963	1.36	60,262	1.42	52,683	1.22	31,705	0.70	28,374	0.56
Alaska Airlines	50,280	1.20	51,667	1.21	55,733	1.29	56,709	1.25	58,765	1.17
American	689,482	16.45	732,216	17.20	906,971	21.05	959,828	21.23	1,054,150	20.96
Delta	602,157	14.37	628,431	14.76	653,458	15.16	670,076	14.82	689,362	13.71
Frontier [1]	--	--	--	--	71,105	1.65	123,289	2.73	287,298	5.71
Southwest	1,748,380	41.71	1,710,494	40.17	1,731,333	40.17	1,841,801	40.73	1,977,031	39.32
United	665,649	15.88	695,515	16.34	659,445	15.30	656,503	14.52	729,289	14.50
US Airways [2]	234,504	5.60	222,175	5.21	--	--	--	--	--	--
Viva AeroBus [3]	1,590	0.04	4,159	0.10	--	--	--	--	--	--
Other Carriers	40,859	0.97	38,690	0.91	75,186	1.75	81,839	1.81	90,361	1.80
Total	4,191,391	100.00	4,257,688	100.00	4,309,761	100.00	4,521,611	100.00	5,028,658	100.00
% Increase (Decrease) Over Prior 12-Month Period			1.58%		1.22%		4.92%		11.21%	

[1] Re-commenced operations in 2016.
[2] Combined and shown under American beginning in 2016.
[3] Ceased operations in 2015.

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

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

	2014	2015 [1, 2]	2016 [2]	2017 [2]	2018
January	37,488	40,906	36,976	25,783	31,631
February	25,047	26,896	26,271	18,579	23,187
March	31,032	39,168	31,574	24,341	33,663
April	32,637	44,793	25,274	25,055	29,606
May	34,570	46,187	28,705	27,551	29,927
June	42,407	49,489	39,276	39,874	38,055
July	52,933	63,285	52,191	45,724	53,194
August	45,247	46,875	36,831	36,182	38,879
September	34,611	30,449	28,398	24,399	26,218
October	37,660	34,322	26,656	29,366	32,658
November	39,629	39,589	30,272	33,430	36,506
December	51,504	49,117	37,637	38,097	41,494
Total	464,765	511,076	400,061	368,381	415,018
Increase (Decrease)					
Over Prior 12-Month Period		46,311	(111,015)	(31,680)	46,637
% Increase (Decrease)					
Over Prior 12-Month Period		9.96%	(21.72%)	(7.92%)	12.66%

[1] 2015 data was updated in March 2016.

[2] The decrease in International Passengers from 2015 to 2017 is attributed to capacity reductions by VivaAerobus (ceased operations at SAT in 2015), Southwest (ceased service to Mexico City in May 2016), and AeroMexico (ceased service to Monterrey in August 2016). In addition to capacity, adjustments to the continued devaluation of the Mexican Peso to the US Dollar contributed to decreased leisure travel between the two countries.

The remainder of this page is intentionally left blank.

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	2014		2015 [1]		2016		2017		2018	
	Weight	% Total	Weight	% Total	Weight	% Total	Weight	% Total	Weight	% Total
ABC Aerolineas dba InterJet	137,062.40	2.42	142,057.10	2.49	137,216.80	2.40	138,795.30	2.30	149,142.20	2.26
Aeromexico	61,335.50	1.08	72,253.90	1.26	60,746.30	1.06	39,090.80	0.65	35,032.30	0.53
Alaska Airlines	51,905.40	0.92	52,500.20	0.92	55,389.80	0.97	55,319.40	0.92	56,548.40	0.86
American	742,969.60	13.12	874,089.40	15.28	1,018,980.90	17.78	1,092,097.10	18.13	1,203,976.12	18.26
Delta	740,963.20	13.09	750,529.10	13.12	750,026.90	13.09	761,642.80	12.64	745,401.30	11.30
Federal Express	464,246.70	8.20	458,729.50	8.02	445,522.10	7.78	433,812.30	7.20	391,492.80	5.94
Frontier [2]	--	--	--	--	71,584.40	1.25	120,755.20	2.00	299,036.80	4.54
Southwest	2,058,814.00	36.37	1,940,826.00	33.93	1,961,222.00	34.23	2,081,873.60	34.56	2,187,062.40	33.16
US Airways [3]	270,185.60	4.77	210,476.90	3.68	--	--	--	--	--	--
United	764,769.30	13.51	823,300.80	14.40	778,749.40	13.59	759,956.20	12.62	834,502.10	12.65
United Parcel	256,428.50	4.53	292,248.80	5.11	324,264.00	5.66	357,115.60	5.93	431,928.10	6.55
Viva AeroBus [4]	2,513.20	0.04	8,292.30	0.14	--	--	--	--	--	--
Other Carriers	110,360.10	1.95	94,648.00	1.65	125,554.10	2.19	183,974.80	3.05	260,642.00	3.95
Total	5,661,553.50	100.00	5,719,952.00	100.00	5,729,256.70	100.00	6,024,433.10	100.00	6,594,764.52	100.00

[1] 2015 Landed Weight updated in March 2017 report.
[2] Re-commenced operations in 2016.
[3] Combined and shown under American beginning in 2016.
[4] Ceased operations in 2015.

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

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

Calendar Year	Mail	Freight	Total Cargo	% Change
2014	17,821.48	36,857.80	54,679.28	--
2015	17,623.36	36,825.20	54,448.56	(0.42)
2016	14,634.97	35,290.58	49,925.55	(8.31)
2017	14,017.99	37,817.40	51,835.39	3.83
2018	13,815.87	44,111.39	57,927.26	11.75

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 September 30, 2018) **Table 6**

Short Term Parking Rates	
First 15 Minutes	Free
16 Minutes – ½ Hour	$3
½ Hour – 1 Hour	$5
1 – 1 ½ Hours	$7
1 ½ – 2 Hours	$9
2 – 2 ½ Hours	$11
2 ½ – 3 Hours	$13
3 – 3 ½ Hours	$15
3 ½ – 4 Hours	$17
4 – 24 Hours	$24
Lost Ticket	See Cashier
Long Term Parking Rates	
First 15 Minutes	Free
16 Minutes – 1 Hour	$3
1 – 2 Hours	$5
2 – 3 Hours	$7
3 – 4 Hours	$9
4 – 24 Hours	$11
Lost Ticket	See Cashier
Remote (Green Lot) and Overflow (Red Lot) Parking Rates	
16 Minutes – 1 Hour	$3
1 – 2 Hours	$5
2 – 24 Hours	$8
Lost Ticket	Press intercom for assistance

The remainder of this page is intentionally left blank.

The historical revenues and expenses of the parking system at the Airport and parking revenues as a percentage of Gross and Net Revenues of the Airport System are shown below:

Airport Parking System Revenues **Table 7**

	Fiscal Year Ended September 30				
	2014	2015[1,2]	2016[2]	2017[2]	2018
Parking Revenues	$22,667,121	$22,351,381	$18,993,129	$18,804,516	$23,074,721
Parking Expenses	(3,694,785)	(6,109,113)	(7,969,104)	(7,317,831)	(6,193,415)
Net Parking Revenues	$18,972,336	$16,242,268	$11,024,025	$11,486,685	$16,881,306
Gross Parking Revenues as a % of Airport System Gross Revenues	24.90%	24.40%	19.61%	19.86%	21.57%
Net Parking Revenues as a % of Airport System Net Revenues	47.32%	45.86%	29.06%	33.77%	40.31%
Airport System Gross Revenues	$91,034,569	$91,617,612	$96,847,128	$94,686,702	$106,952,588
Airport System Net Revenues	$40,096,367	$35,419,104	$37,934,117	$34,012,054	$41,881,347

Source: City of San Antonio, Department of Finance.

[1] 2015 data was restated in March 2017 to match CAFR amounts.

[2] The short term parking garage at the Airport was demolished and rebuilt in connection with the construction of the ConRAC. No short term parking was available during a portion of fiscal year 2015, all of fiscal years 2016 and 2017, and a portion of fiscal year 2018. The decline in parking revenues during those periods was directly related to the unavailability of the short term parking garage and the increased expenses during those same periods was directly related to the additional expenses the City incurred to shuttle passengers to and from remote parking facilities and other related expenses. The new short term parking garage opened on November 18, 2017.

The remainder of this page is intentionally left blank.

The historical financial performance of the Airport System 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				
	2014	2015[1]	2016[2]	2017[2]	2018
Gross Revenues					
Airline Revenues					
Scheduled Carrier Landing Fees	$8,310,006	$7,305,393	$8,414,208	$9,611,931	$14,526,938
Non-Scheduled Carrier Landing Fees	1,219,699	1,158,695	1,409,315	1,545,609	33,303
Terminal Building Rentals	15,075,197	13,910,067	16,710,273	16,408,493	19,133,089
FIS Space Fees	1,830,730	2,169,404	1,789,386	1,346,861	1,548,828
Ramp Fees	2,490,665	2,214,450	2,643,686	2,436,486	2,797,905
Baggage Handling System Charges	1,224,651	1,871,192	1,469,728	1,763,210	2,151,436
Passenger Loading Bridges	376,732	278,445	-0-	288,040	298,039
City Gate Fees	831,956	770,259	1,709,330	1,266,636	2,017,576
Subtotal Airlines Revenues	$31,359,636	$29,677,905	$34,145,926	$34,667,266	$42,507,114
Non-Airline Revenues					
Concession Contracts	$19,111,671	$19,670,364	$19,944,128	$20,421,139	$22,413,003
Parking Fees	22,667,121	22,351,381	18,993,129	18,804,516	23,074,721
Property Leases	7,674,649	8,420,872	8,942,680	9,205,741	9,718,149
Stinson Airport	329,679	312,080	326,907	335,739	381,182
General Aviation Fuel	595,879	605,272	627,599	631,102	625,125
Interest Income	291,622	266,135	460,059	879,255	1,953,173
Misc. Revenues	2,057,299	2,183,989	6,548,353	4,926,591	1,738,018
Transfer from Other Funds	6,066,119	7,156,269	6,004,266	4,008,712	3,560,426
RON Fees	880,894	973,345	854,081	806,641	981,677
Subtotal Non-Airline Revenues	$59,674,933	$61,939,707	$62,701,202	$60,019,436	$64,445,474
Total Gross Revenues	$91,034,569	$91,617,612	$96,847,128	$94,686,702	$106,952,588
Operating & Maintenance Expenses					
Fire & Rescue	$4,306,043	$4,935,735	$4,882,210	$ 5,063,628	$ 5,099,246
Parking	3,694,785	6,109,113	7,969,104	7,317,831	6,193,415
Stinson Airport	775,251	894,450	898,732	892,454	841,508
Administration	14,414,896	13,425,301	13,569,369	14,135,317	16,005,928
Maintenance & Control	8,632,737	9,369,216	9,945,981	10,583,846	12,099,648
Security	7,310,119	8,152,980	7,903,808	8,227,384	8,784,253
Operations	1,448,867	1,457,822	1,542,483	1,439,040	1,539,969
Environmental Stewardship	718,714	879,282	946,036	985,667	883,000
Airport Safety/Wildlife Programs	500,613	509,625	617,929	666,794	585,858
Airside & Landside Maintenance	3,209,795	4,206,051	3,617,067	3,504,922	4,701,827
Custodial & Terminal Service	4,681,033	4,676,289	4,675,878	4,605,458	4,946,595
Fleet Maintenance	1,245,349	1,304,969	1,071,174	1,255,838	1,071,997
Airport Integrated Control Center	-0-	277,675	1,273,240	1,996,469	2,317,997
Total Operating & Maintenance Expenses	$50,938,202	$56,198,508	$58,913,011	$60,674,648	$65,071,241
Net Revenues	$40,096,367	$35,419,104	$37,934,117	$34,012,054	$41,881,347

[1] 2015 data was restated in March 2017 to match CAFR amounts.

[2] Miscellaneous Revenues for 2016 and 2017 includes reimbursement for parking revenue loss and shuttle expenses during the ConRAC construction from CFC collections.

The remainder of this page is intentionally left blank.

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				
	2014	2015[2]	2016	2017	2018
Gross Revenues [1]	$91,034,569	$91,617,612	$96,847,128	$94,686,702	$106,952,588
Operating Expenses	(50,938,202)	(56,198,508)	(58,913,011)	(60,674,648)	(65,071,241)
Net Revenues	$40,096,367	$35,419,104	$37,934,117	$34,012,054	$41,881,347
Annual Debt Service Requirements	$23,314,205	$20,565,896	$22,364,874	$22,515,887	$22,526,144
Less: PFC Allocated Debt Service	3,812,929	3,809,479	3,808,029	3,812,404	3,812,716
Net Annual Debt Service Requirements	$19,501,276	$16,756,417	$18,556,845	$18,703,483	$18,713,428
Gross Revenue Debt Service Coverage	3.90x	4.45x	4.33x	4.21x	4.75x
Net Revenue Debt Service Coverage	1.72x	1.72x	1.70x	1.51x	1.86x
Net Revenue Debt Service Coverage – Including Reduction of Debt Service Due to PFC Allocated Debt Service	2.06x	2.11x	2.04x	1.82x	2.24x

[1] As reported in the City's audited financial statements.
[2] 2015 data was restated in March 2017 to match CAFR amounts.
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") 2018 is approximately 20% above CY 2014 levels. Total enplaned and deplaned international passengers (Table 3) for CY 2018 is still 10% below CY 2014 levels. Carrier landed weight decreased by a compounded annual rate of .91% from CY 2014 to CY 2018.

Airport Revenues

Gross Revenues have increased by 17.4% between FY 2014 and FY 2018, a compound annual growth rate of 4.1%. Airline revenues, which comprise 39.7% of total revenues for FY 2018 have increased by a compounded annual growth rate of 7.9% 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 1.9% due to increases in parking rates resulting in increased parking revenues (compound annual growth rate of 0.4%). In addition, the Airport experienced an increase in concessions revenue (compound annual growth rate of 4%) due to the new concession and car rental agreements. Non-Airline revenues for FY 2018 represent 60.2% 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 6.3% from FY 2014 through FY 2018. A significant portion of this increase has been in maintenance-related functions for the opening of the ConRAC. Other factors which contributed to an increase in cost include added security measures, utility costs, insurance, wage adjustments, and IT system support.

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 agreement is the culmination of more than three years of negotiations with the airlines and accomplished Airport's primary goals of providing first class service to the traveling public and keeping costs down while remaining in compliance with City policy for leasing and utilizing city-owned property to generate revenue. The original term of the agreement was November 9, 2010 through September 30, 2015 but the airlines and the City exercised the two available options. The lease agreement will expire on September 30, 2020. The Airport anticipates completion of the new lease agreement by late Spring 2020. To date, the fundamental rate setting methodology and distribution of expenses will remain the same.

Under the Signatory Agreements, 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 PFCs. 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 Agreements, 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 took over janitorial responsibilities of those areas. Airlines can also assign SAAC the responsibility for non-public view exclusive areas. SAAC has allowed the Airlines the ability to manage and maintain certain facilities more efficiently to help reduce operating costs at the Airport, and this critical relationship will remain in the new agreement.

All Airport passenger gates and terminal facilities continue to be leased under preferential use or common use terms. The new preferential use provisions were negotiated and allow for much greater flexibility in the Airport'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 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

ConRAC / Car Rental. The City opened the ConRAC in January of 2018. The ConRAC houses all the rental car companies servicing the Airport's passengers under one roof. As previously described, the City receives revenues from automobile rental companies under agreements that 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 which operate 13 different rental car brands. These companies include Advantage, EAN (Enterprise/Alamo/National), Avis (Avis/Payless), Hertz (Hertz/Dollar/Thrifty), Budget, E-Z, Fox and Sixt. Additionally, Hertz currently occupies ground and buildings on Airport property for their service centers and Avis occupies ground to store vehicles. These agreements produced $10,085,115 in revenue for the first year of operations.

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 luggage cart rentals, shoe shine, and vending machines. 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 2008, and the opening of Terminal B in November 2010 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 $8,456,683 in revenue for CY 2018. In March 2019, ten food and beverage/retail concessions located in Terminal A were awarded under a seven year prime concession agreement and are currently under construction with a projected completion date of June 2020. The focus of this prime package was to provide a local/regional feel and taste to the flying public. Terminal concession revenues are forecast to adjust with passenger enplanements and general price inflation.

Airport Advertising. Lamar Airports provides advertising display services at the Airport under the terms of a ten-year agreement that extends to January 2029. Lamar Airports pays the City 60% of gross sales on indoor static advertising, 55% on indoor tech advertising, and 30% on outdoor advertising, with a minimum annual rent guarantee of $700,000. In year one of the agreement, it is expected that the agreement will generate revenues to the City of $700,000.

Fixed Based Operators ("FBO"). The Airport currently has three FBOs. The FBOs include Signature Flight Support Services, Million Air, and Sky Place FBO. FBO ground leases vary in size from 363,000 square feet to approximately 1,252,796 square feet. Leased FBO hangars vary in size from a single hangar of 26,219 square feet to multiple hangars of 20,000 to 60,000 square feet. FBO lease terms expire from June 2023 through March 2051. These leases produced $2,212,534.18 in revenue in FY 2018.

Maintenance and Repair Operators. VT San Antonio Aerospace ("VT-SAA") a subsidiary of ST Engineering, a wide & narrow-body aircraft maintenance, repair and overhaul facility, leases over 2.2 million square feet of ground space and seven hangars and backshop/office space totaling 575,000 square feet. In addition, VT–SAA completed its seventh hangar of 128,000 square feet in January 2011. Current customers include American Airlines, Air Canada, National Air Cargo, Delta Airlines, FedEx and United Parcel Service. VT-SAA has over 1,300 permanent and contract employees. VT-SAA also operates Aeria Luxury Interiors ("Aeria"). Aeria provides a full range of services to assure every facet of aircraft interior refurbishment which includes: cabinetry, upholstery, paint, systems, electrical/avionics and sheetmetal fabrication and installation. The current lease with VT-SAA runs through December 31, 2028. This lease produced $867,861.72 in revenue in FY 2018.

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 175 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 $824,193.60 in revenue in FY 2018.

The Airport is also home to one major corporate jet maintenance, repair, and overhaul facility, Textron Aviation ("Textron"). Textron leases approximately 373,000 square feet of ground space and occupies a tenant-owned maintenance hangar of 60,000 square feet. Textron's lease term expires October 2026. This facility currently employs 121 people. This lease agreement produced $154,572.68 in revenue in FY 2018.

FEDERAL LAW AFFECTING AIRPORT RATES AND CHARGES

Federal Legislation

Federal legislation affects the funding that the Airport receives, its PFC revenues 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. Pursuant to the 1994 Act, the Department of Transportation issued a rule in January of 1995 which was amended effective on December 16, 1996 (the "Final Rule"), and outlines the rules of practice for filing complaints and adjudicating complaint matters involving federally assisted airports. During the pendency of the review, the airlines must pay the disputed portion of the fee to the airport under protest, subject to refund to the extent such fees are found to be unreasonable by the Secretary. The airport must obtain a letter of credit, surety bond or other suitable credit facility equal to the amount in dispute unless the airport and the complaining carriers agree otherwise. This Final Rule is broader in application and covers matters other than just rates and charges complaints.

The initial rule was accompanied by a policy statement setting forth the standards the Department of Transportation would apply to resolving airport fee disputes under 49 U.S.C. § 47129. The initial policy statement was supplemented in September of 1995 and then replaced on June 14, 1996, by the "Policy Regarding Airport Rates and Charges." The U.S. Court of Appeals for the District of Columbia Circuit, in an August 1, 1997 decision, invalidated part of the policy that required airports to value their airfield assets at historical costs in calculating airfield use fees. Until the Department of Transportation promulgates a new policy regarding airfield rates and charges, the guiding principle for determining the validity of rates and charges for use of airfield assets is the requirement of federal law that such charges be "reasonable."

Congressional authorization for the FAA's operating authority, including various federal aviation programs and excise taxes, has been subject to periodic legislative approval by Congress. Most recently, on October 5, 2018, the President signed into law the FAA Reauthorization Act of 2018, which establishes federal funding for the FAA through the end of fiscal year 2023. 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.

Passenger Facility Charges

Under the Aviation Safety and Capacity Act of 1990 (the "PFC Act"), as modified by the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century ("AIR-21"), as amended, the FAA may authorize a public agency to impose a Passenger Facility Charge ("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 the 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. PFC applications are approved by the FAA for specific projects. An airport may only impose the designated PFC until it collects the authorized total amount of that application. Interest earnings on collections are included in the application total. Under certain circumstances, the FAA grants approval to commence collection of PFCs ("impose only" approval) before approval to spend PFCs on approved projects ("use" approval) is granted. Approval to both collect and spend PFCs is referred to as an "impose and use" approval. PFCs may be spent to pay eligible debt service only on approved PFC projects and the terms of the PFC approval do not permit the use of PFC revenue to pay debt service on any new or outstanding bonds issued to finance projects other than approved PFC projects.

The authority to impose and use PFCs is subject to the terms and conditions of the PFC Act, AIR-21, and the related regulations and statutes. Failure to comply with the requirements of applicable law, such as the failure to use PFCs strictly for the approved PFC Projects, may cause the FAA to terminate or reduce the Airport's authority to impose and collect PFCs. Notwithstanding FAA regulations requiring airlines that collect PFCs to account for PFC collections separately and indicating that those PFC collections are to be regarded as funds held in trust by the collecting airline for the beneficial interest of the public agency imposing the PFC, in the event of a bankruptcy proceeding involving a collecting airline, there is the possibility that a bankruptcy court could rule that the PFCs in the airline's custody are not to be treated as trust funds and that the Airport is not entitled to any priority over other creditors of the collecting airline as to such funds. Also, there is no assurance that the PFC Act or any other relevant legislation or regulation will not be repealed or amended as to adversely affect the Airport's ability to collect PFCs or to apply them to pay for the prior capital development program and other projects. The occurrence of any of these events could have an adverse impact on the timely payment of principal of or interest on the PFC Bonds. See "CERTAIN INVESTMENT CONSIDERATIONS AND RISK FACTORS."

The amount of PFC revenues collected in any given year will vary depending on the actual number of passengers enplaned at the Airport. If the number of enplaned passengers at the Airport falls below certain estimates, the actual PFC revenues will fall short of certain projections (unless the dollar amount of PFCs increases). For a discussion of the possible impact of a decrease in enplaned passengers see "CERTAIN INVESTMENT CONSIDERATIONS AND RISK FACTORS." There can be no assurance as to what passenger traffic and revenues of the Airport will be in the future.

CERTAIN INVESTMENT CONSIDERATIONS AND RISK FACTORS

General

The Bonds are special and limited obligations of the City, the principal of and interest on which is payable pursuant to the Ordinances solely from Gross Revenues or PFCs as described herein. The ability to pay debt service on the Bonds will depend on the receipt of sufficient Gross Revenues or PFC Revenues, as applicable, which is dependent on a number of factors (many of which are beyond the City's control). The following is a discussion of certain investor considerations that should be taken into account in evaluating an investment in the Bonds. This discussion does not purport to be either comprehensive or definitive. Any one or more of the risks and other considerations discussed below, or any others, could lead to a decrease in the market value and/or marketability or liquidity of the Bonds. This section is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the Bonds. No assurance can be given that other risk factors and investment considerations will not become material in the future. The order in which risks are presented is not intended to reflect either the likelihood that a particular event will occur or the relative significance of such an event.

Further, financial forecasts in this Official Statement are based generally upon certain assumptions and projections as to estimated revenues and operating expenses. Inevitably, some underlying assumptions and projections used to develop forecasts will not be realized, and unanticipated events and circumstances may occur. Therefore, the actual receipts achieved during the forecast periods will vary from the forecasts, and such differences may be adverse and material.

In considering the matters set forth in this Official Statement, prospective purchasers should carefully review all investment considerations set forth throughout this Official Statement, specifically consider certain risks associated with the Bonds, and confer with their own legal, tax and financial advisors before considering a purchase of the Bonds. The Bonds may not be suitable investments for all persons.

Damage and Destruction

The City will maintain insurance in the amount and against such risks as are customarily insured against on-Airport property. There can be no assurance, however, that such property will not suffer extraordinary and unanticipated losses, for which insurance cannot be or has not been obtained, or that the amount of any such loss for the period during which the affected property is not available for use will not exceed the coverage of such insurance policies, which could negatively impact Gross Revenues and PFC Revenues.

General Economic Conditions

Historically, the financial performance of the air transportation industry has correlated with the state of the national and global economies, and levels of real disposable income. Recessions in the U.S. economy in 2001 and 2008-2009 and associated high unemployment reduced discretionary income and coincided with reduced airline travel in those years. With the globalization of business and the increased importance of international trade and tourism, the U.S. economy is more closely tied to worldwide economic, political, and social conditions. As a result, international economics, trade balances, currency exchange rates, political relationships, and hostilities all influence passenger traffic at major U.S. airports. Sustained future increases in passenger and cargo traffic at the Airport will depend on stable international conditions as well as national and global economic growth.

Airport Passenger Traffic

The Airport's ability to generate Gross Revenues and PFCs depends primarily upon sufficient levels of aviation activity and passenger traffic at the Airport. As the only commercial service airport serving the City and its metropolitan statistical area, the Airport's performance is dependent upon the City's status as a business and tourism destination. Additionally, the financial strength and stability of the airlines serving the Airport are key determinants of future airline traffic at the Airport.

Decreases in aviation activity and enplaned passenger traffic at the Airport will result in reduced Gross Revenues and PFCs. The achievement of passenger traffic will depend partly on the profitability of the airline industry, including their ability to access capital and the ability of individual airlines to provide sufficient capacity to meet demand. A weak economy, war, pandemic illness, geophysical event, and the threat of terrorist activity reduce demand. At the Airport, a reduction in passenger traffic would, in addition to financial pressures upon the airlines providing service to the Airport, result in lower concession revenues, parking revenues, rental car revenues, CFC revenues, and PFC revenues. Additionally, a decrease in aviation activity at the Airport would likely result in an increase in landing fees and terminal rentals to offset the Airport's cost of providing these services as required by the Use Agreements. As landing fees and terminal rentals rise, airlines could elect to discontinue service at the Airport.

Reduced Tourism to Mexico

In 2019, tourism from the United States to Mexico has not grown at anticipated rates. According to the United States Department of Commerce's National Travel and Tourism Office, 5.36 million U.S. citizens traveled to Mexico between January and June 2019, representing an increase of roughly 2% (100,000) compared to 2017. Growth in the same period in 2018 was 11%. The Mexico Daily News cited a 5.1% drop in the number of passengers entering Mexico via U.S. airlines in during the first six months of 2019 compared to prior years. Cited factors to this decline include dissolution of the Mexican Tourism Council in 2019 (and the ensuing lack of tourism marketing and development efforts), as well as frequent travel warnings about violence in various regions of Mexico issued by the U.S. State Department. As Mexico is the leading destination of international passengers traveling from the Airport, persistence of these conditions could impact the Airport's future international passenger enplanements and deplanements. However, the depression in the overall tourism market to Mexico has not affected San Antonio. The Airport continues to see a healthy tourism market to Mexico; from FY 2017 through FY 2019, enplanements to Mexico have increased from 168,723 to 215,534 (unaudited), a 27% increase.

General Factors Affecting Air Carrier Revenues

The revenues of both the Airport and the airlines serving the Airport may be materially affected by many factors including, without limitation, the following: national and international economic conditions, including imposition of tariffs; declining demand; service and cost competition; the availability of alternatives to air travel, such as video conferencing or new train or bus routes; mergers; the availability and cost of fuel and other necessary supplies; high fixed costs; high capital requirements; the cost and availability of financing; technological changes; national and international disasters and hostilities; the cost and availability of employees; strikes and other employee disruptions (including labor union contract negotiations); the maintenance and replacement requirements of aircraft; the availability of routes and slots at various airports; litigation liability; regulation by the federal government; environmental risks and regulations; public health risks affecting travel; noise abatement concerns and regulation; deregulation; federal and state bankruptcy and insolvency laws; political conditions; accidents involving commercial passenger aircrafts; visa requirements and other limitations on the ability of foreign citizens to enter the United States; currency exchange rates; the occurrence of pandemics and other natural and man-made disasters; and other risks. Most of these factors are outside of the City's control.

In particular, national economic conditions influence aviation activity at the Airport. Economic expansion increases income, boosts consumer confidence, stimulates business activity, and increases demand. In contrast, an economic recession reduces income, diminishes consumer confidence, dampens business activity, and weakens demand. Many airlines, as a result of these and other factors, have operated at a loss in the past and several have filed for bankruptcy, ceased operations and/or have merged with other airlines. Although the national economy has improved, the recent domestic financial crisis has had, and may continue to have, negative repercussions upon the national economy, including a scarcity of credit, lack of confidence in the financial sector, extreme volatility in the financial markets, fluctuations in interest rates, reduced business activity, increased unemployment, increased consumer bankruptcies and increased business failures and bankruptcies.

In Texas, the effect of falling oil prices on the state economy could influence aviation activity at the Airport. Although falling oil prices are advantageous to the operating costs of the airlines, Texas' oil companies have cut capital budgets and laid off workers in recent years. Although the Texas economy is now more diverse than it was in the 1980s and is expected to continue growing, the outlook could change if oil prices, which are generally volatile, entered into a sustained period of decline or depression.

General Factors and Uncertainties Affecting Airline Activity and the Airline Industry

The airline industry is cyclical and subject to competition and variable demand. Airports benefit from stable or growing air service when airlines are profitable. They risk losing service when airlines suffer financial hardship. The price of jet fuel affects airlines' financial health. Fuel is a significant cost component of airline operations and continues to be an important and uncertain determinant of an air carrier's operating economics. Historically, aviation fuel prices have been particularly sensitive to worldwide political instability. Continued or new hostilities in petroleum producing regions or key shipping lanes could dramatically increase the price and adversely affect availability of aviation fuel. Economic expansion in emerging markets also contributes to higher aviation fuel prices. Natural disasters affecting refineries may also result in higher aviation fuel prices. Significant and prolonged increases in the cost of aviation fuel had and are likely to continue to have an adverse effect on the air transportation industry by increasing airline operating costs and reducing airline profitability. Until recently, rising fuel prices increased airline costs dramatically and contributed to significant industry losses.

There are numerous other factors that affect air traffic generally and the financial health of airlines. Demand for air travel is influenced by factors such as population, levels of disposable income, the nature, level and concentration of industrial and commercial activity in the service area, and the price of air travel. The price of air travel is, in turn, affected by the number of airlines serving a particular airport and a particular destination, the financial condition, cost structure and strategies of the airlines serving an airport, the willingness of competing airlines to enter into an airport market, the cost of operating at an airport and operating constraints (due to capacity, environmental concerns, or other related factors) limiting the frequency or timing of airport traffic within the national system or at a particular airport.

Since its deregulation in 1978, the airline industry has undergone significant changes that include a number of airline mergers, acquisitions, bankruptcies and closures. In addition, the financial results of the airline industry have been subject to substantial volatility since deregulation. The airline industry is highly competitive and susceptible to price discounting. Carriers have used discount fares to stimulate traffic during periods of slack demand, to generate cash flow, and to increase market share. Airline profit levels are highly sensitive to changes in fuel costs, fare levels and passenger demand. Passenger demand and fare levels have in the past been influenced by, among other things, the general state of the economy (both internationally and domestically), international events, airline capacity, and pricing actions taken by carriers. Further bankruptcy filings and major restructurings by airlines are still possible.

In recent years, the major U.S. airlines have sought to form marketing alliances with other U.S. and foreign air carriers. Such alliances generally provide for "code-sharing", frequent flyer reciprocity, coordinated scheduling of flights of each alliance member to permit convenient connections and other joint marketing activities. Such arrangements permit an airline to market flights operated by other alliance members as its own. This increases the destinations, connections and frequencies offered by the airline, which provide an opportunity to increase traffic on such airline's segment of flights connecting with alliance partners.

The financial strength and stability of the airlines serving the Airport are key determinants of future airline traffic at the Airport. In addition, individual decisions by the airlines regarding level of service at the Airport will affect total enplanements. No assurance can be given as to the levels of aviation activity that will be achieved by the Airport. There is no assurance that the Airport, despite a demonstrated level of airline service and operations over the years, will continue to maintain such levels in the future. The continued presence of the airlines serving the Airport (particularly, the major carriers providing such service), and the levels at which that service will be provided, are a function of a variety of factors. Future airline traffic at the Airport will be affected by, among other things, the growth or decline in the population and the economy of the Airport's service region and by national and international economic conditions, federal regulatory actions, airline service, air fare levels, and the operation of the air traffic control system.

Airlines' Financial Reporting

Certain of the certificated major domestic airlines (or their respective parent corporations) are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and thus must file reports and other information with the SEC (defined herein). Certain information, including financial information, as of particular dates, concerning the certificated major domestic airlines (or their respective parent corporations) is disclosed in such reports and statements filed with the SEC. Such reports and statements can be inspected and copied at the public reference facilities maintained by the SEC in Washington, D.C. and at the SEC's regional offices around the country, which may be located by calling 1-800-SEC-0330. Copies of such reports and statements can be obtained from the Public Reference Section of the SEC at prescribed rates. The SEC also maintains a web site at http://www.sec.gov containing reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The SEC undertakes no responsibility for and makes no representations as to the accuracy or completeness of the content of such material. The City, the City's Co-Financial Advisors, and the Underwriters undertake no responsibility for and make no representations as to the accuracy or completeness of the content of any such material contained on the internet as described in the preceding sentences or elsewhere in this Official Statement, including (but not limited to) updates of such information or links to other internet websites accessed through any such aforementioned websites.

In addition, all major and certain other airlines are required to file periodic reports of financial and operating statistics with the United States Department of Transportation. Such reports can be obtained from the U.S. Department of Transportation at prescribed rates.

Airline Mergers

In recent years, and particularly since its deregulation in 1978, the U.S. airline industry has undergone substantial consolidation, and it may in the future undergo additional consolidation. The most recent examples of large mergers include Delta and Northwest in 2009, United and Continental in 2010, Southwest and AirTran in 2011, and American and US Airways in 2013. Airline mergers affect service and traffic at airports when they consolidate facilities, optimize route networks, and route connecting traffic through other hubs. The impact on affected airports is often immediate. The impact can be significant or trivial, depending upon whether the merging airlines have a large market share at the airport, whether they serve the same markets, and whether they carry significant connecting traffic through the airport.

National Security and Threat of Terrorism

Even with tightened security, terrorism remains a serious threat to the aviation industry. The recurrence of terrorism incidents against either domestic or world aviation targets remains a risk to achieving forecast aviation activity at the Airport. The federal government controls aviation industry security requirements, which can significantly impact the economics of the industry. Security requirements due to unexpected events could increase costs directly and indirectly to the industry and could have an adverse effect on passenger demand. Stringent airport security screening and long waits at security screening lines discourage air travel particularly to destinations that can be reached by ground transportation within a reasonable amount of time. No assurance can be given that increased security precautions will be successful or that increased security costs or uncertainty will not materially affect travel demand or profitability. Another terrorist attack or any other event that undermines confidence in the safety of air travel likely would have an immediate and material adverse effect on air travel demand.

Cybersecurity

The Airport relies on large and complex technology environments to conduct its operations, and may face multiple cybersecurity threats including, but not limited to, hacking, phishing, viruses, malware and other attacks on its computing and other digital networks and systems (collectively, "Systems Technology"). As a recipient and provider of personal, private, or sensitive information, the Airport, and the airlines servicing passengers within, may be the target of cybersecurity incidents that could result in adverse consequences to their Systems Technology, requiring a costly response action to mitigate the consequences.

Climate Change

The State is naturally susceptible to the effects of extreme weather events and natural disasters including floods, droughts, tornados, and hurricanes, which could result in negative economic impacts. Such effects can be exacerbated by a longer-term shift in the climate over several decades (commonly referred to as climate change), including increasing global temperatures and rising sea levels. The City Council adopted the City-led Climate Action and Adaptation Plan ("CAAP") at its October 17, 2019 meeting in response to such potential risks posed by climate change. Within the CAAP, the City aims to prepare for climate risks and impacts through a reduction of its greenhouse gas and carbon emissions by 2050, with a focus toward a less carbon intensive portfolio. Further information related to the CAAP may be found on the City's website at https://www.sanantonio.gov/sustainability/SAClimateReady.

Impact of Boeing 737 Max Grounding

Following the fatal crashes of B-737 MAX aircrafts that are suspected to have been caused by the malfunction of the aircraft's automated flight control system, all B-737 MAX aircrafts were grounded in March 2019. Among North American airlines, Air Canada, American, Southwest, United, and WestJet are being affected. Delta does not operate the B-737 MAX aircraft. The grounding may last several more months while the flight control system software is updated and approved by the FAA and international regulators and pilot training is completed. Deliveries of new MAX aircrafts have been halted until the aircraft is cleared to fly. The delay in new MAX aircraft deliveries may negatively affect the Airport in terms of number of flights able to depart per day, as well as the overall number of passengers that the Airport can accommodate.

Bankruptcy Considerations

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 City on account of services or use of airport facilities provided to the airline prior to bankruptcy. Thus, the City'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.

Passenger Facility Charges

The PFC Act provides that PFCs collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (i.e., the City) imposing the PFCs, except for any handling fee (which currently is $0.11 per PFC) or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for PFC collections separately and to disclose the existence and amount of funds regarded as trust funds in their respective financial statements. The airlines, however, are permitted to commingle PFC collections with other revenues, provided that they are not under bankruptcy protection. The bankruptcy courts have not fully addressed such trust arrangements. Therefore, the City cannot predict how a bankruptcy court might rule on this matter in the event of a bankruptcy filing by one or more of the airlines operating at the Airport. The PFC Act requires an airline in bankruptcy protection to segregate PFC collections from all of its other revenues.

It is possible that the City could be held to be an unsecured creditor with respect to unremitted PFCs held by an airline that has filed for bankruptcy protection. Additionally, the City cannot predict whether an airline operating at the Airport that files for bankruptcy protection would have properly accounted for the PFCs owed to the City or whether the bankruptcy estate would have sufficient moneys to pay the City in full for PFCs owed by such airline.

Regulations and Restrictions Affecting the Airport

The operations of the Airport are highly regulated and are affected by a variety of contractual, statutory and regulatory restrictions and limitations including, without limitation, the provisions of the airline use Agreements, the federal acts authorizing the imposition, collection and use of PFCs and extensive federal legislation and regulations applicable to all airports in the United States. The Airport also has been required to implement enhanced security measures mandated by the FAA, Department of Homeland Security, and Airport management. In the past, actions, rules and policies by such agencies required the Airport to undertake additional capital and equipment expenditures, have affected passenger traffic, or both. In the future, the Airport may be subject to additional laws, rules and regulations adopted by local, State and federal governments and their agencies, which may materially affect the operation or financial condition of the Airport.

It is not possible to predict whether future restrictions or limitations on Airport operations will be imposed, whether future legislation or regulations will affect anticipated federal funding or PFC Revenues for capital projects for the Airport, whether additional requirements will be funded by the federal government or require funding by the City, or whether such restrictions or legislation or regulations would adversely affect Gross Revenues or PFC Revenues.

Competition and Alternate Modes of Transportation and Communication

Austin–Bergstrom International Airport is another airport within close proximity to the Airport that competes with the Airport for passengers and cargo traffic. In addition, the Airport competes with other Texas airports, primarily George Bush Intercontinental Airport and Dallas/Fort Worth International Airport, for international passengers. Competition from these airports may affect passenger and cargo demand at the Airport, which, in turn, may affect fuel consumption at the Airport.

The Airport, however, has taken positive steps to address leakage to its neighboring cities. Overall, domestic retention has increased from 83.4% in FY15 to 87.3% in FY18. Specifically, leakage to Houston airports has dropped from 7% to 5% and Austin has dropped from 8% to 7%. Where Austin and San Antonio have nonstop service to the same markets, the overall average fare difference has been reduced from $12 to $4.94 per a leakage study that was completed in 2018.

There are alternative forms of ground transportation at the Airport and other airports which compete with the Airport for air travelers. Competition could reduce passenger traffic and the demand for renting motor vehicles at the Airport. Alternate forms of ground transportation that compete with rental cars include taxis, buses, shuttle services, and limousines. Various forms of car-sharing and on-demand vehicle services are also becoming increasingly prevalent and popular with the public, and may offer competition that could reduce the demand for car rentals at the Airport. New technologies (such as autonomous vehicles and connected vehicles) and innovative business strategies may continue to occur and may result in further changes in Airport passengers' choice of ground transportation mode. The City cannot predict with certainty what impact these innovations in ground transportation will have over time, or to what extent it will impact non-airline revenues in connection with such new technologies or innovative business strategies. Technological improvements in communication could also reduce the need for business travel.

Health Concerns

Travel restrictions, as well as other public health measures, may be imposed to limit the spread of communicable diseases which may arise. Past outbreaks of "Severe Acute Respiratory Syndrome" or SARS, strains of H1NI influenza, Ebola, and Zika previously occurred, resulting in a temporary but significant decline in airport passenger activity. Future outbreaks or pandemics may lead to a decrease in air traffic, at least for a temporary period, which in turn could cause a decrease in passenger activity at the Airport and a corresponding adverse effect on the ability of some airline users.

Capacity of the National Air Traffic Control System

Demands on the national air traffic control system have, in the past, caused delays and operational restrictions affecting airline schedules and passenger traffic. The FAA is gradually implementing its Next Generation Air Transportation System air traffic management programs to modernize and automate the guidance and communications equipment of the air traffic control system and enhance the use of airspace and runways through improved air navigation aids and procedures. Since 2007, airline traffic delays have decreased because of reduced numbers of aircraft operations (down approximately 15% between 2007 and 2018) but, as airline travel increases in the future, flight delays and restrictions can be expected.

FAA Reauthorization and Federal Funding

In October 2018, the most recent authorization and funding for the FAA was approved under the FAA Reauthorization Act, which reauthorized the FAA for five years through 2023, at a cost of $97 billion (representing the longest funding authorization period for FAA programs since 1982). Over the years, the authorization and funding for the FAA and various components of its operations have not been consistently approved on a long-term basis. In the past, Congress has enacted continuing resolutions which provided temporary funding for the FAA and its programs, and the FAA endured a brief shutdown when a lapse in continuing authority terminated funding for non-essential operations. Failure of Congress to approve legislation reauthorizing the operation authority of the FAA, or adverse changes in the conditions placed on such authority, may have an adverse impact on Airport operations. There can be no assurance that Congress will enact and the President will sign a new comprehensive, long-term FAA reauthorization act when the FAA Reauthorization Act expires. Failure to adopt such legislation could have a material, adverse impact on U.S. aeronautical operations and the Airport, generally, as well as on our sources of federal funds.

Pilot and Mechanic Shortages

Pilot shortages remain an industry-wide issue after Congress changed duty time rules in 2010 to mitigate pilot fatigue, which required airlines to increase pilot staff. Other factors contributing to such shortage include an aging pilot workforce and fewer new pilots coming out of the military. In addition to the pilot shortage, over the next decade, a shortage may also exist in the number of qualified mechanics to maintain each airline's fleet of planes. This potential shortage is also a result of an aging pool of mechanics, a large portion of which are expected to retire in the next decade, and a lack of younger individuals to replace retiring mechanics. A shortage of mechanics could raise the cost of plane maintenance, requiring airlines to increase flight delays and cancellations.

Limitations on Remedies

The Bonds are not subject to acceleration under any circumstances or for any reason, including without limitation on the occurrence or continuance of an event of default. Upon the occurrence or continuation of an event of default, a bondholder would only be entitled to principal and interest payments on the Bonds as they come due.

Under certain circumstances, holders of the Bonds may not be able to pursue certain remedies or enforce covenants contained in the Ordinances. The enforcement of the remedy of mandamus may be difficult and time consuming. No assurance can be given that a mandamus or other legal action to enforce a default under the Ordinance would be successful.

The remedies available under the Ordinances are in many respects dependent upon regulatory and judicial actions that are often subject to discretion and delay. Under existing law, such remedies may not be readily available. In addition, enforcement of such remedies (i) may be subject to general principles of equity which may permit the exercise of judicial discretion, (ii) are subject to the exercise in the future by the State and its agencies and political subdivisions of the police power inherent in the sovereignty of the State, (iii) are subject, in part, to the provisions of the United States Bankruptcy Act and other applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, and (iv) are subject to the exercise by the United States of the powers delegated to it by the federal Constitution. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally that permit the exercise of judicial discretion. For additional information, see "THE BONDS – Defaults and Remedies" herein.

Secondary Market

No assurance can be given concerning the existence of any secondary market in the Bonds or its creation. Thus, purchasers of the Bonds should be prepared, if necessary, to hold their Bonds until their respective maturity dates.

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 has established a written investment policy, which was most recently amended and adopted on September 19, 2019. 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 State law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or otherwise meeting the requirements of the Texas Public Funds Investment Act; (8) certificates of deposit and share certificates that (i) are issued by or through an institution that has its main office or a branch in Texas and (a) are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, (b) are secured as to principal by obligations described in clauses (1) through (7) above, or (c) secured in any other manner and amount provided by law for City deposits, or (ii) certificates of deposit where (a) the funds are invested by the City through a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law, or a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the City appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the City with respect to the certificates of deposit issued for the account of the City; (9) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1), (iii) require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) 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 (7) 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 (7) above and clauses (12) through (15) below, (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated 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; (11) certain bankers' acceptances if the bankers' acceptance (i) has a stated maturity of 270 days or fewer from the date of issuance, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank, and (iv) is accepted by a State or Federal bank, if the short-term obligations of the accepting bank or its holding company (if the accepting bank is the largest subsidiary) are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with (i) a stated maturity of 270 days or less from the date of issuance, and (ii) a rating of at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies, or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds that are (i) registered with and regulated by the United States Securities and Exchange Commission, (ii) provide the City with a prospectus and other information required by the Securities and Exchange Act of 1934, and (iii) comply with Federal Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are (i) registered with the United States Securities and Exchange Commission, (ii) have an average weighted maturity of less than two years, and (iii) either (a) have a duration of one year or more and are invested exclusively in obligations described in this paragraph, or (b) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; (15) investment pools if the City has authorized investment in the particular pool and the pool invests solely in investments permitted by the Texas Public Funds Investment Act, and is continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating by at least one nationally recognized rating service; and (16) guaranteed investment contracts that (i) have a defined termination date, (ii) are secured by obligations which meet the requirements of the Texas Public Funds Investment Act in an amount at least equal to the amount of bond proceeds invested under such contract, and (iii) are pledged to the City and deposited with the City or with a third party selected and approved by the City.

Investment Policies

Under State law, the City is required to invest its funds under 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; and that include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, requirements for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Texas Public Funds Investment Act. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type; (2) preservation and safety of principal; (3) liquidity; (4) marketability of each investment; (5) diversification of the portfolio; and (6) yield.

State law requires the City's investments 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 an investment report to the City Council detailing: (1) the investment position of the City; (2) that all investment officers jointly prepared and signed the report; (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group; (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period; (5) the maturity date of each separately invested asset; (6) the account or fund or pooled fund group for which each individual investment was acquired; and (7) the compliance of the investment portfolio as it relates to: (a) the investment strategy expressed in the City's investment policy, and (b) the Investment Act. No person may invest City funds without express written authority from the City Council.

Additional Provisions

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; (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, requires an interpretation of subjective investment standards, or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority); 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 designated City 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 no-load mutual funds 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 June 30, 2019, investable City funds (unaudited) in the amount of $1,713,744,947 were 89.72% invested in obligations of the United States, or its agencies and instrumentalities, 3.91% invested in a money market mutual fund, 6.27% invested in local government investment pools, and 0.10% 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, 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 100.20% 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.

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 these lawsuits or claims seek substantial damages. The lawsuits or claims include the following:

- 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 (the "TTCA"). Consequently, the amount of $17,050,516 (unaudited) is the reserve for claims liability as of the City's fiscal year ended September 30, 2018. This estimated liability, including an estimate of incurred but not reported claims, is recorded in the Insurance Reserve Fund of the City. Specific litigation status ranges from assertion of potential claims, to filing of lawsuits, to 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, as determined by the date of this document, so as to have a material adverse financial impact upon the City that should be reflected in the financial information of the City included herein.

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

Jimmy Maspero and Regina Maspero, et al. v. City of San Antonio, et al. Plaintiffs allege that on September 19, 2012, Plaintiffs' vehicle was involved in a collision with a vehicle being pursued by a San Antonio Police Department ("SAPD") patrol car causing the death of two of Plaintiffs' children and severe permanent injuries to the remaining Plaintiffs (two children, two adults). The Plaintiffs have asserted a "state-created danger" theory under 42 U.S.C. § 1983 alleging a violation of Plaintiffs' 14th Amendment substantive due process. Plaintiffs are also asserting State law theories of negligence. Plaintiffs seek to recover damages for mental anguish, physical pain, impairment, medical expenses, and the wrongful death of two of their children. Plaintiffs are seeking monetary damages of at least $3 million. This case has been remanded back to State district court. On February 19, 2018, the District Court granted the City's plea to the jurisdiction, dismissing all claims. Plaintiffs' motion for a new trial was denied. Plaintiffs filed an appeal to the Fourth Court of Appeals. On August 28, 2019, the Fourth Court issued its opinion reversing the trial court and remanding the case to the trial court for further proceedings. The City has filed a motion for rehearing en banc.

Estate of Norman Cooper, et al. v. City of San Antonio, et al. SAPD officers were called to a residence on a report of domestic violence. At the scene, Decedent was tased on two separate occasions. Decedent later collapsed and died. Decedent's estate and family members have filed suit against the City and named officers alleging use of excessive force in violation of 42 U.S.C. § 1983. Plaintiffs seek damages in excess of $250,000. Discovery closed on September 1, 2017. This matter is not yet set for trial. The Court granted the City's motion for summary judgment, but denied the officers' motions for summary judgment. The denial of the officers' motions for summary judgment on the issue of excessive force has been appealed to the Fifth Circuit. Briefing has been completed. The Fifth Circuit took this matter on submission on October 9, 2019. Trial on this matter has been stayed.

Elena Scott, Individually and as Representative of the Estate of Antronie Scott v. City of San Antonio, et al./Diane Peppar, et al. v. City of San Antonio, et al. A SAPD officer was attempting to execute an arrest warrant when Plaintiff's Decedent exited his vehicle with an object the officer believed was a weapon. The officer discharged his service weapon, fatally wounding the Decedent. Plaintiffs have filed suit under 42 U.S.C. § 1983 alleging use of excessive force. This case was consolidated with *Diane Peppar v. City of San Antonio*. Diane Peppar is Decedent Antronie Scott's mother. In March 2019, the court granted the City's motion for summary judgment, dismissing all claims against the City. The officer's motion for summary judgment was granted in part but denied as to the claims of excessive force and unreasonable seizure. This matter is set for trial on January 27, 2020.

Rogelio Carlos III, et al. v. Carlos Chavez, et al. SAPD SWAT officers were assisting High Intensity Drug Trafficking Areas ("HIDTA") in the search for a fleeing suspect. Plaintiff was misidentified by the HIDTA officer as being the suspect. The HIDTA officer engaged and attempted to physically apprehend the Plaintiff and was assisted by SAPD SWAT officers. The Plaintiff suffered minor injuries as a result of the arrest, although he later complained of neck and shoulder/arm pain. Several months after the incident, the Plaintiff underwent surgery, during which procedure the Plaintiff was paralyzed. Plaintiff has filed a suit against the City and various officers under 42 U.S.C. § 1983. The Plaintiff has amended its suit to include the physicians involved in the Plaintiff's surgical procedure. Discovery is ongoing and motions for summary judgment have been filed. This case has not been set for trial.

Neka Scarborough Jenkins v. City of San Antonio. Plaintiff's Decedent was driving northbound on Blanco Road and attempted to turn left onto Lockhill Selma at a controlled traffic signal. Plaintiff contends that the traffic signal for her lane of traffic was facing the wrong direction. While making the turn, Decedent was struck by an oncoming vehicle and was killed. Plaintiff claims the City had prior notice but failed to correct the issue within a reasonable period of time. Plaintiff claims the investigation revealed the light was placed too low and was not at the correct height for a traffic signal. This litigation is brought under the TTCA and discovery is ongoing. Under the TTCA, damages are capped at $250,000. This case is not yet set for trial.

Patricia Slack, et al. v. City of San Antonio and Steve Casanova. SAPD officers responded to persons complaining they had been assaulted in front of a nearby residence. The officers went to the address provided by the victims and approached the front door, which was behind a security door made of metal bars. The officers knocked, and the door swung open to the living room, although the security door remained closed. At least three individuals were present in the living room. One individual stood and approached the door while reaching his hand into his waistband. Officer Casanova discharged his weapon. A bullet fired by Officer Casanova grazed one individual and fatally struck a second individual. A suit was brought on behalf of the estate of the deceased, the injured individual and another individual on the scene. Plaintiffs have filed suit under 42 U.S.C. § 1983 alleging use of excessive, deadly force. Discovery is ongoing. No trial date has been set.

Texas Sterling Construction Co. v. City of San Antonio. The City contracted with Plaintiff in a Construction Manager at Risk Contract to build road improvements on Bulverde Road. Plaintiff billed on a unit cost basis and after the City paid all the bills, Texas Sterling Construction Co. wrote complaining it should have been paid for actual costs. They also claim the City caused multiple delays. Plaintiff filed suit for breach of contract and is claiming damages in excess of $250,000. Discovery is ongoing. This case is set for trial on September 14, 2020.

Collective Bargaining Negotiations

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

Collective Bargaining Agreement between the City of San Antonio and the San Antonio Police Officers Association. The City Council approved a collective bargaining agreement with the SAPOA on September 1, 2016, which provides for a term through September 30, 2021.

Collective Bargaining Agreement between the City of San Antonio and the International Association of Fire Fighters, Local 624. The collective bargaining agreement between the City and Local 624 expired September 30, 2014, with evergreen possible through September 30, 2024. The City sought a court-ordered determination that the evergreen clause was unconstitutional. The district and appellate courts did not agree and the Texas Supreme Court declined to hear the City's appeal, effectively ending the lawsuit in 2018. Local 624 agreed to start labor negotiations on February 6, 2019, with the parties invoking the services of a former Texas Supreme Court Justice as a mediator on April 17, 2019. Local 624 then declared impasse on July 2, 2019, and invoked a binding arbitration process recently added to the City Charter that will determine the terms of the collective bargaining agreement. The arbitration hearing is scheduled for early December 2019 with a determination of the labor panel expected in early 2020. The City expects that the terms of the new labor agreement likely would go into effect in fiscal year 2020.

Paid Sick Leave Ordinance and Litigation

Working Texans for Paid Sick Time, a State-wide coalition of grassroots organizations, submitted to the City on May 24, 2018 a petition seeking a referendum on a City ordinance requiring that businesses operating within the City (being those that annually perform 80 hours or more of work within the City) provide mandatory paid sick leave to their employees or be subject to a civil penalty of $500 per violation. Under the proposed ordinance, businesses with 15 or more employees would be required to provide eight days of paid sick leave to each employee; those with less than 15 employees would be required to provide six days of paid sick leave per employee. The City Council voted to adopt the proposed ordinance on August 16, 2018 which eliminated the need for an election on the matter. Plaintiff businesses and the State sued to enjoin implementation. The court approved an order submitted by the parties that moves the implementation date to December 1, 2019. A City Council-appointed Paid Sick Leave Commission reviewed and worked on recommended changes that were approved by City Council on October 3, 2019. A hearing for an injunction delaying the measure was held on November 7, 2019 in Bexar County. A ruling on the injunction is expected by December 1, 2019. The City is preparing for continued litigation and will work to implement and defend the ordinance.

San Antonio Park Police Officers Association Lawsuit

On September 3, 2019, the San Antonio Park Police Officers Association ("PPOA"), the union representing the park and airport officers, sued the City alleging that State law requires that PPOA receive the same pay and benefits as San Antonio police officers. PPOA seeks a declaratory judgment that park and airport officers are entitled to both civil service and collective bargaining rights and benefits bargained for by the San Antonio Police Officers Association. The City will be filing pleadings seeking the dismissal of the suit in November 2019.

Airport Concession

Background. On March 21, 2019, the City Council considered a recommendation to award a concession contract for the San Antonio International Airport to Paradies Lagadere ("Paradies"). The Paradies proposal included a Chick-fil-A fast food concept as part of the overall package. After deliberation the City Council approved a motion to award the contract to Paradies, with the further instruction to replace the Chick-fil-A concept with a different national fast food concept.

FAA Investigation. On May 24, 2019, the FAA Office of Civil Rights sent a letter to the City advising that they were opening an investigation under Title VI of the Civil Rights Act of 1964 into the concession contract based on a complaint of potential religious discrimination. The complainant was not specifically identified in the FAA letter. The City received another letter referring again to a complaint of religious discrimination. On September 10, 2019, the City received requests for information by the FAA related to the March 21, 2019 vote by City Council. The City has retained a law firm that has experience working with the FAA to help respond to and manage the FAA investigation process. Discussions with the FAA Office of Civil Rights are ongoing.

Patrick Van Dohlen et al. v. The City of San Antonio et al. On September 26, 2019 the City was served with a lawsuit brought by five individuals (Patrick Von Dohlen, Brian Greco, Kevin Jason Khattar, Michael Knuffke, and Daniel Petri) against the City and Paradies. The lawsuit alleges that the City Council vote taken on March 21, 2019 violated a newly enacted law by the Texas Legislature in the Texas Government Code, Section 2400.002. The law became effective on September 1, 2019 after the City Council action and states: "[A] governmental entity may not take any adverse action against any person based wholly or partly on the person's membership in, affiliation with, or contribution, donation, or other support provided to a religious organization." Given laws generally may not be enforced retroactively, the City will seek an early resolution of the lawsuit against both the City and Paradies.

Senate Bill 1152

In 2019, the Texas Legislature passed Senate Bill 1152 ("SB 1152") which decreases the amount of compensation that joint cable and phone companies pay for access to City-owned Rights-Of-Way ("ROW"). Wireline Voice Services (Phone) are regulated under Chapter 283, as amended, Texas Local Government Code. Phone providers pay a monthly per-line rate for residential and commercial accounts for access to the City's ROW. Wireline Video Service (Cable) is regulated under Chapter 66, as amended, Texas Utilities Code. Cable providers pay a franchise fee of 5% of gross revenue as compensation for the ROW access. Under SB 1152, companies providing both cable and phone service would pay the greater of their cable franchise fee or phone access line charges, determined on a State wide basis, but not both. SB 1152 becomes effective September 1, 2019. The City estimates that the financial impact of SB 1152 will be approximately $7 million less in General Fund revenue.

Texas Property Tax Reform and Transparency Act (SB2)

Senate Bill 2, known as the Texas Property Tax Reform and Transparency Act ("SB2" or the "Tax Act"), was adopted in the 86th Regular Texas Legislative Session and amends portions of the Texas Tax Code relating to the City's ability to increase its ad valorem tax rate in a given year. Effective January 1, 2020 and beginning with the 2020 tax year, the City must calculate its annual tax rates in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the City and the county tax assessor-collector for each county in which all or part of the City is located. A maintenance and operations tax rate that will produce an amount greater than the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted) multiplied by 1.035 requires voter approval prior to effectiveness. Prior to the provisions of SB2, this "multiplier" was 1.080 and a maintenance and operations tax rate in excess of this amount triggered a right to taxpayer petition for an election prior to effectiveness of the new tax rate (rather than an absolute requirement for an election concerning the adopted tax rate, as is now required under SB2).

Though none of the Bonds are secured by or payable from the City's maintenance and operations tax collections, the revenues derived from its maintenance and operations tax collections fund many City services. The Tax Act restricts the City's ability to increase revenues derived from its maintenance and operations tax collections on an annual basis, which could impact the City's ability to provide new or additional City services or to continue to provide existing City services in the face of rising costs for those or competing City services. The City makes no statement or predictions concerning the impact or potential impact of the provisions of the Tax Act on its continued ability to provide City services that attract visitors and residents to the City and what impact that may have, if any at all, on prospective Airport usage.

CITY PENSION AND OTHER POSTEMPLOYMENT RETIREMENT BENEFIT LIABILITIES

An actuarial valuation is conducted annually on each of the City's pension benefit plans (collectively, the "City Pension Benefits Plans"), which include the Fire and Police Pension Fund (the "Fund") and the Texas Municipal Retirement System ("TMRS"). 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 position.

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 active police officers, two active firefighters, and two uniformed retirees.

The Fund's actuaries calculated the City's Net Pension Liability ("NPL") which is the plan's total pension liability calculated with the Entry Age Normal actuarial funding method, less the plan's fiduciary net position; and the Fiduciary Net Position as a percentage of the Total Pension Liability ("TPL"). The NPL for the Fund as of December 31, 2018 was $741.12 million with a Fund Net Position as a percentage of the TPL of 80.27%.

The Fund's annual required contribution for FY 2018 is determined by pension law. Significant assumptions included in the December 31, 2018 actuarial valuation were (a) 7.25% investment rate of return and (b) projected annual salary increase of 3.00%. The actuarial valuation utilizes a technique that smooths the effects of short-term volatility in the market value of investments over a five-year period.

Texas Municipal Retirement System

TMRS' NPL as of December 31, 2018 was $581.92 million with a Fiduciary Net Position as a percentage of the TPL of 71.02%.

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 1947 to provide retirement and disability benefits to municipal employees. TMRS, as of December 31, 2018, is the agent for 887 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.

In the FY 2019 Budget, City Council adopted a one-time annuity increase that was 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% 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. The provision for the one-time annuity contribution rate was 11.66%, effective January 1, 2019.

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 five 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. The contribution rate for the City's employees is 6% and the matching percent was 11.66% for calendar year 2019, both as adopted by the governing body of the City. Under the State law governing TMRS, the employer's contribution rates are annually determined by the actuary, using the Entry Age Normal 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. 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, and securities transactions are reported on a trade-date basis. Fixed income securities are valued by pricing vendors that utilize quoted market prices, broker prices, or other valuation methodologies. Fair values of the equity index funds (commingled funds) are determined based on the funds' net asset values at the date of valuation. Short-term investment funds and repurchase agreements are reported at cost, which approximates market value.

Membership as of the Valuation Date	12/31/2018
Number of:	
Active Members	7,028
Retirees and beneficiaries	4,845
Inactive members	2,995
Total	14,868

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 is available on TMRS' website at www.TMRS.com. The Summary of Actuarial Liabilities and Funding Progress are located in the Actuarial Section of the report, and it presents 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 most retired employees with certain health benefits under two postemployment retirement benefit programs. Pursuant to GASB Statement No. 75, 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. In addition to the disclosure provided in Note 10 of the City's CAFR, the following information is provided for each of the City's other postemployment retirement benefit programs.

Civilian and pre-October 1, 1989 uniformed retirees are covered under the City's postemployment benefit programs. The first program offered is for pre-Medicare eligible retirees. As of September 30, 2018, there were 393 retirees and surviving spouses participating in this program. These retirees are covered under a program comprised of two self-funded PPO health plans currently administered by Blue Cross Blue Shield of Texas. These plans may be amended at any time with approval from the City Council.

The second program is for Medicare eligible retirees and surviving spouses. These retirees and surviving spouses may participate in one of two Medicare Advantage PPO Plans or the Medicare Part D Drug Plan. All retirees and surviving spouses are required to apply for and maintain Medicare Parts A & B coverage once they reach age 65 or otherwise become eligible for Medicare in order to participate in this option. Of the current 1,143 participating Medicare retirees and surviving spouses, 147 participate in a fully insured Medicare Advantage PPO Plus plan, 993 participate in a Medicare Advantage PPO plan, and three participate in the Medicare Part D Drug Plan.

These programs are funded on a pay-as-you-go basis with an aggregate sharing of premium costs based on the following targets: 67% by the City and 33% 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% of the pay-as-you-go contributions to the program and the City will contribute the remaining 50%. The ability to participate in the program remains based on meeting retirement criteria for the TMRS Pension Plan.

A dental and vision insurance benefit is made available to eligible retired employees on a fully contributory basis. Since retirees pay the full premium for dental and vision benefits, there is no liability associated with either benefit.

Employees must be a minimum of age 60 and have at least five years of service, or have at least 20 years of service at any age to be eligible for retiree benefits.

Employees who qualify for a disability pension under TMRS rules are also eligible to receive the retiree medical benefit under this plan. There is no minimum length of service or age required to be eligible.

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 September 30, 2018, for fiscal year ended September 30, 2018, with the net OPEB liability reported at $306.1 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 (the "Health Fund Board") that meets on a monthly basis. The Health Fund 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 City is the only participating employer in the Plan.

The Health Fund provides postretirement health benefits for uniform employees of the fire and police departments who become eligible retirees, and their spouses. Eligible retirees are those who retire after October 1, 1989. Eligible spouses are spouses at the time of retirement of the eligible retirees and either remain married to or survive the eligible retiree. In addition, eligible spouses include the surviving spouses of active members whose death was duty related or who died while eligible for retirement. Retirement eligibility is according to the provisions of the Fire and Police Pension Fund, San Antonio, which requires 20 or more years of service after completing the required training to be certified.

The health benefits are indemnity style coverage with a maximum annual deductible per individual ($737 in-network) and maximum out-of-pocket payments per individual ($2,798 in-network). After age 65, the benefits are coordinated with Medicare. The maximum deductible and out-of-pocket payments are indexed according to the annual increase in the medical care category of the CPI-U.

Since its inception, the Health Fund has been funded primarily by contributions from the City and active firefighters and police officers, as part of the compensation for services rendered by members, and by contributions made by retirees for their dependents. As of the January 1, 2019 valuation date, the contributions required by the City were 11.37% of average covered pay of the combined fire and police departments for the City's fiscal year 2018-2019. For the active fire and police employees, the contributions required were 5.69% of the average covered pay for the City's fiscal year 2018-2019. Based on the January 1, 2018 actuarial valuation, the rates will be 12.51% and 6.26% of average coverage pay for the fiscal year 2019-2020 for the City and the employees, respectively. Based on the January 1, 2019 actuarial valuation, the rates will be 13.00% and 6.50% for the City's fiscal year 2020-2021 for the City and the employees, respectively.

Ultimately, the funding policy also depends upon the total return of the Fund's assets, which varies from year to year. Investment policy decisions are established and maintained by the Board of Trustees. The board selects and employs investment managers with the advice of their investment consultant who is completely independent of the investment managers. The measurement of the investment performance is net of investment-related expenses, reflecting the effect of the timing of the contributions received and the benefits paid during the year.

Membership in the Plan consisted of the following at December 31, 2018:

Active members	4,022
Inactive members currently receiving benefits	3,853
Inactive members entitled to but not yet receiving benefits	-
Total	7,875

The total OPEB liability in the January 1, 2019 actuarial valuation was determined using the following assumptions:

Inflation	3.00%	
Salary increases	3.00%	plus merit and promotion increases that vary by age and service
Discount Rate	7.25%	
Health benefit costs trend rates	7.50%	for 2020 decreasing 0.5% per year to an ultimate rate of 4.5% for 2026 and beyond

In order to have an adequate contribution arrangement, contributions must be made that are sufficient to pay the plan's normal cost and to amortize the plan's unfunded actuarial accrued liability (UAAL) over 30 years. The total level required contribution rate to satisfy this objective of paying the normal cost and amortizing the UAAL in 30 years is 19.40% based on the January 1, 2019 actuarial valuation.

Since the contribution rates of 17.06% through September 2019 and 18.77% for the City's fiscal year 2020 are less than 19.40%, future changes (increases in contributions and reductions in benefits) are expected to be necessary. Both the City and the fire/police contribution rates would increase up to 10% each year until the Health Fund has an amortization period of 30 years. Additionally, benefit reductions began on January 1, 2019, and continues in 2020, resulting from imposed increases of up to 10% each year in the maximum deductible and in the maximum out-of-pocket payments. The Health Fund's Net OPEB as of December 31, 2018 was $627.5 million with a funded ratio of 36.7%.

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 $41.1 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 Health Fund's assumed investment return of 7.25% or other actuarial gains.

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 9 and 10 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 net OPEB liability. Investors should carefully review this information and the information contained herein prior to investing in the Bonds.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

General

The following discussion is a summary of certain expected material federal income tax consequences of the purchase, ownership and disposition of the Bonds and is based on the Internal Revenue Code of 1986 (the "Code"), the regulations promulgated thereunder, published rulings and pronouncements of the Internal Revenue Service ("IRS") and court decisions currently in effect. There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS, has been, or is expected to be, sought on the issues discussed herein. Any subsequent changes or interpretations may apply retroactively and could affect the opinion and summary of federal income tax consequences discussed herein.

The following discussion is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on, particular holders of the Bonds and does not address U.S. federal gift or estate tax or (as otherwise stated herein) the alternative minimum tax, state, local or other tax consequences. This summary does not address special classes of taxpayers (such as partnerships, or other pass-thru entities treated as a partnerships for U.S. federal income tax purposes, S corporations, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate investment trusts, grantor trusts, former citizens of the U.S., broker-dealers, traders in securities and tax-exempt organizations, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be subject to branch profits tax or personal holding company provisions of the Code or taxpayers qualifying for the health insurance premium assistance credit) that are subject to special treatment under U.S. federal income tax laws, or persons that hold Bonds as a hedge against, or that are hedged against, currency risk or that are part of hedge, straddle, conversion or other integrated transaction, or persons whose functional currency is not the "U.S. dollar". This summary is further limited to investors who will hold the Bonds as "capital assets" (generally, property held for investment) within the meaning of section 1221 of the Code. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

As used herein, the term "U.S. Holder" means a beneficial owner of a Bond who or which is: (i) an individual citizen or resident of the United States, (ii) a corporation or partnership created or organized under the laws of the United States or any political subdivision thereof or therein, (iii) an estate, the income of which is subject to U.S. federal income tax regardless of the source, or (iv) a trust, if (a) a court within the U.S. is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes. As used herein, the term "Non-U.S. Holder" means a beneficial owner of a Bond that is not a U.S. Holder.

THIS SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF THE U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF BONDS IN LIGHT OF THE HOLDER'S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE HOLDERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS BEFORE DETERMINING WHETHER TO PURCHASE BONDS. THE FOLLOWING DISCUSSION IS NOT INTENDED OR WRITTEN TO BE USED TO AVOID PENALTIES THAT MIGHT BE IMPOSED ON THE TAXPAYER IN CONNECTION WITH THE MATTERS DISCUSSED THEREIN. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF RECENTLY ENACTED LEGISLATION OR THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE BONDS UNDER APPLICABLE STATE OR LOCAL LAWS, OR ANY OTHER TAX CONSEQUENCE.

FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO NON-U.S. HOLDERS.

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to withholding under sections 1471 through 1474 or backup withholding under Section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the withholding or backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

2019A Bonds

Opinion

On the date of initial delivery of the 2019A GARBs and the 2019A PFC Bonds (referred to collectively herein as the "2019A Bonds"), McCall, Parkhurst & Horton L.L.P. and LM Tatum, PLLC, as Co-Bond Counsel to the City, will render their opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), interest on the 2019A 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 Code as a "substantial user" of the projects being refinanced with proceeds of the 2019A Bonds or a "related person" to such user. Except as stated above, Co-Bond Counsel to the City will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the 2019A Bonds. See APPENDIX E - Forms of Co-Bond Counsel Opinions.

In rendering their opinion, Co-Bond Counsel to the City will rely upon (a) certain information and representations of the City, including information and representations contained in the City's federal tax certificate related to the 2019A Bonds, and (b) covenants of the City contained in the 2019A Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the 2019A Bonds and the property refinanced therewith. Failure by the City to observe the aforementioned representations or covenants could cause the interest on the 2019A Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the 2019A Bonds in order for interest on the 2019A Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the 2019A Bonds to be included in gross income retroactively to the date of issuance of the 2019A Bonds. The opinion of Co-Bond Counsel to the City is conditioned on compliance by the City with such requirements, and Co-Bond Counsel to the City have not been retained to monitor compliance with these requirements subsequent to the issuance of the 2019A Bonds.

Co-Bond Counsel's opinion regarding the 2019A Bonds represents their legal judgment based upon their review of Existing Law and the reliance on the aforementioned information, representations and covenants. Co-Bond Counsel's opinion related to the 2019A Bonds is 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 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 2019A Bonds.

A ruling was not sought from the IRS by the City with respect to the 2019A Bonds or property financed with the proceeds of the 2019A Bonds. No assurances can be given as to whether or not the IRS will commence an audit of the 2019A Bonds, or as to whether the IRS would agree with the opinion of Co-Bond Counsel. If an audit is commenced, under current procedures the IRS is likely to treat the City as the taxpayer and the holders of the 2019A Bonds may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the 2019A 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 (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under existing law, any U.S. Holder who has purchased a 2019A Bond as an 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 U.S. Holder in excess of the basis of such Original Issue Discount Bond in the hands of such U.S. Holder (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

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

All U.S. Holders 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

Interest on the 2019A 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.

Under section 6012 of the Code, U.S. Holders of tax-exempt obligations, such as the 2019A 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 2019A 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.

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 Tax-Exempt Bonds under federal or state law and could affect the market price or marketability of the Tax-Exempt 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.

Taxable 2019B Bonds

Certain U.S. Federal Income Tax Consequences to U.S. Holders

Periodic Interest Payments and Original Issue Discount. The Taxable 2019B GARBs and the Taxable 2019B PFC Bonds (collectively referred to herein as the "Taxable 2019B Bonds") are not obligations described in Section 103(a) of the Code. Accordingly, the stated interest paid on the Taxable 2019B Bonds or original issue discount, if any, accruing on the Taxable 2019B Bonds will be includable in "gross income" within the meaning of section 61 of the Code of each owner thereof and be subject to federal income taxation when received or accrued, depending upon the tax accounting method applicable to such owner.

Disposition of Taxable 2019B Bonds. An owner will recognize gain or loss on the redemption, sale, exchange, or other disposition of a Bond equal to the difference between the redemption or sale price (exclusive of any amount paid for accrued interest) and the owner's tax basis in the Taxable 2019B Bonds. Generally, a U.S. Holder's tax basis in the Taxable 2019B Bonds will be the owner's initial cost, increased by income reported by such U.S. Holder, including original issue discount and market discount income, and reduced, but not below zero, by any amortized premium. Any gain or loss generally will be a capital gain or loss and either will be long-term or short-term depending on whether the Taxable 2019B Bonds has been held for more than one year.

Defeasance of the Taxable 2019B Bonds. Defeasance of any Taxable 2019B Bond may result in a reissuance thereof, for U.S. federal income tax purposes, in which event a U.S. Holder will recognize taxable gain or loss as described above.

State, Local and Other Tax Consequences. Investors should consult their own tax advisors concerning the tax implications of holding and disposing of the Taxable 2019B Bonds under applicable state or local laws, or any other tax consequence, including the application of gift and estate taxes. Certain individuals, estates, or trusts may be subject to a 3.8% surtax on all or a portion of the taxable interest that is paid on the Taxable 2019B Bonds.

PROSPECTIVE PURCHASERS OF THE TAXABLE 2019B BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE FOREGOING MATTERS.

Certain U.S. Federal Income Tax Consequences to Non-U.S. Holders

A Non-U.S. Holder that is not subject to U.S. federal income tax as a result of any direct or indirect connection to the U.S. in addition to its ownership of a Taxable 2019B Bond, will not be subject to U.S. federal income or withholding tax in respect of such Taxable 2019B Bond, provided that such Non-U.S. Holder complies, to the extent necessary, with identification requirements including delivery of a signed statement under penalties of perjury, certifying that such Non-U.S. Holder is not a U.S. person and providing the name and address of such Non-U.S. Holder. Absent such exemption, payments of interest, including any amounts paid or accrued in respect of accrued original issue discount, may be subject to withholding taxes, subject to reduction under any applicable tax treaty. Non-U.S. Holders are urged to consult their own tax advisors regarding the ownership, sale or other disposition of a Taxable 2019B Bond.

The foregoing rules will not apply to exempt a U.S. shareholder of a controlled foreign corporation from taxation on the U.S. shareholder's allocable portion of the interest income received by the controlled foreign corporation.

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); 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.

It is the obligation of the Underwriters to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The City has agreed to cooperate, at the Underwriters' written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the Underwriters shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended), provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) requires that the 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 "CERTAIN FEDERAL INCOME TAX CONSIDERATIONS," the interest on the 2019A GARBs and the 2019A 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 subsections "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," "CERTAIN FEDERAL INCOME TAX CONSIDERATIONS," "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 have not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy 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 to Co-Bond Counsel for services rendered in connection with the issuance of the Bonds are not 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, Norton Rose Fulbright US LLP and Kassahn & Ortiz, P.C., both of San Antonio, Texas, whose fees are contingent on the issuance and delivery of the Bonds.

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 do not represent any of the Underwriters in connection with the issuance of the Bonds.

Underwriters' Co-Counsel represent 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, Moody's, and S&P have rated the 2019 GARBs "A+", "A1", and "A+", respectively, and have rated the 2019 PFC Bonds "A", "A2", and "A", respectively. An explanation of the significance of such ratings may be obtained from Fitch, Moody's, and S&P. The respective ratings of the Bonds by Fitch, Moody's, and S&P reflect 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. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time. There is no assurance that any rating will continue for any given period of time, or that a rating will not be revised downward or withdrawn entirely if, in the judgment of the applicable rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating 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 SEC Rule 25c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited 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

The City has agreed to file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (and not more than ten business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701- TEB), or other material notices or determinations with respect to the federal income tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) obligation calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material; (15) incurrence of a Financial Obligation of the City (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such Financial Obligation of the City, any of which reflect financial difficulties. None of the Bonds nor the Ordinances make any provision for credit enhancement or liquidity enhancement. In the Ordinances, the City adopted policies and procedures to ensure timely compliance with its continuing disclosure undertakings. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to the MSRB.

For these purposes, (a) any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City, and (b) the City intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

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.

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

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell the Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (i) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment, or (ii) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that such provision or repeal would not have prevented an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

During the prior five years, the City has complied in all material respects with continuing disclosure agreements made by it in accordance with the Rule. For additional information relating to the City's continuing disclosure filing history, see www.emma.msrb.org.

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 with respect to the Advance Refunded GARBs and the Advance Refunded PFC Bonds was examined by Robert Thomas CPA, LLC, 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 2019B GARBs and the 2019B PFC 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 Funds, will be sufficient to pay, when due, the principal and interest requirements of the Advance Refunded GARBs and the Advance Refunded PFC Bonds.

FORWARD-LOOKING STATEMENTS; INFORMATION FROM ONLINE SOURCES

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

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently 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.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, the Rule.

CO-FINANCIAL ADVISORS

FHN Financial Municipal Advisors, a division of First Horizon Bank, and Hilltop Securities, Inc. (the "Co-Financial Advisors") are employed 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 services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds.

On November 4, 2019 First Horizon Bank and IberiaBank announced their intention to enter into a merger, pending regulatory approval, creating a leading regional financial services company. The new company will retain the First Horizon name and will have its headquarters in Memphis, TN, while maintaining a significant operating presence in all of the markets in which both companies operate today. The transaction is expected to be completed in the second quarter of 2020, following the satisfaction of closing conditions, including approval by shareholders of both companies. Until all conditions including regulatory approvals are provided, First Horizon and IberiaBank will continue to be separate, independent companies, and until transaction closing, both companies will operate as they do today.

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

The Co-Financial Advisors have reviewed the information in the Official Statement in accordance with 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.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the 2019A GARBs from the City at a purchase price of $56,075,809.33, which represents the par amount of the 2019A GARBs, plus a reoffering premium of $9,012,101.70, less an Underwriters' discount of $191,292.37, and no accrued interest.

The Underwriters also have agreed, subject to certain conditions, to purchase the Taxable 2019B GARBs from the City at a purchase price of $36,117,822.46, which represents the par amount of the Taxable 2019B GARBs, less an Underwriters' discount of $162,177.54, and no accrued interest.

The Underwriters also have agreed, subject to certain conditions, to purchase the 2019A PFC Bonds from the City at a purchase price of $74,533,073.84, which represents the par amount of the 2019A PFC Bonds, plus a reoffering premium of $11,379,642.85 less an Underwriters' discount of $251,569.01, and no accrued interest.

The Underwriters also have agreed, subject to certain conditions, to purchase the Taxable 2019B PFC Bonds from the City at a purchase price of $31,395,229.33, which represents the par amount of the Taxable 2019B PFC Bonds, less an Underwriters' discount of $139,770.67, and no accrued interest.

The Underwriters will be obligated to purchase all of a Series of Bonds if any Bonds of such Series are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing, and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the City for which they received or will receive customary fees and expenses.

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

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.

CERTIFICATION OF THE OFFICIAL STATEMENT

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

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/ Ron Nirenberg
Mayor, City of San Antonio

ATTEST:

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

* * *

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 2007					
	7/1/2020	5.250%	3,215,000.00	1/1/2020	100.000
	7/1/2021	5.250%	3,385,000.00	1/1/2020	100.000
	7/1/2022	5.250%	3,565,000.00	1/1/2020	100.000
	7/1/2023	5.250%	3,750,000.00	1/1/2020	100.000
	7/1/2024	4.950%	3,945,000.00	1/1/2020	100.000
	7/1/2025	5.000%	4,140,000.00	1/1/2020	100.000
	7/1/2027*	5.250%	8,925,000.00	1/1/2020	100.000
	7/1/2032*	5.250%	26,745,000.00	1/1/2020	100.000
TOTAL			57,670,000.00		

Series	Maturity Date	Interest Rate (%)	Par Amount ($)	Redemption Date	Redemption Price (%)
Airport System Revenue Improvement Bonds, Series 2010A					
	7/1/2021	4.000%	975,000.00	7/1/2020	100.000
	7/1/2022	4.250%	1,015,000.00	7/1/2020	100.000
	7/1/2023	4.250%	1,060,000.00	7/1/2020	100.000
	7/1/2024	4.375%	1,105,000.00	7/1/2020	100.000
	7/1/2025	4.500%	1,155,000.00	7/1/2020	100.000
	7/1/2026	5.000%	1,205,000.00	7/1/2020	100.000
	7/1/2027	5.000%	1,265,000.00	7/1/2020	100.000
	7/1/2028	5.000%	1,330,000.00	7/1/2020	100.000
	7/1/2029	5.000%	1,395,000.00	7/1/2020	100.000
	7/1/2030	5.000%	1,465,000.00	7/1/2020	100.000
	7/1/2035*	5.250%	12,120,000.00	7/1/2020	100.000
	7/1/2040*	5.250%	12,080,000.00	7/1/2020	100.000
TOTAL			36,170,000.00		

* Term Bonds

SCHEDULE OF REFUNDED OBLIGATIONS (Continued)

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 2005					
	7/1/2020	5.250%	1,575,000.00	1/1/2020	100.000
	7/1/2021	5.250%	1,660,000.00	1/1/2020	100.000
	7/1/2022	5.250%	1,745,000.00	1/1/2020	100.000
	7/1/2023	5.250%	1,840,000.00	1/1/2020	100.000
	7/1/2024	5.250%	1,935,000.00	1/1/2020	100.000
	7/1/2025	5.250%	2,035,000.00	1/1/2020	100.000
	7/1/2030*	4.625%	11,760,000.00	1/1/2020	100.000
TOTAL			22,550,000.00		

Series	Maturity Date	Interest Rate (%)	Par Amount ($)	Redemption Date	Redemption Price (%)
Passenger Facility Charge & Subordinate Lien Airport System Revenue Improvement Bonds, Series 2007					
	7/1/2020	5.250%	2,775,000.00	1/1/2020	100.000
	7/1/2021	5.250%	2,920,000.00	1/1/2020	100.000
	7/1/2023*	5.250%	6,305,000.00	1/1/2020	100.000
	7/1/2025*	5.250%	6,985,000.00	1/1/2020	100.000
	7/1/2027*	5.250%	7,740,000.00	1/1/2020	100.000
	7/1/2032*	5.000%	23,075,000.00	1/1/2020	100.000
TOTAL			49,800,000.00		

* Term Bonds

SCHEDULE OF REFUNDED OBLIGATIONS (Continued)

Series	Maturity Date	Interest Rate (%)	Par Amount ($)	Redemption Date	Redemption Price (%)
Passenger Facility Charge & Subordinate Lien Airport System Revenue Improvement Bonds, Series 2010					
	7/1/2021	4.250%	910,000.00	7/1/2020	100.000
	7/1/2022	4.125%	950,000.00	7/1/2020	100.000
	7/1/2023	4.250%	990,000.00	7/1/2020	100.000
	7/1/2024	4.375%	1,030,000.00	7/1/2020	100.000
	7/1/2025	4.500%	1,075,000.00	7/1/2020	100.000
	7/1/2026	4.625%	1,125,000.00	7/1/2020	100.000
	7/1/2027	4.625%	1,175,000.00	7/1/2020	100.000
	7/1/2028	5.000%	1,230,000.00	7/1/2020	100.000
	7/1/2029	5.000%	1,290,000.00	7/1/2020	100.000
	7/1/2030	5.250%	1,355,000.00	7/1/2020	100.000
	7/1/2035*	5.250%	7,925,000.00	7/1/2020	100.000
	7/1/2040*	5.375%	10,260,000.00	7/1/2020	100.000
TOTAL			29,315,000.00		

* Term Bonds

This page is intentionally left blank.

APPENDIX A

CITY OF SAN ANTONIO, TEXAS
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

This page is intentionally left blank.

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

The City's Information Technology Services Department has estimated the City's population to be 1,507,192 in 2019. The U.S. Census Bureau ranks the City as the second largest in the State of Texas (the "State") and the seventh largest in the United States ("U.S.").

The City is the county seat of Bexar County. Bexar County had a population of 1,714,773 according to the 2010 Census. The City's Information Technology Services Department has estimated Bexar County's population to be 1,960,415 and the San Antonio-New Braunfels Metropolitan Statistical Area ("MSA") population to be 2,470,471 in 2019. The City is located in south central Texas approximately 80 miles south of the State capital of Austin, 165 miles northwest of the Gulf of Mexico, and approximately 150 miles from the U.S./Mexico border cities of Del Rio, Eagle Pass, and Laredo.

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

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

[1] Data for 1920-1990 has been restated to the redefined eight-county MSA from the original four-county MSA.
[2] As of June 2003, the U.S. Office of Management and Budget redefined the MSA by increasing the number of counties from four to eight: Atascosa, Bandera, Kendall, and Medina Counties were added to its mainstays of Bexar, Comal, Guadalupe, and Wilson Counties. (The 2000 figure reflects the new 2003 redefined eight-county area.) As of December 2009, New Braunfels, Texas qualified as a new principal city of the San Antonio MSA, and the MSA was re-titled San Antonio-New Braunfels MSA.
[3] Provided by the 2010 Decennial Census.

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

Area and Topography

The area of the City has increased through numerous annexations and now contains approximately 515 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 788.68 feet above mean sea level.

Annexation Process

Through full-purpose, limited-purpose, and annexations requested by property owner (commonly referred to as voluntary annexations), the City of San Antonio has grown from its original area of 36 square miles in the 1940s to its current size of approximately 515 square miles. San Antonio has a net taxable assessed value of $114.7 billion in tax year 2018.

2019 Annexations and Municipal Boundary Adjustment

As allowed by 2017 changes to the State annexation law, the City Council ordered a special annexation election on November 6, 2018 for two areas within five miles of the boundary of the Camp Bullis and Camp Stanley military bases (22.39 square miles) and the Lackland Air Force Base and Medina Training Annex (20.27 square miles), in order to protect the missions of military installations within San Antonio's Extraterritorial Jurisdiction ("ETJ"). Both measures were defeated at this election. As a result, these areas will remain within the City's ETJ outside of the City limits and will be regulated per land use according to the most recent military joint land use study. Since the election, the City has developed military protection area land use regulations which were adopted on September 19, 2019.

During the 2019 fiscal year, three voluntary annexations, totaling 252.2 acres, were completed. Another voluntary annexation was completed on June 20, 2019, which added 124.405 acres to the City limits on the effective date of July 1, 2019. Three additional voluntary annexations were completed in August 2019, which added another 205.25 acres to the City limits, bringing the total area to approximately 515 square miles.

In March 2017, the cities of San Antonio and Converse mutually approved an interlocal agreement that would culminate with the annexation by Converse of approximately 12 square miles of ETJ released by San Antonio and a transfer to Converse of approximately 3.6 square miles of San Antonio's corporate area through boundary adjustments, over the course of 17 years. The first phase of the program was completed; however, the newly passed annexation law affects the terms of the agreement; hence the entire agreement is being reviewed and will be renegotiated in the future.

Currently, the City is in the process of updating its Annexation and Growth Policy which will provide new growth management strategies and evaluation criteria to manage growth and development issues within its ETJ. These policies will conform to newly passed Tier 2 annexation provisions and the goals of the City's SA Tomorrow Comprehensive Plan.

City Charter

The City is a "Home Rule Municipality" that operates pursuant to the City Charter, which was adopted on October 2, 1951, became effective on January 1, 1952, and has been amended from time to time by election of the City's electorate (most recently, at an election held on November 6, 2018), whereby, subject only to the limitations imposed by the Texas Constitution, Texas statutes, and the City Charter, all powers of the City are vested in an 11-member City Council which enacts legislation, adopts budgets, and determines policies. The City Charter provides for a Council-Manager form of government with ten council members elected from single-member districts, and the Mayor elected at-large, each serving two-year terms, limited to four full terms of office as required by the City Charter. The Office of the Mayor is considered a separate office. All members of the City Council stand for election at the same time in odd-numbered years. The City Council appoints a City Manager who administers the government of the City, and serves as the City's chief administrative officer. The City Manager serves at the pleasure of City Council, limited to a term of eight years.

The City may amend its City Charter not more frequently than two full calendar years between amendments (and which amendments must be approved by popular vote). Since its adoption, the City Charter has been amended on 10 separate occasions including: November 1974, January 1977, May 1991, May 1997, November 2001, May 2004, November 2008, May 2012, May 2015, and November 2018. City Charter elections must be held on a uniform election date (occurring in May and November in each year).

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, debt 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 19-generating unit electric system and the gas system that serves the San Antonio area. CPS' operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. As specified in the City ordinances authorizing the issuance of its system debt, 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, 2018 were $371,136,348. (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 27th 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, 2018 were $18,182,361. (See "San Antonio Water System" herein.)

Economic Factors

The City facilitates a favorable business environment that supports economic diversification and growth. San Antonio's economic base is comprised of a variety of industries, including healthcare and bioscience, aerospace, information technology and cybersecurity, advanced manufacturing, new energy, and financial services all with growing international trade. Support for these economic activities is demonstrated through the City's commitment to ongoing infrastructure improvements and development, and investment in a growing and dedicated workforce. This commitment, along with the City's continued status as one of the top leisure and convention destinations in the country, supports a strong and growing economy.

Traditional economic growth indicators are charting positively for San Antonio. Population in the MSA grew by 43,762 between 2017 and 2018 to 2.5 million. GDP also grew by $9 billion between 2016 and 2017 to $129 billion. San Antonio's unemployment rate of 3.0% as of September 2019 fares well when compared to the State at 3.3% and the nation at 3.3%. San Antonio experienced a 2.6% annual job growth rate between 2018 and 2019, with total nonfarm employment in the San Antonio-New Braunfels MSA for September 2019 increasing to 1,086,400.

The City's Economic Development Department ("EDD") seeks to promote inclusive growth through strategic investments and partnerships. All full-time employees associated with a project receiving an economic incentive from the City must earn at least $12.38 per hour, which is considered the poverty level for a family of four by the U.S. Department of Health and Human Services. In addition, at least 70% of all full-time employees must meet the all-industry wage within one year of the execution of an incentive agreement with the City. The all-industry wage is currently $16.94 and is determined by the Bureau of Labor Statistics by conducting an Occupational Employment Survey in the San Antonio Metropolitan Statistical Area. The City obtains this data from the Texas Workforce Commission on an annual basis. These wage standards are intended to drive an incremental increase in wages in San Antonio.

The San Antonio Economic Development Corporation ("SAEDC") was established by the City to foster the commercialization of intellectual property in San Antonio through direct equity investment in projects. This economic development strategy seeks to realize a direct return on investment back to the City. By making equity investments in later stage companies or key entrepreneurs with proven track records, the City supports commercialization of intellectual property in San Antonio, creating more jobs, investments, and entrepreneurs.

Healthcare and Bioscience

According to the Biosciences Economic Impact Study, a 2018 Economic Impact Study commissioned by the San Antonio Chamber of Commerce, the economic impact from this industry sector totaled approximately $30.6 billion in 2017 measured conservatively, and $40.2 billion by a more comprehensive estimate. The industry was composed of 182,112 jobs in 2017, meaning that more than one of every six employees in San Antonio works in the healthcare and bioscience industry. Since 2009, the healthcare and bioscience industry has added 40,899 net new jobs, an increase of 29%.

Central to the healthcare and bioscience industry is the University of Texas Health Science Center at San Antonio ("UT Health"), located on more than 100 acres in the heart of the medical center. A total of 4,372 students (including residents and fellows) are enrolled in UT Health's five schools. UT Health employs approximately 2,092 faculty and 4,902 staff with a total annual operating budget of approximately $1.4 billion, supporting six campuses in San Antonio, Laredo, Harlingen, and Edinburg. UT Health is one of the country's leading health sciences universities, and ranks in the top 3% of all institutions worldwide receiving federal funding from the National Institutes of Health.

Brooke Army Medical Center ("BAMC") contains the largest inpatient medical facility in the Department of Defense ("DoD"), the only DoD Burn Center, and the only DoD Level 1 Trauma Center in the U.S. Wilford Hall Ambulatory Surgical Center ("WHASC") at Joint Base San Antonio-Lackland is the largest outpatient ambulatory surgical center in the DoD with more than 29 sub-specialties and 30 credited graduate medical education training programs. The facility provides primary and specialty care; outpatient surgery; a sleep center; a contingency aeromedical staging facility; and eye, hearing and diabetes centers of excellence. The San Antonio Military Health System ("SAMHS") oversees the healthcare delivery of 240,000 DoD beneficiaries in the San Antonio metropolitan region. Healthcare services are provided by the BAMC and the WHASC. The SAMHS treatment facilities manage a total combined budget of over $1.2 billion and have an economic impact of $1 billion annually.

In June 2014, the University of the Incarnate Word ("UIW") announced plans to build the City's first osteopathic medical school (the "School of Medicine") on the campus of Brooks City-Base ("Brooks"). Phase I of the medical school consisted of four buildings in the historic district of Brooks. The cost of building the School of Medicine is approximately $12 million. UIW began leasing the buildings in 2014 and will take ownership after 25 years. The School of Medicine opened in July 2017.

The Texas Biomedical Research Institute ("Texas Biomed") is one of the largest independent, non-profit, biomedical research institutions in the U.S. conducting internationally renowned fundamental and applied research in the medical sciences. With the nation's only privately owned biosafety level 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. In August 2017, City Council approved a loan of $250,000 to Texas Biomed to fund the design of a second state-of-the-art biosafety level 4 facility on its City Council District 6 campus. The $49 million expansion project is anticipated to retain 43 jobs and create at least nine additional full-time jobs in the newly expanded facility.

The University of Texas at San Antonio ("UTSA") houses a number of research institutes. The Neuroscience Research Center, which is funded by $6.3 million in ongoing grants, is tasked with training students in research skills while they perform basic neuroscience research on subjects such as aging and Alzheimer's disease.

UTSA is also a partner in Morris K. Udall Centers of Excellence for Parkinson's Disease Research. A joint partnership between UTSA, the UT Health Science Center, and the participation of Texas Biomed and the Southwest National Primate Research Center, has 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. The South Texas Center for Emerging Infectious Diseases 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.

The SAEDC has supported several projects within the healthcare and bioscience sphere. To date, the SAEDC has incentivized the following bioscience and healthcare companies: InCube, Innovative Trauma Care, Inc., and BioAffinity Technologies. Throughout 2017 and 2018, EDD and the SAEDC facilitated an ongoing working group of local military, academic, and private life science industry leaders on a study and action plan for greater commercialization out of the military medical research missions in San Antonio. The final San Antonio Military Life Science Commercialization Action Plan (the "Action Plan") and recommendation for a San Antonio Military Medical Innovation ("SAMMI") Specialist were presented to the working group in July 2018. The targeted position and industry alliance will focus on increasing technology commercialization that arises from the innovative research being done at San Antonio's local military missions, academic institutions, research organizations, and government entities. In September 2018, the SAEDC board approved the agreement for implementation of Phase I of the Action Plan's recommendations and in April 2019 approved the creation of the SAMMI specialist position.

In September 2017, City Council approved a grant of up to $200,000 for Pelican Therapeutics to relocate its headquarters to San Antonio and create 22 new full-time jobs within five years. Pelican Therapeutics is a subsidiary of Heat Biologics, a Durham, North Carolina–based biopharmaceutical firm focused on developing anticancer drugs. Pelican Therapeutics will establish lab and office space in City Council District 8 to support efforts linked to a $15.2 million Cancer Prevention Research Institute of Texas grant.

The Texas Research and Technology Foundation ("TRTF") is a non-profit organization that focuses on life science and technology-based economic development in San Antonio. On August 2017, TRTF acquired the 4-acre Merchant's Ice complex to establish a life science and technology focused Innovation District (the "Innovation District") that will be managed by VelocityTX, the organization's innovation, commercialization, and entrepreneurial development-focused subsidiary. In February 2019, City Council approved a performance-based grant up to $750,000 over five years and a tax increment finance development agreement up to $5 million over seven years with VelocityTX. Both agreements will assist in developing the Innovation District, which will include an incubator and innovation center to serve multiple target industries and provide a broad array of resources to entrepreneurs. TRTF estimates that when completed, the Innovation District will support approximately 665 jobs with combined wages and benefits of over $78 million annually.

Workforce Development

The City provides $250,000 annually to SA Works and $3.6 million annually to various non-profit organizations that provide workforce services. Combined, these agencies work to prepare the local workforce to meet industry demands so they have the talent they need to grow or locate to San Antonio.

SA Works is tasked with identifying skill gaps in the targeted industries of IT and cyber, healthcare, and manufacturing through industry convenings and surveys.

The focus of contracts with various workforce agencies is to develop a network of services that provides a pathway of skill attainment to self-sustaining jobs for San Antonio residents. In fiscal year 2019, this network, called the Upskill Partners Network, continues to be tested and expanded through private sector investments. The system is being developed to track participant milestones attainment, movement from one agency to another, and to identify the wage increases of participants to measure the outcomes and effectiveness of the system.

The City also works closely with Workforce Solutions Alamo ("WSA"). WSA is the regional workforce development board and implements state and federal jobs programs. The City works to align the workforce agencies they fund with WSA programs and to co-enroll participants to leverage funds and provide more effective services to residents.

The Alamo Colleges are the local community college district. The City partners with the Alamo Colleges by providing tuition scholarships through the contracted workforce agencies and through an agreement which supports several programs including the Alamo Academies, a program that prepares high school students for Science, Technology, Engineering, and Math careers driven by industry.

Financial Services

The largest private sector employer in the industry is United Services Automobile Association ("USAA"). The company has approximately 9.4 million customers, comprised of military members, veterans, and their families. The company currently employs a total of 32,896 people nationwide. While this sector is led by USAA, San Antonio is home to other insurance company headquarters and regional operations centers for many health care insurers. Insurers with substantial regional operations centers in San Antonio include: Nationwide Mutual Insurance Company, Caremark, United Health, and PacifiCare.

San Antonio is also the home of many banking headquarters and regional operations centers such as Frost Bank, Broadway National Bank, and USAA Federal Savings Bank. In December 2014, Security Service Federal Credit Union, the largest credit union in Texas and seventh largest credit union in the United States, established its corporate headquarters in City Council District 8. In October of 2017, San Antonio-based lending institution Credit Human announced plans to invest $113 million to construct a new state-of-the-art corporate headquarters on the Broadway corridor in City Council District 1. The facility will seek a LEED Gold rating, making it of the most sustainably built facilities of its kind in the nation. The new headquarters will bring 485 jobs to the urban core. Other companies with large regional operations centers in San Antonio include: Bank of America, Wells Fargo, J.P. Morgan Chase, Citigroup, and Pentagon Federal Credit Union.

In 2018, Victory Capital Management ("Victory"), an investment management company with $63.6 billion in assets under management, acquired USAA Asset Management Co. from USAA. In January 2019, the City Council approved a $500,000 grant for Victory to relocate its headquarters operations to San Antonio and retain the 300 existing USAA jobs. In addition, the company will create 51 new high wage jobs, invest $500,000, partner with the City by implementing financial literacy programs for military personnel, and sponsor at least five annual paid student internships.

Hospitality Industry

The City's diversified economy includes a significant sector relating to the hospitality industry. An Economic Impact Report of San Antonio's Hospitality Industry (representing 2017 data) found that the hospitality industry has an economic impact of $15.2 billion. The estimated annual payroll for the industry is $3.2 billion, and the industry provided an average of 140,188 jobs.

In 2018, the City's overall level of hotel occupancy was up 1.8%; room supply increased 1.7%; total room nights sold increased 3.5%; the average daily room rate increased 4.1%; revenue per available room increased 5.9%; and overall revenue increased 7.8%.

Tourism. The list of attractions in the San Antonio area includes, among many others, the Alamo and other sites of historic significance, the River Walk, and two major theme parks, SeaWorld San Antonio and Six Flags Fiesta Texas. San Antonio attracts 37 million visitors a year. Of these, over 23.1 million are overnight visitors, placing San Antonio as one of the top U.S. destinations in Texas. Recent fiscal year 2018 accomplishments contributing to Visit San Antonio's success include: (1) having obtained over 16.2 million in online engagement, showing consumer interest in San Antonio through the Visit San Antonio website and social-media channels, both important travel decision influencers; (2) proactively serviced more than 165 meetings and conventions, and reaching an additional 620 meetings via the meetings.visitsanantonio.com website along with calls and walk-in clients, resulting in a total reach of more than 821,000 attendees which include meetings, trade shows, reunions, weddings, and events; and (3) reported an estimated $39.2 million in earned media. This media value is the dollar value of the positive media coverage generated by the Visit San Antonio communications team, which represents the stories and articles in print (i.e., magazines, newspapers, etc.), TV, radio, and online media; the dollar figure aligns with what the advertising cost of that coverage would have been if Visit San Antonio had purchased the exposure.

Conventions. San Antonio is also one of the top convention cities in the country and hosts 6.6 million business visitors a year who come to the area for a convention, meeting or other business purpose. In fiscal year 2018, the Visit San Antonio sales staff booked over 920,000 room nights for current and future years. Significant meetings booked included: The Lutheran Church-Missouri Synod with a total of 43,100 room nights for 2028; Ellucian with a total of 33,180 room nights for 2024 and 2028; San Antonio Breast Cancer Symposium with a total of 27,600 room nights for 2029 and Commodity Classic with 23,045 room nights for 2026. In addition, Visit San Antonio will continue to be proactive in attracting convention business through its management practices and marketing efforts.

The following table shows both overall performance as well as convention activity hosted by Visit San Antonio 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]
2007	66.3	69.90	7,397,123	455,256	647,386
2008	64.6	70.82	7,669,475	563,164	691,525
2009	57.1	55.94	7,167,603	399,408	660,736
2010	59.3	57.02	7,768,002	535,400	736,325
2011	61.3	58.08	8,236,019	499,171	637,593
2012	63.5	60.79	8,651,826	449,202	635,829
2013	63.1	63.44	8,610,676	712,577	734,190
2014	64.9	67.32	8,817,338	652,443	725,333
2015	65.7	69.55	8,913,575	699,662	773,569
2016	65.9	71.12	9,116,363	637,658	676,501
2017	66.0	73.45	9,268,201	823,561	816,582
2018	67.1	77.88	9,568,119	672,288	882,650

[1] Data obtained from Smith Travel Research based on hotels in the San Antonio selected zip code reports dated January 2019 (reporting 2018 numbers), and historical annual reports for prior years.
[2] Reflects only those conventions hosted by Visit San Antonio.
Source: Visit San Antonio

Military Industry

The growth in new missions and significant construction activities brought about by Base Realignment and Closure ("BRAC 2005") strengthened San Antonio's role as a leading military research, training, and education center. One of the major outcomes of BRAC 2005 was the creation of Joint Base San Antonio ("JBSA") which is the largest joint base in the DoD. JBSA consolidates all the base support functions, real property, and land for JBSA-Lackland, JBSA-Randolph, and JBSA-Fort Sam Houston (including Camp Bullis) under the 502nd Air Base Wing. JBSA includes over 46,500 acres, supports over 80,000 personnel, has a plant replacement value of $30 billion, and an annual budget of $800 million. Over 138,000 personnel are trained at JBSA facilities every year. In addition, JBSA is currently scheduled to receive approximately $405 million in Military Construction ("MILCON") funding making it the largest MILCON program in the Air Force.

JBSA and its 266 mission partners represent a significant component of the City's economy providing an annual economic impact, when combined with other DoD contracts and contractors, military retirees, veterans, and direct and indirect jobs, of over $17 billion for the City and approximately $30 billion to the State of Texas. In addition, the property of the former Brooks Air Force Base ("Brooks AFB"), a fourth major military installation, was transferred from the U.S. Air Force ("USAF") to the City-created Brooks Development Authority in 2002 as part of the Brooks City-Base Project. Furthermore, the military is still leasing over 1.7 million square feet of space at Port San Antonio (the "Port"), which is the former Kelly Air Force Base that was closed in 2001.

One of the other significant events brought about by BRAC 2005 is the realignment of medical facilities resulting in a major positive impact on military medicine in San Antonio, with $3.2 billion in construction and the addition of approximately 12,500 jobs at the JBSA complex. Currently, BAMC continues to play a critical role in patient care, graduate medical education and research, as well as caring for wounded military service members, and civilian members of the community. Along with other institutions, BAMC provides support to 22 counties in Southwest Texas, covering over 26,000 square miles, including the City, and servicing over 2.2 million people. Regarded as one of the top medical facilities in DoD, BAMC benefits the community by serving as an additional tertiary referral center to care for the most critically wounded and complex patients without concerns for payor status. BAMC receives approximately $2.5 million annually through the Uncompensated Trauma Care Grant administered by the Texas Department of State Health Services to offset a small portion of the indigent care provided. BAMC health professionals benefit from being a Level I trauma center through the large volume of complex trauma from the community replicating wartime for wartime readiness. Future providers are trained to go to war, as over 600 physicians are in Graduate Medical Education programs and 900 medical students at BAMC, most of which benefit from caring for trauma patients, with several programs (orthopedics, ophthalmology, emergency medicine, and otolaryngology) relying on trauma patients to achieve case minimums. Over 1,200 participants graduate annually from various allied health programs who receive clinical instructions at BAMC. This center is the nation's premier military training platform to prepare military healthcare professionals to provide life-saving combat medical care.

JBSA-Fort Sam Houston. JBSA-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 entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. ("FSHRP"), for the redevelopment of the former BAMC 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 U.S. Army to redevelop and lease these three properties to commercial tenants.

Some of the major mission partner organizations on JBSA-Fort Sam Houston are: U.S. Army North, the Army Installation Management Command, the Army Medical Command, U.S. Army South, the Army Medical Department and School, the Regional Health Command-Central, BAMC, the Medical Educational and Training Campus, the Mission and Installation Contracting Command, the Navy Medicine Education and Training Command, three Army Reserve Depots, a Navy/Marine Reserve Operations Center, and a Texas Army National Guard armory.

The potential economic impact from JBSA-Fort Sam Houston due to the BRAC 2005 expansion, along with major growth from the Army Modular Force and Army Grow the Force programs, is estimated at nearly $8.3 billion. The economic impact due to the amount of construction on post to accommodate the new mission accounts for approximately 80% of the impact ($6.7 billion). While the major surge of construction from BRAC 2005 and the other major force programs are 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. The major personnel moves under BRAC 2005 were completed by September 15, 2011, and this increase in personnel and missions at JBSA-Fort Sam Houston supports the employment of over 15,000 in the community.

Various construction projects continue or have been completed at JBSA-Fort Sam Houston. The new Walters Street Gate and Entry Control Point and a new Medical Education and Training Campus Headquarters Building have been completed. A new Student Activity Center opened in November 2013 and construction was completed on a new BAMC Visitor Control Center and Entry Control Point in January 2014. A new 310-room hotel was completed in October 2014, and a new 192-room apartment style dormitory broke ground in 2016 and was completed in early 2018. A small addition to the hospital for a hyperbaric chamber was completed in June 2017 and a new two story Army-Air Force Exchange Services Exchange Main Store is planned for completion by Spring 2020. In 2016, the United Service Organization in partnership with JBSA, completed a new all-service facility located in the Sam Houston Community Center. New construction includes a Combat Medic Lab Instructional Building (the "Lab") which will replace a 1940's facility. The Lab will train combat medics—a daily average of 180 students. Mission growth will see five new organizations whose cyber and medical missions will bring approximately 305 new positions to the base.

JBSA-Camp Bullis. Armed Forces medics and Corpsmen at JBSA-Fort Sam Houston receive additional field training at JBSA-Camp Bullis, which comprises 28,000 acres. JBSA-Camp Bullis is also used by the 37th Training Wing for Security Forces technical and professional development training. Additionally, JBSA-Camp Bullis is home to the USAF Medical Training Readiness Center, which encompasses four medical-related courses. It is also home to multiple Army Reserve and Army National Guard units of all types, to include Military Intelligence, Engineer, Medical, Infantry and Special Forces. The 470th Military Intelligence Brigade, headquartered at JBSA-Fort Sam Houston, operates the United States Army Intelligence and Security Command Detention Training Facility at JBSA-Camp Bullis, and the Defense Medical Readiness Training Institute operates the Combat Casualty Care Course. JBSA-Camp Bullis also supports regular use by local law enforcement agencies and Federal entities. Between 2013 and 2016, JBSA-Camp Bullis supported the training of approximately 550,000 personnel. Because of its geographical size, numerous units and missions are continually looking at JBSA-Camp Bullis as a viable place to locate and train. New construction includes a 36,000 square foot dining facility which will serve approximately 370,000 meals a year. In fiscal year 2019, two buildings aboard the base will be demolished and a much needed vehicle maintenance shop will be constructed. JBSA-Camp Bullis will host a new organization whose cyber mission will add an additional 14 new positions.

JBSA-Lackland. JBSA-Lackland is home to the 37th Training Wing, situated on 9,700 acres, all within the city limits of San Antonio. According to a recent Economic Impact Analysis, over 53,000 military personnel, civilians, students, contractors, and military dependents work, receive training, or utilize JBSA-Lackland services. JBSA-Lackland hosts the Air Force's only Basic Military Training ("BMT") function for all enlisted Airmen, which is known as the "Gateway to the Air Force". Additionally, JBSA-Lackland hosts many of the technical training courses which the BMT graduates are routed to prior to their first assignment. On an annual basis, JBSA-Lackland is expected to graduate 86,000 Airmen and international students. The Air Force is in the middle of a $900 million program to replace the BMT Recruit Housing and Training buildings that have been in continuous operation since construction in the late 1960s. Construction is now complete for four of the Airmen Training Complexes ("ATC") and the first two Dining/Classroom Facilities ("DCF") that support the ATCs. Construction is also complete for the Pfingston BMT Reception Center, every new recruit's entry into BMT. The beginning of the second half of the BMT Complex replacement program is planned for fiscal year 2019 with the start of the fifth ATC and the third DCF. Each ATC will house up to 1,200 trainees and the DCF includes dining halls and classroom facilities for two ATCs. The BMT replacement program is estimated to be complete by fiscal year 2020. The City of San Antonio is supporting these efforts by building a third entry (deceleration) lane into JBSA-Lackland. This ongoing project will support over $600 million in new construction over the next 10 years. The deceleration lane was JBSA's number one funding priority and will support the transit of approximately 100 heavy trucks a day for the duration of these projects. In addition, construction of the lane will reduce wear and tear on both City and JBSA streets while minimizing traffic congestion outside the base, enhancing overall safety for both military members and the community.

Projected growth also includes a 160,000 square foot expansion of the 24th Air Force, the Cyber Command, facilities, and a potential increase of 1,500 students at the Defense Language Institute English Learning Center. The Transportation Security Agency's Canine Academy headquarters opened in March 2016.

Adjacent and contiguous to JBSA-Lackland is the Port, where the Air Force maintains a significant presence. The Air Force and the Port jointly utilize the Kelly Field runway for military and commercial airfield operations. The Air Force continues to lease over 30 buildings, which consist of 1.75 million square feet of space and over 270 acres. The largest Air Force leaseback is at Building 171, a 460,000 square foot facility previously closed from the 1995 Base Realignment and Closure of Kelly AFB. Approximately 7,000 Air Force and other DoD employees work at this and other facilities on the Port in this post-BRAC 2005 era. Recently approved federal Military Construction and state Defense Economic Adjustment Assistance Grant funding will result in the replacement of the aging, non-compliant Kelly Air Traffic Control Tower, and upgrade and renovation of an aging hangar and operations facilities. This much needed infrastructure improvement will support C-5 and F-16 training missions.

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

In the near future, eight new organizations are expected to bring approximately 660 new positions to JBSA-Lackland. These new personnel will perform cyber, flight and technical, and training missions. Part of this growth has already taken place. In October of 2018 the Secretary of the Air Force announced that JBSA would be home to the Special Warfare Training Wing bringing 135 new jobs to the area and significantly enhancing the base's military value.

JBSA-Randolph. JBSA-Randolph, which is known as "the Showplace of the Air Force" because of its consistent Spanish Colonial Revival architectural standard retained from when the installation was first constructed in the early 1930s, is on the northeast side of San Antonio and houses the Headquarters Air Education and Training Command and the Air Force Personnel Center. Other major tenant organizations include the Air Force Manpower Agency, 19th Air Force, the Air Force Recruiting Service, and the Air Force Office of Special Investigations (Region 4). The main operational mission is carried out by the 12th Flying Training Wing (the "Wing") which equips and trains aviators and supports worldwide contingency operations. The Wing operates parallel runways on either side of the main installation facilities and conducts 24-hour-a-day flight training operations. In a related aviation mission, JBSA-Randolph, which in 2017 added 85 instructors and staff to its Remotely Piloted Aircraft ("RPA") training unit, will produce RPA pilots to man an Unmanned Aerial Systems ("UAS") force which now encompasses 8.5% of total Air Force pilot manning. The UAS force grew by approximately 25% between fiscal year 2013 and fiscal year 2017. New construction includes a commercial gate which replaces a non-compliant gate in the airfield clear zone. This new gate will support commercial vehicle entry and be compliant with force protection measures. New organizations will see 30 new positions supporting the base's flight training mission.

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

San Antonio is home to two large projects which serve all of the military branches. The Audie L. Murphy Veterans Administration Hospital, which includes a new $67 million Level I Polytrauma Center, was completed in 2011. This hospital is designed to be the most advanced in the world and is capable of providing state-of-the art medical care to veterans with multiple serious injuries. San Antonio is also home to the National Trauma Institute ("NTI"), a collaborative military-civilian trauma institute involving BAMC, University Hospital, the UT Health Science Center, and the U.S. Army Institute of Surgical Research. The NTI coordinates resources from the institutions to most effectively treat trauma victims and their families.

In 2005, the San Antonio community put in place organizations and mechanisms to assist the community and the military with BRAC 2005 and other military-related issues. The Military Transformation Task Force ("MTTF") is a City, Bexar County, and Greater San Antonio Chamber of Commerce organization which provides a single integrated voice from the community to the military. The MTTF is comprised of several committees dedicated to working with the community and military on 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 and veteran related issues. In 2018, OMA formally changed its name to the Office of Military and Veterans Affairs ("OMVA"). The mission of OMVA 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 and veteran community on issues of common concern. OMVA provides staff support to the City's MTTF and works closely with each MTTF committee in order to facilitate their work. OMVA is working with the MTTF Tri-Chairs to refocus the MTTF by updating and codifying its mission, vision, membership, leadership, chain of command, branding and measures of effectiveness.

For the past three years, OMVA has aggressively pursued partnerships with JBSA to preserve and increase military missions, protect military installations, and improve the City's military-friendly environment for the military and veteran community, and by advocating for the military at the local, state and national level. Through advocacy and close relationships with JBSA leadership, OMVA has advocated for, and been successful in securing numerous infrastructure projects for JBSA. This tangible support, which has included funding through the City's bond program, state funding, and other sources, has resulted in millions of dollars in projects which have been mutually beneficial for both the City and the military.

OMVA is also working with the local military bases to address compatible land-use issues around the installations in order to enhance mission readiness. This includes testifying at committee hearings before the Texas Legislature during the year and at their biennial sessions. During the 85th Texas Legislative Session, OMVA, along with local and state elected officials, were successful in ensuring the establishment of a five-mile protection buffer against encroachment around all Texas military installations. OMVA also assists the Mayor with the Commission on Veterans Affairs. Chartered in 2001, this eleven-member board serves the Mayor and ten City Council districts in an advisory capacity focused on all veteran issues within the community.

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

On March 24, 2017, the United States Patent and Trademark Office granted San Antonio the trademark Military City, USA. The trademark was a result of a year-long process to ensure that no other city had previously met the criteria. For over 300 years, San Antonio has had a rich military history. The moniker Military City, USA became most prominent after World War II. During this time, five military installations operated in San Antonio and the surrounding areas. The trademark emphasizes San Antonio's rich military history and honors approximately 250,000 veterans.

Currently, DoD is the community's largest employer, supporting the employment of over 805,685 people, with an economic impact of approximately $101 billion to the Texas economy. JBSA alone directly employs 282,995 people and has a total economic impact of $49 billion in payroll, contract expenditures, and value of jobs created. Over 250,000 veterans reside in San Antonio and receive over $1.5 billion in annual benefit payments. The BRAC 2005 program in San Antonio concluded in 2011, but the construction momentum continues.

Aerospace

According to the Economic Impact Study commissioned by the Greater San Antonio Chamber of Commerce in 2018, aerospace is a $3.4 billion industry in San Antonio. This industry provides approximately 17,250 jobs, with employees earning total annual wages of over $1 billion. 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, StandardAero, STSA, FedEx, UPS, and others, have significant operations in San Antonio. The aerospace industry in San Antonio has seen continued growth in air passenger service, maintenance, repair, overhaul, and general aviation.

The Port is a logistics-based industrial platform on 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 and includes over 1,900 acres. Though created by the local government, the Port is self-sustaining and operates like a business, receiving its income from the properties it leases and 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.

Fourteen of the Port's customers are aerospace-related firms, including industry leaders Boeing, StandardAero, Chromalloy, and GDC Technics. These Port customers operate within more than 3.5 million square feet of highly specialized facilities, including hangars that accommodate multiple wide-bodied aircraft, workshops, and an array of engine test cells. The campus is also home to the nationally-acclaimed Alamo Academies, which prepares the region's youth for advanced technology careers, particularly in the aerospace industry.

In early 2012, Boeing announced that its San Antonio facility would gain 300 to 400 workers along with maintenance responsibilities for the nation's executive fleet due to a decision to close a Wichita, Kansas plant. The aircraft maintenance and support work, which moved to San Antonio, included 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 2018, Boeing announced that it would be increasing its San Antonio workforce by around 900, effectively doubling its presence in the City, due to a recent contract win. Although aerospace companies such as Boeing have had to contend with long-term reductions in military spending, the company anticipates a future mix of contracts that includes more commercial work.

In 2017, StandardAero was awarded a contract to overhaul engines that power military transport planes and other aircraft. In 2018, StandardAero also announced that it would be increasing its San Antonio workforce, creating 100 jobs, with several hundred more in the pipeline for the next two to three years.

IT and Cybersecurity

The information technology industry plays a major role in San Antonio. The economic impact of IT and cyber business was $10 billion in 2016. 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, as 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, National Security Agency and Central Security Service Texas, 67th Network Warfare Wing, Air Force Information Operations Center, and Cryptology Systems Group.

UTSA has two leading institutions in the field of IT and Cybersecurity, the Center for Infrastructure Assurance and Security ("CIAS") and the National Security Collaboration Center ("NSCC"). The CIAS at UTSA is one of the leading research and education institutions in the area of information security in the country. The CIAS has established partnerships with major influential governmental and non-governmental organizations such as the DoD, Department of Homeland Security, and the United States Secret Service. The CIAS has also been actively involved with sector-based Information Sharing and Analysis Centers' security preparedness exercises for organizations in critical infrastructures. The NSCC is a Government-University-Industry ecosystem, attracting diverse thinkers and problem-solvers to join the national security conversation to uncover transdisciplinary solutions collectively. The NSCC will enhance the cybersecurity ecosystem in the region and provide state-of-the-art space housing computational capabilities, including a Sensitive Compartmented Information Facility and an Innovation Factory where academia, industry, and government can rapidly develop products for application in the national security enterprise.

The Alamo Regional Security Operations Center ("ARSOC") is an initiative led by the City and its partners at SAWS and CPS. This initiative would create a centralized security operations facility for real-time, collaborative cybersecurity information sharing among municipally owned entities in the San Antonio Area. In doing so, the ARSOC will become the model Urban Cyber Security Center of Excellence.

Geekdom is a collaborative coworking space in San Antonio, and the heartbeat of the startup ecosystem along the City's growing tech district located in the Downtown area on Houston Street. At over 44,000 square feet, Geekdom is home to more than 1,700 members, and is one of the largest collaborative co-working spaces in Texas. Geekdom's partners include USAA, Rackspace, Codeup, and Salesforce. In 2017, Geekdom partnered with USAA to subsidize the cost of a membership at Geekdom for military veterans, active duty military, and spouses of military. USAA is providing $60,000 in sponsorship, which will cover 200 members.

Build Sec Foundry (the "Foundry"), located at Geekdom, is a cybersecurity accelerator made up of security professionals and entrepreneurs. The Foundry provides team space, mentorship, and access to the critical services a company needs as it prepares to launch into the market. Portfolio companies currently include Rectify, Coherent Cyber, Symmetry, and Level Effect, with Infocyte as the first graduate of the program.

In April 2017, City Council approved a grant of $1.5 million to support infrastructure improvements at the Port associated with Project Tech, a new facility specifically designed to meet the growing needs of San Antonio's cybersecurity ecosystem. Project Tech will enable the expansion of cybersecurity operations and personnel while growing a campus environment that supports closer collaboration between high-ranking experts in cybersecurity and their technical counterparts in aviation, advanced manufacturing, and other targeted industries. Phase I was completed in early 2018 and Project Tech officially opened its doors in May 2018. In addition, the Port is developing an innovation campus focused on supporting military and commercial solutions for applied technologies in critical infrastructure, manufacturing, transportation, and related sectors. Located in close proximity to the Air Force's local cybersecurity and intelligence operations, as well as key industry partners, the campus will showcase capabilities and new technologies, offer education space, office and lab facilities, and serve as a hub for new and developing cybersecurity ideas and innovations.

In April 2017, streaming service provider Hulu chose to establish its Viewer Experience Operations headquarters in the City. City Council approved a six-year 100% tax abatement on real and personal property, as well as the location's nomination as a Texas Enterprise Zone project. The company is expected to create 500 full-time jobs in City Council District 8 over three years, invest approximately $12.9 million in real and personal property, and support community-wide digital inclusion initiatives.

In 2018, The Hut Group, a British e-commerce company that operates more than 100 international websites offering health, beauty, and lifestyle products, announced that it will build its North American headquarters in City Council District 1, after receiving City Council approval for a $500,000 grant. The company plans to create 165 new full-time jobs over five years, all of which will pay over $70,000 annually and include high skill and upper management positions. The same year, the City Council approved a $420,000 grant for San Antonio-based cybersecurity company IPSecure based on a capital investment of $1.3 million, the creation of 80 new jobs, and the retention of 115 existing jobs at the Port. The company focuses primarily on cybersecurity services, including defending against both outsider and insider threats, penetration testing, and exploitation services.

Booz Allen Hamilton Inc., a multinational firm that provides management and technology consulting and engineering services for both the public and the private sector, decided to set up a cybersecurity and data scientist hub in San Antonio. In order to secure the project, in May 2019, the City Council approved a grant of up to $250,000, with $188,000 as a discretionary performance-based grant for the creation of up to 188 new, full-time jobs with an annual salary of at least $70,000 over five years, and $62,000 in restricted workforce development funding to support expanding the company's established local internship and scholarship programs and collaboration with local workforce entities. In addition to the 188 incentivized jobs, the company is planning to add another 62 jobs to the existing San Antonio workforce of 600.

In February 2019, City Council approved a Texas Enterprise Zone nomination and a $500,000 grant for Accenture, a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology, and operations. The San Antonio-based project will include 500 new jobs over five years and approximately $5 million in capital investment. Half of the grant funds will be used for workforce development in the form of an internship program and upskill training. In April 2017, Accenture unveiled the new Federal Cyber Center, a state-of-the-art facility featuring advanced managed detection and response technologies located in City Council District 6.

The SAEDC has supported two economic developments of IT projects. Parlevel Systems is a local technology startup located in downtown San Antonio that offers software and hardware platforms for the food vending industry. In June 2016, City Council approved an economic development agreement for the company to remain and expand in San Antonio. Parlevel must retain its headquarters and business operations in San Antonio, maintain at least 30 jobs, and add 10 jobs for a total of at least 40 jobs. In September 2016, City Council approved an investment for downtown San Antonio IT startup HelpSocial, Inc. Founded in 2014, HelpSocial graduated the Techstars Cloud program in 2016. The company has developed web and mobile apps for integrating social media to support customer service center operations.

Advanced Manufacturing

Toyota Motor Corporation ("Toyota"), one of the largest manufacturing employers in San Antonio with an estimated workforce of over 3,000, 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 jobs and investing $100 million in new personal property, inventory, and supplies. Toyota and its 23 on-site suppliers, located on San Antonio's south side, support Toyota's production of Tundra and Tacoma vehicles, generating an estimated annual impact of $1.7 billion. In September 2019, Toyota announced a $391 million investment in its San Antonio manufacturing facility.

Brooks 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 is a 1,308 acre community with approximately 350 acres available in undeveloped land. In June 2018, Brooks began work on a 350,000-square foot light industrial facility to help attract developers of various goods. This new facility will help increase the appeal of Brooks as a hub for the advanced manufacturing industry, one of San Antonio's prominent target industries. Total economic activity attributed to businesses located in the Brooks campus supported over 3,200 jobs in 2018.

Nissei Plastic Industrial manufacturers is a Japanese company that specializes in large scale injection molding machinery. During a trade mission to Japan in 2014, this company was engaged as they showed interest in expanding to the U.S. After a visit to San Antonio, the company acquired nine acres of land at Brooks to establish a manufacturing and assembly facility to serve the U.S. and Mexico markets. The grand opening of the new assembly plant took place on May 14, 2018.

New Energy

In response to an April 2009 request for proposal, CPS negotiated and entered into a 30-year Power Purchase Agreement ("PPA") 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". The project consists of 214,500 ground-mounted thin film panels manufactured by First Solar with an annual generation of about 14 megawatts ("MWs"). This project created approximately 100 green jobs during the construction and operation phases with a capital investment of approximately $41.59 million in real and personal property. The site is located southwest of the City near the intersection of IH-37 and U.S. Highway 181. In 2017, the Blue Wing Solar Energy Generation Project produced over 22,000 megawatt hours through solar energy generation.

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 established the Texas Sustainable Energy Research Institute at UTSA. This research institute works with other academic and research entities with robust green programs including the Southwest Research Institute as well as the Mission Verde Center, a City partnership that includes the Alamo Colleges and the Texas A&M University Texas Engineering Experiment Station. The institute also has an active military establishment looking to address specific energy needs.

In 2011, CPS, the largest municipally owned, vertically integrated electric and gas utility in the United States, invested in 400 MW of solar energy through PPAs and launched a New Energy Economy ("NEE") in the City. The NEE is comprised of local companies that share the City's vision for clean energy, innovation, and energy efficiency while leveraging economic development. Through this strategic approach, the City has spurred the creation of a solar manufacturing and clean energy technology hub. As a result, the NEE has led to more than $1 billion in annual economic impact, over 600 jobs, and over $200 million in capital investment, while contributing towards education locally. To continue this effort, CPS launched Energy Partnerships Innovation ("EPIcenter") in 2015, a hub for clean energy technology innovation, education and community engagement, and entrepreneurial incubation and ideation. In early 2018, EPIcenter announced the first two companies to join its new energy incubator, San Antonio-based Go Smart Solar and Morton Gestalt. In the last quarter of 2018, EPIcenter announced that Drones of Prey, an Austin based startup, would also be joining the incubator, adding the first company not based in San Antonio to its rank. The incubator is designed to help entrepreneurs build and develop innovative business ideas in the new energy industry.

On December 13, 2012, City Council designated Brooks as a reinvestment zone in accordance with State statute to contribute to the retention and expansion of primary employment and attract major investment in the zone. Mission Solar has decided to locate its solar panel manufacturing operations and its U.S. corporate headquarters at Brooks. Mission Solar has also agreed to support the creation and sustainment of a renewable energy and advanced manufacturing workforce through a $350,000 contribution to the Alamo Colleges to continue its efforts to develop a customized curriculum and training program to support the development of a renewable energy workforce.

Inner City Development

Development in the inner city has strengthened considerably in recent years, with many catalytic projects underway or recently completed. The new 24-story Frost Tower is completed and Frost Bank employees and other tenants began moving into the space in June 2019. Extensive renovations are occurring at the Light and Print buildings, the new CPS headquarters, the Grant and Kress buildings, Travis Park Plaza, the Milam Building, and Historic City Hall. These projects will soon be joined by The Soto, a mass-timber office building under construction on lower Broadway, the new federal courthouse, and the expansion of UTSA's downtown campus.

Several residential developments are taking shape in the urban core, many of them supported by the City Council-adopted Center City Housing Incentive Policy ("CCHIP"), which encourages urban-density housing development in targeted growth areas through City fee waivers, SAWS fee waivers, and real property tax reimbursement grants. Since its inception in 2012, 66 CCHIP agreements have been executed, which will result in nearly 7,200 new housing units in the center city. A revised policy was approved by City Council in December 2018. Construction is nearly complete on Encore SoFlo, a 339-unit complex near the intersection of South Flores and Cesar Chavez streets. The '68, the first residential phase of development within Hemisfair; and 120 Ninth Street, located along the Museum Reach. More recently, work has begun on several large-scale residential projects including Heritage Plaza and Augusta Apartments.

Sources: The San Antonio Chamber of Commerce; City of San Antonio, Economic Development Department and Center City Development Office; Bureau of Labor Statistics, Economic Development Foundation, UT Health, UTSA, BAMC, SAMH, Geekdom, Build Sec Foundry, San Antonio Express News, U.S. Bureau of Economic Analysis, Port San Antonio, Brooks.

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

Growth Indices

San Antonio Average Electric and Gas Customers

For the Month of December	Average Electric Customers	Gas Customers
2008	693,815	320,407
2009	706,235	321,984
2010	717,109	324,634
2011	728,344	328,314
2012	741,556	330,945
2013	754,893	333,587
2014	770,588	336,367
2015	783,767	337,920
2016	802,712	342,928
2017	819,333	346,247
2018	823,153	348,313

Source: CPS.

SAWS Average Customers per Fiscal Year

Fiscal Year Ended December 31	Water Customers [1]
2009	350,859
2010	355,085
2011	358,656
2012	362,794
2013	367,388
2014	371,573
2015 [2]	479,100
2016 [2]	486,649
2017 [2]	493,768
2018 [2]	502,024

1 Average number billed, excluding SAWS irrigation customers.
2 Amounts reflect the merger with SAWS District Special Project ("DSP") effective January 1, 2015.
Source: SAWS.

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

Construction Activity

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

Calendar	New Residential Single Family [1]		Residential Multi-Family [2]		Other [3]	
Year	Permits	Valuation	Permits	Valuation	Permits	Valuation
2008	2,575	$386,407,251	414	$336,579,967	11,106	$2,006,112,379
2009	2,119	$309,815,331	145	$216,621,122	10,634	$1,473,424,436
2010	1,982	$295,097,549	154	$186,518,798	10,489	$1,174,710,884
2011	1,650	$245,542,976	270	$205,177,825	10,290	$1,594,888,560
2012	1,993	$323,925,290	226	$302,749,653	11,390	$1,636,131,582
2013	1,902	$336,790,668	268	$320,007,487	9,888	$1,664,008,739
2014	2,290	$407,108,162	252	$501,829,279	11,214	$2,496,182,001
2015	2,161	$408,047,290	263	$500,853,131	11,580	$2,096,065,163
2016	2,150	$409,048,513	219	$408,327,871	19,106	$2,093,010,308
2017	2,421	$453,152,457	196	$505,855,511	18,172	$2,707,666,910
2018	3,337	$556,401,894	161	$387,094,077	19,993	$3,158,550,699

[1] Includes new single family attached and detached projects.
[2] Includes new two-, three- and four-family projects, townhomes, and multifamily apartment complexes. Apartment complexes are permitted per building.
[3] Includes commercial building permits, commercial additions, improvements, extensions, and certain residential improvements.
Source: City of San Antonio, Development Services Department.

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:

	2018	2017	2016	2015	2014
Amarillo[2]	N/A	$74,177,530	$74,412,781	$74,423,001	$72,301,582
Arlington	$110,482,756	105,600,443	102,892,000	98,718,419	93,694,878
Austin	226,229,104	210,876,619	204,636,966	195,469,522	182,254,926
Corpus Christi[1]	N/A	N/A	N/A	77,787,653	80,774,939
Dallas	304,963,822	294,218,052	284,659,887	272,645,990	256,926,027
El Paso	90,106,254	85,606,247	83,879,102	81,307,487	78,615,134
Fort Worth	157,699,811	148,352,207	139,042,987	131,705,412	126,263,002
Frisco[1]	87,307,968	81,409,268	74,691,991	N/A	N/A
Houston	687,113,410	638,686,093	630,172,429	659,339,722	646,063,653
Plano	89,766,816	83,078,508	78,286,505	77,558,042	75,393,702
SAN ANTONIO	355,904,510	334,238,830	324,561,595	315,346,501	303,992,585
Round Rock[2]	82,944,806	N/A	N/A	N/A	N/A

[1] In 2016, the City of Frisco replaced the City of Corpus Christi as the 10th largest city in the State.
Source: State of Texas, Comptroller's Office.
[2] In 2018, the City of Round Rock replaced the City of Amarillo as the 10th largest city in the State.
Source: State of Texas, Comptroller's Office.

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

Education

As of October 2018, there are 15 independent school districts within Bexar County with a combined enrollment of 319,180 encompassing 59 high schools, 83 middle/junior high schools, 299 early education/elementary schools, 23 magnet schools, and 25 alternative schools. There are an additional 21 charter school districts with 77 open enrollment charter schools at all grade levels. In addition, Bexar County has 80 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 school of medicine, a school of nursing, a dental school, a law school, and five public community colleges, had combined enrollments of 120,045 for Fall 2018.

Sources: Texas Education Agency; Texas Higher Education Coordinating Board; and Texas Private School Accreditation Commission.

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

Employment Statistics

The following table shows current non-agricultural employment estimates by industry in the San Antonio-New Braunfels MSA for the period of September 2019, as compared to the prior periods of August 2019 and September 2018, respectively.

Employment by Industry

San Antonio-New Braunfels MSA [1]	September 2019	August 2019	September 2018
Mining, Logging, and Construction[2]	68,200	68,100	63,300
Manufacturing	50,600	50,200	50,700
Trade, Transportation, and Utilities	182,000	183,200	179,700
Information	20,800	20,900	20,700
Financial Activities	93,100	92,600	91,800
Professional and Business Services	148,600	146,800	142,100
Education and Health Services	170,400	170,100	166,100
Leisure and Hospitality	142,100	145,200	135,700
Other Services	38,900	39,400	38,200
Government	171,700	166,000	170,600
Total Nonfarm	1,086,400	1,082,500	1,058,900

[1] *Based on Labor Market Information Department, Texas Workforce Commission (model-based methodology).*
[2] *Mining, Logging, and Construction have been combined compared to previous years.*

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 September 2019, as compared to the prior periods of August 2019 and September 2018, respectively.

Unemployment Information *(all estimates in thousands)*

San Antonio-New Braunfels MSA [1]	September 2019	August 2019	September 2018
Civilian Labor Force	1,216.4	1,205.2	1,190.4
Number of Employed	1,180.5	1166.6	1,151.9
Number of Unemployed	35.9	38.7	38.5
Unemployment Rate (%)	3.0	3.2	3.2

Texas (Actual) [1]	September 2019	August 2019	September 2018
Civilian Labor Force	14,112.7	14,015.6	13,849.9
Number of Employed	13,641.1	13,508.8	13,337.0
Number of Unemployed	471.6	506.8	512.8
Unemployment Rate (%)	3.3	3.6	3.7

United States (Actual) [1]	September 2019	August 2019	September 2018
Civilian Labor Force	163,943.0	164,019.0	161,958.0
Number of Employed	158,478.0	157,816.0	156,191.0
Number of Unemployed	5,465.0	6,203.0	5,766.0
Unemployment Rate (%)	3.3	3.8	3.6

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

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

San Antonio Electric and Gas Systems

History and Management

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

Vacancies in membership on the CPS Board are filled by majority vote of the remaining members. 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. The CPS Board has full power and authority to make rules and regulations governing the furnishing of electric and gas service and full authority with reference to making extensions, improvements and additions to the EG Systems, and to adopt rules for the orderly handling of CPS' affairs. It is also 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.

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 was granted by the Public Utility Commission of Texas (the "PUCT"). CPS is currently the exclusive provider of retail electric service within this service area, including the provision of electric service to some federal military installations located within the service area. In 1999, the Texas Legislature enacted Senate Bill 7 ("SB 7"), which allows for retail electric competition within designated service areas upon a decision of the governing body having jurisdiction within such areas affirmatively acting to "opt-in" to such a competitive scenario. CPS and the City have not elected to "opt-in." 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.

The CPS gas system serves Bexar County and portions of the surrounding counties of Comal, Guadalupe, and Medina. In the counties of Kendall, Karnes, Wilson and Atascosa, CPS has gas facilities but currently is not serving any customers. 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 electric service area.

CPS maintains "Franchise Agreements" with 31 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 4.5% on electric and natural gas revenues earned within their respective municipal boundaries. Three of the 31 cities have elected to increase franchising fees to 5.5%, with two effective as of February 1, 2015, and the third went into effect January 1, 2018. The additional 1% only applies to customers within those three jurisdictional city boundaries.

Wholesale Power

CPS has an active program to optimize its excess power generation capacity in the wholesale power market, which includes both power purchases and power sales when such can be reasonably expected to reduce cost or generate revenue for the electric system. As a part of managing the power generation portfolio, CPS may also purchase power if there is an unanticipated deficit in capacity, to maintain reserve margins, to enhance reliability for the electric system, or when economically prudent to reduce overall costs of its obligations in the Electric Reliability Council of Texas ("ERCOT") market.

Trained, experienced staff in CPS' Energy Market Operations group, who report to the CPS Vice President for Energy Supply and Market Operations, conduct wholesale power transactions in accordance with established procedures. CPS is a Qualified Scheduling Entity ("QSE") within ERCOT which allows CPS to manage both load and generation in the ERCOT real-time and day-ahead markets. The QSE function is also managed by the Energy Market Operations group. The governance for ERCOT market activity is established by the Energy Markets and Risk Management Policy. Under this policy, the Energy Portfolio Strategy Committee, comprised of select executive leadership, provides comprehensive review and oversight of proposed wholesale transactions to ensure alignment with CPS strategies, including evaluation of the associated risks. CPS conducts wholesale power transactions only with approved counterparties with which CPS has established master enabling agreements. CPS' enabling agreements outline payment and delivery terms and conditions of such sales and purchases, and provide for written confirmation of each transaction between CPS and its counterparties.

CPS sells wholesale electricity to the Floresville Electric Light & Power System, the City of Hondo, and the City of Castroville. These three wholesale supply agreements have been renewed and have terms expiring in 2025, 2022, and 2022, respectively.

Long-term supply agreements have been entered into with Central Texas Electric Cooperative, the City of Boerne, the City of Seguin, and the Kerrville Public Utility Board to provide supply for terms that began in June 2013 and extends through 2021 for Central Texas Electric Cooperative and through 2023 for the other three entities. The requirements under the existing wholesale agreements are firm energy obligations of CPS. In addition, from time to time, CPS provides a variety of supply arrangements on a short-term basis for terms ranging from one month up to one year with a variety of approved counterparts.

Customer Rates

CPS' electric and gas monthly rate schedules list the current effective monthly charges payable by CPS customers. Each rate schedule briefly describes the types of service CPS renders to customers billed in accordance with that rate schedule, plus customer eligibility criteria. Customers with similar load and usage characteristics are grouped into rate classes and are billed in accordance with the same rate schedule. The different electric rate classes include rate schedules for residential, commercial, and industrial customers. There are also rate schedules for street lighting, all night security lights, and wholesale power to other electric utilities. The gas rate schedules are categorized into general, commercial, and industrial.

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 electric deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT's jurisdiction over IOU companies primarily encompasses only the transmission and distribution functions. PURA generally excludes municipally-owned utilities ("Municipal Utilities" or "MOUs"), such as CPS, from PUCT jurisdiction, although the PUCT has jurisdiction over electric wholesale transmission rates. Under the PURA, a municipal governing body or the body vested with the power to manage and operate a Municipal Utility such as CPS has exclusive jurisdiction to set rates applicable to all services provided by the Municipal Utility with the exception of electric wholesale transmission activities and rates. Unless and until the City Council and CPS Board choose to opt-in to electric retail competition, or the Texas Legislature forces CPS into 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 IOU electric utilities.

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

The City has covenanted and is obligated under the bond ordinances, as provided under the rate covenant, to establish and maintain rates, and collect charges in an amount sufficient to pay all maintenance and operating expenses of the EG Systems and to pay debt service requirements on all revenue debt of the EG Systems, including the outstanding Senior Lien Obligations, any Additional Senior Lien Obligations, the outstanding Junior Lien Obligations, obligations arising under liquidity facilities relating to such Junior Lien Obligations, any Additional Junior Lien Obligations, Inferior Lien Obligations, and to make all other payments prescribed in the bond ordinances.

CPS has periodic rate increases with the most recent electric and gas base rate increase of 4.25% implemented on February 1, 2014 (the first such rate increase since a 7.5% electric base rate increase and an 8.5% gas base rate increase became effective on March 1, 2010). CPS expects to continue to periodically seek electric and gas base rate increases that are intended to maintain debt coverage, debt-to-equity, and liquidity ratios.

Year-after-year, CPS' management team continually monitors and analyzes its cash and revenue positions. Within this process, CPS assesses its projections for actual and anticipated costs and expenses. This information is also used to evaluate the scope and timing of potential requests for rate adjustments. When possible, the CPS team shares this approach with the public to ensure there is general awareness that rate adjustments will be needed from time to time. CPS has not needed a rate increase in over five years for several reasons, such as a continual focus on cost control and prudent implementation of technology, as well as the effective recovery of its energy efficiency, conservation and fuel costs, including its purchase power agreements. At the point CPS' management team determines it is time for a new rate case, a formal and substantiated request will be made to the CPS Board at a public meeting in open session. When approved by the CPS Board, the rate case will continue to be discussed publicly and the request will be presented to the City Council for consideration.

In addition to standard service rates, CPS also provides several rates and riders for a variety of programs and products. Since May 2000, under Rider E15, CPS has offered a monthly contract for renewable energy service (currently wind-generated electricity). The High Load Factor ("HLF") rate, first offered in February 2014, is available to customers with new or added load of 10 MWs or greater. The HLF rate requires eligible customers to maintain an annual load factor of 90% or more and meet the requirements of Rider E16. Rider E16 offers discounts off the Super Large Power and HLF demand charge for a period up to four years for new or added load of at least 10 MW. Under certain conditions, the discount may be extended for up to an additional six years. Eligible customers that qualify for Rider E16 discounts must also meet City employment targets or other related performance metrics and targets for purchases of goods or services from local businesses. Since July 2012, under Rider E19, CPS provides an optional service offering of electricity generated by wind-powered turbines, solar-powered systems, or other renewable resources. Additionally, Rider E20, which became effective February 1, 2015, waives late fees for individuals 60 years or older with income at or below 125% of the federal poverty level. CPS revised its "Rules and Regulations Applying to Retail Utility Service", effective March 1, 2019, which contains provisions for alternative payment plans, payment assistance, extensions, and is now referred to as "CPS Energy Customer Terms and Conditions Applying to Retail Utility Service". The New Service Options ("NSO") tariff, effective October 2018, is an umbrella tariff that enables CPS to offer new service options on a pilot basis, with oversight by the City's Office of Public Utilities. This tariff allows CPS to provide innovative energy services while gauging customer interest and gathering information to refine the offering. The Commercial Electric Vehicle Pilot Rate was the first offering under the NSO tariff.

CPS also has rates that permit recovery of certain miscellaneous customer charges and for extending lines to provide gas and electric service to its customers. The Policy for Miscellaneous Customer Charges is approved periodically by CPS Board and is subject to a corresponding City ordinance.

In May 2009, the City Council established a mechanism to fund CPS' Save for Tomorrow Energy Plan ("STEP"), an energy efficiency and conservation program to be funded largely through the electric fuel adjustment fee. The total cost of the STEP program during the 2009 to 2020 time period was approved at $849 million with annual costs ranging from $12.3 million to over $111 million. While approximately $9 million a year is currently recovered through existing base rates, the additional costs for the STEP program will be recovered through a STEP surcharge applied to the electric fuel adjustment as stated above. Through fiscal year 2019, the accumulated cost for the STEP program was $640.6 million. As of January 31, 2019, CPS quantified a cumulative reduction of 714 MW. If energy use is reduced to levels predicted, the benefits of this program should exceed the implementation costs. CPS is on track to achieve its target of saving 771 MW of capacity from energy efficiency ahead of schedule. CPS expects to reduce its electric demand by more than 800 MW at a cost that is 15% less than originally forecasted. CPS is currently reassessing the STEP program to determine if continuing the program beyond 2020 is a viable option based on projected annual reductions in energy consumption and demand going forward and the costs that would be incurred to achieve such reductions. CPS intends to seek community input on FlexSTEP, its next generation of energy management program for its customers.

Fuel and Gas Cost Adjustment

The EG Systems' tariffs feature a fuel cost adjustment provision in the electric rates and a gas cost adjustment provision in the gas rates, which allow CPS to reconcile fuel and gas cost variances above or below levels included in base rates. CPS' electric rates are subject to a positive or negative monthly adjustment equal to the variance in the price of fuel above or below a base cost of $0.01416 per kilowatt-hour ("kWh"). Similarly, CPS' base gas rates are subject to an adjustment equal to the variance in the price of natural gas above or below a base cost of $0.220 per 100 cubic feet, approximately equivalent to $2.136 per 1 million British Thermal Unit. A British Thermal Unit ("Btu") is a measure of energy content in fuel, and is used in the power, steam generation, and heating and air conditioning industries. Natural gas is usually measured in Btus.

Governmentally Imposed Fees, Taxes or Payments

The rates, as previously approved by various rate ordinances adopted by the City Council, may be adjusted without further action by the City Council to reflect the increase or decrease in fees, taxes or other required payments to governmental entities or for governmental or municipal purposes which may be hereafter assessed, imposed, or otherwise required, and which are payable out of or are based upon net revenues of the EG Systems.

In March 2000, two new governmental assessments resulting from regulatory changes in the Texas electric utility industry, including the open access wholesale transmission charges, were added to CPS' electric billings as regulatory adjustments and are updated annually or as needed. The first assessment recovers additional ERCOT related transmission expenditures not recovered through CPS' current base rates. For CPS residential customer rates, this adjustment (effective February 2019) adds $0.00971 per kWh sold. The second assessment relates to CPS' share of the cost to fund the staffing and operation of ERCOT, the Independent System Operator ("ISO"), and the quarterly Electric Reliability Organization fee. The PUCT retains oversight authority over ERCOT. For all CPS retail customers, this charge increases bills by $0.00074 per kWh sold.

In March 2005, the RRCT began imposing a regulatory fee to cover the cost of regulation by the RRCT. The fee is based upon the number of active gas customers and is recovered from CPS gas customers through the payment of an annual fee assessed one time during the year.

Transmission Access and Rate Regulation

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

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

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

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

The greatest potential impact on CPS' electric system from SB 7 could result from a decision by the City Council and the CPS Board to participate in a fully competitive market, particularly in light of the fact that CPS is among the lowest cost 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 currently believes that it is taking all steps necessary to prepare for possible competition in the unregulated energy market, should the City Council and the CPS Board make a decision to opt-in, or if future legislation forces municipal utilities and electric co-ops into retail competition.

Strategic Initiatives

In 2008, CPS implemented Vision 2020, outlining CPS' long-term view and focusing on four key objectives: increasing its energy efficiency and conservation efforts; expanding renewable-energy resources; providing cost-competitive electricity; and maintaining its strong commitment to the environment. To ensure achievement of Vision 2020, the following key strategic business drivers were established, along with targets for each: customer relationships, employee relationships, external relationships, operational excellence, renewable / carbon constraints / environment, technology and innovation, and financial integrity. As part of the Vision 2020 Generation Strategy, CPS projects, by 2020, its generation mix to be approximately 25.0% of coal, 25.0% of nuclear, 30.0% of natural gas, 10.0% of wind power, 4.0% of solar power, 5.7% of purchased power and 0.3% of landfill gas. CPS also plans to include 4.0% as part of its generation projection to be met through the STEP program. As strategies and/or market conditions change, these projections may be modified in the future.

In support of CPS' commitment to provide world-class energy solutions to meet the diverse and unique needs of its customers, while acting as an economic engine to drive value and growth in the community, CPS designed an integrated two-year integrated planning process ("CPS Integrated Planning Process") to serve as its roadmap forward.

Through thoughtful leadership, partnerships and CPS' passionate employees, management continues to strategically and successfully evolve its value portfolio to achieve top-tier safety, customer service, electric and gas delivery, generation availability, and financial performance.

The CPS Integrated Planning Process is derived through a deliberately orchestrated cross-functional effort, and aligned with current strategic drivers, risk management and financial planning. Complementary to the CPS Business Plan are business unit plans designed to reinforce CPS' objectives by way of major initiatives, milestones, metrics, targets, and goal alignment. Supporting lowered-tiered metrics, targets, and goals are appropriately cascaded throughout the organization, ensuring a traceable path from enterprise level objectives to business unit goals and to individual performance accountabilities.

CPS' success is measured through operational excellence processes, including reporting, monitoring, and assessing metric trends throughout the year ultimately managing and leading towards goal attainment.

To enhance its relationship with the community and to provide community input directly to the CPS Board and CPS staff, CPS established a 15-member Citizens Advisory Committee ("CAC"). The CAC meets monthly with the primary goal of providing recommendations on utility-related projects and programs to offer a customer perspective on community issues, assist in identifying strengths and offer suggestions for improvement to the organization. Representing the various sectors of CPS' service area, the CAC encompasses a broad range of representation in order to identify concerns and understand community issues. City Council members nominate ten of the 15 members, one representing each City Council district. The other five members are at-large candidates who can reside anywhere within the service territory. The CPS Board approves all members of the CAC and each member can serve up to three two-year terms.

With respect to State and national legislative action regarding competition, CPS continues to participate actively in the legislative process to voice the interests of Municipal Utilities and play an integral part in shaping the new environment in which it will operate. CPS continues to evaluate the price components of the energy services it provides, recognizing that the price for electricity will be a paramount factor for succeeding in a deregulated environment. Cost containment initiatives coupled with additional phases of debt management strategies will continue in the years ahead.

Flexible Path Strategy. In March 2018, CPS announced its Flexible Path. The Flexible Path is a fresh strategic approach on how CPS will prudently plan for, develop and / or install new energy sources to serve its community. CPS continually evaluates its generation portfolio, and will leverage its existing community-owned generation assets to bridge to a future that enables more non-emitting resources such as wind, solar, energy storage and new technology. CPS has conducted two public input sessions with the CPS Board as well as over 50 partner meetings to educate local stakeholders on the future of its generation mix. As a part of the Flexible Path, CPS partnered with Go Smart Solar to operate and maintain 5 MWs of community-owned solar. Through this partnership, solar-paneled covered parking spaces will be constructed throughout the City, a project known as "Big Sun Community Solar".

Recently, CPS announced the Flex Power Bundle. The Flex Power Bundle is a blended energy approach through which CPS will consider adding more incremental capacity of solar, energy storage, and natural gas. The Flex Power Bundle is a diversified solution set that recognizes today's renewables alone cannot support all of the community's customers consistently and reliably, 24 / 7 / 365. It is a generation package that will ensure the community can move forward while maximizing the existing community-owned generation assets, which are powered by gas, coal, solar, wind and nuclear sources. Both the Flexible Path and the Flex Power Bundle will help the community move closer to a practical and cleaner energy footprint.

CPS anticipates implementation of many more programs and strategic partnerships under the Flexible Path.

Energy Conservation. CPS' programs and activities to assist customers in understanding energy and ways to reduce electric and gas usage include:

- comprehensive suite of energy efficiency programs offering rebates and incentives for residential, commercial, and industrial customers;
- maintaining a secure web site, Manage My Account at https://www.cpsenergy.com/en/customer-support/manage-my-account.html. Using an Internet connection to log in, CPS customers can: access My Energy Portal; view their current bill; view current balance due; view past bills; pay by check or credit card; start / stop / transfer service; sign up for a payment plan; view payment history; view energy usage;

update mailing address; update phone number; authorize contacts; set up alert preferences; and manage their profile;

- maintaining a secure web site, named My Energy Portal at https://www.cpsenergy.com/en/customer-support/my-home-billing-acct/my-energy-portal.html. The portal is available through Manage My Account. With a smart meter and the My Energy Portal, customers can see energy usage (both gas and electric) as recently as the day before. Customers are able to: see their monthly bill, as far back as a year; compare energy efficiency to similar "neighbors"; access over 150 energy efficiency tips; set up their own customized energy savings plan; and compare month-to-month energy usage billing and see reasons for a decrease or increase. These additional insights will eventually be available to all customers. CPS has installed more than 1.1 million smart meters as of January 31, 2019;
- maintaining a phone number where customers can obtain conservation and other energy-related information;
- providing a free comprehensive weatherization program for low-income customers at or below 200% of the federal poverty level;
- providing load curtailment programs for commercial and industrial customers;
- providing multiple residential thermostat offerings under My Thermostat Rewards umbrella, that help residential and small commercial customers to save energy and reduce demand at peak times;
- offering a full suite of rebate programs for energy efficiency improvements by residential, small commercial, multi-family and large commercial customers;
- scheduling consumer information exhibits at high-traffic locations such as customer care fairs, special events, and trade shows;
- conducting utility-related presentations for schools, community service organizations, business and professional groups, and home owner associations; and
- making available a free in-person home energy assessment at https://residential.savenow.cpsenergy.com/assessment.

On January 20, 2009, the CPS Board approved a new Sustainable Energy Policy Statement. Centralized power plants, including utility scale solar, and the traditional electric utility business model, are needed now to bridge the gap to the future. However, in the future, more electricity will come from distributed renewable resources and stored energy, and will be distributed on a "smart grid" to customers empowered with the information to better control their own energy cost and consumption. CPS offers rebates for residential and commercial customers who elect to install a "rooftop" solar photovoltaic ("PV") system. In addition to receiving a rebate, these customers currently receive the additional benefit of being placed on net metering, in which the credit value of the energy their system produces is equivalent to the retail value of the energy delivered by the utility. The current net metering program does not include recovery of the utility's costs for maintaining and upgrading its systems. In October 2014, CPS issued the first of two one-megawatt alternating current ("AC") solar Requests for Proposal. Responses to these pilot program requests for proposal were evaluated and two vendors were selected. CPS selected Clean Energy Collective ("CEC"), the world's leading community solar provider, to bring the first "Roofless" community solar pilot project to the City. CEC has since developed a 1.2 MW direct current solar PV facility, providing CPS customers the opportunity to own local clean energy generation through the Roofless Solar program. The Roofless Solar program went live August 26, 2016, and is fully subscribed. CPS also selected PowerFin Partners ("PowerFin"), a solar development firm based in Austin and San Antonio, to launch SolarHostSA, a groundbreaking pilot program that allows participants to host PV systems on their rooftops in exchange for credits on their energy bill. Working under a power purchase agreement with CPS, PowerFin installs and operates up to 5 MW AC of rooftop solar on homes and businesses throughout the CPS service territory, offering the community the chance to realize the benefits of local solar at no cost to them. The two new programs, Roofless Solar and SolarHostSA, are marketed to customers under the trademarked name Simply Solar. Beginning February 1, 2016, CPS allocated an additional $30 million of solar rebates for customer-owned PV systems. The rebate extension was designed so the rebate amount would decline at predetermined spending levels. The first $10 million of rebate funds were designated with a rebate of $1.20 per watt, the second $10 million at $1.00 per watt, and the last $10 million at $0.80 per watt. On January 30, 2017, CPS announced its intention to fund an additional $15 million in solar rebates ($9 million for residential and $6 million for commercial projects) allocated for this initiative. The new solar incentive, which took effect April 2017, is at $0.60 per watt, with an additional $0.10 per watt applicable to systems that utilize locally-manufactured components. CPS added an additional $15 million in rebate funds in January 2018 that took effect starting March 2018. On December 3, 2018, CPS initiated another round of solar rebate funding with a new flat incentive of $2,500 for residential systems. An additional $500 is provided for systems utilizing local-made panels. Commercial systems are rebated at $0.60 per watt for the first 25 kW and $0.40 per watt on greater than 25 kW, with another $0.10 per watt for utilizing local-made panels. As of January 31, 2019, 14,823 customers have installed rooftop solar, with 126 MW of capacity.

In connection with CPS' development of a Strategic Energy Plan that includes energy efficiency as well as generation, CPS has committed to STEP. As herein before described, the goal of the STEP program is to save 771 MW of demand between 2009 and 2020. The 771 MW is equivalent to the amount of energy produced by a medium-sized power plant on an annual basis. To put this into perspective, the CPS Spruce1 power plant generates 555 MW and the newest Spruce2 generates 785 MW of electricity. Cumulatively, the STEP program has, since its implementation, saved approximately 714 MW through fiscal year 2019. On May 23, 2016, CPS approved three-year agreements to outsource the delivery of its energy efficiency programs. CPS selected CLEAResult, the nation's largest implementer of energy efficiency programs, to deliver its commercial efficiency programs. CPS selected Franklin Energy Services, a leading implementer of energy efficiency programs for utility, state and municipal clients nationwide and in Canada, to deliver its residential efficiency and weatherization programs. The agreements have expanded the portfolio of program offerings available to customers and increased adoption toward achievement of the STEP goal. On April 29, 2019, CPS approved an eight-month extension of the CLEAResult and Franklin Energy contracts for delivery of services through January 31, 2020. CPS evaluates and modifies program offerings annually to target the most effective methods for energy reduction.

On June 8, 2010, CPS committed to partner with the Texas Sustainable Energy Research Institute (the "Institute") at UTSA for sustainable energy research. CPS agreed to invest up to $50 million over ten years in the Institute. From its inception in September 2010 through May 2018, CPS has invested $8.7 million in the Institute. On June 26, 2018, the CPS Board approved funding for four research initiatives to enhance intelligent building energy management, solar forecasting, energy harvesting from roadways, and smart grid security, totaling approximately $0.9 million. Future funding will be determined by the scope of the projects defined by the partnership and will be subject to annual approval by the CPS Board.

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. CPS does not currently use interest rate swaps, but continues to assess them as potential debt management tools that could be incorporated into the CPS debt portfolio in the future. 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 providing guidelines under which financing and debt transactions are managed. These guidelines focus on financial options intended to lower debt service costs on outstanding debt, facilitate alternative financing methods to capitalize on present market conditions, optimize capital structure, and maintain favorable financial ratios. Under these guidelines, CPS' gross variable rate exposure cannot exceed 25% of total outstanding debt. Gross variable rate debt as of the date hereof, is estimated to comprise approximately 16.4% of CPS' debt portfolio.

CPS management continually evaluates the inventory of all non-core business assets and determines if these assets should be divested for more efficient use.

Additional Generation Opportunities

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. 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; financial investment requirements, annual asset operation and maintenance costs, environmental impacts; and other factors.

CPS continues to monitor proposed regulatory changes that could raise the costs of operating plants, such as those that have been proposed for units that use carbon-based fuels. To work towards mitigating this carbon-based regulatory risk, CPS management deactivated its two oldest non-scrubbed coal units, Deely1 & Deely2, at the end of 2018 (and whose supply to native load was substantially replaced with the Rio Nogales Plant output). CPS' management is pursuing a multifaceted strategy with the goal of maintaining a well-balanced portfolio, in addition to analyzing traditional generation sources and aggressively growing its renewable energy portfolio as described in the "Generating Capability" table, and expanding its efforts towards community-wide energy efficiency and conservation. These mitigation efforts are also referred to as the "5th Fuel" and are very important to CPS' strategic energy plans and specifically to its new generation needs. Additionally, CPS' management has explored and continues to cooperatively develop opportunities with the 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.

Electric System

Power Generation Sources. CPS operates 17 non-nuclear electric generating units, two of which are coal-fired and 15 of which are gas-fired. Some of the gas-fired generating units may also burn fuel oil (diesel), which provides fuel flexibility and greater reliability. CPS also owns a 40% interest in South Texas Project's ("STP") two existing nuclear generating Units 1 and 2. These nuclear units supplied 34.5% of the electric system's native load for the twelve months ending January 31, 2019. See the "Generating Capability" table below.

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

Generating Capability [1]

Plant	Unit	Fuel	Year Installed	Summer Net Max Capability MW[2]	Total Capability MW	
STP (40% interest)[3]	Unit 1	Nuclear	1988	518.0		
	Unit 2	Nuclear	1989	518.0	1,036.0	Nuclear
Spruce Plant	Unit 1	Coal	1992	560.0		
	Unit 2	Coal	2010	785.0[4]	1,345.0	Coal[5]
Arthur Von Rosenberg (NGCC 2x1)	Unit 1	Gas	2000	492.0		
Sommers Plant	Unit 1	Gas / Oil	1972	420.0		
	Unit 2	Gas / Oil	1974	410.0		
Braunig Plant	Unit 1	Gas / Oil	1966	217.0		
	Unit 2	Gas / Oil	1968	230.0		
	Unit 3	Gas / Oil	1970	412.0		
Milton B. Lee West Plant[6]	MBLCT 1[6]	Gas	2004	46.0		
	MBLCT 2[6]	Gas	2004	46.0		
	MBLCT 3[6]	Gas	2004	44.0		
	MBLCT 4[6]	Gas	2004	46.0		
Milton B. Lee East Plant[6]	MBLCT 5[6]	Gas / Oil	2010	48.0		
	MBLCT 6[6]	Gas / Oil	2010	48.0		
	MBLCT 7[6]	Gas / Oil	2010	48.0		
	MBLCT 8[6]	Gas / Oil	2010	47.0		
Rio Nogales Plant[7] (NGCC 3x1)	Unit 1	Gas	2002	785.0	3,339.0	Gas / Oil
Total Capability Owned by CPS					5,720.0	
Renewable Purchased Power Nameplate Capability:						
Desert Sky Wind Farm		Wind	2002	168.0[9]		
Cottonwood Creek Wind Farm		Wind	2005	100.5		
Sweetwater 4		Wind	2007	240.8		
Penascal		Wind	2009	76.8		
Papalote Creek		Wind	2009	130.4		
Cedro Hill		Wind	2010	150.0		
Los Vientos		Wind	2012	200.1	1,066.6	Wind
Covel Gardens		Landfill Gas	2005	9.6		
Nelson Gardens		Landfill Gas	2014	4.2	13.8	Landfill Gas
Blue Wing		Solar PV[8]	2010	13.9		
Sinkin 1		Solar PV[8]	2012	9.9		
Sinkin 2		Solar PV[8]	2012	9.9		
Somerset		Solar PV[8]	2012	10.6		
Alamo 1		Solar PV[8]	2013	40.7		
St. Hedwig (Alamo 2)		Solar PV[8]	2014	4.4		
Eclipse (Alamo 4)		Solar PV[8]	2014	39.6		
Walzem (Alamo 3)		Solar PV[8]	2015	5.5		
Helios (Alamo 5)		Solar PV[8]	2015	95.0		
Solara (Alamo 7)		Solar PV[8]	2016	106.4		
CFC Beck (Community Solar) [10]		Solar PV[8]	2016	1.0		
Sirius 1 (Alamo 6)		Solar PV[8]	2017	110.2		
Sirius 2 (“Pearl”)		Solar PV[8]	2017	50.0		
Lamesa II (Ivory)		Solar PV[8]	2018	50.0	546.1	Solar PV
Total Renewable Purchased Power Nameplate Capability					1,628.8	
Total Capability including Renewable Purchased Power					7,348.8	

(1) Data as of January 31, 2019.
(2) Summer net max capability reflects net summer rating for CPS owned plants.
(3) Current net summer electric rating (MWe) for CPS’ share of STP1 & 2.
(4) Spruce2 generator was replaced in January 2019. The generator has a reactive power limitation that is not expected to impact full loan capability during summer operations, and repairs are planned for the first quarter 2020.
(5) Deely Plant (840 MW capability) was deactivated (mothballed) at the end of calendar year 2018.
(6) “CT” stands for “Combustion Turbine”. Plants renamed MBL (Milton B. Lee) CT as of March 6, 2014.
(7) The Rio Nogales Plant was commissioned in 2002 and purchased by CPS on April 9, 2012.
(8) Solar PV capacity is reported on an alternating current (AC) nameplate basis.
(9) Desert Sky Wind Farm capacity updated to better reflect contracted nameplate capacity after turbine uprate.
(10) Community Solar pilot project “CFC Beck” added to CPS renewable portfolio table to align with other corporate reporting.

Renewable Resources

As of January 31, 2019, CPS' renewable energy capacity totals 1,628.8 MW. CPS has one of the strongest and most diverse renewable energy programs in Texas with a renewable capacity under contract totaling 1,628.8 MW including local solar, West Texas solar, West Texas wind, coastal wind and landfill gas.

As a step in diversifying its energy resource plan, CPS is proactively pursuing renewable energy supplies. CPS is currently receiving renewable energy under several long-term contracts. CPS has two contracts for wind-generated energy from the Desert Sky Wind Project: a 20-year contract for 135 MW and a 15-year contract for 25.5 MW. These contracts were recently renegotiated into one single contract, with a termination date of December 31, 2021, in response to a request from the developer to repower the project with improved equipment. The plant capacity factor will improve, providing CPS with additional MWh at a lower cost per MWh than the original contracts. The term of the new contract remained the same as the original contracts. The repower was completed in August 2018 and also added approximately 10 MW of nameplate capacity. CPS also has a 20-year contract for 100.5 MW from the Cottonwood Creek Wind Farm; a 20-year contract for 240.8 MW from the Sweetwater Wind Farm; a 15-year contract for 76.8 MW from the Penascal Wind Farm; a 15-year contract for 130.4 MW from the Papalote Creek Wind Farm; a 20-year contract for 150 MW from the Cedro Hill Wind Farm; and a 25-year contract for 200.1 MW from the Los Vientos Wind Farm. Recent transmission congestion in South Texas during various seasons has impacted the Cedro Hill and Los Vientos wind farms, resulting in agreed-upon curtailment of these units during periods of negative pricing (action of which type represents industry standard procedure).

CPS also has a 15-year contract for a landfill gas-generated energy project totaling 9.6 MW which came on-line in December 2005. Under an additional contract, the Nelson Gardens 4.2 MW landfill gas generation project achieved commercial operation in April 2014.

CPS is growing its solar energy portfolio with a 30-year contract for the 13.9 MW Blue Wing solar energy project, which entered into commercial operation in November 2010; two 25-year contracts for Sinkin 1 and 2, each 9.9 MW which became operational in May 2012 and a 25-year contract for 10.6 MW from the Somerset Solar project, which became operational in August 2012. Sinkin 1 and 2 and Somerset Solar projects comprise what was formally referred to as the SunEdison Project.

In August 2018, renewable energy infrastructure developer Renewable Energy Systems was selected by CPS to construct an innovative solar and energy storage project to be located at Southwest Research Institute and will be the first co-located solar and storage project interconnected at the distribution level within ERCOT. This project broke ground on October 9, 2018 and is expected to be online by the fall of 2019. This project has 17,752 solar panels that produce about 5 MW of electricity (an amount expected to power approximately 1,000 homes).

CPS executed a Master Agreement with OCI Solar Power for approximately 400 MW from seven facilities. All seven facilities have been or became operational in early 2017. Each individual facility comprising OCI Solar's 401.8 MW has an existing PPA. OCI's Alamo 1 project facility of 40.7 MW achieved commercial operation in December 2013; St. Hedwig (Alamo 2) for 4.4 MW achieved commercial operation in March 2014; Eclipse (Alamo 4) facility at 39.6 MW, achieved commercial operation in August 2014; Walzem (Alamo 3) project at 5.5 MW achieved commercial operation in January 2015. The Uvalde (Helios – Alamo 5) facility at 95 MW became operational at the end of December 2015. The Haskell (Solara – Alamo 7) facility at 106.4 MW became operational in September 2016. The Sirius 1 (Alamo 6), at 110.2 MW in Pecos County, Texas, began producing test energy in late 2016 and became operational in March 2017. At this time, Alamo 6 is one of the largest solar PV plants in Texas. In addition to the PPAs executed under the Master Agreement with OCI, CPS has also executed two separate 25-year PPAs for Project Pearl (50 MW located adjacent to Alamo 6) and for Project Ivory (50 MW located near Lamesa). Project Pearl became operational on October 16, 2017, and Project Ivory, which recently sold to D.E. Shaw Renewable Investments, began commercial operation on December 20, 2018. In March 2017, CPS and OCI executed an Amended and Restated Master Power Purchase and Economic Development Agreement. The original Master Agreement was replaced in order to simplify the agreement and reflect pertinent terms going forward.

CPS receives energy from 1,068.9 MW of wind, 546.1 MW of solar, and 13.8 MW of landfill gas generated energy for a total renewable energy capacity in operation of 1,628.8 MW, thereby exceeding CPS' goal of 1,500 MW of renewable capacity by 2020.

An estimate of 1.0 MW of solar electricity will be produced by CPS's Solartricity Producer Program. The Solartricity Producer Program is a limited pilot project that is currently closed to any new subscribers and is not included in the "Generating Capability" table. Each Solartricity participant has a 20-year contract with CPS. In addition, the pilot "Simply Solar" programs discussed herein, currently constitute approximately 6 MW of solar capacity. When including these pilot programs, CPS' renewable portfolio capacity increases to 1,635.8 MW. These new programs are not currently included in the "Generating Capability" table.

Nuclear. Nuclear is CPS' other base energy option, providing about 25.4% of CPS' total net annual generation for the twelve months ending January 31, 2019. The South Texas Project ("STP") is a two-unit nuclear power plant with Unit 1 and Unit 2 (or "STP1 and STP2") having a nominal output of approximately 1,318 MW each. STP is located on a 12,220-acre site in Matagorda County, Texas, near the Texas Gulf Coast, approximately 200 miles from San Antonio. CPS currently owns 40% of these units. Participant Ownership ("Participants") in STP1 and STP2 and their shares therein are as follows:

	Ownership Effective February 2, 2006 [1]	
Participants	%	Nameplate MW (approximate)
NRG Energy, Inc. ("NRG")	44.0	1,160
CPS	40.0	1,054
City of Austin-Austin Energy	16.0	422
	100.0	2,636

(1) In 2006, Texas Genco, holder of a 44% interest in STP, was acquired by NRG. NRG holds its interest in STP1 and STP2 in NRG South Texas LP, a wholly owned subsidiary of NRG.

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 the STPNOC, with each owner appointing one member to serve with the STPNOC's chief executive officer ("CEO"). The STPNOC Board of Directors selected Tim Powell as the Interim CEO and President to replace Mr. Koehl, who retired on January 11, 2018. On August 20, 2018, STPNOC announced that Tim Powell, who served as Interim President and CEO, assumed the role permanently. All costs and output continue to be shared in proportion to ownership interests.

On February 9, 2017, STPNOC received a final significance determination notice from the Nuclear Regulatory Commission ("NRC") concerning a previously identified security-related finding. The NRC concluded the finding was Greater than Green and of low to moderate security significance. The finding was identified during an NRC inspection conducted from October 19 through December 1, 2016. STP took prompt actions to address the finding. Because the finding was characterized as Greater than Green, the NRC determined that STP would be in the Regulatory Response Column of the Reactor Oversight Process Action Matrix. STP successfully completed an NRC follow-up inspection in August 2017. Subsequently, the NRC returned STP to the Licensee Response Column of the Reactor Oversight Process Action Matrix effective October 2017.

NRC, which retains jurisdiction to conduct cybersecurity-related inspections at nuclear facilities, completed a cyber security inspection of STP in October 2017. STP successfully completed this inspection and was the first nuclear facility in the country that received such an inspection.

In September 2017, the NRC approved STPNOC's license renewal applications for STP1 and STP2 that extends the operating licenses to 2047 and 2048, respectively.

During the twelve months ended December 31, 2018, STP1 and STP2 operated at approximately 94.1% and 95.2% of net capacities, respectively.

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 the DOE of 1.0 mill per kilowatt hour (1M / kWh) of electricity generated and sold from the power plant along with additional assessments. In exchange for collecting this fee and the assessments, the 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. The National Association of Regulatory Utility Commissioner ("NARUC") has challenged further collection of this fee. On November 19, 2013, the U.S. Court of Appeals for the District of Columbia ruled in favor of NARUC and ordered the DOE to submit to Congress a proposal to reduce the fee to zero until certain conditions are met. While the reporting of volumes will continue, effective May 16, 2014, the rate changed to 0.0 mill per kilowatt hour (0/M/kWh), or no fee.

To date, the DOE has not accepted used fuel from any domestic commercial nuclear power plant. According to the filings in one recent suit brought against the DOE, at least 66 cases have been filed in the Court of Federal Claims against the DOE related to its failure to meet its obligations under the NWPA by the existing owners or operators of nuclear facilities seeking damages related to ongoing used nuclear fuel storage costs. In early 2016, a federal district court in Washington, D.C. ruled against the DOE, ordering the government to clean up the Hanford Nuclear Reservation in response to NWPA violations. Entergy Nuclear Generation Company ("Entergy") and Boston Edison Company ("Boston Edison") filed suits alleging a $40 million claim before the Court of Federal Claims regarding allegations that the DOE failed to compensate a nuclear energy company for nuclear waste storage fees incurred. In an opinion and order addressing both companies' claims, dated February 14, 2017, the court dismissed Boston Edison's complaint (based on the rationale that such claim was not yet ripe) and dismissed the government's motion to stay discovery related to the Entergy case due to Boston Edison's claim resolution by the court.

On August 31, 2000, in *Maine Yankee Atomic Power Company, et. al. v. US*, the United States Court of Appeals for the Federal Circuit affirmed that the DOE has breached its obligations to commercial nuclear power plant owners for failing to live up to its obligations to dispose of used nuclear fuel. Subsequent to that decision, the DOE has settled with certain commercial nuclear power plant owners and agreed to provide funds to pay for storage costs while the DOE continues to develop a permanent high-level waste repository. In early February 2013, STPNOC, on behalf of the owners of STP, entered into a similar settlement with the DOE. Under the terms of the settlement, the DOE will reimburse STP for certain costs that will be incurred in continuing onsite storage of all of its used nuclear fuel. As with similar settlements throughout the nuclear industry, the terms of the agreement call for the DOE to reimburse for certain costs incurred through December 2013. In early November 2013, STPNOC and its outside counsel received notice from the Department of Justice ("DOJ") that the DOE was offering to extend the terms of the settlement to allow for the DOE to reimburse for costs incurred through December 2016. The settlement extension (addendum) was executed on January 24, 2014, and extended the term of the Spent Fuel Settlement Agreement with the DOE through December 31, 2016. In November 2016, STPNOC and its outside counsel received notice from the DOJ that the DOE extended the terms of the settlement through December 31, 2019. Additionally, *In re Aiken County*, 725 F.3d 255 (D.C. Cir. 2013), the court ordered the NRC to comply with the NWPA and use available funds to resume consideration of the DOE's Yucca Mountain application as a possible depository. NRC staff concluded the Yucca Mountain to be a safe location, but the DOE must still obtain acquisition rights and complete licensing requirements. On May 6, 2016, NRC issued its final supplement to the environmental impact statement examining the use of the Yucca Mountain as a permanent repository for used nuclear fuel and high-level radioactive waste. After analyzing the potential impacts on groundwater and surface groundwater discharge, the NRC determined all impacts would be "small". The adjudicatory hearing, which must be completed before a licensing decision can be made, remains suspended. On December 16, 2016, the DOE released its "Draft Plan for a Defense Waste Repository", evaluating the possibility of a separate disposal repository (other than the Yucca Mountain). The preliminary plan describes the technical regulatory, risk management, cost, and schedule consideration thereof and remained open for comment until March 20, 2017. In January 2017, the Government Accountability Office issued a report that assessed DOE's analysis of the defense-only repository as excluding major costs "that could add tens of billions of dollars" and including a schedule that "appears optimistic", in light of "past repository siting experiences". Legislation introduced for fiscal year 2019 and fiscal year 2020 did not provide any funds for licensing the Yucca Mountains as a nuclear waste repository.

Until the DOE is able to fulfill its responsibilities under the NWPA (which includes a permanent underground disposal facility), 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 analysis of

NRC guidance, STPNOC constructed an on-site independent spent fuel storage installation ("ISFSI" also known as "Dry Cask Storage") and commenced dry cask loading operations of spent nuclear fuel in January 2019. Expenditures for the spent fuel management project are being funded by the STP owners as the costs are incurred. CPS funds its 40% ownership share of these costs and periodically requests reimbursement from its Decommissioning Trusts for allowable costs.

Annually, STPNOC submits claims to the DOE for the reimbursement of allowable costs for spent fuel management. Allowable costs are returned by STP to the owners upon receipt of funds from the DOE. CPS reimburses the Decommissioning Trusts for the settlement amount received from the DOE. Qualifying spent fuel management costs not reimbursable by the DOE are funded by the Decommissioning Trusts. Any costs not reimbursable by the DOE or the Decommissioning Trusts are recorded as STP operational and maintenance expenses or capital costs.

CPS received reimbursement for certain initial costs related to the Dry Cask Storage project incurred prior to May 1, 2012. A second claim submitted to the DOE under the Spent Fuel Settlement Agreement was submitted on October 31, 2013, and sought reimbursement for covered costs during the period of May 1, 2012 through July 31, 2013. On April 14, 2014, the DOE issued a letter that denied reimbursement for certain costs associated with upgrading the spent fuel dry cask handling cranes. On May 8, 2014, STPNOC agreed to accept the DOE's decision but reserved the right to seek reimbursement for future costs associated with upgrading the cranes. CPS expects that the DOE will render its decision regarding the eligibility for reimbursement of future crane upgrade costs as part of the review process for each annual claim. For those costs that have been deemed, or that in the future may be determined to be non-reimbursable by the DOE, CPS expects to pay these costs using funds currently held in the STP Decommissioning Trusts. CPS received its share of the allowable reimbursement costs from the DOE on August 6, 2014. The third claim with the DOE under the Spent Fuel Settlement Agreement was submitted on October 31, 2014, and sought reimbursement for covered costs during the period of August 1, 2013 through July 31, 2014. In January 2015, $3.2 million was recorded for STP spent fuel management project capital costs. On February 25, 2015, STPNOC received DOE's "Determination Letter" regarding this claim which disallowed reimbursement of certain costs associated with dry cask handling crane upgrades. STPNOC filed a Request for Reconsideration with the DOE on March 27, 2015. On June 25, 2015, the DOE issued a Supplemental Determination letter which determined that a portion of the costs to upgrade the dry cask handling cranes was reimbursable as an allowable cost. CPS received its share of the allowable reimbursement costs from the DOE on August 21, 2015 for the third claim. The fourth claim with the DOE under the Spent Fuel Settlement Agreement was submitted on October 30, 2015 and sought reimbursement for covered costs during the period of August 1, 2014 through July 31, 2015. On March 3, 2016, STPNOC received DOE's "Determination Letter" regarding this claim which disallowed reimbursement of certain costs. On June 13, 2016, CPS received its share of the allowable reimbursement costs from the DOE for the fourth claim. The fifth claim with DOE under the Spent Fuel Settlement Agreement was submitted on October 28, 2016. On February 13, 2017, STPNOC received DOE's "Determination Letter" regarding this claim for reimbursement of certain costs. On June 14, 2017, CPS received its share of the allowable reimbursement costs from the DOE for the fifth claim under the Spent Fuel Settlement Agreement. On April 11, 2018, DOE issued its "Determination Letter" regarding the October 2017 claim from STP. STP accepted the DOE's Determination Letter on April 20, 2018 and payment was received on June 1, 2018. The seventh claim under the Spent Fuel Settlement Agreement with the DOE was submitted in late October 2018 for the period of August 1, 2017 to July 31, 2018. On April 29, 2019, CPS received its share of the allowable reimbursement costs from the DOE.

A June 2012 decision by the United States Court of Appeals for the District of Columbia vacated the NRC's waste confidence rule update. In response, the NRC issued an order stating that final approval of licenses dependent on the waste confidence rule, such as new reactor licenses and license renewals (combined construction and operating license application – "COLA"), would not be granted until the court ruling had been addressed. Subsequently, the NRC directed staff to develop a new waste confidence rule and Generic Environmental Impact Statement ("GEIS") by September 2014. In January 2014, the NRC revised the review schedule for the GEIS and to have a new final rule by October 3, 2014. The slight delay in schedule was related to time lost during the government shutdown and lapse of appropriations in October 2013. On August 26, 2014, the NRC approved the GEIS and final rule (renamed the Continued Storage Rule). In a separate order, NRC approved lifting the licensing suspension once the Continued Storage Rule becomes effective. The rule became effective on October 20, 2014. On September 29, 2014, intervenors filed a petition to suspend the new rule with the Atomic Safety and Licensing Board (a unit of the NRC) and a proposed contention opposing the NRC's action. On February 26, 2015, the NRC issued a decision that rejects the petition, the proposed contention, and the motion to reopen filed by the intervenors in September 2014. On January 28, 2015, the intervenors filed a petition with the NRC to require a reactor-specific environmental impact statement for each license application for a new reactor and license extension (renewal). The NRC issued a decision in April 2015 that denied the petition. On April 24, 2015, the intervenors filed a petition with the NRC to intervene in the STP1 and STP2 license renewal and STP3 and STP4 license application proceedings regarding the Continued Storage Rule. On May 1, 2015, NRC staff responded to the intervenors' hearing request and motion to reopen the record in the license renewal proceeding for STP1 and STP2. The NRC concluded the intervention petition was inadmissible because it raised an issue that was beyond the scope of the proceedings by challenging a NRC rule without requesting a waiver of the rule. Furthermore, the NRC noted that the petition failed to raise a genuine issue of material fact or law and was filed late without good cause. The motion to reopen was deemed inadmissible because it was "untimely without addressing an extremely grave issue", did not address a significant environmental issue, and did not demonstrate that a materially different result would be likely if its proposed new contention had been raised at the beginning of the proceeding. Furthermore, a move to reopen and request to allow "placeholder" contentions to challenge the 2014 Continued Storage Rule and GEIS were denied by the NRC on June 9, 2015.

In late October 2014, the states of New York, Vermont, Massachusetts, and Connecticut filed a timely petition for review of the Continued Storage Rule by the U.S. Court of Appeals for the D.C. Circuit. The NRC issued further guidance in February 2015 determining the Atomic Energy Act ("AEA") does not require a waste confidence safety filing and declined to suspend final licensing decisions. Intervenor-Respondents filed a brief with the D.C. Circuit Court on September 11, 2015 in support of the Continued Storage Rule. Petitioners' reply briefs were due by October 23, 2015. The U.S. Court of Appeals heard oral arguments on February 12, 2016. On June 3, 2016, the U.S. Court of Appeals for the D.C. Circuit upheld the NRC's justification for allowing spent nuclear fuel to be stored on-site at active facilities. Petitions for rehearing were later denied by the court.

Additional Nuclear Generation Opportunities. CPS annually conducts an assessment of generation resource options to meet its expected future electric requirements. This assessment includes updates to fuel prices, wholesale electric market forecasts, and 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.

Before a commitment is made to construct the next generation facility, CPS management pursues several objectives. These objectives include the pursuit of additional stakeholder input; expanded community education about the long-term energy and conservation needs of the San Antonio community; continued option analyses and evaluations, including CPS' own formalized cost estimates; additional CPS Board approval to move forward; and expanded presentations to the City Council, which governs the related rate increases and bond issuances that may be required to support any generation construction project or existing generation asset purchase.

Nuclear. In mid-2006, CPS management directed that staff conduct an initial investigation, study, and analysis of additional nuclear capacity as one type of possible generation infrastructure. In 2007, CPS received CPS Board approval to participate in the early development phase of two additional nuclear projects that involved third-party co-owners. The first possible nuclear project was development of two additional reactors at the STP site, also known as "STP3" and "STP4". The second possible nuclear project was a proposed new two-unit facility tentatively located in Victoria County, which is also located in South Texas.

In June 2009, CPS management provided the CPS Board its formal assessment and recommendations concerning these options compared to other possible new generation types including the first public estimate of the cost of the first possible project at $13 billion, inclusive of financing costs. Reports of higher cost estimates, however, resulted in reconsideration of the advisability of participating in the STP3 and STP4 Project and, ultimately, in CPS' decision to limit participation in further development of STP3 and STP4. In a settlement negotiated with NRG and the other participants in the development of STP3 and STP4, CPS received a 7.625% ownership interest in the combined STP3 and STP4. CPS is not liable for any STP3 and STP4 Project development costs incurred after January 31, 2010. CPS also received two $40 million installment payments upon award of a DOE loan guarantee to Nuclear Innovation North America LLC ("NINA"), a NRG / Toshiba joint venture. NINA also agreed and has made a contribution of $10.0 million over a four-year period to the Residential Energy Assistance Partnership, which provides emergency bill payment assistance to low-income customers in the City and

Bexar County. In August 2015, Toshiba announced that it planned to write down its semiconductor, home appliance, and nuclear business units following an investigation into accounting issues that have resulted in the need for Toshiba to restate their past financial results. On April 25, 2016, media reports indicated the preliminary operating loss after it wrote down the value of Westinghouse nuclear power subsidiary was $6.2 billion. Previously in 2011, NRG announced it had written off its investment in STP3 and STP4. On October 1, 2015, the NRC issued a press release indicating that NRC staff had completed its Final Safety Evaluation Report (the "Report") for the Combined Licenses ("COL") for the proposed STP3 and STP4. The NRC staff provided the Report along with the Final Environmental Impact Statement on the application to the NRC for the mandatory hearing phase of the licensing process. The mandatory hearings took place on November 19, 2015, when the NRC staff provided the final Report and Final Environmental Impact Statement on the application to the NRC. On February 9, 2016, the NRC commissioners authorized issuance of the COL STP3 and STP4 and the licenses were issued on February 12, 2016. Prior to the write off, CPS performed a thorough reevaluation of its investment in the STP3 and STP4 to reassess the ongoing viability of the project and the appropriateness of continuing to report the cost of the project on its Statements of Net Position. Despite the project having secured the NRC's authorization for issuance of the COL, in January 2016, CPS concluded that, as a result of sustained changes in a number of environmental and economic factors directly affecting the projected economic feasibility of completing construction of STP3 and STP4, the project experienced a permanent impairment. CPS determined it appropriate to write off the entire $391.4 million investment in STP3 and STP4 and has not performed a re-evaluation since. The impairment loss was reported as an extraordinary item on CPS' Statements of Revenues, Expenses, and Changes in Net Position for the period ending January 31, 2016. This noncash transaction did not impact CPS' debt service coverage ratio; however, there was a resulting increase from 61.1% to 63.7% in the debt to debt and net position ratio at January 31, 2016. Going forward, CPS continues to retain a legal interest in STP3 and STP4.

On May 31, 2018, Toshiba issued a release that provided its notice to withdraw from a project to build two additional advanced boiling water reactors at the South Texas Project. On June 14, 2018, NINA issued a letter to NRC that provided its notification of Intent of Terminate this project (STP3 and STP4) because the project was no longer financially viable. On June 22, 2018, NINA issued a letter requesting NRC approval to withdraw the COL for STP3 and STP4. On July 12, 2018, the NRC issued a letter that approved the termination of the STP3 and STP4 COL. Construction was not initiated for STP3 and STP4, and nuclear materials were never procured or possessed under these licenses. Consequently, STP3 and STP4 are approved for unrestricted use.

STP cancelled all contracts related to NINA, which was established for the purpose of building additional units. On August 13, 2018, NINA provided a draft document to the STP owners, a proposed STP3 and STP4 Assignment and Assumption Agreement and Mutual Release. This agreement essentially returned the site ownership to NRG, CPS, and Austin Energy and restored site ownership and future expansion rights to the original pre-STP3 and STP4 conditions NINA executed this agreement on October 1, 2018.

Smart Grid Modernization Program. Starting in 2013, CPS began building a converged Advanced Metering Infrastructure and Distribution Automation ("DA") network. The rollout of new electric meters and gas interface management units using this network began in 2014 and was completed within 48 months. CPS believes this new program will reduce operational costs and improve reliability. A new energy portal was implemented to give customers the opportunity to better track and manage their energy usage. The combined cost of the 46 networks, electric and gas upgrades is estimated at $290 million. Operational savings, accurate reads, and distribution automation are all factored in the program. Savings are expected to cover the cost in approximately 13 years. As of January 31, 2019, approximately 1.1 million smart grid devices have been installed pursuant to this program. In addition, CPS has added a smart meter requirement to its rooftop solar rebate program.

Smart Streetlights. CPS and the City are in the process of soliciting bids from solution providers for smart streetlight controls and smart city use cases. Smart streetlight controls will allow for centralized monitoring and control of streetlights which will improve maintenance planning and increase operational efficiency. The solution will allow for adaptive lighting schedules, provide defective operation notifications, provide GPS locations of streetlights, and provide streetlight failure and status reports.

The smart streetlight platform will be leveraged by the smart city use cases. The City has identified several smart city use cases to pilot which include the following: temperature and air quality monitoring, flood detection, noise detection, and smart parking.

CPS and the City will select the top three solution providers to pilot control within the City's three Innovation Zones (Downtown, Medical Center, and Brooks City Base) over a 6-month period beginning early December 2019. Pilots will be evaluated for best value for CPS and the City and a deployment strategy will be developed in 2020.

Qualified Scheduling Entity ("QSE"). CPS operates as an ERCOT Level 4 Qualified Scheduling QSE representing all of CPS' assets and load. The communication with ERCOT and the CPS power plants is monitored and dispatched 24 hours per day / 365 days a year. Functions are provided from the Energy Market Center housed within the main office of CPS. Backup facilities have also been created. QSE functions include load forecasting, day ahead and real time scheduling of load, generation and bilateral transactions, generator unit commitment and dispatch, communications, invoicing and settlement. The QSE operates in all aspects of the ERCOT Market, including submitting bids and offers in the Day Ahead Market, operating generation and load in the Real Time Market, participating in Congestion Revenue Rights auctions, and offering ancillary services into the grid.

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

Distribution System. The distribution system is supplied by 107 substations strategically located on the high voltage 138 kV transmission system stepping down to distribution system voltages of 34.5 kV and 13.2 kV. The City's central business district is served by nine underground networks, each consisting of four primary feeders operated at 13.2 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 designed for the highest level of distribution reliability.

Approximately 8,096 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 692 miles of three-phase equivalent distribution lines, 86 miles of three-phase downtown network distribution lines, and 5,184 miles of single-phase underground residential distribution lines.

Gas System

Transmission System. The gas transmission system consists of a network of approximately 89 miles of steel mains that range in size from 8 to 30 inches. Over 62 miles of the gas transmission was placed into service since 2000 and approximately 73% is less than 25 years old. The entire system is coated and cathodically protected to mitigate corrosion. The gas transmission system operates at pressures between 135 pounds per square inch ("psig") and 1,100 psig, and supplies gas to the distribution system and CPS Generating Plants. A Supervisory Control and Data Acquisition ("SCADA") computer system monitors the gas pressure and flow rates at many strategic locations within the transmission system. Additionally, most of the critical pressure regulating stations and isolation valves are remotely controlled by SCADA. CPS has completed the required baseline assessments of the gas transmission system, in accordance with State and federal transmission integrity rules, using the most recently available technology. Furthermore, CPS maintains an ongoing reassessment plan and maintains a more conservative leak survey and patrol schedule interval than is required by regulation.

Distribution System. The gas distribution system consists of 297 pressure regulating stations and a network of approximately 5,577 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 485 psig. All steel mains are coated and cathodically protected to mitigate corrosion. Critical areas of the distribution system are also remotely monitored by SCADA and designated critical pressure regulating stations and isolation valves are also remotely controlled by SCADA.

CPS has been methodical in its assessment and renewal of distribution infrastructure utilizing a risk-based leak survey approach to identify both mains and services that are in highest need of replacement and has an annual budget for on-going system renewal.

Accounting Policies

CPS is subject to and complies with the provisions of Government Accounting Standards Board ("GASB") pronouncements and guidance made from time to time, upon assessment of applicability to and implementation by CPS. GASB pronouncements and guidance to which CPS adheres and implements are described in its audited financial statements. For a description of recent GASB pronouncements and guidance, as well as CPS' response thereto in connection with its fiscal year 2019 financial reporting, see CPS' fiscal year 2019 Basic Financial Statements and Independent Auditors' Report.

Other than the changes resulting from GASB pronouncements and guidance that are described in CPS' fiscal year 2019 Basic Financial Statements and Independent Auditors' Report, there were no additional significant accounting principles or reporting changes implemented in the fiscal year ended January 31, 2019. Other accounting and reporting changes that occurred during the prior reporting year continued into the fiscal year ending January 31, 2019. These accounting changes and the effects on the financial statements are described in greater detail in the Management Discussion and Analysis and in the notes to CPS' fiscal year 2019 Basic Financial Statements and Independent Auditors' Report.

Recent Financial Transactions

On November 5, 2014, CPS issued $262.5 million of Junior Lien Revenue Refunding Bonds, Series 2014 to refund $294.6 million of Revenue Refunding Bonds, New Series 2005.

On December 1, 2014, CPS remarketed for a four-year term $47.14 million of Variable Rate Junior Lien Revenue Refunding Bonds, Series 2012A, while at the same time defeasing $1.04 million of the original issued bonds.

On January 7, 2015, CPS issued $250.0 million of Variable Rate Junior Lien Revenue Refunding Bonds, Series 2015A and 2015B to refund $250.0 million of Junior Lien Revenue Bonds, Series 2003.

On August 13, 2015, CPS issued $320.5 million of Revenue Refunding Bonds, New Series 2015 to refund $339.5 million of Revenue Refunding Bonds, New Series 2007.

On December 1, 2015, CPS remarketed for a three-year term $47.65 million of Variable Rate Junior Lien Revenue Refunding Bonds, Series 2012B, while at the same time defeasing $0.17 million of the original issued bonds.

On December 3, 2015, CPS issued $235.0 million of Revenue Bonds, New Series 2015 to fund capital expenditures to the EG Systems.

On December 3, 2015, CPS issued $200.0 million of Junior Lien Revenue Bonds, Series 2015C and Series 2015D ($100.0 million, respectively) to fund capital expenditures to the EG Systems.

On July 28, 2016, CPS issued $544.3 million of Revenue Refunding Bonds, New Series 2016 to refund $609.0 million of Revenue Bonds, New Series 2008 and Revenue Refunding Bonds, New Series 2009A.

On December 1, 2016, CPS remarketed for a two-year term $47.50 million of Variable Rate Junior Lien Revenue Refunding Bonds, Series 2012C, while at the same time defeasing $0.16 million of the original issued bonds.

On December 13, 2016, CPS remarketed for a three-year term $124.56 million of Variable Rate Junior Lien Revenue Refunding Bonds, Series 2015A, while at the same time defeasing $0.44 million of the original issued bonds.

On April 27, 2017, CPS issued $308.01 million of Revenue and Refunding Bonds, New Series 2017 which included refunding Revenue Refunding Bonds, New Series 2006B and Revenue Refunding Bonds, New Series 2007.

On August 30, 2017, CPS issued $194.98 million of Revenue Refunding Bonds, New Series 2017 to refund certain outstanding commercial paper notes.

On September 14, 2017, CPS remarketed for a four-year term $123.3 million of Variable Rate Junior Lien Revenue Refunding Bonds, Series 2015B, while at the same time defeasing $1.73 million of the original issued bonds.

On November 15, 2018, CPS issued $218.29 million of Revenue Refunding Bonds, New Series 2018 which included refunding a portion of the Revenue Refunding Bonds, New Series 2009D and all of the Variable Rate Junior Lien Revenue Refunding Bonds, Series 2012A, Series 2012B, and Series 2012C.

On December 20, 2018, CPS issued $130.2 million of New Series 2018A Senior Lien Revenue Refunding Bonds. Proceeds, including the $20.9 million premium associated with the bonds, were used to refund $60.0 million and $90.0 million of the Commercial Paper Series A and Commercial Paper Series C, respectively.

On December 20, 2018, CPS issued $134.9 million of Series 2018 Variable-Rate Junior Lien Revenue Refunding Bonds. Proceeds, including the $1.2 million premium associated with the bonds, were used to refund $135.0 million of the Commercial Paper Series C.

On January 24, 2019, $52.5 million of New Series 2015 Senior Lien Revenue Refunding Bonds and $25.1 million of New Series 2016 Senior Lien Revenue Refunding Bonds were legally defeased with cash.

On September 25, 2019, CPS issued $114.7 million of Revenue Refunding Bonds, New Series 2019 to refund a portion of the Revenue Bonds, Taxable New Series 2012.

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

CPS Historical Net Revenues and Coverage [(1)]

	Fiscal Years Ended January 31, (Dollars in thousands) [(1)]				
	2015	2016	2017	2018	2019
Gross Revenues[(2)]	$ 2,666,411	$ 2,514,685	$ 2,494,120	$ 2,624,411	$ 2,808,260
Maintenance & Operating Expenses	1,608,949	1,484,744	1,489,688	1,587,906	1,608,352
Available For Debt Service	$ 1,057,462	$ 1,029,941	$ 1,004,432	$ 1,036,505	$ 1,199,908
Actual Principal and Interest Requirements:					
Senior Lien Obligations[(3),(4),(9)]	$ 335,440	$ 280,520	$ 290,264	$ 270,080	$ 259,726
Junior Lien Obligations[(5)]	$ 52,026	$ 94,722	$ 98,996	$ 120,996	$ 148,179
ACTUAL COVERAGE - Senior Lien[(6)]	3.15x	3.67x	3.46x	3.84x	4.62x
ACTUAL COVERAGE - Senior and Junior Liens	2.73x	2.74x	2.58x	2.65x	2.94x
PRO FORMA MADS COVERAGE					
Senior Lien[(7)]	2.95x	2.87x	2.80x	2.89x	3.35x
Senior and Junior Liens[(8)]	2.37x	2.30x	2.25x	2.32x	2.69x

[(1)] Some numbers may have been adjusted due to rounding.
[(2)] Calculated in accordance with the bond ordinances.
[(3)] Net of accrued interest where applicable.
[(4)] Includes a reduction of $14.5 million, $14.5 million, $14.5 million, $14.6 million, and $14.6 million for fiscal years 2015, 2016, 2017, 2018 and 2019, respectively, related to the direct subsidy for the Build America Bonds.
[(5)] Includes a reduction of $9.8 million, for fiscal years 2015 – 2019, related to the direct subsidy for the Build America Bonds.
[(6)] Calculation differs from "FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE" in the CPS Annual Continuing Disclosure Information Report by the inclusion of nonoperating expenses in the above schedule.
[(7)] Maximum annual debt service on CPS Senior Lien Obligations.
[(8)] Maximum annual debt service on CPS Senior Lien Obligations and Junior Lien Obligations.
[(9)] Amount shown is gross debt service and does not include any cash contributions made.

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

San Antonio Water System

History and Management

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

Final City Council approval for the consolidation was given on April 30, 1992 with the approval of Ordinance No. 75686 (the "System Ordinance"), which approved the creation of 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 a single 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 1,700 personnel and maintains over 12,600 miles of water and sewer mains. The tables that follow show historical water consumption and water consumption by class for the fiscal years indicated.

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

Historical Water Consumption (Million Gallons) [1]

						Total Direct Rate			
						Water		Sewer	
Fiscal Year	Gallons of Water Production [a]	Gallons Water Usage	Gallons Water Unbilled	Average Percent Unbilled	Gallons of Wastewater Treated [b]	Base Rate [c]	Usage Rate [d]	Base Rate [e]	Usage Rate [f]
2018 [g]	78,665	63,660	15,005	19.07%	50,775	$12.94	$23.34	$13.51	$15.84
2017 [g]	79,256	65,381	13,938	17.59%	50,945	11.82	22.09	13.04	15.29
2016 [g]	76,857	63,934	12,923	16.81%	49,282	10.90	21.18	12.35	14.48
2015 [g]	76,227	62,896	13,331	17.49%	48,563	7.75	19.73	12.75	14.04
2014	68,265	57,261	11,004	16.12%	50,689	7.49	18.99	11.99	13.20
2013	66,391	55,108	11,283	16.99%	50,076	7.31	17.81	11.54	12.71
2012	66,596	55,320	11,276	16.93%	49,055	7.31	17.96	9.92	10.91
2011	70,699	59,133	11,566	16.36%	49,918	7.10	15.72	8.73	9.60
2010	61,272	52,578	8,694	14.19%	48,151	7.10	16.03	8.73	9.60
2009	62,649	55,295	7,354	11.74%	51,987	6.77	18.74	7.76	8.58

[1] Unaudited.
[a] Pumpage is total potable water production less Aquifer Storage and Recovery recharge.
[b] Represents amounts billed to customers. Residential Class customers are billed based on water usage during a consecutive three month billing period from November through March. All other customer classes are billed for wastewater treatment based on actual water usage during each monthly billing period.
[c] Rate shown is for 5/8" meters. Includes the State-Imposed Texas Commission on Environmental Quality ("TCEQ") fee.
[d] Represents usage charge for monthly residential water usage of 7,092 gallons per month. Includes water supply and Edwards Aquifer Authority ("EAA") fees.
[e] Minimum service availability charge (includes charge for first 1,496 gallons). Includes the State-Imposed TCEQ fee.
[f] Represents usage charge for a residential customer based on winter average water consumption of 5,668 gallons per month.
[g] Amounts reflect the merger with SAWS DSP effective January 1, 2015.
Source: SAWS.

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

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

	2018 [a]	2017 [a]	2016 [a]	2015 [a]	2014	2013	2012	2011	2010	2009
Water Sales: [b]										
Residential Class	35,325	36,566	35,360	35,769	29,310	29,206	30,070	34,153	28,932	30,667
General Class	24,498	24,408	24,159	23,212	20,870	20,614	20,393	20,986	19,465	20,309
Wholesale Class	337	344	393	354	3,861	1,943	1,412	128	101	119
Irrigation Class	3,500	4,000	4,022	3,561	3,220	3,345	3,445	3,866	4,080	4,200
Total Water	63,600	65,381	63,934	62,896	57,261	55,108	55,320	59,133	52,578	55,295
Wastewater Sales:										
Residential Class	26,318	26,809	26,462	26,048	27,896	27,617	26,572	27,371	26,746	29,825
General Class	21,873	21,654	20,503	20,281	20,502	20,100	20,066	20,134	20,002	20,338
Wholesale Class	2,584	2,482	2,317	2,234	2,291	2,359	2,417	2,413	1,404	1,824
Total Wastewater	50,775	50,945	49,282	48,563	50,689	50,076	49,055	49,918	48,152	51,987
Conservation – Residential Class [c, d, e]	8,658	9,572	6,611	2,284	2,296	2,520	3,026	4,106	2,935	3,469
Recycled Water Sales	18,346	18,949	18,436	18,421	18,323	18,359	18,129	18,990	14,968	16,321

[1] Unaudited.
[a] Amounts reflect the merger with SAWS DSP effective January 1, 2015.
[b] Water Supply and EAA fees are billed based on the gallons billed for potable water sales.
[c] Gallons billed for conservation are included in the gallons billed for potable water sales.
[d] As part of a rate restructuring which took place on January 1, 2016, a portion of all monthly residential water sales in excess of 7,482 gallons is allocated to fund conservation related programs. Prior to 2016, this allocation was limited to monthly sales in excess of 17,205 gallons.
[e] Gallons effective January 1, 2017, for District Special Project customers began paying for water service under the SAWS rate structure. As a result, a portion of the revenues from those customers was included in the revenue allocated to conservation. The increase in the gallons subject to the conservation allocation from 2016 to 2017 reflects this.
Source: SAWS.

SAWS System

SAWS includes all water resources, properties, facilities, and plants owned, operated, and maintained by the City relating to supply, storage, treatment, transmission, and distribution of treated potable water, and chilled water (collectively, the “waterworks system”), collection and treatment of wastewater (the “wastewater system”), and treatment and reuse of wastewater (the “water reuse system”) (the waterworks system, the wastewater system, and the water reuse 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. 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 service area currently extends over approximately 934 square miles, making it the largest water purveyor in Bexar County. SAWS serves approximately 93% of the water utility customers in Bexar County. As of December 31, 2018, SAWS provided potable water service to approximately 505,600 customer connections, which includes residential, commercial, multifamily, industrial, and wholesale accounts. To service its customers, the waterworks system utilizes 57 elevated storage tanks and 68 ground storage reservoirs, of which 28 act as both, with combined storage capacities of 287.6 million gallons. As of December 31, 2018, the waterworks system had approximately 7,140 miles of distribution mains, ranging in size from four to 61 inches in diameter (the majority being between six and 12 inches).

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 recycling systems 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 630 square miles. SAWS also coordinates with the City for wastewater planning for the City's total planning area under the ETJ of approximately 1,107 square miles. The population for this planning area is approximately 1.6 million people. As of December 31, 2018, SAWS provided wastewater services to approximately 453,060 customer connections.

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

The wastewater system is composed of approximately 5,482 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.

Since 2006, the System has submitted 21 separate applications to the TCEQ to expand its Certificates of Convenience and Necessity ("CCN") or service areas for water and sewer service to the ETJ boundary of the City. These applications have added 28,309 acres to the water service area and 276,849 acres to the sewer service area. When the TCEQ grants a CCN to a water or sewer purveyor, it provides that purveyor with a monopoly for retail service. By expanding the CCN to the ETJ, developments needing retail water and sewer service within the ETJ must apply to SAWS. Service can then be provided according to System standards, avoiding small, undersized systems servicing new development. The expansion of the CCN to the ETJ supports development regulations for the City. Within the ETJ, the City has certain standards for the development that ensure areas developed in the ETJ, and when annexed by the City, will already have some City development regulations in place.

Recycling Water System. SAWS is permitted to sell Type I (higher quality) recycled water from its water recycling centers located on the City's south side, 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 the City. The original system was comprised of two major transmission lines, running east and west. In 2008, these two major transmission lines were interconnected at the northern end, providing additional flexibility to this valuable water resource. In 2013, an additional water recycling center and pipeline was connected to the western line, providing further recycled water system redundancy. Currently, approximately 130 miles of pipeline deliver highly treated effluent to over 60 customers. Recycled water is being delivered for industrial processes, cooling towers, and irrigation of golf courses and parks, all of which would otherwise rely on potable-quality water. Aside from supporting the local economy, this water recycling system also releases water into the upper San Antonio River and Salado Creek to sustain base flows. The result has been significant and lasting environmental improvements for the aquatic ecosystems in these streams.

SAWS also provides 50,000 acre-feet of recycled water to San Antonio's municipally-owned electric and gas utility, CPS. This water is discharged into the San Antonio River from the Dos Rios wastewater treatment facility. CPS diverts the water downstream into Braunig and Calaveras Lakes to provide cooling water for its nearby power plants. The revenues derived from such agreement have been restricted in use to only recycling activities and are excluded from both the calculation of SAWS gross revenues and any transfers to the City's General Fund. Revenues derived from this agreement are approximately $3.4 million each year.

Chilled Water System. SAWS owns, operates, and maintains five thermal energy facilities providing chilled water services to governmental and private entities. Two of the facilities, located in the City's downtown area, provide chilled water to 21 customers. They include various City facilities such as the Henry B. Gonzalez Convention Center and the Alamodome, which constitute a large percentage of the SAWS' downtown chilled water annual production requirements. In addition to City facilities, the two central plants also provide chilled water service to a number of major hotels in the downtown area, including the Grand Hyatt, Marriott Riverwalk, and Hilton Palacio Del Rio. The other three thermal facilities, owned and operated by SAWS, are located at the Port and provide chilled water 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 south Texas. The chilled water system had gross revenues of $10.8 million in fiscal year 2018.

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 ("EPA")-mandated stormwater runoff and treatment requirements under 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 fiscal year 2019 is approximately $5.2 million, for which SAWS anticipates being fully reimbursed from the stormwater utility fee imposed by the City.

Water Supply

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

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

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

The Texas Water Commission's permanent rules and the Texas Water Commission's determination that the Edwards Aquifer was an underground stream, and, therefore, subject to regulation by the State, was declared invalid by the State courts.

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

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

In 2007, the Texas Legislature passed Senate Bill 3 establishing a cap on annual pumping from the Edwards Aquifer of 572,000 acre-feet and placing restrictions into State statute regarding supply availability during drought periods, thus making these restrictions State law. SAWS currently has access to approximately 50% of the 572,000 acre-feet available. In connection with the EAA's directive from the Texas Legislature to ensure that continuous minimum spring flows of the Comal Springs and the San Marcos Springs are maintained to protect endangered and threatened species, the Edwards Aquifer Recovery Implementation Program ("EARIP") was established in 2007. The EARIP was developed through a consensus-based process that involved input from the USFWS, other appropriate federal agencies, and all interested stakeholders in the Edwards Aquifer region. Together, these entities, over a four-year period, developed and approved a springflow protection and habitat restoration plan, the Edwards Aquifer Habitat Conservation Plan ("EAHCP").

The primary parties to the EAHCP include the EAA, SAWS, the City of New Braunfels, the City of San Marcos, and Texas State University. The EAHCP was used by the USFWS as the basis for issuing an Incidental Take Permit ("ITP"), which will protect San Antonio and the region from the threat of future environmental lawsuits and federal control of the aquifer over a 15-year term. This ITP was issued by the USFWS on March 18, 2013.

For additional information on the EAHCP, see the official statement for the **CITY OF SAN ANTONIO, TEXAS WATER SYSTEM JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2019C (NO RESERVE FUND) - EDWARDS AQUIFER RECOVERY IMPLEMENTATION PROGRAM AND THE EDWARDS AQUIFER HABITAT CONSERVATION PLAN** filed with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") system.

Edwards Aquifer Authority

Pursuant to applicable Texas law, including the Edwards Aquifer Authority Act and legislation enrolled subsequent thereto serving to supplement and/or amend this legislation, the EAA has adopted rules that require a reduction in the amount of permitted Edwards Aquifer water rights that may be pumped annually for the duration of a drought event. During a period of drought management, water rights are impacted on a pro rata basis dependent upon the number of days of a calendar year that involves a particular category of drought (depending on severity) requiring a reduction in pumping. Reductions of permitted rights to withdraw water are generally applied to all permit holders, though there do exist some limited exceptions applicable to agriculture users. The various stages of reduction in permitted water rights are declared by the EAA Board of Directors and impact SAWS' access to its permitted Edwards Aquifer water rights, without input or action by the City or SAWS. The EAA's drought triggers and requisite reduction in pumping for the San Antonio and Uvalde Pools of the Edwards Aquifer are indicated in the following tables. All of SAWS' Edwards Aquifer water rights are subject to the restrictions associated with the San Antonio Pool.

SAN ANTONIO POOL				
Comal Springs Flow [1]	San Marcos Springs Flow [1]	Index Well J-17 Level [2]	Critical Period Stage [3]	Withdrawal Reduction (%)
< 225	< 96	< 660	I	20
< 200	< 80	< 650	II	30
< 150	N/A	< 640	III	35
< 100	N/A	< 630	IV	40
< 45/40 [4]	N/A	< 625	V [4]	44

UVALDE POOL				
Comal Springs Flow [1]	San Marcos Springs Flow [1]	Index Well J-27 Level [2]	Critical Period Stage [3]	Withdrawal Reduction (%)
N/A	N/A	N/A	I	N/A
N/A	N/A	< 850	II	5
N/A	N/A	< 845	III	20
N/A	N/A	< 842	IV	35
N/A	N/A	< 840	V	44

[1] Measured in cubic feet per second.
[2] Measured in mean sea level.
[3] A change to a critical period stage with higher withdrawal reduction percentages, including initially into Stage I for the San Antonio Pool and Stage II for the Uvalde Pool, is triggered if the ten-day average of daily springflows at the Comal Springs or the San Marcos Springs or the ten-day average of daily Aquifer levels at the J-17 or J-27 Index Wells, as applicable, drop below the lowest number of any of the trigger levels for that stage. A change from any critical period stage to a critical period stage with a lower withdrawal reduction percentage, including existing from Stage I for the San Antonio Pool and Stage II for the Uvalde Pool, is triggered only when the ten-day average of daily springflows at the Comal Springs and the San Marcos Springs and the ten-day average of daily Aquifer levels at the J-17 or J-27 Index Wells, as applicable, are all above the same stage trigger level.
[4] In order to enter into Critical Period Stage V, the applicable springflow trigger is either less than 45 cubic feet per second based on a ten-day rolling average or less than 40 cubic feet per second based on a three-day rolling average. Expiration of Critical Period Stage V is based on a ten-day rolling average of 45 cubic feet per second or greater.

Due to varying weather patterns, the EAA has, from time to time, imposed various Critical Period Stage withdrawal reduction notices. For any current drought restrictions, as well as additional information on the various levels of drought restrictions imposed by the EAA and current level of the Edwards Aquifer, see www.edwardsaquifer.org.

City's Edwards Aquifer Management Plan

In addition, and separate and apart from the EAA's rules governing withdrawal of Edwards Aquifer water during drought, the City has established a proactive Aquifer Management Plan to manage the region's water resources during periods of drought. Established by City ordinance, the Aquifer Management Plan also restricts water use based on specific levels of the Edwards Aquifer. The City approved the following Edwards Aquifer level triggers in 2009 and updated certain revisions to the water use restrictions in 2014.

Year Round – Year round restrictions are in effect when the Edwards Aquifer level is above 660 feet mean sea level at the monitored well (J-17 Index Well). During year round watering restrictions, SAWS customers are permitted to water landscape with an irrigation system or sprinkler any day of the week before 11 a.m. or after 7 p.m. Hand watering with a hand-held hose, drip irrigation, soaker hose or bucket is permitted any time of day.

Stage One – Stage One restrictions begin when the ten-day rolling average of the Edwards Aquifer level drops to 660 feet mean sea level at the monitored well (J-17 Index Well). SAWS customers are limited to one-day-per week landscape watering with an irrigation system or sprinkler based on the last number of the customer's street address and are only allowed to water before 11 a.m. or after 7 p.m. Watering with a hand-held hose, drip irrigation, bucket, or watering can is permitted at any time and any day.

Stage Two – Stage Two restrictions begin when the ten-day rolling average of the Edwards Aquifer level drops to 650 feet mean sea level at the monitored well (J-17 Index Well). SAWS customers are limited to one-day-per week landscape watering with an irrigation system or sprinkler based on the last number of the customer's street address and are only allowed to water from 7 a.m. to 11 a.m. and from 7 p.m. to 11 p.m. on their assigned day. Watering with a hand-held hose is allowed any time on any day.

Stage Three – Stage Three restrictions may begin when the ten-day rolling average of the Edwards Aquifer level drops to 640 feet mean sea level at the monitored well (J-17 Index Well) and the total supply of water to SAWS from the Edwards Aquifer and other available sources is insufficient to meet customer demand while complying with applicable regulations governing water supply withdrawals. SAWS customers are limited to landscape watering with an irrigation system or sprinkler once every other week based on the last number of the customer's street address and are only allowed to water from 7 a.m. to 11 a.m. and from 7 p.m. to 11 p.m. on their assigned day. Watering with a hand-held hose is allowed any time on any day.

Stage Four – Stage Four restrictions may be declared if the total supply of water from the Edwards Aquifer and other available water sources to SAWS is insufficient to meet customer demand while complying with applicable regulations governing water supply withdrawals. Stage Four restrictions may be declared at the discretion of the City Manager upon completion of a 30-day monitoring period following Stage Three declaration. SAWS customers are limited to landscape watering with an irrigation system or sprinkler once every other week based on the last number of the customer's street address and are only allowed to water from 7 a.m. to 11 a.m. and from 7 p.m. to 11 p.m. on their assigned day. Also during Stage Four, a drought surcharge is assessed on all accounts for water used or assumed to be used for landscape irrigation. The surcharge is the highest volumetric rate assessed by SAWS and is assessed on any residential and irrigation account with monthly water usage exceeding 12,717 and 5,236 gallons, respectively. The surcharge rate is assessed in addition to the regular water and wastewater rates. Watering with a hand-held hose is allowed any time on any day.

Due to varying weather patterns, the City has been in and out of drought restrictions based on the fluctuating mean sea level of the Edwards Aquifer at the J-17 monitoring well as well as changes in spring flow. For any current drought restrictions, as well as additional information on the various levels of drought restrictions and current level of the Edwards Aquifer, see www.saws.org.

Water Transmission and Purchase Agreement for Carrizo and Simsboro Aquifer Water

In an effort to achieve significant diversification of the City's water supply, the SAWS Board, on January 14, 2011, solicited requests for competitive sealed proposals for the provision and delivery of alternative water supplies for the purpose of meeting the System's water supply needs (the "Solicitation"). In response to the Solicitation, the SAWS Board received nine responses, from which three finalists were selected and reviewed prior to determining that a joint-venture proposal (such proposer, Abengoa Vista Ridge, LLC, hereafter referred to as "Abengoa VR") to deliver Carrizo and Simsboro aquifer water presented the most advantageous possibility for the City to obtain an alternative water source. On July 1, 2014, the SAWS Board formally selected the water supply proposal of Abengoa VR as the most advantageous to the System, subject to negotiation of an acceptable contract and City Council support.

On September 29, 2014 and October 15, 2014 the SAWS Board adopted resolutions, and on October 30, 2014 the City Council unanimously adopted an ordinance, approving the execution of a Water Transmission and Purchase Agreement (the "Agreement") between the City, acting by and through SAWS, and Abengoa VR, pursuant to which Abengoa VR committed to make available to SAWS, and SAWS agreed to pay for, up to 50,000 acre-feet of potable water ("Project Water") per year for an initial period of 30 years plus a limited (20 year) extension period under certain events (hereinafter referred to as the "operational" phase). To produce and deliver the Project Water, Abengoa VR planned to develop well fields to withdraw water from the Carrizo and Simsboro aquifers in Burleson County, Texas pursuant to currently-held long-term leases with landowners and construct (or cause to be constructed) a 142-mile pipeline from this well field to northern Bexar County (the well fields and the pipeline, together, the "Project"). The pipeline will ultimately be connected to the SAWS distribution system at this delivery point in northern Bexar County (the "Connection Point").

In late 2015 and 2016, Metropolitan Water Company, L.P. and affiliated companies (collectively "Met Water"), Blue Water Systems, LP and Blue Water Vista Ridge, LLC (collectively, "Blue Water"), filed various lawsuits in Travis County against each other alleging claims related to contracts they had with each other, money owed under those contracts, among other things, and, specifically, that the assignment of leases to Blue Water Vista Ridge, LLC was entered into based upon a fraudulent inducement. The leases that were the subject of the assignment to Blue Water Vista Ridge, LLC gave Abengoa VR the right to produce the Project Water to be sold to SAWS under the Agreement. As of May 21, 2019, the litigation related to the cases has since been closed and dismissed, with the exception of Metropolitan Water Company, L.P. and Met Water Vista Ridge, L.P. v. Blue Water Systems, LP and Blue Water 130 Project, LP; Cause No. D-1-GN-18-001582, in the 261st District Court, Travis County, Texas. The remaining claims in that action concern an award of attorney's fees and costs stemming from an arbitration concerning a project of Blue Water 130 Project, L.P. (the "130 Project"), an affiliate of Blue Water Systems, L.P.

In early 2016, following commencement of pre-insolvency proceedings in Spain by Abengoa SA, the parent company of Abengoa VR ("Abengoa Parent"), Abengoa VR solicited proposals to sell up to 80% of the equity interest in Abengoa VR. On March 22, 2016, SAWS received notice that Garney P3 LLC ("Garney", who is wholly owned by Garney Companies, Inc. and referred to herein as "Garney Company", who is wholly owned by Garney Holding Company, and referred to herein as "Garney Parent"; Garney, Garney Company and Garney Parent are collectively referred to herein as the "Garney Parties") had reached agreement with Abengoa Parent, Abengoa Water USA LLC ("Abengoa Water") and Abengoa VR (Abengoa Parent, Abengoa Water and Abengoa VR collectively referred to herein as the "Abengoa Parties"), for the sale and purchase of an 80% equity interest in Abengoa VR (such agreement, the "Equity Purchase Agreement"; such transferred interest in Abengoa VR, the "Transferred Project Company Interest").

On May 18, 2016, the SAWS Board approved an Amendment to the Agreement (the "First 2016 Amendment") which includes approval of the transfer to Garney of the Transferred Project Company Interest and other miscellaneous and conforming amendments to the Agreement, approved other related agreements, including a Project Real Property Conveyance Agreement between SAWS and the Central Texas Regional Water Supply Corporation, and authorized the President and Chief Executive Officer of SAWS, upon determining that all necessary prerequisites have occurred, to undertake all necessary actions and execute the First 2016 Amendment (which occurred contemporaneously with the closing under the Equity Purchase Agreement). The SAWS President and Chief Executive Officer exercised this authority on June 10, 2016, at which time the Equity Purchase Agreement closed and the First 2016 Amendment became effective. As Abengoa Parties no longer had any active participating role in the Project, the Board of Directors of Abengoa VR changed the company name to Vista Ridge LLC on September 16, 2016.

On November 1, 2016, the SAWS Board approved a second amendment to the Agreement (the "Second 2016 Amendment") to accommodate the declaration of financial closure under the Agreement. The Second 2016 Amendment was made effective on November 2, 2016 concurrent with a declaration of financial closure under the Agreement, as amended by the First 2016 Amendment and the Second 2016 Amendment. The Second 2016 Amendment also contemplated finalization of infrastructure related to the Connection Point and selection of an operating service provider to operate the Project during the "operational phase" of the Project. Neither the First 2016 Amendment nor the Second 2016 Amendment altered the Agreement's structure or provisions in a manner that differs from its description provided.

In February 2017, Garney reached an agreement to sell a 29% equity stake in Vista Ridge LLC to Ridgewood Infrastructure. As this sale did not result in a change of control within Vista Ridge LLC, SAWS approval was not required as a condition to its effectiveness. SAWS maintains approval rights for any sale that results in a change of controlling interest in Vista Ridge LLC, as well as the selection of an operating service provider under the Agreement.

In early 2018, Ridgewood Infrastructure, as lead agent for Vista Ridge LLC, began the process to select an operating service provider for the Project. Vista Ridge LLC ultimately selected EPCOR Services, Inc. ("EPCOR"), a wholly owned subsidiary of EPCOR USA, Inc., an entity ultimately owned by the City of Edmonton. On November 13, 2018, the SAWS Board approved the selection of EPCOR as operating service provider and the form of operating service agreement. The approved form of operating service agreement provides for a primary 30-year term contemporaneous with the term of the Agreement. The execution of the operating service agreement, along with a purchase by EPCOR of a 5% equity interest in Vista Ridge LLC (from the equity interest of Ridgewood Infrastructure in Vista Ridge LLC) occurred on November 21, 2018. The equity interest of Vista Ridge LLC is owned by the following: Garney with 51%, Ridgewood Infrastructure with 24%, Abengoa with 20%, and EPCOR with 5%.

On April 4, 2017, the SAWS Board approved a third Amendment to the Agreement (the "Third Amendment"), which included refinements to the Agreement's performance and operation protocols, tank configuration at the Project's Connection Point in northern Bexar County and an amendment to timing of real estate acquisition for the Project. The Third Amendment did not materially modify the Agreement's structure or provisions in a manner that materially differs from its description provided herein.

The Agreement is separated into three distinct phases. The "development" phase commenced on November 4, 2014, which was the date of complete execution and delivery of the Agreement. The "development" phase concluded on November 2, 2016 upon satisfaction of certain contractual requirements, referred to as "financial closure", and conclusion of which commenced the "construction" phase of the Project. During the "construction" phase of the Project, SAWS will also construct improvements to the System necessary to accept and integrate the Project Water. The capital cost of SAWS' improvements is currently projected at approximately $210 million. The "construction" phase has a scheduled completion date of April 15, 2020 (when the aforementioned 30-year "operational" phase commences), during which period SAWS is obligated to pay for Project Water (up to 50,000 acre-feet annually) made available to it by Vista Ridge LLC at the Connection Point.

During the "construction" phase, SAWS has retained the right to terminate the Agreement by purchasing the Project for the aggregate amount of the outstanding Project debt, contract breakage costs and return of and on equity contributions by Vista Ridge LLC's principals. As of June 30, 2019, should SAWS have elected to terminate the Agreement, the purchase price of the Project was estimated to be approximately $903 million. At the end of the "operational" phase, ownership of the Project will be transferred to SAWS at no cost. SAWS has also entered into a separate agreement with Blue Water Vista Ridge, LLC, the lessee of the Project Water, to continue to acquire the 50,000 acre-feet of untreated groundwater, for an additional 30-year period upon the termination of the Agreement and transfer of the Project to SAWS. The cost of such water at the end of the Agreement will be tied to the costs of then-prevailing two-year Edwards Aquifer water leases.

Pursuant to the terms of the Agreement, SAWS will pay costs arising under the Agreement, as Maintenance and Operating Expenses of the System, only for Project Water made available at the Connection Point (which payment will include the costs of operating and maintaining the Project). SAWS will have no obligation to pay for any debt issued by Vista Ridge LLC, and any such debt will be non-recourse to SAWS. At the time of the execution of the Agreement in 2014, SAWS originally anticipated that Project Water (the costs of which were to be paid directly to Vista Ridge LLC), together with Project operations and maintenance (as a direct pass through under the Agreement) and Project electricity (paid directly by SAWS to the utility providers) would initially cost approximately $2,200 per acre foot (with the actual cost of Project Water estimated at $1,852 to $1,959 per acre foot and the balance attributable to Project operation and maintenance expenses and electricity), resulting in an annual charge to the SAWS system of approximately $110 million (which amount does not take into account potential revenue increases resultant from Project Water being available to SAWS for sale).

On November 19, 2015, the City Council approved a series of increases to the water supply fee to finance the acquisition of new water supplies, including the Project. To date, SAWS has implemented four of the five increases, with the fifth and final increase scheduled to take place during early 2020 when payment for Project Water is imminent. This final preapproved rate adjustment is currently projected to increase the average monthly SAWS residential bill by approximately 10%.

On May 17, 2016, SAWS exercised its contractual right to fix the capital and "Raw Groundwater Unit Price" under the Agreement based on the methodology provided for therein. This action reduced the price of the Project Water component of SAWS annual payment requirement from the possible maximum amount of $1,959 per acre foot to $1,606 per acre foot, which will remain fixed for the entire 30-year term (and any extension of that term) of the Agreement. This action results in savings to SAWS of more than $17 million per year and more than $529 million over the maximum that could have been charged under the 30-year term of the Agreement.

As of September 2019, Vista Ridge LLC and the Central Texas Regional Water Supply Corporation are in the process of construction of the Project, including drilling the Project wells in Burleson County and construction of the transmission pipeline in all counties the pipeline crosses leading to Bexar County, for which over 137 miles of pipe has been laid. SAWS began the process for design and construction of the SAWS' facilities in Bexar County necessary to integrate the Project Water into the SAWS' distribution system. While originally procured using the design-build delivery method, SAWS is now proceeding with the integration project using the traditional design-bid-build methodology, with the designer from the originally selected design-build team, Tetra Tech, Inc., serving as the design engineer for the integration project and Black and Veatch Corporation transitioning its role from an owner's representative under the design-build delivery to the program manager for the integration project. Through July 2019, SAWS is approximately 40% complete with the eight System projects required to accept and integrate the Project Water into the System in early 2020. SAWS' contractor for one segment of the Project notified SAWS that it encountered challenges with the operational effectiveness and efficiency of its tunnel boring machines that caused an adverse impact on its completion schedule. The contractor is implementing schedule recovery measures to mitigate the delays. SAWS is also exploring options to minimize the impact, if any, of delayed completion if this section of the integration pipeline work is late. As with any complex construction project of this magnitude, various challenges are encountered that can impact timely completion. Notwithstanding any foreseen or unforeseen delays, including the one described above, SAWS remains fully capable of providing service to its customers and remains compliant with the payment obligations required under Agreement, while maintaining the organization's overall financial and operational integrity.

The execution and implementation of the Agreement represents a significant diversification of the City's water source, as SAWS projects that Project Water, if delivered at the maximum amount (which is the expectation of both SAWS and Vista Ridge LLC), will account for approximately 20% of the System's current annual usage.

The Vista Ridge pipeline route parallels the I-35 corridor, one of the highest growth regions in the country. Communities throughout the region have increasing water needs to sustain both growing populations and flourishing economies. While no immediate plans are in place, the Project may give the System the opportunity to wholesale up to 15,000 acre-feet per year from the Vista Ridge pipeline (or its other existing water supply projects), developing regional partnerships, providing communities a diversified water supply, and potentially reducing costs to System ratepayers.

Sewer Management Program

In March 2007, SAWS was orally notified by Region 6 of the EPA of alleged failures to comply with the Clean Water Act due to the occurrence of sanitary sewer overflows ("SOSs"). The EPA subsequently referred the matter to the DOJ for enforcement action. SAWS engaged in settlement negotiations with the EPA and the DOJ to resolve the allegations. On June 4, 2013, the SAWS Board approved a Consent Decree between SAWS and the United States of America and the State to resolve this enforcement action. SAWS signed the Consent Decree on June 5, 2013 and the Consent Decree was subsequently executed by the United States of America and the State. On September 13, 2013, after consideration of the comments received, the United States of America filed its Motion for entry of the Consent Decree, requesting the Court to approve the Consent Decree by signing and entering it. The Consent Decree was signed and entered by the Court on October 15, 2013. During the ten to 12 year term of the Consent Decree, SAWS estimates the cost to perform the operating and maintenance requirements of the Consent Decree to be approximately $250 million. SAWS initially estimated that capital investments of approximately $850 million would be required over the Consent Decree term. During the last several years, through flow monitoring during significant rainfall events, physical inspection and televising, SAWS has accumulated additional information relative to the performance of its collection system. Based upon this additional information, as well as inflationary costs increases, SAWS currently estimates that capital expenditures associated with the requirements of the Consent Decree could range from $1.2 billion to $1.3 billion. As with any estimates, the actual amounts incurred could differ materially.

As SAWS moves from the planning phase of the Consent Decree to the capital phase of the Consent Decree, an increase in capital spending is expected. As mentioned above, capital requirements could range in total from $1.2 billion to $1.3 billion, with approximately $660 million being projected to be spent from 2020 to 2024. Through June 30, 2019, capital expenditures related to the Consent Decree totaled approximately $460 million. Since entry into the Consent Decree, SAWS has performed its obligations under the terms of the Consent Decree and management believes SAWS is in material compliance with such terms, conditions and requirements. Since 2010, SAWS has seen a significant reduction in SSOs, from 538 in 2010 to a low of 193 in 2017. Due to the significant rainfall in September an October of 2018, SSOs increased to 259 in 2018. The total SSOs year to date through June 30, 2019 is 85.

SAWS operates the Mitchell Lake Site Wastewater Treatment Facility ("Mitchell Lake") pursuant to a Texas Pollutant Discharge Elimination Permit issued by the TCEQ under a delegation of authority from the EPA (the "Permit"). In October 2015, during the presentation of SAWS' annual report, the EPA orally notified SAWS that SAWS violated the effluent discharge limitations of that Permit as a result of discharges occurring during significant rainfall events. The EPA stated that it would likely issue a "Notice of Violation" to SAWS for these alleged violations. On August 18, 2016, SAWS received an Administrative Order from the EPA that alleges that SAWS violated the Permit by failing to meet effluent limits as required by the Permit. Mitchell Lake is not a standard brick and mortar wastewater treatment facility. Instead, Mitchell Lake is a unique and environmentally sensitive natural facility that has become a wildlife refuge and an active destination attraction within San Antonio. The Mitchell Lake surface area covers approximately 600 acres and provides an essential habitat where migrating birds can rest and feed. Discharges from Mitchell Lake only occur after significant rainfall events. The intermittent nature of the discharges after rainfall makes traditional treatment options impractical. Upon receiving the Administrative Order, SAWS began working with consulting experts and conducted preliminary feasibility evaluations of two potential solutions: (a) reconstructing the existing dam and spillway and (b) constructing extensive treatment wetlands below Mitchell Lake. While these preliminary evaluations have provided promising results, pilot studies will be necessary to confirm the effectiveness of these possible solutions. SAWS has entered a multiyear agreement with a nationally recognized wetlands treatment firm to assist with the feasibility of these options, selected the location for the pilot treatment wetlands, and on January 9, 2018, SAWS purchased a 283 acre tract of land that is anticipated to be necessary for the implementation of the downstream wetlands SAWS has partnered with the U.S. Army Corps of Engineers ("USACE") on an Aquatic Ecosystem Restoration Feasibility Study for Mitchell Lake. The three year study will include an investigation into the methods of restoring lost and/or degraded ecological functions within the lake while reducing the eutrophic conditions of the lake water. Total cost of the study is estimated at $3 million, with SAWS and USACE each bearing one-half of the total costs. SAWS will also continue to explore other treatment and operational alternatives and work with the EPA and the TCEQ to develop an appropriate plan that ensures compliance with the Permit. At this time, SAWS does not know what actions may ultimately be required or the costs associated with those actions.

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

SAWS Summary of Pledged Revenues for Debt Coverage (Dollars in Thousands) [1]

			Net					Annual Debt Service Requirements			
	Gross	Operating	Available	Revenue Bond Debt Service[a]				Total		Senior Lien	
Year	Revenues[b]	Expenses[c]	Revenue	Principal	Interest[d]	Total	Coverage	Debt[e]	Coverage	Debt[e]	Coverage[f]
2018 [g]	$704,279	$324,593	$379,686	$84,875	$102,236	$103,922	2.01	$194,518	1.95	$81,428	4.66
2017 [g]	668,998	318,442	350,556	82,840	102,236	185,076	1.89	185,076	1.89	84,440	4.30
2016 [g]	622,947	315,395	307,552	78,570	98,413	176,983	1.74	185,149	1.66	84,008	3.66
2015 [g]	555,712	291,246	264,466	71,355	106,281	177,636	1.49	175,209	1.51	117,126	2.26
2014	498,334	245,055	253,279	57,850	91,704	149,554	1.69	160,510	1.58	117,126	2.16
2013	460,776	244,348	216,428	47,315	86,058	133,373	1.62	152,496	1.42	117,126	1.85
2012	437,253	237,576	199,677	44,780	80,320	125,100	1.60	138,420	1.44	122,816	1.63
2011	417,077	209,058	208,019	39,730	79,534	119,264	1.74	132,226	1.57	112,715	1.85
2010	367,847	226,489	141,358	38,590	77,098	115,688	1.22	127,264	1.11	108,947	1.30
2009	366,753	215,812	150,941	34,900	71,824	106,724	1.41	121,367	1.24	101,917	1.48

[1] Unaudited.
[a] Represents respective year debt service payments. All bonded debt is secured by revenue and is included in these totals.
[b] Gross Revenues are defined as operating revenues plus nonoperating revenues less revenues from the City Public Service contract, interest on Project Funds, and federal subsidy on Build America Bonds.
[c] Operating Expenses reflect operating expenses before depreciation as shown on the Statement of Revenues, Expenses, and Changes in Net Position.
[d] Interest reported net of the U.S. federal interest subsidy on the Series 2009B & 2010B revenue bonds.
[e] Debt service requirements consist of principal and interest payments net of the U.S. federal interest subsidy on the Series 2009B & 2010B revenue bonds.
[f] SAWS bond ordinance requires the maintenance of a debt coverage ratio of at least 1.25x the maximum annual debt service on outstanding senior lien debt in order to issue additional bonds.
[g] Amounts reflect the merger with SAWS DSP effective January 1, 2015.
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

This page is intentionally left blank.

APPENDIX B

EXCERPTS FROM THE MASTER GARB ORDINANCE AND THE SIXTEENTH 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 SIXTEENTH 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) Committed Take Out. If the City has entered into a Credit Agreement constituting a binding commitment within normal commercial practice, from any bank, savings and loan association, insurance company, 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 21st 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.

*** ** ***

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.

*** ** ***

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

SECTION 7. SECURITY.

(a) ***Gross Revenues.*** The Series 2019 Bonds are special obligations of the City payable from and secured solely by the Gross Revenues pursuant to the Master Ordinance and this Sixteenth Supplement. The Gross Revenues are hereby pledged to the payment of the principal of, premium, if any, and interest on the Series 2019 Bonds as the same shall become due and payable.

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

(i) The Series 2019 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 2019 Bonds will be not less than *$12,103,832,* which was the balance in such Fund as of September 30, 2019, and is at least equal to the Required Reserve Amount relating to the Outstanding Parity Obligations (i.e., *$12,043,997* calculated as of September 30, 2019). 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.

(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* 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.

(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.

(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.

(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 Assured Guaranty Municipal Corp. (as the legal successor in interest to Financial Security Assurance Inc. which originally provided such surety policy) 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).

(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, pursuant to Ordinance No. 2010-12-09-1037, no additional funds were required to be deposited into the Bond Reserve Fund upon the issuance and delivery of the Series 2010 Bonds.

(H) *Series 2012 Bonds*. The Required Reserve Amount upon the issuance of the Series 2012 Bonds decreased to an amount equal to *$13,139,459.47*. Consequently, the Average Annual Debt Service Requirements did not increase, and, pursuant to Ordinance No. 2012-03-29-0235, no additional funds were required to be deposited into the Bond Reserve Fund upon the issuance and delivery of the Series 2012 Bonds.

(I) *Series 2015 Bonds*. The Required Reserve Amount following the issuance and delivery of the Series 2015 Bonds increased to *$14,014,550.68* (which amount was calculated to equal the Average Annual Debt Service Requirements on the Outstanding Parity Obligations (other than the Series 2015 Bonds) plus an amount equal to the maximum Annual Debt Service Requirements on the Series 2015 Bonds due to the fact that the City expected to use certain available revenues other than Gross Revenues of the Airport System to pay debt service on the Series 2015 Bonds). The amount on deposit in the Bond Reserve Fund immediately prior to the issuance of the Series 2015 Bonds was *$11,312,800.68*, which was less than the new Required Reserve Amount; accordingly, and pursuant to Ordinance No. 2015-06-18-0595, on the date of delivery of the Series 2015 Bonds the City deposited into the Bond Reserve Fund proceeds of the Series 2015 Bonds in the amount of *$2,701,750.00* in order to bring the total amount on deposit therein equal to the new Required Reserve Amount.

(ii) Upon the issuance of the Series 2019 Bonds, the Required Reserve Amount for all Parity Obligations then Outstanding (including the Series 2019 Bonds) is expected to *decrease* upon delivery of the Series 2019 Bonds to an amount less than the current Required Reserve Amount (i.e., *$12,043,997.32*, calculated as of September 30, 2019 as the amount equal to the Average Annual Debt Service Requirements on all Outstanding Parity Obligations [other than the Series 2015 Bonds], plus the maximum Annual Debt Service Requirements on the Series 2015 Bonds) due to achieving an interest cost savings resulting from the refunding of the Refunded Bonds. Consequently, the Required Reserve Amount 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 2019 Bonds; however, in the event the Average Annual Debt Service Requirements actually will increase upon delivery of the Series 2019 Bonds to an amount in excess of *$12,043,997.32,* the City Manager, the Chief Financial Officer and the Deputy Chief Financial Officer are authorized to utilize a portion of the proceeds of the Series 2019 Bonds or other available funds of the City on the date of delivery of the Series 2019 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). In addition, in the event the amount on deposit in the Bond Reserve Fund on the date of issuance of the Series 2019 Bonds exceeds the new Required Reserve Amount, all or a portion of the such excess amount held in cash or investments, as determined by Co-Bond Counsel to the City relating to the Series 2019 Bonds, shall be withdrawn and deposited into the Escrow Fund established under the related Escrow Agreement to provide a portion of the funds required to refund the Refunded Bonds (and such action 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 2019 Bonds and the pledge of Gross Revenues by the City under the Master Ordinance and this Sixteenth Supplement, and is therefore valid, effective, and perfected. If Texas law is amended at any time while the Series 2019 Bonds are outstanding and unpaid such that the pledge of the Gross Revenues by the City under the Master Ordinance and this Sixteenth 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 2019 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) ***Money Made Available to Paying Agent.*** The City agrees to pay the principal of, premium, if any, and the interest on the Series 2019 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 2019 Bonds as will accrue or mature. The Paying Agent/Registrar shall cancel all paid Series 2019 Bonds and shall furnish the City with an appropriate certificate of cancellation.

(b) ***Bond Fund.*** Pursuant to Section 7 of the Master Ordinance, money 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 2019 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 2019 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 Sixteenth Supplement or to the claim of any other Person, including the Holders of the Series 2019 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 Sixteenth Supplement and the rights and obligations of the City and of the owners of the Series 2019 Bonds may be modified or amended at any time without notice to or the consent of any owner of the Series 2019 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 Sixteenth 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 Sixteenth Supplement;

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

(iii) To supplement the security for the Series 2019 Bonds, replace or provide additional credit facilities, or change the form of the Series 2019 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 2019 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 2019 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 Section 17(d) of this Sixteenth 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 Sixteenth Supplement, the Insurer and the owners of Outstanding Series 2019 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 Sixteenth 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 2019 Bonds, the amendment of the terms and conditions in this Sixteenth Supplement or in the Series 2019 Bonds so as to:

(i) Make any change in the maturity of the Outstanding Series 2019 Bonds;

(ii) Reduce the rate of interest borne by Outstanding Series 2019 Bonds;

(iii) Reduce the amount of the principal payable on Outstanding Series 2019 Bonds;

(iv) Modify the terms of payment of principal of or interest on the Outstanding Series 2019 Bonds, or impose any conditions with respect to such payment;

(v) Affect the rights of the owners of less than all Series 2019 Bonds then Outstanding; or

(vi) Change the minimum percentage of the Outstanding Principal Amount of Series 2019 Bonds necessary for consent to such amendment.

(c) ***Notice***. If at any time the City shall desire to amend this Sixteenth 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 2019 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 2019 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 2019 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 Sixteenth Supplement pursuant to the provisions of this Section, this Sixteenth 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 2019 Bonds and all future owners of the Series 2019 Bonds shall thereafter be determined, exercised, and enforced under the Master Ordinance and this Sixteenth Supplement, as amended.

(f) ***Consent Irrevocable***. Any consent given by any owner of Series 2019 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 2019 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 2019 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 2019 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 13. SIXTEENTH SUPPLEMENT TO CONSTITUTE A CONTRACT; EQUAL SECURITY. In consideration of the acceptance of the Series 2019 Bonds, the issuance of which is authorized hereunder, by those who shall hold the same from time to time, this Sixteenth Supplement shall be deemed to be and shall constitute a contract between the City and the Holders from time to time of the Series 2019 Bonds and the pledge made in this Sixteenth Supplement by the City and the covenants and agreements set forth in this Sixteenth 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 2019 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 Sixteenth Supplement.

APPENDIX C

EXCERPTS FROM PFC BOND ORDINANCE

This page is intentionally left blank.

APPENDIX C

EXCERPTS FROM THE MASTER PFC BOND ORDINANCE AND SIXTH SUPPLEMENT

THE FOLLOWING CAPITALIZED TERMS ARE DEFINED IN THE MASTER PFC BOND ORDINANCE AND ARE APPLICABLE TO THE SIXTH 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) Committed Take Out. If the City has entered into a Credit Agreement constituting a binding commitment within normal commercial practice, from any bank, savings and loan association, insurance company, 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 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) *Covenant to Comply with PFC Act*. The City will perform and comply with all requirements and provisions of the PFC Act applicable to the City.

(ii) *Covenant to Comply with Records of Decision*. 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) *Covenant to Impose Passenger Facility Charges at Maximum Approved Amount*. 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) *Covenant to Prevent Termination, Suspension or Reduction of Authority*. 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) *Covenant to Construct PFC Eligible Airport-Related Projects*. 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.

*** ** ***

THE FOLLOWING SECTIONS 7 THROUGH 11 AND 14 APPEAR IN THE SIXTH SUPPLEMENT TO THE MASTER PFC BOND ORDINANCE

SECTION 7. SECURITY.

(a) ***PFC Revenues.*** The Series 2019 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 Sixth Supplement. The PFC Revenues are hereby pledged to the payment of the principal of, premium, if any, and interest on the Series 2019 Bonds as the same shall become due and payable.

(b) ***Lien on Subordinate Net Revenues***.

(i) The Series 2019 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 2019 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 2019 Bonds are considered "Subordinated Debt" as permitted by Section 4(f) of the Master GARB Ordinance.

(ii) This Sixth Supplement, to the extent that it grants, and for the purpose of (i) additionally securing the Series 2019 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 "Seventeenth Supplemental Ordinance" or the "Seventeenth 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 2019 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 2019 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 2019 Bonds to the PFC Bond Fund to pay principal, premium, if any, and interest on the Series 2019 Bonds.

(c) ***PFC Bond Reserve Fund.***

(i) The Series 2019 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 2019 Bonds will be not less than *$9,185,893,* which was the balance in such Fund as of September 30, 2019, and is at least equal to the Required Reserve Amount relating to the Outstanding Parity Obligations (i.e., *$8,037,153* calculated as of September 30, 2019). Such amount was funded from the following sources:

(A) Series 2002 Bonds: The Required Reserve Amount upon the issuance of the Series 2002 Bonds was equal to *$2,747,178.16.* Pursuant to Ordinance No. 95390, upon the issuance of the Series 2002 Bonds, the City deposited *$2,747,178.16* of proceeds of the Series 2002 Bonds into the PFC Bond Reserve Fund in order to fund the PFC Bond Reserve Fund to such Required Reserve Amount.

(B) Series 2005 Bonds: The Required Reserve Amount upon the issuance of the Series 2005 Bonds increased to an amount equal to *$5,181,929.* Pursuant to Ordinance No. 100782, upon the issuance of the Series 2005 Bonds, the City used proceeds of the Series 2005 Bonds to purchase and deposit into the PFC Bond Reserve Fund a Credit Facility in the form of a debt service reserve fund surety policy provided by Assured Guaranty Municipal Corp. (as the legal successor in interest to Financial Security Assurance Inc. which originally provided such surety policy) 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 2005 Bonds at the time of issuance).

(C) Series 2007 Bonds: The Required Reserve Amount upon the issuance of the Series 2007 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 Bonds, the City used proceeds of the Series 2007 Bonds to purchase and deposit into the PFC Bond Reserve Fund a Credit Facility in the form of a debt service reserve fund surety policy provided by Assured Guaranty Municipal Corp. (as the legal successor in interest to Financial Security Assurance Inc. which originally provided such surety policy) with a maximum amount available to be drawn thereon equal to *$4,378,078.87*.

(D) Series 2010 Bonds. The Required Reserve Amount upon the issuance of the Series 2010 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, pursuant to Ordinance No. 2010-12-09-1038, 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 Bonds.

(E) Series 2012 Bonds. The Required Reserve Amount upon the issuance of the Series 2012 Bonds decreased to an amount equal to *$9,542,062.93*. Consequently, pursuant to Ordinance No. 2012-03-29-2012, 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 2012 Bonds.

(ii) Upon the issuance of the Series 2019 Bonds, the Required Reserve Amount for all PFC Obligations then Outstanding (including the Series 2019 Bonds) is expected to decrease upon delivery of the Series 2019 Bonds to an amount less than the current Required Reserve Amount (i.e., *$8,037,152.98*, calculated as of September 30, 2019 as the amount equal to the Average Annual Debt Service Requirements on all Outstanding Parity PFC Obligations) due to achieving an interest cost savings resulting from the refunding of the Refunded Bonds. The amount of cash and investments currently on deposit in the PFC Bond Reserve Fund is equal to approximately *$2,122,814* (which amount excludes the amounts available to be drawn under the reserve fund surety policies acquired in connection with the issuance of the Series 2005 Bonds and the Series 2007 Bonds, both of which will terminate upon the defeasance of such Bonds resulting from the issuance of the Series 2019 Bonds). Consequently, in the event a Designated Officer authorizes the issuance of Series 2019 Bonds that will accomplish the full and complete defeasance of the Outstanding Series 2005 Bonds and/or Series 2007 Bonds, the City is hereby authorized to use proceeds of the Series 2019 Bonds or other available funds of the City to fund the difference between (i) the new Required Reserve Amount for all PFC Obligations to be Outstanding after the issuance of the Series 2019 Bonds, and (ii) the amount then on deposit in the PFC Bond Reserve Fund, exclusive of the debt service reserve fund surety policies associated with the Series 2005 Bonds and/or the Series 2007 Bonds, as applicable. The decision to use proceeds of the Series 2019 Bonds or other available funds of the City to fund the PFC Bond Reserve Fund to the new Required Reserve Amount shall be determined by a Designated Officer incorporated into *Exhibit B* to be completed by such Designated Officer.

SECTION 8. PAYMENTS; PFC BOND FUND.

(a) ***Money Made Available to Paying Agent.*** The City agrees to pay the principal of, premium, if any, and the interest on the Series 2019 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 2019 Bonds as will accrue or mature, or be subject to redemption prior to maturity. The Paying Agent/Registrar shall cancel all paid Series 2019 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, money 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 2019 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 Sixth Supplement or to the claim of any other Person, including the Holders of the Series 2019 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 Sixth Supplement and the rights and obligations of the City and of the owners of the Series 2019 Bonds may be modified or amended at any time without notice to or the consent of any owner of the Series 2019 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 Sixth 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 Sixth Supplement;

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

(iii) To supplement the security for the Series 2019 Bonds, replace or provide additional credit facilities, or change the form of the Series 2019 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 2019 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 2019 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 Section 19(d) of this Sixth 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 Sixth Supplement, the Insurer and the owners of Outstanding Series 2019 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 Sixth 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 2019 Bonds, the amendment of the terms and conditions in this Sixth Supplement or in the Series 2019 Bonds so as to:

(i) Make any change in the maturity of the Outstanding Series 2019 Bonds;

(ii) Reduce the rate of interest borne by Outstanding Series 2019 Bonds;

(iii) Reduce the amount of the principal payable on Outstanding Series 2019 Bonds;

(iv) Modify the terms of payment of principal of or interest on the Outstanding Series 2019 Bonds, or impose any conditions with respect to such payment;

(v) Affect the rights of the owners of less than all Series 2019 Bonds then Outstanding; or

(vi) Change the minimum percentage of the Outstanding Principal Amount of Series 2019 Bonds necessary for consent to such amendment.

(c) ***Notice***. If at any time the City shall desire to amend this Sixth 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 2019 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 2019 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 2019 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 Sixth Supplement pursuant to the provisions of this Section, this Sixth 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 2019 Bonds and all future owners of the Series 2019 Bonds shall thereafter be determined, exercised, and enforced under the Master PFC Ordinance and this Sixth Supplement, as amended.

(f) ***Consent Irrevocable***. Any consent given by any owner of Series 2019 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 2019 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 2019 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 2019 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 Sixth Supplement to secure the Series 2019 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 Sixth Supplement to further secure the Series 2019 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) *No Default*. 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 Sixth Supplement to further secure the Series 2019 Bonds (including, if applicable, the Master PFC Ordinance and any Supplement).

(ii) *Proper Fund Balances*. 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) *Subordinate Net Revenue Coverage*. 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 Sixth Supplement to secure the Series 2019 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 Sixth Supplement to further secure the Series 2019 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. SIXTH SUPPLEMENT AND MASTER PFC ORDINANCE TO CONSTITUTE A CONTRACT; EQUAL SECURITY. In consideration of the acceptance of the Series 2019 Bonds, the issuance of which is authorized hereunder, by those who shall hold the same from time to time, this Sixth Supplement shall be deemed to be and shall constitute a contract between the City and the Holders from time to time of the Series 2019 Bonds and the pledge made in this Sixth Supplement by the City and the covenants and agreements set forth in this Sixth 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 2019 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 Sixth Supplement.

APPENDIX D

SELECTED PORTIONS OF THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

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, 2018 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.

This page is intentionally left blank.

February 22, 2019

To the Honorable Mayor, City Council, and City Manager:

It is my pleasure to present the City of San Antonio's (City) Comprehensive Annual Financial Report (CAFR) and Other Reports for the fiscal year-ended September 30, 2018. 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 Auditor's Report, the City's financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles (GAAP) in the United States. 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.

Management's Discussion and Analysis (MD&A), beginning on page one, 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.

CITY PROFILE

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, education, sanitation, 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; revenue payments from the City's municipally-owned utilities; grants; user fees; debt proceeds; tax increment financing; and other sources.

The City has 27 component units that are considered part of the City's operations and, therefore, included in its annual financial statements. Fourteen of these entities are blended component units of the City; two entities are fiduciary, while the remaining 11 entities are discretely presented. Based on the size and significance of four component units (CPS Energy, San Antonio Water System, San Antonio Fire and Police Pension Fund, and San Antonio Fire and Police Retiree Health Care Fund), the City has included excerpts of these entities' footnotes within the CAFR. For additional details on all of the City's component units and the basis for their respective presentation in our financial report, please refer to the Financial Section, Note 1 Summary of Significant Accounting Policies.

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 limited to 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 Executive Officer.

CITY PROFILE (Continued)

The City Charter was amended on November 15, 2018 limiting the term the City Manager may serve to no longer than eight years and limits the compensation to no more than ten times the annual salary furnished to the lowest paid full-time city employee. See Note 20 Subsequent Events in the financial statements for more information.

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, 65 miles of linear greenway trails, theme parks, historical attractions, museums, professional sporting attractions, and a lively performing arts environment. As of September 30, 2018, the City's geographic area was approximately 514.7 square miles. The United States Census Bureau cites the City as the second most populated city in the State of Texas with 1,517,866 citizens and is additionally ranked as the seventh most populated city in the country. Since 2010, the City's metropolitan area grew 15.0% and is projected to grow by an additional 1.0 million people through the year 2040.

Major employers in and around the San Antonio area include the Department of Defense through Joint Base San Antonio (Lackland, Fort Sam & Randolph), H.E.B. Food Stores, United Services Automobile Association, Northside Independent School District, City of San Antonio, Methodist Healthcare System, North East and San Antonio Independent School Districts, Baptist Health Systems, and Wells Fargo.

2018 was a monumental year that marked the 300th anniversary of the founding of San Antonio, a milestone matched by few cities in the United States. The San Antonio Tricentennial Celebration Commission was created to honor 300 years of history and position the City for continued cultural and economic growth. The commemorative year kicked off with Celebrate 300, a New Year's Eve celebration in Hemisfair Park. Throughout the year, the Commission hosted special events dedicated to the history and education, arts and culture, and community service initiatives that reflect the City's storied past, celebrate the City's current achievements, and prepare the community for the next 300 years. More information can be found by visiting www.sanantonio300.org.

ECONOMIC CONDITIONS AND OUTLOOK

As a community, San Antonio has positioned itself for long-term growth and prosperity by implementing a strategy to diversify its economy and improve quality of life for all citizens. The economic strategy bolstered by the City's innovative growth and development plan, the SA Tomorrow Comprehensive Plan, serves as the City's roadmap towards smart, substantial growth. The City maintains growth in traditional industry sectors and specifically targets job growth in the following sectors: biosciences and healthcare, information technology and cybersecurity, aerospace, advanced manufacturing and the new energy economy. The City's SA Tomorrow goals leverage San Antonio's unique assets, including its historical and cultural heritage, formidable local institutions (e.g. military bases, universities, and medical center), unique partnerships, and natural resources.

San Antonio's housing market remained strong in 2018. According to the Multiple Listing Service Report from the San Antonio Board of REALTORS® (SABOR), the average price of a single-family residential home in October 2018 rose to $257,855 (7.0%), while the median increased to $223,800 (8.0%), from October 2017.

ECONOMIC CONDITIONS AND OUTLOOK (Continued)

San Antonio's average unemployment rate for fiscal year 2018 was 3.4%, lower than the national rate of 3.9%. Several targeted industry projects fueled the City's resilient economy in fiscal year 2018. The City utilized a combination of tax abatements, grant agreements, impact fee waivers, and nominations for Texas Enterprise Zone designations that successfully attracted businesses to move to or remain in San Antonio. In fiscal year 2018, the City, in partnership with the San Antonio Economic Development Foundation (SAEDF), worked with 21 companies to create and/or retain 5,032 jobs in San Antonio and Bexar County. The City is constantly looking for efforts to support economic development opportunities. In fiscal year 2018, $2.3 million was appropriated in economic development incentive funds to retain, expand, and attract job-creating businesses.

The San Antonio International Airport experienced a record year in 2018 exceeding 10 million passengers, an increase of 14.0% since the prior year. The Airport offers nonstop service to 54 domestic and international destinations on 11 airlines, an increase of 11 new destinations over the past fiscal year. In 2018, Frontier Airlines announced service to Jacksonville, Omaha, Charlotte, Tulsa, Cleveland, Memphis, Oklahoma City, Albuquerque, Columbus and Salt Lake City. Additionally, Interjet Airlines announced new service to León, Mexico. The Airport continues to work with the business community to attract and grow air service.

MAJOR INITIATIVES – CAPITAL PROGRAMS

In May 2015, voters approved, for the fourth time, a 1/8-of-a-cent addition to the local sales tax to fund two initiatives. One initiative acquires property and develops linear greenway trails in flood zones along City-owned creeks. Currently, there are 65 miles of linear greenway trails available for public enjoyment with another 37 miles in design or construction. The other initiative provides funds to purchase sensitive properties located over the Edwards Aquifer, which is the City's largest source of drinking water. Over 152 thousand acres have been protected. The program also authorizes funding for water quality demonstration projects, which will be utilized to develop new water quality strategies in urbanized areas of Bexar County. The first projects have been approved, and results from the research will be forthcoming in the next couple of years.

Phase 1 of the $175.0 million San Pedro Creek Improvements Project (Culture Park) was completed in spring 2018, and officially debuted to the public on May 5, 2018 as part of the Tricentennial celebration. This portion of the Culture Park begins with the Tunnel Inlet where you'll find the Plaza de Fundación and its "Rain from the Heavens" public art installment. Custom tile work adorns the surrounding 12 generational benches, as well as various features throughout Culture Park. Also found in Phase 1 are commissioned murals and other art pieces that represent the history and culture of this historic creek. The partnership between Bexar County and the San Antonio River Authority, in coordination with the City, aims to transform the creek into a cultural park steeped in the area's cultural history, improve flood control, and create a natural habitat for native plant and wildlife. Its downtown location is expected to have a substantial economic impact, including over 2,100 new housing units, the restoration of the Alameda Theater, and other potential development activities in the area.

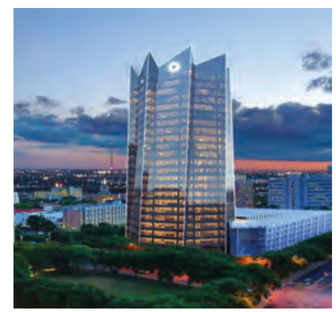
Additionally, the area is set to be transformed with the University of Texas at San Antonio's (UTSA) plan to expand its downtown campus onto more than five acres of land previously owned by the City and County. In partnership with the City, Bexar County, and other developers, UTSA plans to triple enrollment over the next decade by adding a new School of Data Science, a new National Security Collaboration Center, a new home for UTSA's College of Business, and constructing additional academic and residential buildings, downtown. The expansion of UTSA will aid with the continuous revitalization of the City's downtown area.

MAJOR INITIATIVES – CAPITAL PROGRAMS (Continued)

In the summer of 2018 City Council approved $38.0 million for the renovation of City Hall. The facility was built in 1889 and has not undergone renovations since 1927 when the fourth floor addition was constructed. An assessment of the building confirmed the need for mechanical, electrical, plumbing, and elevator system repairs and replacements. Renovations to the 44,500 square foot facility include improved office spaces, new meeting rooms and restrooms, new elevators, and a new ADA accessible ramp on the east side entrance. The renovation is expected to be complete by February 2020. Upon completion, the City Manager, Mayor, and City Council will return to City Hall, while the City Attorney and City Clerk will move into the newly renovated City Administration building.

MAJOR INITIATIVES – COMMUNITY PARTNERSHIPS

In 2018 the City's Mayor Ron Nirenberg joined Texas Land Commissioner George P. Bush in supporting a plan to redesign the City's Alamo Plaza. The major elements of the design include two street closures within Alamo Plaza, repair and relocation of the Cenotaph monument, and the construction of a new museum and visitor's center. The Alamo Plaza will triple in size and be a world-class site that pays proper respect to the fallen, tells the story of the Battle of the Alamo, and remains a public space for all those who come from around the world to visit. The $450.0 million renovation will be funded by a $38.0 million contribution from the City, $106.5 million contribution from the State of Texas, and the Alamo Endowment is committed to raising private funds for the remainder. The renovations are set to begin in fiscal year 2020 and are expected to be complete by fiscal year 2024.



Construction of the $142.0 million Frost Tower kicked off in March 2017 and continued throughout the duration of fiscal year 2018. The tower's largest tenant, Frost Bank, will occupy 15 floors and move in by the summer of 2019, while additional tenants will occupy the remaining eight floors. Along the ground floor of the tower, restaurants and other businesses will keep the space active from morning into the evening. Additionally across the street, Weston Urban is adding a park that will bring a much needed additional green space downtown. The 460,000 square foot building will forever change downtown San Antonio's skyline with the construction of the first new office tower downtown since 1989.

San Antonio Zoo officials are working toward a bold plan to expand the 104-year-old zoo beyond its quarry walls, build more naturalistic habitats, and create a safari-like experience for visitors and the animals. The $200.0 million master plan will serve as a roadmap for the Zoo's next 20 years. New habitats, exhibits, and events in recent years have drawn more visitors than ever to the Zoo. Last year, more than 1.1 million people visited the zoo, generating an economic impact of $108.6 million to the City. To assist with the ever increasing visitors to the Zoo, the City approved a new $10.8 million parking garage for the San Antonio Zoo and Brackenridge Park that will be complete in 2019.

MAJOR INITIATIVES – CONVENTION AND TOURISM

Fiscal year 2018 was an exceptional year for the Henry B. Gonzalez Convention Center and the Alamodome. The expanded Convention Center continues to see unprecedented occupancy levels, hosting more than 832,000 attendees throughout nearly 320 events, and surpassing projected revenue by 15.0%.

The Convention Center and Alamodome continues to attract major bookings, including the NCAA Women's Final Four 2021 (20,000 attendees), NCAA Men's Final Four 2025 (65,000 attendees), Ellucian Live 2024 and 2028 (9,000 attendees), American Wind Energy Association 2022 (10,000 attendees), School Nutrition Association 2025 (7,000 attendees) and American College of Obstetricians 2025 (6,000 attendees). In June, the Alliance of American Football (AAF) league announced San Antonio and the Alamodome as home to their eighth and final team, the San Antonio Commanders. Their inaugural season will begin at the Alamodome in February 2019. San Antonio was also selected to host the AAF league-wide training camp at the Alamodome in January 2019, which is expected to bring an estimated economic impact of $8.8 million to the city.

In fiscal year 2018, the Alamodome hosted more than 950,000 patrons throughout 121 event days. The biggest undertaking of fiscal year 2018 for both the Convention Center and Alamodome was hosting the 2018 NCAA Men's Final Four Tournament in April. This event had a total economic impact of over $346.0 million. Host to the Final Four Fan Fest, the Convention Center shined for the 52,000 attendees. The Alamodome hosted over 68,000 attendees for the National Semifinal Game and over 67,000 attendees for the National Championship Game. A record-breaking 2,206 credentialed media were present. The Hemisfair Civic Park experienced 145,000 fans at the three-day March Madness Music Festival. The $60.7 million renovation project that was completed at the Alamodome last year has been a huge success and had a positive impact on the attendee experience during this year's Final Four. The success of the 2018 Final Four tournament played a large part in San Antonio once again securing the Final Four in 2025. In preparation for 2025, the Alamodome will undertake additional capital improvements over the next few years to include Americans with Disabilities Act (ADA) enhancements, replacement of all elevators and escalators, an addition of 18 suites, and upgrades to the finishes on the upper level.

MAJOR INITIATIVES – EDUCATION

Pre-K 4 SA began in the 2013-14 school year and has directly served over 22,000 children and their families in its first six years. Pre-K 4 SA has also provided over 30,000 hours of professional learning to early childhood educators across San Antonio. Pre-K 4 SA is a comprehensive initiative to change San Antonio's education and workforce trajectory in one generation through high-quality early education. Pre-K 4 SA achieves its mission through four key program components: 1) four model Education Centers; 2) best-in-class professional learning; 3) family outreach and engagement; and 4) competitive grants.

During the 2017-2018 school year, the Department of Human Services' (DHS) Head Start Program partnered with Pre-K 4 SA to provide a four part professional development (PD) series for over 200 Head Start teachers and instructional assistants with San Antonio and Edgewood Independent School Districts. The PD series included face-to-face sessions, online e-learning assignments, and classroom observations. The focus of the PD series included topics such as Fostering Children's Thinking Skills, Focusing Children on Learning Goals, Scaffolding Children's Learning, Making Learning Meaningful, and Using the Scientific Method.

MAJOR INITIATIVES – EDUCATION (Continued)

The San Antonio Public Library (Library) has a robust collection of eBooks, eAudiobooks and eMagazines that can be checked out without visiting a library location. This fiscal year, digital checkouts were approximately 1.5 million, an increase of approximately 19.0% from the previous year. The Library's five millionth check out landed the Library in the list of only 52 out of 38,000 libraries worldwide to achieve the goal. The Mayor's Summer Reading Club 2018: Adventures in Library Land was launched in May 2018 and encouraged families to read for fun during the summer. Children earned a free book for reading or listening to eight books, while teens and adults earned chances to win great prizes for reading a book or attending a Library program. The Summer Reading Club was a great success this fiscal year with over 35,000 participants, up 5.0% from the previous year.

MAJOR INITIATIVES – INNOVATION

In November 2017, the City's Office of Innovation and Geekdom, a local company focused on the startup ecosystem, announced the creation of CivTechSA, a unique civic innovation program designed to connect local government with the tech and entrepreneur community of San Antonio. CivTechSA will serve as a tool in the development and retention of our existing and future workforce by engaging with students and the tech community in a wide variety of programs, events, and hands-on opportunities that promote careers in the San Antonio civic and tech sectors. With a mission of collaboratively solving various city challenges and facilitating the growth of our local startup ecosystem, the CivTechSA program will capitalize upon tech talent in four developmental stages: Junior High and High School (6th-12th grade students), College & University, Entrepreneurs, and Startups. The anticipated benefits of CivTechSA include attracting workforce, creating entrepreneurial solutions, cultivating local talent, combatting brain drain, growing the startup ecosystem, and creating an opportunity for expanded services from the tech community to the City.

In fiscal year 2017, the City's Office of Innovation launched a Smart City program called SmartSA. The vision for this program is to build a connected, inclusive, and resilient city supporting a high quality of life. Current smart city initiatives are focused on reducing traffic congestion, improving pedestrian safety, providing access to Wi-Fi, increasing LED street lighting in city neighborhoods, improving emergency response with the use of drones in fire operations, and enhancing customer service through the use of mobile apps and community kiosks. Over the past year, the City initiated and implemented numerous SmartSA projects and was one of the ten cities selected to participate in the Envision America program. The City will continue to develop its Smart City roadmap and leverage existing innovation and technology relationships between the City, CPS Energy, San Antonio Water System, VIA, and the San Antonio River Authority.

MAJOR INITIATIVES – PLANNING AND COMMUNITY DEVELOPMENT

By 2040, San Antonio's population is expected to increase by approximately 1.0 million people. SA Tomorrow aims to ensure key aspects of growth and development, such as transportation and connectivity, housing, complete neighborhoods, public facilities, community safety, historic preservation, military affairs, natural resources, energy, water supply, jobs, economic competitiveness, education, and more, are addressed in a strategic manner.

MAJOR INITIATIVES – PLANNING AND COMMUNITY DEVELOPMENT (Continued)

SA Tomorrow is an innovative, three-pronged planning effort to guide the City toward smart, sustainable growth.

- Comprehensive Plan recommends that the City capitalize on the unique economic geography, further economic diversification, workforce development, and business attraction and retention.
- Sustainability Plan focuses on enhancing a community's quality of life and overall resilience while balancing the impact of our expected growth with existing economic, environmental, and social resources.
- Multimodal Transportation Plan takes into account all modes of transportation including auto, transit, biking and walking. It serves as a tool to analyze the transportation priorities to best meet community goals.

Consistent with the multimodal transportation plan the City allocated $14.3 million to VIA Metropolitan Transit to provide frequency improvements along nine bus routes as well as travel time and capacity improvements along nine major corridors. This contribution affirms the City's commitment to the implementation of the SA Tomorrow Multimodal Transportation Plan published in 2015.

The Airport System Development Committee (Development Committee), formed in January 2018, launched a Strategic Development Plan (SDP) in August 2018. The SPD focused initially on the future of the next 20 years at the airport, and then will examine the possibility for growth and expansion in the following 50 years. The SDP is comprised of two phases. For Phase I, the City hired an engineering, professional services and planning firm to assist in communicating airport development options to the public. The Development Committee hosted numerous meetings throughout San Antonio in August and September to gather input from citizens and travelers. Based upon community input and with the completion of a feasibility study, the Development Committee presented to City Council in October 2018 that expanding the current airport would serve the continuing needs of the City and surrounding regions for another 50 years. In order to accomplish this goal, the airport would need to add new runways and other infrastructure by 2023 to keep up with growing traffic at the airport. In 2023, the airport is expected to reach 80.0% capacity. To keep up with projected growth patterns, the airport would need to add 11 more gates by 2038 and 63 more gates by 2068; currently, the airport has 24 gates.

With the completion of Phase I of the study, the Development Committee has received direction to proceed with Phase II, which will produce an airport development and implementation plan, a financial feasibility study, and identification and evaluation of potential airport expansion alternatives. The Development Committee is evaluating next steps to advance the Development Committee's strategy.

In August 2017, the Mayor created a Mayor's Housing Policy Task Force (Task Force) to create a model on how to proactively address housing affordability. The Task Force relied heavily on community input by working with more than 550 community members to develop a housing policy to increase housing opportunities for San Antonians. Five key actions were identified in relation to implementing the Housing Policy. Those five actions are to develop a coordinated housing system; increase City investment in housing with a ten year funding plan; increase affordable housing production, rehabilitation, and preservation; protect and promote neighborhoods; and ensure accountability to the public. In fiscal year 2019 the adopted budget allocated $17 million from the General Fund, Housing and Urban Development Grants and the Housing Trust. With existing funding, a total of $25 million in funding aligns with the recommendations of the Task Force that support Affordable Housing.

MAJOR INITIATIVES – WELLNESS

San Antonio vigorously promotes an active lifestyle for its citizens. Mobile Fit San Antonio is a citywide health and wellness program offered by the Parks and Recreation Department. The program consists of a mobile vehicle, which provides free basic health screenings and free fitness opportunities to citizens in San Antonio, as it travels to parks, schools, churches, and various community events. Since 2014, the program has participated in over 700 community events, provided over 12,500 free health screenings, and seen over 28,600 fitness activity participants, including citizens of all ages.

The Fit Pass program has been nationally recognized for its effort to integrate wellness in the park system through free and low cost fitness, wellness, and nutritional opportunities. It encourages all participants, over 5,800 in fiscal year 2018, to challenge themselves to live healthier, stay fit, and get to know the City by participating in a summer-long interactive wellness scavenger hunt. Prizes are awarded to the top overall point earners in the program.

Throughout fiscal year 2018, San Antonio has seen various additions and improvements to multiple parks and recreational facilities throughout the City. In March, the Parks and Recreation Department, in partnership with Transportation and Capital Improvement (TCI) and Bexar County, opened Menger Creek Linear Park. The park is a unique, climbing-intensive, and hands-on interactive space that includes a covered basketball court, walking paths, and fitness stations. In June, the City also saw the addition of the Lincoln Park Splash Pad, whose funding included a $1.0 million personal donation from Charles E. Butt. The splash pad provides a free interactive water play feature for area residents and children and was a great addition to one of San Antonio's oldest parks.

MAJOR INITIATIVES – WORKFORCE DEVELOPMENT

Striving to be an "employer of choice" in the community, the City provides competitive compensation and benefits. Beginning January 2019, the City will increase its minimum entry wage to $15 per hour and will continue to offer robust health benefits. Complementing the City's existing Tuition Reimbursement Program, a new Student Loan Repayment Program for eligible full-time employees will be implemented in fiscal year 2019. A bridging policy was introduced last year to encourage former employees to return to the City. If an employee leaves service, and returns within five years of leaving, the employee will receive the same health insurance premium rates that others with their original date of hire are currently paying. This benefit has been useful to employees who have pursued a degree or served in the Peace Corps.

The City additionally invests in SA Works, an industry-led advisory council based on national best practices, to lead the City's workforce development efforts. SA Works is tasked with identifying in-demand middle-skills jobs in targeted industries such as advanced manufacturing, cyber/information technology, and healthcare.

To date, SA Works has successfully worked with its private-sector council to develop a blueprint for engaging a number of key partners such as industry leaders, institutions of higher education, and community-based organizations to secure private sector partnerships in filling those jobs through preferred providers.

SA Works also continues to carry out its legacy work in providing internships, job shadowing opportunities, and other work-based learning opportunities for high school, college students, and educators. SA Works was integrated into the SAEDF as part of their overall economic development mission.

The Human Resources Department works with other City departments and partner agencies, including SA Works, local high schools, colleges, and universities, to provide experiential learning opportunities for all levels of students in the San Antonio community. These opportunities involve on-the-job training that enables students to link theory with practice and develop specialized skills that cannot be taught in the classroom. The City benefits from such programs because they help to develop a pipeline of loyal candidates who have skills and interest in future employment with the City. City employees also gain valuable leadership skills and experience by serving as mentors to youth.

During fiscal year 2018, 65 local high school students were hired into 23 departments as part of the City's eight week Summer Youth Employment Program. An additional 337 high school students participated in on-site job shadowing with 15 departments as part of the SA Works Job Shadow Day in February. Over 80 college students were offered paid and unpaid internship opportunities in 22 departments throughout the year and 172 local college students participated in the Department of Human Services' summer Student Ambassador Program. The HR Department also hosted 25 HR students and faculty from Texas A&M San Antonio for two days during spring break as part of the university's "Inscape" job shadow program.

FINANCIAL INFORMATION

The management of the City is responsible for establishing a system of internal controls that is 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 GAAP. 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 at the department level 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 report summarizing by department budget and actual balances with variances that are generated and reviewed by the Office of Management and Budget (OMB), Finance, and the City Manager's Office.

Each quarter, OMB and Finance meet with department representatives to assess departments' expenditures based on actual to date and projected expenditures for the remainder of the fiscal year. The projected expenditures are compared against the legally adopted budget for analysis and are presented to the City Manager's Office and City Council. During the mid-year budget review, an additional step is added related to formal budget adjustment recommendations that are made to City Council for adoption to modify the original budget. At fiscal year-end, as part of the subsequent year's budget adoption, Council is provided information regarding the current year's estimated final amounts and recommendations to again 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 and will not allow the processing of non-payroll transactions in excess of the budget.

The annual budget serves as the foundation for the City's financial planning and control. The development of the City's annual budget begins in May. It is a comprehensive effort that involves input from residents, the Mayor and City Council, outside governmental agencies, private organizations, all City departments and offices, and City employees. There are several major components to the process, including gathering input from the community on priorities, the annual policy and goals setting session with the Mayor and City Council, presentation of the proposed budget, public comment on the proposed budget, City Council budget work sessions, and budget adoption.

As part of the budget process, the City prepares a five-year financial forecast (Forecast) prior to the proposal 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 provides the Council and staff the opportunity to identify financial issues in sufficient time to develop a proactive strategy in order to address emerging strategic issues.

A major component of the budget process is community input. Through the City's public outreach campaign, SASpeakUp, residents have the opportunity to provide feedback through a wide variety of channels, with an emphasis on reaching residents where they are, whether online, at community-wide events, or at City facilities in their neighborhoods.

A budget goal-setting session was held on June 28, 2017. The Mayor and City Council provided the policy direction of developing the fiscal year 2018 budget through an equity lens. The City's fiscal year 2018 budget was the first in the City's history to incorporate the policy of budgeting through an equity lens to ensure new resources are allocated effectively to improve the quality of life for all San Antonio residents.

Equality and equity are two strategies that can be used in budgeting. Equality allocates resources equally throughout the community regardless of the needs of an area within the community. Equity aims to understand the needs of the community and distribute resources based on those identified needs. In the context of this budget, new resources are allocated through an equity approach emphasizing needs-based funding in some of the City's most underserved areas. Budgeting through an equity lens has allowed the City to address historical disparities in funding and allocate taxpayer dollars towards areas of greatest need. New spending aligned with the City Council policy direction of budgeting through an equity lens includes street maintenance, additional police officers and firefighters, animal care services, neighborhood revitalization and funding to VIA Metropolitan Transit.

After obtaining the priorities of City Council and community through the goal setting session and the community outreach campaign, the City Manager conducts reviews of department budgets to ensure they are in line with priorities and funding availability. The City Manager then presents the proposed budget to the City Council for review in early August. The proposed budget represents the City staff's professional recommendation to utilize revenues and expenditures in order to achieve a balanced budget, while optimizing City service deliveries and addressing priorities of the City Council and residents.

After the budget was proposed, the City Council held ten sessions to review the proposed service program details and discuss potential City Council budget amendments, including the first ever Spanish Feria de la Ciudad (City Fair). The budget work sessions provided a forum for public discourse on significant policy issues as well as an opportunity to review departmental service plans, service enhancement, and revenue changes.

On September 14, 2017, City Council adopted the fiscal year 2018 Operating and Capital Budget. City Council must adopt a final budget each year no later than September 27th. The appropriated budget is prepared by fund (e.g., General Fund) and department (e.g., Finance Department). The legal level of budgetary control is approved by City Council at the individual fund and departmental level. Expenditures by department and major category (personnel, non-personnel, and capital outlay) are further defined in the budget document.

The City Manager or designee may revise the approved department expenditure allotments during the fiscal year, but in no event shall the aggregate departmental expenditure allotment exceed the appropriation available to the department unless approved by City Council. The City Council may at any time transfer any unencumbered appropriation balance or any portion thereof within a department, office or agency to another upon written recommendation by the City Manager.

As a means of managing the City's financial standing, the City established and maintains a budgeted financial reserve within the General Fund. The financial reserve provides budgetary flexibility for unexpected events, financial emergencies, and the unusual fluctuation in revenue-expenditure patterns. With the adoption of the 2018 Budget the City continues to follow established Financial Policies. These Financial Policies include a reserve policy to maintain a minimum General Fund ending balance of 15.0%, comprised of budgeted financial reserve of 10.0%, and a targeted 5.0% for a two year budget plan for the General Fund. Other requirements include an additional $1.0 million contingency reserve in the General Fund and a $3.0 million contingency reserve for the capital budget; maintain Public Safety below 66.0% of the General Fund; manage structural balance in the General Fund, and address Internal Service fund deficits within three to five years.

The City continues to evaluate the financial reserve policy as a means of fiscal prudence in consideration with City operations, implications to the City's credit rating, and City Council priorities in order to maintain a strong and solid financial position coupled with flexibility to adapt to changing economic conditions.

The City further 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, thus allowing the City to capitalize on market opportunities.

Throughout fiscal year 2018 the City maintained a strong financial position with the three major rating agencies - Fitch, Moody's, and Standard & Poors, re-affirming, for the ninth year in a row, a 'AAA', 'Aaa', and 'AAA' general obligation bond rating, respectively. Refer to Note 20 Subsequent Events, for information regarding the City's current bond rating.

GRANT FUNDS

The City also actively seeks and applies for Federal and State grants that are in line with the City's core operations or initiatives as an additional tool in providing services to the citizens of San Antonio. In 2018, the City was awarded $128.7 million in Federal assistance and $20.5 million in State assistance for a total of $149.2 million. The City would have been unable to construct specific public improvements and operate grant programs without the support of these funds.

AWARDS

OMB received the Annual Distinguished Budget Award from the Government Finance Officers Association of the United States and Canada (GFOA). This award recognizes outstanding achievement in preparation of the 2018 Operating and Capital Budget for the 35th consecutive year.

OMB additionally received the Performance Measurement Certificate of Excellence Award for the 7th year in a row from the International City/County Management Association (ICMA). San Antonio is one of 29 jurisdictions receiving this highest level of recognition this year. According to the ICMA, "Jurisdictions meeting the qualifications have demonstrated leadership in continuous improvement and community engagement, and they serve as examples for other governments to follow."

The Finance Department received the Achievement of Excellence in Procurement (AEP) award for the 21st consecutive year in recognition of organizational excellence in public procurement.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year-ended September 30, 2017. This was the 42nd 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 GAAP 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.

INDEPENDENT AUDITS

State statutes and the City's Charter 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 and the City's Charter, the audit was also designed to meet the requirements of the Uniform Guidance, the State of Texas Single Audit Circular, and the Federal Aviation Administration *Passenger Facility Charge Audit Guide for Public Agencies*.

The Report of Independent Certified Public Accountants on the basic financial statements, Management's Discussion and Analysis, required supplementary information, required disclosures and schedules are included in the Financial Section of this CAFR. The Federal Single Audit Report has been prepared in accordance with the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.* The State Single Audit Report has been prepared in accordance with the State of Texas Single Audit Circular. The Passenger Facility Charges Report has been prepared in accordance with the Federal Aviation Administration *Passenger Facility Charge Audit Guide for Public Agencies*.

The reports are comprised of the Schedules of Expenditures of Federal and State Awards, respectively, the Schedule of Revenues and Expenditures of Passenger Facility Charges, Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Report of Independent Certified Public Accountants on Compliance for each Major Federal Program and on Internal Control Over Compliance as Required by the Uniform Guidance, Report of Independent Certified Public Accountants on Compliance for each Major State Program and on Internal Control Over Compliance as Required by the State of Texas Single Audit Circular, Report of Independent Certified Public Accountants on Compliance, Internal Control Over Compliance, and Schedule of Expenditures of Passenger Facility Charges Required by the *Passenger Facility Charge Audit Guide for Public Agencies,* the Schedule of Findings and Questioned Costs, Corrective Action Plans, and the Summary Status of Prior Year Findings for both the Federal and State Single Audits and the Passenger Facility Charges Report.

ACKNOWLEDGEMENTS

The preparation of this report could not have been accomplished without the dedicated services of the entire staff of the Controller's Office in the Finance Department. Much time and effort in preparation of this report lies in the Controller's Office, with support from OMB, Department Fiscal Administrators, the Finance Department, and other fiscal staff throughout the City. I would like to express my appreciation to all who assisted in this effort.

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

Government Finance Officers Association

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

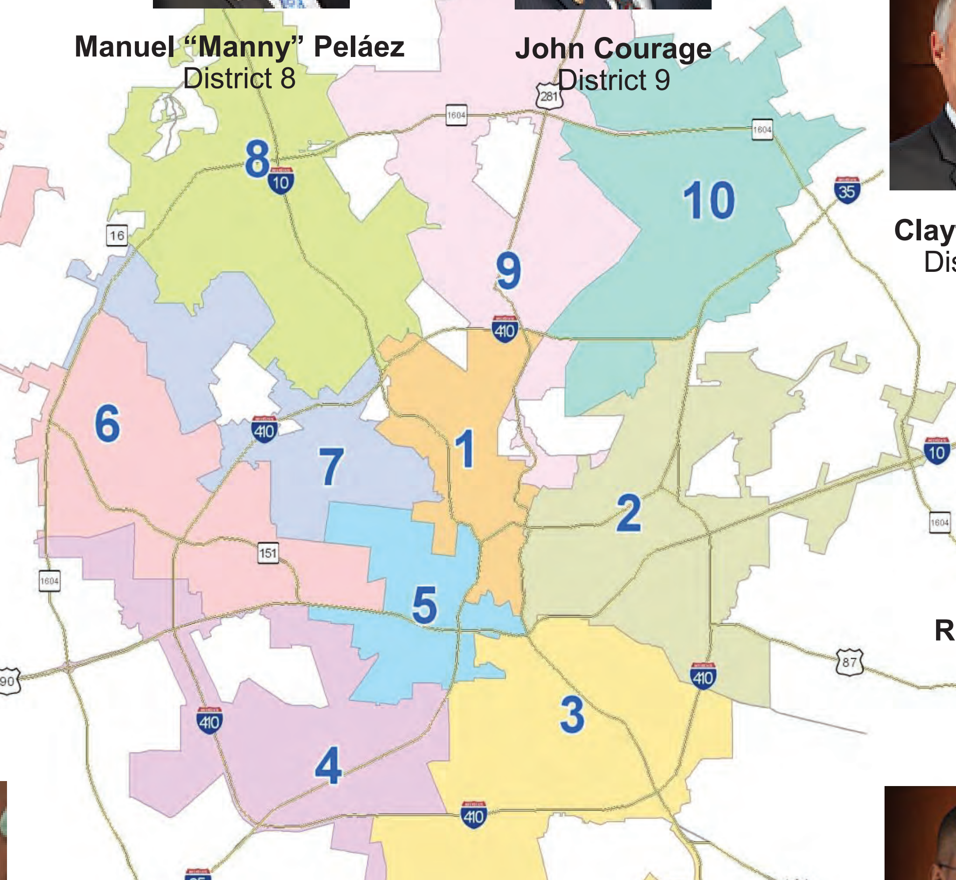
September 30, 2017

Christopher P. Morrill

Executive Director/CEO

City of San Antonio Mayor and City Council

Ron Nirenberg
Mayor

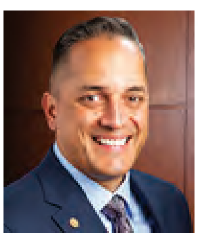


Manuel "Manny" Peláez
District 8

John Courage
District 9

Ana Sandoval
District 7

Clayton Perry
District 10

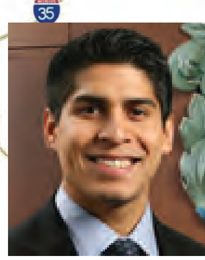


Greg Brockhouse
District 6

Roberto C. Treviño
District 1

Shirley Gonzales
District 5

Art A. Hall
District 2



Rey Saldaña
District 4

Rebecca Viagran
District 3

CITY OF SAN ANTONIO
Organizational Chart

- **Residents of San Antonio**
  - **Mayor and City Council**
    - Boards and Commissions
    - **Municipal Court Judge** – John Bull
    - **City Manager** – Sheryl Sculley
      - **City Attorney** – Andy Segovia
      - **Assistant to the City Manager** – John Peterek
        - **Office of City Council** – Chris Callanen
      - **Deputy City Manager** – Peter Zanoni
        - Transportation and Capital Improvements – Razi Hosseini (interim)
          - 2017-2022 Bond Program
        - Planning – Bridgett White
        - Neighborhood and Housing Services – Veronica R. Soto
        - Pre-K 4 SA – Sarah Baray
      - **Assistant City Manager** – María Villagómez
        - Office of Management and Budget – Justina Tate
        - Office of Innovation and Smart Cities – Brian Dillard (interim)
        - Parks and Recreation – Xavier Urrutia
        - Animal Care Services – Heber Lefgren
        - Human Services – Melody Woosley
        - Office of Equity – Alex Lopez (interim)
      - **Assistant City Manager** – Carlos Contreras
        - Convention and Sports Facilities – Patricia Muzquiz Cantor
        - Aviation – Russell Handy
        - Government and Public Affairs – Jeff Coyle
        - Economic Development – Rene Dominguez
        - Tricentennial Office
      - **Chief Financial Officer** – Ben Gorzell
        - Information Technology Services – Craig Hopkins
        - Human Resources – Lori Steward
        - Risk Management – Debra Ojo
        - Finance – Troy Elliott
          - Public Utilities (CPS and SAWS)
      - **Assistant City Manager** – Roderick Sanchez
        - Development Services – Michael Shannon
        - Building and Equipment Services – Jorge Perez
        - Office of Sustainability – Douglas Melnick
        - Solid Waste Management – David McCary
        - Office of Historic Preservation – Shanon Miller
      - **Assistant City Manager** – Lori Houston
        - Center City Development and Operations – John Jacks
        - Library – Ramiro Salazar
        - World Heritage Office – Colleen Swain
        - Alamo Master Plan
        - Arts and Culture – Debbie Racca-Sittre
      - **Deputy City Manager** – Erik Walsh
        - Fire – Charles N. Hood
        - Police – William McManus
        - Metro Health – Dr. Colleen Bridger
        - 311 Customer Service
    - **City Clerk** – Leticia Vacek
    - **City Auditor** – Kevin Barthold

Effective December 14, 2018

FINANCIAL SECTION

Report of Independent Certified Public Accountants

GRANT THORNTON LLP
700 Milam Street
Suite 300
Houston, Texas 77002

D +1 832 476 4600
F +1 713 655 8741

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Mayor and Members of the City Council
City of San Antonio, Texas

Report on the financial statements
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 (the "City") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

Auditor's responsibility
Our responsibility is to express opinions on these financial statements based on our 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, HemisFair Park Area Redevelopment Corporation, San Antonio Economic Development Corporation, Urban Renewal Agency of the City of San Antonio dba Office of Urban Redevelopment of San Antonio, Westside Development Corporation, and Visit San Antonio, blended and fiduciary component units, which represent 74%, 82% and 34%, respectively, of the assets, net position/fund balances and revenues/additions, of the aggregate remaining fund information. We also did not audit, CPS Energy, San Antonio Water System, Brooks, Port Authority of San Antonio dba Port San Antonio SA Energy Acquisition Public Facility Corporation, San Antonio Bexar County Soccer Public Facility Corporation, San Antonio Housing Trust Finance Corporation, San Antonio Housing Trust Foundation, Inc., San Antonio Housing Trust Public Facility Corporation, and San Antonio Tricentennial Celebration Commission, discretely presented component units, which represent 100% of the assets and deferred outflows, net position and revenues of the discretely presented component units. We also did not audit the San Antonio Early Childhood Education Municipal Development Corporation (Pre-K 4 SA), a major fund and blended component unit. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit report 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Emphasis of a Matter

As discussed in Note 1 to the financial statements, the City adopted new accounting guidance in 2018 related to the accounting for other post-employment benefits. Our opinion is not modified with respect to this matter

Required supplementary information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedule – General Fund, Budgetary Comparison Schedule – Pre-K 4 SA, Schedules of Changes in the Net Pension Liability and Related Ratios, Schedules of Contributions - Pensions, Schedules of Changes in Net OPEB (Asset) Liability and Related Ratios, Schedules of Contributions - OPEB, and Schedules of Funding Progress - SAWS be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Supplementary Budget and Actual Schedules for Legally Adopted Budgets are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit and the reports of other auditors the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other information

The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Grant Thornton LLP

Houston, Texas
February 22, 2019

Management's Discussion and Analysis

(Required Supplementary Information)

(Unaudited)

(THIS PAGE LEFT BLANK INTENTIONALLY)

Management's Discussion and Analysis (Unaudited)

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, 2018. 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 and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources by $2,252,852 which is an increase of $145,287 from prior year's net position. A deficit ending balance of $1,126,917 in unrestricted net position is primarily due to the City's net pension and OPEB liability of $771,704 and $901,903 less $129,192 and $56,000 related to net unamortized deferred inflows and outflows of resources, respectively.
- At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $1,293,868, an increase of $284,058 compared to the fiscal year 2017 fund balance. Of this amount, $15,244 is nonspendable, $842,658 is restricted in use, $196,109 has been committed, $3,375 is assigned and $236,482 is unassigned.
- The establishment and maintenance of appropriate reserves within the General Fund is critical to prudent financial management. At the end of the current fiscal year, unassigned fund balance for the General Fund was $243,828 which is 22.2% of the total General Fund expenditures. The unassigned fund balance represents $118,226 in financial reserves. City Council approved financial policies which require the City to maintain a 10.0% budgeted financial reserve. In addition, at the end of fiscal year 2018, $100,807, or 5.4% of revenues, was reserved for a two-year balanced budget. The General Fund available ending balance is $14,938 better than anticipated when compared to re-estimated fiscal year 2018 budget.

Overview of the Financial Statements

This discussion and analysis is intended to serve as the introduction to the City'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 position* reports the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources as net position. Over time, increases or decreases in net position may help determine whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the fiscal year. Changes in net position 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 annual 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, education, economic development and opportunity, and environmental. 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 Fund, Debt Service, San Antonio Early Childhood Education Municipal Development Corporation (Pre-K 4 SA), Convention Center Hotel Finance Corporation (CCHFC), and 2017 General Obligation Bonds, 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. *Internal Service Funds* are used to accumulate and allocate costs internally among the City's various functions, including, self-insurance programs, information services, other internal services, and capital 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 position and in the proprietary funds' statement of revenues, expenses, and changes in fund net position for the Airport System and Solid Waste Management, which are considered to be major funds. 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 is 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 and Pre-K 4 SA's budgetary comparison schedules that demonstrate compliance with their budget, and (b) pension and postemployment schedules. The budgets for the Debt Service Fund, various Special Revenue Funds, and a Permanent Fund, which are legally adopted on an annual basis, are also included in the CAFR as supplementary schedules within the Combining Financial Statements and Schedules. Additionally, this document presents the Financial and Compliance Report on Federal and State Grants, or Single Audit report, and the Airport Passenger Facility Charges.

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, 2018.

Net Position
Year-Ended September 30, 2018
(With Comparative Totals for September 30, 2017)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017 (Restated)*	2018	2017 (Restated)*	2018	2017 (Restated)*
Current and Other Assets	$ 1,934,672	$ 1,621,066	$ 266,736	$ 254,988	$ 2,201,408	$ 1,876,054
Capital Assets	4,930,288	4,911,234	819,766	805,574	5,750,054	5,716,808
Total Assets	6,864,960	6,532,300	1,086,502	1,060,562	7,951,462	7,592,862
Total Deferred Outflows of Resources	222,333	398,974	11,964	23,300	234,297	422,274
Current and Other Liabilities	591,379	574,829	67,948	81,137	659,327	655,966
Long-term Liabilities	4,326,801	3,926,522	659,243	625,297	4,986,044	4,551,819
Total Liabilities	4,918,180	4,501,351	727,191	706,434	5,645,371	5,207,785
Total Deferred Inflows of Resources	272,264	116,936	15,272	1,723	287,536	118,659
Net Position:						
Net Investment in Capital Assets	2,852,015	2,815,626	338,367	365,001	3,190,382	3,180,627
Restricted	52,819	56,343	136,568	97,709	189,387	154,052
Unrestricted (Deficit)	(1,007,985)	(1,125,479)	(118,932)	(101,635)	(1,126,917)	(1,227,114)
Total Net Position	$ 1,896,849	$ 1,746,490	$ 356,003	$ 361,075	$ 2,252,852	$ 2,107,565

*Amounts have been restated – see Note 19 Prior Period Restatement for more information.

For the year-ended September 30, 2018, total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $2,252,852. Investment in capital assets representing the largest portion of the City's net position, $3,190,382, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings attributable to the acquisition, construction, or improvement of those assets. 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 and any related deferred outflows of resources, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate liabilities. The restricted portion of the total net position totaling $189,387 represents resources that are subject to external restrictions on how they may be used.

The following schedule provides a detail of the changes to the City's net position:

Changes in Net Position
Year-Ended September 30, 2018
(With Comparative Totals for September 30, 2017)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017 (Restated)*	2018	2017 (Restated)*	2018	2017 (Restated)*
Revenues:						
Program Revenues:						
Charges for Services	$ 238,872	$ 231,828	$ 261,919	$ 235,967	$ 500,791	$ 467,795
Operating Grants and Contributions	186,005	187,424			186,005	187,424
Capital Grants and Contributions	49,653	76,870	54,198	53,872	103,851	130,742
General Revenues:						
Property Taxes	577,870	550,204			577,870	550,204
Other Taxes	515,493	489,792			515,493	489,792
Revenues from Utilities	389,319	363,612			389,319	363,612
Investment Earnings	19,031	8,109	3,808	1,969	22,839	10,078
Miscellaneous	96,643	82,132	4,568	5,396	101,211	87,528
Total Revenues	2,072,886	1,989,971	324,493	297,204	2,397,379	2,287,175
Expenses:						
Primary Government:						
Governmental Activities:						
General Government	134,370	101,673			134,370	101,673
Public Safety	721,695	828,839			721,695	828,839
Public Works	349,150	244,437			349,150	244,437
Sanitation	5,748	9,574			5,748	9,574
Health Services	80,505	67,038			80,505	67,038
Culture and Recreation	214,302	161,408			214,302	161,408
Convention and Tourism	60,426	66,634			60,426	66,634
Urban Redevelopment and Housing	38,521	30,867			38,521	30,867
Welfare	157,828	143,370			157,828	143,370
Education	74,314	81,563			74,314	81,563
Economic Development and Opportunity	27,463	27,994			27,463	27,994
Environmental	209				209	
Bond Issuance Costs	1,832	1,951			1,832	1,951
Interest on Long-Term Debt	91,718	89,469			91,718	89,469
Business-Type Activities:						
Airport System			134,352	127,419	134,352	127,419
Development Services			30,490	29,643	30,490	29,643
Market Square			2,488	2,643	2,488	2,643
Parking System			12,321	9,671	12,321	9,671
Solid Waste Management			113,513	114,308	113,513	114,308
Total Expenses	1,958,081	1,854,817	293,164	283,684	2,251,245	2,138,501
Change in Net Position						
Before Transfers and Special Items	114,805	135,154	31,329	13,520	146,134	148,674
Transfers	35,554	6,006	(36,401)	(4,619)	(847)	1,387
Net Change in Net Position	150,359	141,160	(5,072)	8,901	145,287	150,061
Beginning, Net Position (Previously Reported)	1,746,490	2,171,827	361,075	366,804	2,107,565	2,538,631
Adoption of GASB 75 and Other Restatement		(566,497)		(14,630)		(581,127)
Beginning Net Position, Restated	1,746,490	1,605,330	361,075	352,174	2,107,565	1,957,504
Ending, Net Position	$ 1,896,849	$ 1,746,490	$ 356,003	$ 361,075	$ 2,252,852	$ 2,107,565

*Amounts have been restated – see Note 19 Prior Period Restatement for more information.

The City's total revenues were $2,397,379 for fiscal year-ended September 30, 2018. Revenues from Governmental Activities totaled $2,072,886 (86.5%) and revenues from Business-Type Activities totaled $324,493 (13.5%). Expenses for the City totaled $2,251,245. Of total expenses, Governmental Activity expenses totaled $1,958,081 (87.0%) and Business-Type Activity expenses totaled $293,164 (13.0%).

Governmental Activities

Program revenues for the City's Governmental Activities totaled $474,530, which is $21,592 less than the previous fiscal year's balance of $496,122. General revenues for the City's Governmental Activities totaled $1,598,356 compared to $1,493,849 in the prior year. Expenses for Governmental Activities were $1,958,081 compared to prior year's expenses of $1,854,817.

The City's net position in governmental activities increased by $150,359. The following analysis highlights changes of $10,000 or more in either direction:

- Capital Grant and Contribution revenues decreased by $27,217. Factors contributing to this decease include the following: $11,716 reduction of grant funds in the Residential Acoustical Program and the Runway 13R Rehabilitation projects at the San Antonio International Airport due to a decrease in expenses in these projects; $7,810 awarded in fiscal year 2017 from the Advanced Funding Agreement between the City and the Texas Department of Transportation for highway improvements; $5,300 reduction in SAWS funding related to street projects such as the Theo Avenue and Malone Corridor project; and a reduction of $4,894 from the U.S. General Services Administration for the Public Safety Headquarters project.
- Property Tax Revenues increased by $27,666 due to new improvements and higher property valuation. The City's property tax rate remained at 55.827 cents per $100 of valuation in fiscal year 2018.
- Other Taxes Revenues increased by $25,701. In Spring 2018, the City hosted the 2018 NCAA Men's Final Four which attributed to a $4,390 increase in Hotel Occupancy Taxes because room rates and demand were so high. General Sales and Use Taxes increased by $20,291 due to growth in business spending and significant increases from restaurant and retail trade sales year over year. The City is reporting a 5.7% increase in sales tax over fiscal year 2017.
- Revenues from Utilities increased by $25,707. CPS Energy increased by $24,152 due to increased off-system sales caused by higher market prices in 2018 and a 3.3% increase in electric sales caused by warmer than normal weather. Additionally, revenue from SAWS increased by $1,555 due to the 5.8% rate increase that became effective January 1, 2018.
- Investment Earnings reflected an increase of $10,922 due to average portfolio rate of 1.8% in fiscal year 2018 versus 0.8% in fiscal year 2017.
- Miscellaneous Revenues increased by $14,511. Factors contributing to this increase include the following: $5,400 received for a downtown area land sale; $3,385 increase in prescription rebates due to change in the City's providers; and $3,372 reimbursement from San Antonio Local Organizing Committee for expenses related to the 2018 NCAA Men's Final Four.
- The increase of $32,697 in General Government expenses is mainly attributed to increased project activity for the Pedestrian Safety Improvements, Brooks City Base Infrastructure, Carver Community Cultural Center and Collins Garden Library.
- The increase of $104,713 in Public Works expenses is primarily due to the reconciliation of City assets completed in fiscal year 2018.
- Expenses in Culture and Recreation increased by $52,894. This is attributed to increased personnel and other commodities expenses in relation to the City hosting the 2018 NCAA Men's Final Four.
- The implementation of GASB 75 resulted in notable changes in fiscal year 2018 expenditures for Public Safety, Health Services, and Welfare.

Business-Type Activities

Program revenues for the City's Business-Type Activities totaled $316,117, which is $26,278 higher than the previous fiscal year's balance of $289,839. Expenses for Business-Type Activities were $293,164 compared to prior year's expenses of $283,684.

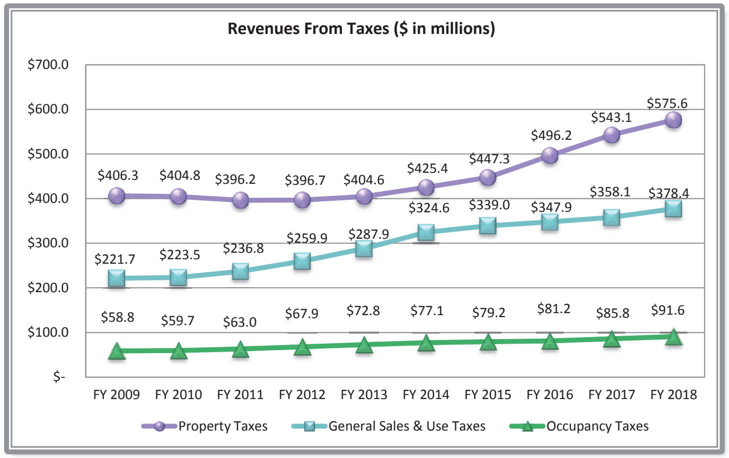
Business-Type Activities decreased the City's net position by $5,072 primarily because of the following:

- Charges for Services for business-type activities increased by $25,952. The Airport recognized $15,203 more in revenue in fiscal year 2018 due to the addition of new routes from airlines such as Frontier, Volaris, and United. This resulted in an increase of 902 or 10.2% in domestic and international passengers arriving and departing from the San Antonio International Airport. An increase of $10,654 from the processing fee, recycling fee, environmental fee, and out of cycle service fee was reflected in Solid Waste Management. This was attributed to a 1.6% customer base growth in utilization of trash bins and a 2.8% growth for recycling.
- Transfers increased in 2018 in order to fund the design, land acquisition, and construction of service centers for the Leslie Road Service Center and Southeast Service Center.

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 $58,574, which is primarily attributable to: (1) a $32,534 increase in property tax revenues, (2) a $20,291 increase in general sales and use tax revenues, and (3) a $5,749 increase in occupancy taxes. The increase in general sales and use taxes and occupancy taxes are a result of a continued consumer confidence in the San Antonio area and increased activity associated with tourism and convention, most notably the City's hosting of the Men's 2018 Final Four. The increase in property taxes is due to higher property valuations and new improvements increasing the levy.



The total fund balance of the General Fund at year-end was $350,140, an increase of $65,991 from the total fund balance of $284,149 in fiscal year 2017. The fund balance is categorized as follows; $6,887 in nonspendable, $2,283 in restricted, $97,134 in committed, $8 in assigned, and $243,828 in unassigned fund balances. The unassigned fund balance represents $118,226 in budgeted financial reserves held by the City as well as amounts available for additional appropriations at the end of the fiscal year inclusive of a $100,807 reserve for Two-Year Budget Plan. The $65,991 increase in fund balance is the result of higher revenue collections of property taxes, utilities, and general and sales use tax.

The total fund balance of the Debt Service Fund at year-end was $38,146, a decrease of $3,334 from the total fund balance of $41,480 in fiscal year 2017. The entire fund balance is restricted for payment of debt service. The decrease in fund balance is attributed to an increase in principal and interest payments.

Pre-K 4 SA, a blended component unit, had an ending fund balance of $8,740, a decrease of $5,032 from ending fund balance of $13,772 in fiscal year 2017. Pre-K 4 SA's fund balance is restricted for education. The decrease in fund balance is attributed to increased facility costs, additional grant awards, and other inflationary costs.

Convention Center Hotel Finance Corporation had an ending fund balance of $6,271 for fiscal year 2018, an increase of $121 from the total fund balance of $6,150 in fiscal year 2017. The fund balance is restricted for debt service expenditures related to the Grand Hyatt San Antonio.

The total fund balance of the 2017 General Obligation Bonds at year-end was $226,016, an increase of $137,394 from the total fund balance of $88,622 in fiscal year 2017. The increase is from the 2nd round of sales of obligation bonds issued to support capital expenditures associated with the $850,000 bond program approved by voters in fiscal year 2017.

General Fund Budgetary Highlights

Variances in Budget Appropriations
(Budgetary Basis)
General Fund

	Original Budget	Final Budget	Actual Results	Variances: Budget	Variances: Final to Actual
Resources (Inflows):					
Taxes	$ 671,450	$ 667,238	$ 669,961	$ (4,212)	$ 2,723
Licenses and Permits	9,199	9,389	9,157	190	(232)
Intergovernmental	6,916	6,869	8,113	(47)	1,244
Revenues from Utilities	368,857	370,041	389,319	1,184	19,278
Charges for Services	65,358	71,009	69,753	5,651	(1,256)
Fines and Forfeits	11,950	11,414	11,885	(536)	471
Miscellaneous	10,311	11,878	20,323	1,567	8,445
Investment Earnings	1,656	3,615	4,421	1,959	806
Contributions			81	-	81
Transfers from Other Funds	21,877	21,798	22,157	(79)	359
Total	$ 1,167,574	$ 1,173,251	$ 1,205,170	$ 5,677	$ 31,919
Charges to Appropriations (Outflows):					
General Government	83,484	$ 86,166	$ 82,358	$ 2,682	$ 3,808
Public Safety	755,540	756,451	750,394	911	6,057
Public Works	63,658	67,036	66,466	3,378	570
Health Services	28,234	28,523	28,592	289	(69)
Welfare	38,308	38,914	38,640	606	274
Culture and Recreation	117,900	124,083	123,454	6,183	629
Economic Development and Opportunity	10,307	20,494	23,487	10,187	(2,993)
Urban Redevelopment and Housing	17,931	18,026	17,565	95	461
Debt Service:					
Principal Retirement	3,140	3,140	3,140		
Interest	189	189	189		
Transfers to Other Funds	67,283	98,520	98,113	31,237	407
Total	$ 1,185,974	$ 1,241,542	$ 1,232,398	$ 55,568	$ 9,144

Changes in original revenue appropriations to the final amended budget resulted in a net increase of $5,677. This increase can be summarized by the following:

- Decrease in Taxes is primarily composed of a $2,601 decrease in delinquent property taxes due to a high volume of assessed property value appeals being processed and a $1,435 decrease in Business and Franchise Tax for cable receipts, with more customers moving to internet or satellite based products.
- Revenues from utilities increased due to a SAWS rate increase approved by City Council after the budget was adopted which became effective in January 2018.
- Charges for Services increased to account for the additional $4,618 the City received from the state's Ambulance Supplemental Payment Program.
- Miscellaneous budget was increased to account for an agreement with Haliburton Energy Services and a recapture on a terminated tax abatement agreement.
- Budgeted interest rates increased from the original budget of 1.6% to the final budget of 1.7%.

Final budgeted revenue appropriations for the General Fund were $1,173,251 while actual revenues on a budgetary basis were $1,205,170, creating a favorable variance of $31,919. Variance explanations are listed below:

- Sales tax revenues are higher than the final budgeted amount due to the continued consumer confidence in the San Antonio area.

- Revenues from utilities are higher than the final budgeted amount as a result of increased off-system sales caused by higher market prices in 2018 and a 3.3% increase in electric sales due to warmer than normal weather.
- Miscellaneous revenues are higher than the final budget amount from the sales of City-owned land near the San Antonio Marriott Rivercenter Hotel.

Changes in original expenditure budget appropriations to the final amended budget appropriations resulted in a net $55,568 increase in appropriations. This increase can be summarized by the following:

- Public Works increased by $3,378 to capture prior year carryforwards primarily for the NAMP projects.
- Culture and Recreation increased by $6,183 to capture prior year carryforwards of $4,260 for the Inner City Incentive program, and the remainder for other park contracts.
- Economic Development and Opportunity increased by $10,187 to capture prior year carryforwards for multi-year incentive agreements with numerous entities.
- Transfers increased by $31,237 to capture prior year carryforwards and closing ordinance adjustments primarily for the 2017 Street Maintenance projects.

Final budgeted expenditure appropriations for the General Fund were $1,241,542 while actual expenditures on a budgetary basis were $1,232,398, creating a favorable variance of $9,144. Variance explanations are listed below:

- General Government reflected savings of $3,808 primarily due to vacancy savings in personal services in the amount of $2,442 and $1,000 in savings relating to the General Fund contingency that was not utilized in fiscal year 2018.
- Public Safety recognized savings of $6,057 due to a refund of $4,102 in the Fire and Police employee benefit's assessment as a result of better in-network and vendor discounts realized through the City's Third Party Administrator. Additionally, Fire reported savings in contractual services for the ambulance service fee contractor billing service due to fees being less than budgeted.
- Economic development and Opportunity reflected an overage of $2,993 due to Council approved future commitments of the fund's entire available fund balance. There is sufficient fund balance to cover the excess.

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2018 amounts to $5,750,054 (net of accumulated depreciation). This investment in capital assets includes land, other non-depreciable assets, construction in progress, non-depreciable intangible assets, depreciable intangible assets, buildings, improvements, infrastructure, and machinery and equipment. The net increase in the City's investment in capital assets for the current fiscal year was $33,246, which is comprised of an increase of $19,054 in governmental activities and a $14,192 increase in business-type activities.

Capital Assets
Year-Ended September 30, 2018
(With Comparative Totals for September 30, 2017)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Land	$ 1,427,003	$ 1,465,578	$ 15,796	$ 15,796	$ 1,442,799	$ 1,481,374
Other Non-Depreciable Assets	347	2,166			347	2,166
Construction in Progress	251,310	660,428	27,214	209,553	278,524	869,981
Non-Depreciable Intangible Assets	176,579	160,181			176,579	160,181
Depreciable Intangible Assets	334		323		657	
Buildings	902,486	853,319	396,368	239,051	1,298,854	1,092,370
Improvements	660,332	598,763	354,640	316,906	1,014,972	915,669
Infrastructure	1,278,573	951,354			1,278,573	951,354
Machinery and Equipment	233,324	219,445	25,425	24,268	258,749	243,713
Total	$ 4,930,288	$ 4,911,234	$ 819,766	$ 805,574	$ 5,750,054	$ 5,716,808

During fiscal year 2018, the City transferred $839,581 of construction in progress to non-depreciable and depreciable asset classes for completed capital projects, mainly comprised of city wide streets and drainage projects, parks improvements, and municipal facilities, as well as the Consolidated Rental Car Facility at the San Antonio International Airport.

The following schedule provides a summary of the City's capital assets:

Change in Capital Assets
Year-Ended September 30, 2018

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	$ 4,911,234	$ 805,574	$ 5,716,808
Additions	344,583	61,587	406,170
Deletions	(158,254)	(6,709)	(164,963)
Accumulated Depreciation	(167,275)	(40,686)	(207,961)
Total	$ 4,930,288	$ 819,766	$ 5,750,054

Additional information on the City's capital assets can be found in Note 5 Capital Assets.

Debt Administration

Long-Term Debt

At the end of the current fiscal year, the City had a total of $3,194,070 in bonds, certificates, contractual obligations, and notes outstanding. Additional information on the City's long-term debt, including descriptions of the new issues, can be found in Note 7 Long-Term Debt.

Outstanding Debt
Year-Ended September 30, 2018
(With Comparative Totals for September 30, 2017)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Bonds Payable:						
Tax-Exempt General Obligation Bonds	$ 1,112,315	$ 1,057,795	$ 2,135	$ 2,310	$ 1,114,450	$ 1,060,105
Taxable General Obligation Bonds	191,550	191,550	8,015	9,095	199,565	200,645
Tax-Exempt Certificates of Obligation	359,540	282,635	33,620	11,660	393,160	294,295
Taxable Certificates of Obligation	118,325	112,145			118,325	112,145
Tax Notes	53,655	43,360	36,000		89,655	43,360
Revenue Bonds	827,924	841,054	434,225	453,285	1,262,149	1,294,339
Revenue Notes	6,575	9,715			6,575	9,715
Capital Appreciation Bonds (CAB)	10,191	8,238			10,191	8,238
Total	$ 2,680,075	$ 2,546,492	$ 513,995	$ 476,350	$ 3,194,070	$ 3,022,842

Governmental Activities

On August 30, 2018, the City issued $154,850 in General Improvement Bonds, Series 2018; $131,610 in Combination Tax and Revenue Certificates of Obligation, Series 2018; $28,070 in Tax Notes, Series 2018; and $8,600 in Combination Tax and Revenue Certificates of Obligation, Taxable Series 2018.

The General Improvement Bonds, Series 2018 were issued to finance improvements to streets, bridges, and sidewalks; drainage and flood control; parks, recreation and open spaces; library and cultural facilities; public safety facilities; and neighborhood initiatives.

The Combination Tax and Revenue Certificates of Obligation, Series 2018 allocated $22,375 from proceeds to Solid Waste Management, $5,265 to Other Internal Service Funds, and the remaining $103,970 were issued to finance improvements to municipal facilities and infrastructure; parks and recreation improvements; public safety facility; radio and system replacement; service centers; street maintenance; library improvements; and drainage facility.

The Tax Notes, Series 2018 were issued to finance improvements to information technology systems and street maintenance.

The Combination Tax and Revenue Certificates of Obligation, Taxable Series 2018 were issued to finance improvements to the Alameda Theater Building.

(THIS PAGE LEFT BLANK INTENTIONALLY)

Business-Type Activities

On November 14, 2017, the City issued $36,000 in Tax Notes, Taxable Series 2017 and were issued to finance improvements at the San Antonio International Airport.

On August 30, 2018, $22,375 of the $131,610 issued in Combination Tax and Revenue Certificates of Obligation, Series 2018 was allocated to Solid Waste Management to finance infrastructure improvements.

Standard & Poor's, Moody's, and Fitch's underlying ratings for City obligations during fiscal year 2018 were as follows:

Bond Ratings
Year-Ended September 30, 2018

	Standard & Poor's	Moody's	Fitch
General Obligation/Certificates of Obligation/Tax Notes	AAA	Aaa	AAA
Airport System	A+	A1	A+
Airport PFC	A	A2	A
Airport CFC	A-	A3	BBB+
Municipal Drainage Utility System Revenue Bonds	AA+	Aa2	AA

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 7 Long-Term Debt.

Currently Known Facts

After nine consecutive years of 'AAA' bond ratings from the three major ratings agencies, one of those agencies, Fitch, downgraded its bond rating of the City on December 19, 2018. Fitch downgraded the City from 'AAA' to a 'AA+.' The downgrade is a direct result of the passage of Propositions B and C, which were submitted by the fire union and amended the City's Charter during the most recent November election.

For more information on other currently known facts, please see Note 20 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 or via email at http://www.sanantonio.gov/Finance/about/contactandfeedback.

Basic Financial Statements

Statement of Net Position
As of September 30, 2018
(In Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Assets:				
Current Assets:				
Cash and Cash Equivalents	$ 64,151	$ 6,468	$ 70,619	$ 268,620
Investments	471,121	67,963	539,084	540,503
Receivables, Net	155,702	15,470	171,172	405,574
Materials and Supplies, at Cost	8,485	942	9,427	208,234
Internal Balances	1,851	(3,372)	(1,521)	
Due From Other Governmental Agencies, Net	4,129	73	4,202	980
Deposits	366		366	
Prepaid Expenses	1,195	50	1,245	78,465
Other Assets				936
Restricted Assets:				
Cash and Cash Equivalents	188,844	62,987	251,831	287,796
Investments	747,270	111,196	858,466	1,571,169
Receivables, Net	84,979	4,145	89,124	7,863
Materials and Supplies, at Cost	2,022		2,022	
Deferred Charges				64,864
Prepaid Expenses	837	777	1,614	
Due From Other Governmental Agencies, Net	26,386	37	26,423	
Total Current Assets	1,757,338	266,736	2,024,074	3,435,004
Noncurrent Assets:				
Capital Assets:				
Non Depreciable	1,855,239	43,010	1,898,249	1,550,655
Depreciable, Net	3,075,049	776,756	3,851,805	12,082,525
Investments	310		310	
Receivables, Net	177,024		177,024	5,607
Prepaid Expenses				189,777
Net OPEB Asset				245,135
Other Noncurrent Assets				284,193
Total Noncurrent Assets	5,107,622	819,766	5,927,388	14,357,892
Total Assets	6,864,960	1,086,502	7,951,462	17,792,896
Total Deferred Outflows of Resources	222,333	11,964	234,297	278,367
Liabilities:				
Current Liabilities:				
Accounts Payable and Current Liabilities	122,579	17,799	140,378	457,013
Accrued Interest		50	50	
Unearned Revenue	1,682	936	2,618	2,848
Current Portion of Long-term Obligations	108,324	14,005	122,329	54,440
Due To Other Governmental Agencies	97		97	
Liabilities Payable From Restricted Assets:				
Accounts Payable and Current Liabilities	92,147	9,511	101,658	43,265
Accrued Interest on Bonds and Certificates	17,680	6,017	23,697	23,867
Unearned Revenue	48,995		48,995	
Due To Other Governmental Agencies	160		160	
Current Portion of Long-term Obligations	199,715	19,630	219,345	316,835
Total Current Liabilities	591,379	67,948	659,327	898,268
Noncurrent Liabilities:				
Noncurrent Portion of Long-term Obligations	4,326,801	659,243	4,986,044	10,528,449
Total Noncurrent Liabilities	4,326,801	659,243	4,986,044	10,528,449
Total Liabilities	4,918,180	727,191	5,645,371	11,426,717
Total Deferred Inflows of Resources	272,264	15,272	287,536	58,924
Net Position:				
Net Investment in Capital Assets	2,852,015	338,367	3,190,382	4,576,825
Restricted for:				
Debt Service	32,188	35,339	67,527	129,054
Capital Projects	2,936	101,229	104,165	874,716
Operating and Other Reserves	563		563	58,349
Perpetual Care:				
Expendable	12,381		12,381	
Nonexpendable	4,751		4,751	
Unrestricted (Deficit)	(1,007,985)	(118,932)	(1,126,917)	946,678
Total Net Position	$ 1,896,849	$ 356,003	$ 2,252,852	$ 6,585,622

The accompanying notes are an integral part of these basic financial statements.

Statement of Activities

Year-Ended September 30, 2018

(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 POSITION — PRIMARY GOVERNMENT: GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Primary Government:								
Governmental Activities:								
General Government	$ 134,370	$ 29,185	$ 6,054	$ 2,010	$ (97,121)	$ -	$ (97,121)	
Public Safety	721,695	49,748	13,137		(658,810)		(658,810)	
Public Works	349,150	61,532	3,483	37,928	(246,207)		(246,207)	
Sanitation	5,748	7,078	3,152		4,482		4,482	
Health Services	80,505	19,756	18,434		(42,315)		(42,315)	
Culture and Recreation	214,302	70,083	7,452	424	(136,343)		(136,343)	
Convention and Tourism	60,426		4,352	9,291	(46,783)		(46,783)	
Urban Redevelopment and Housing	38,521	688	18,917		(18,916)		(18,916)	
Welfare	157,828		103,386		(54,442)		(54,442)	
Education	74,314	697	5,535		(68,082)		(68,082)	
Economic Development and Opportunity	27,463		742		(26,721)		(26,721)	
Environmental	209	105	1,361		1,257		1,257	
Bond Issuance Costs	1,832				(1,832)		(1,832)	
Interest on Long-Term Debt	91,718				(91,718)		(91,718)	
Total Governmental Activities	1,958,081	238,872	186,005	49,653	(1,483,551)		(1,483,551)	
Business-Type Activities:								
Airport System	134,352	100,976		48,198		14,822	14,822	
Development Services	30,490	31,345		6,000		6,855	6,855	
Market Square	2,488	3,019				531	531	
Parking System	12,321	9,269				(3,052)	(3,052)	
Solid Waste Management	113,513	117,310				3,797	3,797	
Total Business-Type Activities	293,164	261,919		54,198		22,953	22,953	
Total Primary Government	$ 2,251,245	$ 500,791	$ 186,005	$ 103,851	(1,483,551)	22,953	(1,460,598)	
Discretely Presented Component Units:								
CPS Energy	$ 2,609,184	$ 2,620,269	$ -	$ 43,868				$ 54,953
SAWS	578,595	666,752		141,414				229,571
Brooks	39,119	22,367	242	549				(15,961)
Port Authority of San Antonio	33,678	35,403		2,821				4,546
SABC Soccer Public Facility Corporation	1,166	285						(881)
SA Energy Acquisition Public Facility Corporation	49,774	46,979						(2,795)
San Antonio Housing Trust Finance Corp.	1,204	996						(208)
San Antonio Housing Trust Foundation, Inc.	533	1,370						837
San Antonio Housing Trust Public Facility Corp.	1,200	1,771						571
SA Tricentennial Celebration Commission	11,811	111	11,456					(244)
Total Component Units	$ 3,326,264	$ 3,396,303	$ 11,698	$ 188,652				270,389
General Revenues:								
Taxes:								
Property					577,870		577,870	
General Sales and Use					378,367		378,367	
Selective Sales and Use					9,554		9,554	
Gross Receipts Business					32,086		32,086	
Occupancy					91,563		91,563	
Penalties and Interest on Delinquent Taxes					3,923		3,923	
Revenues from Utilities					389,319		389,319	
Investment Earnings					19,031	3,808	22,839	78,203
Miscellaneous					96,643	4,568	101,211	19,330
Adjustment for STP Pension Cost								(10,610)
Transfers, net					35,554	(36,401)	(847)	
Total General Revenues and Transfers					1,633,910	(28,025)	1,605,885	86,923
Change in Net Position					150,359	(5,072)	145,287	357,312
Net Position - Beginning of Fiscal Year (restated)					1,746,490	361,075	2,107,565	6,228,310
Net Position - End of Fiscal Year					$ 1,896,849	$ 356,003	$ 2,252,852	$ 6,585,622

The accompanying notes are an integral part of these basic financial statements.

Balance Sheet
Governmental Funds
As of September 30, 2018
(In Thousands)

	MAJOR FUNDS						
	GENERAL	DEBT SERVICE	PRE-K 4 SA	CONVENTION CENTER HOTEL FINANCE CORP.	2017 GENERAL OBLIGATION BONDS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets:							
Cash and Cash Equivalents	$ 27,439	$ -	$ -	$ -	$ -	$ 15,498	$ 42,937
Investments	225,757					70,752	296,509
Receivables, Net	150,286					4,841	155,127
Materials and Supplies, at Cost	6,070					304	6,374
Prepaid Expenditures	817					377	1,194
Due From Other Funds	30,834					2	30,836
Due From Other Governmental Agencies, Net	1,611					1,956	3,567
Restricted Assets:							
Cash and Cash Equivalents	385	15,512	7,075	19,275	22,687	123,330	188,264
Investments	2,032	21,910			207,356	511,185	742,483
Receivables, Net	1,480	8,657	1,421	175,423	254	74,768	262,003
Materials and Supplies, at Cost						2,022	2,022
Prepaid Expenditures						837	837
Due From Other Funds		459	3,437		588	33,214	37,698
Due From Other Governmental Agencies, Net						26,386	26,386
Total Assets	$ 446,711	$ 46,538	$ 11,933	$ 194,698	$ 230,885	$ 865,472	$ 1,796,237
Liabilities, Deferred Inflows of Resources, and Fund Balances:							
Liabilities:							
Vouchers Payable	$ 14,177	$ -	$ -	$ -	$ -	$ 2,215	$ 16,392
Accounts Payable - Other	10,173					2,664	12,837
Accrued Payroll	19,062					171	19,233
Accrued Leave Payable	8,292						8,292
Unearned Revenue	1,470						1,470
Due To Other Funds	3,527					58	3,585
Due To Other Governmental Agencies, Net	97						97
Liabilities Payable From Restricted Assets:							
Vouchers Payable			914			41,721	42,635
Accounts Payable - Other			2,279			30,606	32,885
Accrued Payroll						3,606	3,606
Accrued Leave Payable						44	44
Unearned Revenue						49,140	49,140
Amounts Held in Trust				13,021			13,021
Due To Other Funds					4,869	62,554	67,423
Due To Other Governmental Agencies						160	160
Total Liabilities	56,798		3,193	13,021	4,869	192,939	270,820
Deferred Inflows of Resources	39,773	8,392		175,406		7,978	231,549
Fund Balances:							
Nonspendable	6,887					8,357	15,244
Restricted	2,283	38,146	8,740	6,271	226,016	561,202	842,658
Committed	97,134					98,975	196,109
Assigned	8					3,367	3,375
Unassigned	243,828					(7,346)	236,482
Total Fund Balances	350,140	38,146	8,740	6,271	226,016	664,555	1,293,868
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 446,711	$ 46,538	$ 11,933	$ 194,698	$ 230,885	$ 865,472	$ 1,796,237

The accompanying notes are an integral part of these basic financial statements.

Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
As of September 30, 2018
(In Thousands)

Amounts reported for governmental activities in the Statement of Net Position are different because:

Fund Balances - Total Governmental Funds		$ 1,293,868
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental Capital Assets:		
Land	1,427,003	
Other Non-Depreciable Assets	347	
Construction In Progress	251,310	
Non-Depreciable Intangible Assets	176,579	
Depreciable Intangible Assets	4,058	
Buildings	1,340,968	
Improvements	1,023,377	
Infrastructure	3,366,519	
Machinery and Equipment	365,959	
Less: Accumulated Depreciation	(3,146,881)	
Total Governmental Capital Assets		4,809,239
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 inflows of resources-unavailable revenue		
Revenues previously recorded as unavailable revenue in the fund financial statements		231,694
Long-term investments are not financial resources and therefore are not reported in the governmental funds		310
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 Position.		139,384
Deferred outflows of resources related to pension, OPEB and loss on bond refunding		216,954
Deferred inflows of resources related to pension and OPEB		(262,435)
Long-term liabilities are not due and payable in the current year, therefore are not reported in the governmental funds.		
Governmental Bonds Payable	(2,674,810)	
Unamortized Discount/(Premium) on Bonds, Net	(144,545)	
Capital Lease Liability	(22,889)	
Notes Payable	(32,053)	
Net OPEB and Pension Liability	(1,429,450)	
Accrued Interest Payable	(17,680)	
Pollution Remediation Payable	(196)	
Accrued Leave Payable	(210,531)	
Other Payable	(11)	
		(4,532,165)
Net Position of Governmental Activities		$ 1,896,849

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, 2018
(In Thousands)

	MAJOR FUNDS						
	GENERAL	DEBT SERVICE	PRE-K 4 SA	CONVENTION CENTER HOTEL FINANCE CORP.	2017 GENERAL OBLIGATION BONDS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:							
Taxes:							
Property	$ 339,887	$ 207,684	$ -	$ -	$ -	$ 28,074	$ 575,645
General Sales and Use	288,962					89,405	378,367
Selective Sales and Use	9,554						9,554
Gross Receipts Business	29,292					2,794	32,086
Occupancy						91,563	91,563
Penalties and Interest on Delinquent Taxes	2,266	1,382				275	3,923
Licenses and Permits	9,157					3	9,160
Intergovernmental	8,113		6,232			202,022	216,367
Revenues from Utilities	389,319						389,319
Charges for Services	69,753					126,193	195,946
Fines and Forfeits	11,885					368	12,253
Miscellaneous	20,323	3,889	26			54,296	78,534
Investment Earnings	4,421	1,305	111	100	1,439	8,885	16,261
Contributions	81			13,225		34,273	47,579
Total Revenues	1,183,013	214,260	6,369	13,325	1,439	638,151	2,056,557
Expenditures:							
Current:							
General Government	76,687	491				12,606	89,784
Public Safety	747,731					26,832	774,563
Public Works	61,513					65,664	127,177
Health Services	28,172					33,492	61,664
Sanitation						6,957	6,957
Welfare	37,979					106,142	144,121
Culture and Recreation	115,681					56,726	172,407
Convention and Tourism						51,829	51,829
Urban Redevelopment and Housing	17,265					15,818	33,083
Education			47,096			26,968	74,064
Economic Development and Opportunity	8,730					18,653	27,383
Environmental						1,247	1,247
Capital Outlay						298,671	298,671
Debt Service:							
Principal Retirement	3,140	155,865		3,860		9,925	172,790
Interest	189	79,080		9,344		25,089	113,702
Issuance Costs					931	901	1,832
Total Expenditures	1,097,087	235,436	47,096	13,204	931	757,520	2,151,274
Excess (Deficiency) of Revenues Over (Under) Expenditures	85,926	(21,176)	(40,727)	121	508	(119,369)	(94,717)
Other Financing Sources (Uses):							
Issuance of Long-Term Debt					154,850	155,707	310,557
Premium on Long-Term Debt					15,445	16,624	32,069
Transfers In	22,157	17,866	35,697			378,110	453,830
Transfers Out	(42,092)	(24)	(2)		(33,409)	(342,154)	(417,681)
Total Other Financing Sources (Uses), Net	(19,935)	17,842	35,695		136,886	208,287	378,775
Net Change in Fund Balances	65,991	(3,334)	(5,032)	121	137,394	88,918	284,058
Fund Balances October 1	284,149	41,480	13,772	6,150	88,622	575,637	1,009,810
Fund Balances September 30	$ 350,140	$ 38,146	$ 8,740	$ 6,271	$ 226,016	$ 664,555	$ 1,293,868

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, 2018

(In Thousands)

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in Fund Balances - Total Governmental Funds		$ 284,058
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	297,186	
Pollution Remediation Capitalization	(90)	
Donated Capital Assets	9,893	
Less: Current Year Depreciation	(176,698)	
Less: Current Year Deletions	(120,146)	
		10,145
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund financial statements.		(2,284)
Long-term Investments are not financial resources and therefore are not shown on the fund - based statements		310
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 position. Also, governmental funds report the effect of 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	(310,557)	
(Premium)/Discount on Long-term Debt	(32,069)	
Amortization of Bond Premiums/Discounts and Deferred Charges, Net	24,856	
Principal Payments	171,378	
		(146,392)
The following expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Interest Expense	(2,767)	
Accrued Leave Payable	(6,780)	
Net OPEB and Pension Liability	(23,941)	
Pollution Remediation	92	
Principal Amounts on Leases	3,720	
Other Expenses	(29)	
Debt Transfer to Enterprise Funds	779	
		(28,926)
Internal Service Funds are used by management to charge the cost of certain activities to individual funds. The change in net position remaining after allocation of business-type activities of the Internal Service Funds is reported with governmental activities.		33,448
Change in Net Position of Governmental Activities		$ 150,359

The accompanying notes are an integral part of these basic financial statements.

Statement of Net Position
Proprietary Funds
As of September 30, 2018
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	SOLID WASTE MANAGEMENT	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Assets:					
Current Assets:					
Unrestricted Assets:					
Cash and Cash Equivalents	$ 3,005	$ 2	$ 3,461	$ 6,468	$ 21,214
Investments	25,876	13,465	28,622	67,963	174,612
Receivables, Net	5,791	9,305	374	15,470	575
Materials and Supplies, at Cost	854	24	64	942	2,111
Deposits					366
Prepaid Expenses			50	50	1
Due From Other Funds					1,149
Due From Other Governmental Agencies, Net	73			73	562
Total Unrestricted Assets	35,599	22,796	32,571	90,966	200,590
Restricted Assets:					
Debt Service Accounts:					
Cash and Cash Equivalents	24,372	298	204	24,874	580
Investments	13,963	427	564	14,954	4,787
Receivables, Net			1	1	
Construction Accounts:					
Cash and Cash Equivalents	10,630	2,307	1	12,938	
Investments	16,570	1,890		18,460	
Prepaid Expenses	777			777	
Receivables, Net	72	16		88	
Improvement and Contingency Accounts:					
Cash and Cash Equivalents	24,905	9	188	25,102	
Investments	76,152	77	1,553	77,782	
Receivables, Net	3,012	1	4	3,017	
Other Restricted Assets:					
Cash and Cash Equivalents	73			73	
Receivables, Net	1,039			1,039	
Due From Other Governmental Agencies, Net	37			37	
Total Restricted Assets	171,602	5,025	2,515	179,142	5,367
Total Current Assets	207,201	27,821	35,086	270,108	205,957
Noncurrent Assets:					
Capital Assets:					
Land	5,323	1,107	9,366	15,796	
Buildings	523,526	11,283	26,187	560,996	178
Improvements	570,721	9,529	14,276	594,526	244
Machinery and Equipment	25,927	32,912	5,208	64,047	251,152
Depreciable Intangible	352			352	250
Construction in Progress	18,044	63	9,107	27,214	
Total Capital Assets	1,143,893	54,894	64,144	1,262,931	251,824
Less: Accumulated Depreciation	391,120	26,956	25,089	443,165	130,775
Net Capital Assets	752,773	27,938	39,055	819,766	121,049
Total Noncurrent Assets	752,773	27,938	39,055	819,766	121,049
Total Assets	959,974	55,759	74,141	1,089,874	327,006
Total Deferred Outflows of Resources	7,358	2,439	2,167	11,964	5,379

The accompanying notes are an integral part of these basic financial statements.

Statement of Net Position
Proprietary Funds
As of September 30, 2018
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	SOLID WASTE MANAGEMENT	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Liabilities:					
Current Liabilities:					
Payable from Current Unrestricted Assets:					
Vouchers Payable	$ 4,688	$ 2,210	$ 445	$ 7,343	$ 9,284
Accounts Payable-Other	1,275	1,415	4,435	7,125	1,848
Claims Payable					23,641
Accrued Payroll	1,160	1,349	822	3,331	2,434
Accrued Interest	10	40		50	
Current Portion of Accrued Leave Payable	2,110	1,624	1,104	4,838	3,648
Unearned Revenue	913		23	936	212
Current Portion of Capital Lease Liability	183	8,589		8,772	
Current Portion of Landfill Postclosure Costs		176		176	
Current Portion of Pollution Remediation	219			219	
Total Payable from Current Unrestricted Assets	10,558	15,403	6,829	32,790	41,067
Payable from Current Restricted Assets:					
Vouchers Payable	5,277		1	5,278	
Accrued Interest	5,751	183	83	6,017	
Current Portion of Bonds and Certificates (net of premium/discount)	16,610	1,878	1,142	19,630	174
Due To Other Funds		196		196	
Other Payables	4,233			4,233	
Total Payable from Current Restricted Assets	31,871	2,257	1,226	35,354	174
Total Current Liabilities	42,429	17,660	8,055	68,144	41,241
Noncurrent Liabilities:					
Bonds and Certificates (net of current portion & discount/premium)	459,862	38,723	6,862	505,447	5,203
Claims Payable (net of current portion)					36,910
Accrued Leave Payable (net of current portion)	802	661	19	1,482	984
Capital Lease Liability (net of current portion)	1,531	6,636		8,167	
Net OPEB and Pension Liabilities	49,753	57,356	35,038	142,147	102,010
Pollution Remediation (net of current portion)	1,055			1,055	
Landfill Postclosure Costs (net of current portion)		945		945	
Total Noncurrent Liabilities	513,003	104,321	41,919	659,243	145,107
Total Liabilities	555,432	121,981	49,974	727,387	186,348
Total Deferred Inflows of Resources	5,948	5,832	3,492	15,272	9,829
Net Position:					
Net Investment in Capital Assets	307,004		31,363	338,367	121,049
Restricted:					
Debt Service	34,113	541	685	35,339	5,367
Capital Projects	101,029	12	188	101,229	
Unrestricted (Deficit)	(36,194)	(70,168)	(9,394)	(115,756)	9,792
Total Net Position	$ 405,952	$ (69,615)	$ 22,842	$ 359,179	$ 136,208
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(3,176)	
Net Position of Business-Type Activities				$ 356,003	

Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
Year-Ended September 30, 2018
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	SOLID WASTE MANAGEMENT	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:					
Charges for Services	$ 100,976	$ 117,310	$ 43,633	$ 261,919	$ 345,449
Total Operating Revenues	100,976	117,310	43,633	261,919	345,449
Operating Expenses:					
Personal Services	36,397	45,145	26,633	108,175	83,974
Contractual Services	17,233	31,194	5,170	53,597	39,543
Commodities	2,661	6,554	713	9,928	2,615
Materials					24,994
Claims					124,571
Other	9,342	24,081	7,386	40,809	24,933
Depreciation	36,008	3,711	2,014	41,733	27,456
Total Operating Expenses	101,641	110,685	41,916	254,242	328,086
Operating Income (Loss)	(665)	6,625	1,717	7,677	17,363
Nonoperating Revenues (Expenses):					
Investment Earnings	2,974	337	497	3,808	2,770
Other Nonoperating Revenue	2,494	1,150	924	4,568	11,461
Gain (Loss) on Sale of Capital Assets	(65)			(65)	4,513
Interest and Debt Expense	(23,149)	(445)	(665)	(24,259)	(17)
Other Nonoperating Expense	(9,777)	(3,875)	(2,993)	(16,645)	
Total Nonoperating Revenues (Expenses)	(27,523)	(2,833)	(2,237)	(32,593)	18,727
Change in Net Position Before Capital Contributions and Transfers	(28,188)	3,792	(520)	(24,916)	36,090
Capital Contributions	48,198		6,000	54,198	
Transfers In (Out):					
Transfers In		1,386	4,769	6,155	429
Transfers Out	(236)	(37,990)	(4,330)	(42,556)	(1,024)
Total Transfers In (Out), Net	(236)	(36,604)	439	(36,401)	(595)
Change In Net Position	19,774	(32,812)	5,919	(7,119)	35,495
Net Position - October 1 (restated)	386,178	(36,803)	16,923		100,713
Net Position - September 30	$ 405,952	$ (69,615)	$ 22,842		$ 136,208
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				2,047	
Change in Net Position of Business-Type Activities				$ (5,072)	

The accompanying notes are an integral part of these basic financial statements.

Statement of Cash Flows
Proprietary Funds
Year-Ended September 30, 2018
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	SOLID WASTE MANAGEMENT	NONMAJOR ENTERPRISE FUNDS	TOTALS	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:					
Cash Received from Customers	$ 100,327	$ 116,640	$ 43,862	$ 260,829	$ 345,955
Cash Payments to Suppliers for Goods and Services	(27,576)	(60,882)	(13,872)	(102,330)	(218,226)
Cash Payments to Employees for Service	(34,863)	(41,936)	(25,443)	(102,242)	(79,396)
Cash Received from Other Cash Receipts	2,494	1,150	924	4,568	11,461
Net Cash Provided by Operating Activities	40,382	14,972	5,471	60,825	59,794
Cash Flows from Noncapital Financing Activities:					
Transfers In from Other Funds		1,386	4,769	6,155	429
Transfers Out to Other Funds	(236)	(37,990)	(4,330)	(42,556)	(1,024)
Due to Other Funds		(70)		(70)	(27)
Due from Other Funds		1,412	2,276	3,688	908
Net Cash Provided by (Used for) Noncapital Financing Activities	(236)	(35,262)	2,715	(32,783)	286
Cash Flows from Capital and Related Financing Activities:					
Acquisitions and Construction of Capital Assets	(64,315)	(3,274)	(11,583)	(79,172)	(37,606)
Contributed Capital	48,198		6,000	54,198	
Interest and Fees Paid on Long-Term Debt	(23,197)	(280)	(676)	(24,153)	(3)
Principal Payments on Long-Term Debt	(19,060)	(590)	(1,080)	(20,730)	
Principal Payments on Notes and Leases	(176)	(9,873)		(10,049)	
Proceeds from Issuance of Long-Term Debt	36,000	22,375		58,375	5,377
Proceeds from Issuance of Notes and Leases		3,563		3,563	
Proceeds from Sale of Assets	35			35	5,740
Net Cash Provided by (Used for) Capital and Related Financing Activities	(22,515)	11,921	(7,339)	(17,933)	(26,492)
Cash Flows from Investing Activities:					
Purchases of Investment Securities	(186,095)	(19,189)	(35,726)	(241,010)	(205,128)
Maturity of Investment Securities	152,062	22,700	33,692	208,454	166,588
Investments Earnings	2,776	320	441	3,537	2,457
Net Cash Provided by (Used for) Investing Activities	(31,257)	3,831	(1,593)	(29,019)	(36,083)
Net (Decrease) in Cash and Cash Equivalents	(13,626)	(4,538)	(746)	(18,910)	(2,495)
Cash and Cash Equivalents, October 1	76,611	7,154	4,600	88,365	24,289
Cash and Cash Equivalents, September 30	$ 62,985	$ 2,616	$ 3,854	$ 69,455	$ 21,794
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating Income (Loss)	$ (665)	$ 6,625	$ 1,717	$ 7,677	$ 17,363
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Depreciation	36,008	3,711	2,014	41,733	27,456
Other Nonoperating Revenues	2,494	1,150	924	4,568	11,461
Changes in Assets, Liabilities, Deferred Outflows of Resources and Deferred Inflows of Resources:					
(Increase) Decrease in Accounts Receivable	(79)	(670)	270	(479)	437
(Increase) Decrease in Due from Other Governmental Agencies	23			23	(7)
(Increase) Decrease in Materials and Supplies	(55)	8		(47)	(168)
(Increase) in Prepaid Expenses			(50)	(50)	
(Increase) in Deposits					(50)
Increase (Decrease) in Vouchers Payable	1,643	748	(243)	2,148	1,234
(Decrease) in Claims Payable					(1,304)
Increase (Decrease) in Accounts Payable - Other	72	798	(310)	560	(1,332)
Increase (Decrease) in Accrued Payroll	62	(51)	14	25	109
Increase in Accrued Leave Payable	40	121	54	215	327
(Decrease) in Landfill Postclosure Liability		(607)		(607)	
(Decrease) in Net OPEB Obligation and Pension Liability	(7,185)	(6,808)	(4,732)	(18,725)	(12,967)
Decrease in Deferred Outflows of Resources	3,835	4,447	2,587	10,869	8,021
Increase In Deferred Inflows of Resources	4,782	5,500	3,267	13,549	9,088
Increase (Decrease) in Unearned Revenue	(593)		(41)	(634)	126
Net Cash Provided by Operating Activities	$ 40,382	$ 14,972	$ 5,471	$ 60,825	$ 59,794
Noncash Investing, Capital and Financing Activities					
Acquisitions and Construction of Capital Assets from Leases	$ -	$ 3,564	$ -	$ 3,564	$ -

The accompanying notes are an integral part of these basic financial statements.

Statement of Fiduciary Net Position/Balance Sheet
Fiduciary Funds
As of September 30, 2018
(In Thousands)

	PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUND - SAN ANTONIO LITERACY PROGRAM	AGENCY FUNDS
Assets:			
Current Assets:			
Cash and Cash Equivalents	$ 63,951	$ -	$ 4,244
Security Lending Collateral	64,037		
Investments:			
Common Stock	1,413,314		
U.S. Government Securities	67,981		4,343
Corporate Bonds	327,968		
Foreign Bonds	258,894		
Mutual Funds	145,161		
Hedge Funds	401,302		
Real Estate	278,936		
Alternative	620,114		
Receivables:			
Accounts	7,646		13
Accrued Interest	6,096		12
Accrued Revenue	9,939		
Prepaid Expenses	15		
Total Current Assets	3,665,354		8,612
Capital Assets:			
Machinery and Equipment	630		
Buildings	1,606		
Total Capital Assets	2,236		
Less: Accumulated Depreciation	827		
Net Capital Assets	1,409		
Total Assets	$ 3,666,763	$ -	$ 8,612
Liabilities:			
Vouchers Payable	$ 6,408	$ -	$ 1,461
Accounts Payable - Other	19,613		7,151
Claims Payable	3,527		
Accrued Payroll	275		
Due to Other Funds	297		
Securities Lending Obligation	64,037		
Total Liabilities	94,157		$ 8,612
Net Position:			
Restricted for Pension	3,196,529		
Restricted for Other Postemployment Benefits	376,077		
Total Net Position	$ 3,572,606	$ -	

The accompanying notes are an integral part of these basic financial statements.

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year-Ended September 30, 2018
(In Thousands)

	PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUND - SAN ANTONIO LITERACY PROGRAM
Additions:		
Contributions:		
Employer	$ 109,727	$ -
Employee	53,274	
Other Contributions	1,829	
Total Contributions	164,830	
Investment Earnings:		
Net Increase in Fair Value of Investments	386,354	
Real Estate Income, Net	9,055	
Interest and Dividends	52,300	
Securities Lending	1,182	
Other Income	334	
Total Investment Earnings	449,225	
Less: Investment Expenses		
Investment Management Fees and Custodian Fees	(15,827)	
Less: Securities Lending Expenses		
Borrower Rebates and Lending Fees	(810)	
Net Investment Earnings	432,588	
Total Additions	597,418	
Deductions:		
Benefits	195,601	
Refunds of Contributions	1,017	
Administrative Expense	8,152	24
Total Deductions	204,770	24
Change in Net Position	392,648	(24)
Net Position - Beginning of Fiscal Year (restated)	3,179,958	24
Net Position - End of Fiscal Year	$ 3,572,606	$ -

The accompanying notes are an integral part of these basic financial statements.

Statement of Net Position
Discretely Presented Component Units
As of September 30, 2018

(In Thousands)

	CPS ENERGY	SAN ANTONIO WATER SYSTEM	NONMAJOR COMPONENT UNITS	TOTAL
Assets:				
Current Assets:				
Unrestricted Assets:				
Cash and Cash Equivalents	$ 205,418	$ 36,688	$ 26,514	$ 268,620
Investments	163,486	349,074	27,943	540,503
Receivables, Net	319,317	76,714	9,543	405,574
Materials and Supplies, at Cost	202,585	5,556	93	208,234
Due from Other Governmental Agencies			980	980
Prepaid Expenses	44,996	3,917	29,552	78,465
Other Assets			936	936
Total Unrestricted Assets	935,802	471,949	95,561	1,503,312
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents	14,494	350	23,471	38,315
Investments		150,406	8,847	159,253
Receivables, Net			609	609
Capital Projects Accounts:				
Cash and Cash Equivalents	59,222	79,132		138,354
Investments		241,634		241,634
Ordinance Accounts:				
Cash and Cash Equivalents	69,463			69,463
Investments	547,205			547,205
Other Restricted Accounts:				
Cash and Cash Equivalents	23,490	13,531	4,643	41,664
Investments	568,934	54,143		623,077
Receivables, Net	7,144		110	7,254
Deferred Charges			64,864	64,864
Total Restricted Assets	1,289,952	539,196	102,544	1,931,692
Total Current Assets	2,225,754	1,011,145	198,105	3,435,004
Noncurrent Assets:				
Capital Assets:				
Land	97,125	106,995	61,141	265,261
Depreciable Intangible Assets	248,278	1,354		249,632
Infrastructure			102,862	102,862
Buildings			325,561	325,561
Utility Plant in Service	12,944,209	6,118,712		19,062,921
Machinery and Equipment		371,916	19,377	391,293
Construction in Progress	521,471	332,635	76,024	930,130
Water Rights and Other Non-Depreciable Intangible Assets	106,217	249,047		355,264
Nuclear Fuel	972,268			972,268
Total Capital Assets	14,889,568	7,180,659	584,965	22,655,192
Less: Accumulated Depreciation	6,699,212	2,128,882	193,918	9,022,012
Net Capital Assets	8,190,356	5,051,777	391,047	13,633,180
Other Noncurrent Assets:				
Receivables, Net		1,343	4,264	5,607
Prepaid Expenses			189,777	189,777
Pension Regulatory Asset	245,135			245,135
Other Noncurrent Assets	284,193			284,193
Total Other Noncurrent Assets	529,328	1,343	194,041	724,712
Total Noncurrent Assets	8,719,684	5,053,120	585,088	14,357,892
Total Assets	10,945,438	6,064,265	783,193	17,792,896
Deferred Outflows of Resources	182,853	93,340	2,174	278,367

The accompanying notes are an integral part of these basic financial statements.

Statement of Net Position
Discretely Presented Component Units
As of September 30, 2018
(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	$ 381,560	$ 61,982	$ 13,471	$ 457,013
Unearned Revenues			2,848	2,848
Current Portion of Long-term Lease/Notes Payable			3,101	3,101
Current Portion of Other Payables	44,016	7,187	136	51,339
Total Payable from Current Unrestricted Assets	425,576	69,169	19,556	514,301
Payable from Restricted Assets:				
Accounts Payable and Other Current Liabilities		41,902	1,363	43,265
Accrued Bond and Certificate Interest		15,624	8,243	23,867
Current Portion of Bonds and Certificates	195,095	84,875	33,155	313,125
Current Portion of Commercial Paper		3,710		3,710
Total Payable from Restricted Assets	195,095	146,111	42,761	383,967
Total Current Liabilities	620,671	215,280	62,317	898,268
Noncurrent Liabilities:				
Bonds and Certificates (net of current portion & premium/discount)	5,673,768	2,650,864	304,752	8,629,384
Commercial Paper (net of current portion)	160,000	274,350		434,350
Long-Term Lease/Notes Payable (net of current portion)			162,269	162,269
Net OPEB and Pension Liabilities	312,462	140,989		453,451
Other Payables (net of current portion)	806,505	19,516	22,974	848,995
Total Noncurrent Liabilities	6,952,735	3,085,719	489,995	10,528,449
Total Liabilities	7,573,406	3,300,999	552,312	11,426,717
Deferred Inflows of Resources	56,596	2,328		58,924
Net Position:				
Net Investment in Capital Assets	2,162,433	2,217,283	197,109	4,576,825
Restricted for:				
Debt Service	12,971	116,083		129,054
Capital Projects	686,065	188,227	424	874,716
Operating and Other Reserves		54,143	4,206	58,349
Unrestricted	636,820	278,542	31,316	946,678
Total Net Position	$ 3,498,289	$ 2,854,278	$ 233,055	$ 6,585,622

The accompanying notes are an integral part of these basic financial statements.

Statement of Activities
Discretely Presented Component Units
Year-Ended September 30, 2018
(In Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	CPS ENERGY	SAN ANTONIO WATER SYSTEM	NONMAJOR COMPONENT UNITS	TOTALS
CPS Energy	$ 2,609,184	$ 2,620,269	$ -	$ 43,868	$ 54,953	$ -	$ -	$ 54,953
San Antonio Water System	578,595	666,752		141,414		229,571		229,571
Nonmajor Component Units	138,485	109,282	11,698	3,370			(14,135)	(14,135)
Total	$ 3,326,264	$ 3,396,303	$ 11,698	$ 188,652	54,953	229,571	(14,135)	270,389
General Revenues:								
Investment Earnings					65,703	10,407	2,093	78,203
Miscellaneous						951	18,379	19,330
Adjustment for STP Pension Cost					(10,610)			(10,610)
Total General Revenues and Special Items					55,093	11,358	20,472	86,923
Change in Net Position					110,046	240,929	6,337	357,312
Net Position - Beginning of Fiscal Year (restated)					3,388,243	2,613,349	226,718	6,228,310
Net Position - End of Fiscal Year					$ 3,498,289	$ 2,854,278	$ 233,055	$ 6,585,622

The accompanying notes are an integral part of these basic financial statements.

Comprehensive Annual Financial Report
Notes to Financial Statements
Year-Ended September 30, 2018

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. 61, *The Financial Reporting Entity: Omnibus — an amendment of GASB Statements No. 14 and No. 34*. The underlying concept of the Statement is improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity.

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), (c) component units, which are fiduciary in nature such as certain public employee retirement systems or pension trust funds with the City (fiduciary), and (d) 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 Statement No. 61 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.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14* was issued in January 2016, and it established an additional criterion for determining whether or not a potential component unit should be blended. If a component unit is a not for profit corporation in which the primary government is the sole corporate member as identified in the corporation's articles of incorporation or bylaws, the component unit's financial statements are to be blended.

The following criteria (as set forth in GASB Statement No. 61) 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 with financial benefit to or burden on the City
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 on the previous page were excerpted from GASB Statement No. 61. For a more detailed explanation of the criteria established by the Statements, refer to the *Codification of Governmental Accounting and Financial Reporting Standards*, as of June 30, 2018, published by GASB, Section-2600. GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, 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 Statement No. 61, for inclusion in the reporting entity and are such that the financial statements are blended with those of the City.

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 U. 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 (City Council). CCHFC's governing board is substantially the same as the City's governing board, CCHFC met the financial benefit/burden criteria, and also meets the operational responsibility criteria.

Hemisfair Park Area Redevelopment Corporation
630 E. Nueva St.
San Antonio, TX 78205
Contact: Omar Gonzalez
Telephone No. (210) 560-5733

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 11 members appointed by the City Council and it provides services entirely to the City. The City has the ability to impose its will.

Municipal Golf Association – San Antonio DBA Alamo City Golf Trail
2315 Avenue B
San Antonio, TX 78215
Contact: Joe Nunez
Telephone No. (210) 908-5921

Municipal Golf Association – San Antonio DBA Alamo City Golf Trail (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 15 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. MGA-SA provides services entirely to the City and met the fiscal dependency and financial benefit/burden criteria.

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

San Antonio Early Childhood Education Municipal Development Corporation DBA Pre-K 4 SA
P.O. Box 839966
San Antonio, TX 78283-3966
Contact: Dr. Sarah Baray
Telephone No. (210) 206-2740

The San Antonio Early Childhood Education Municipal Development Corporation DBA Pre-K 4 SA was established in fiscal year 2012 in accordance with state laws for the purpose of, and to act on behalf of the City, developing and running authorized programs for early childhood education services. Pre-K 4 SA is governed by a board of trustees appointed by the City Council. Pre-K 4 SA's debt, including leases, is expected to be repaid almost entirely with the resources of the City, a 1/8 cent sales tax increase approved by San Antonio residents. The City has the ability to impose its will.

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. The City Council may remove a director at any time without cause. EDC's budget is not effective until approved by the City Council. EDC provides services entirely to the City, as contracts or agreements cannot be executed without City Council approval. EDC met the fiscal dependency and financial benefit/burden criteria; and the City has the ability to impose its will.

San Antonio Education Facilities Corporation
100 W. Houston St., 19th Floor
San Antonio, TX 78205
Contact: Rene Dominguez
Telephone No. (210) 207-8080

The San Antonio Education Facilities Corporation (EFC), formerly the City of San Antonio Higher Education Authority, 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. The Code authorizes EFC to issue revenue bonds, for which the City is not obligated in any manner, to finance qualified projects that meet the purpose of the Code. The EFC is governed by a board of directors, which is comprised of the City Council. EFC met the financial benefit/burden and operational responsibility criteria; and the City has the ability to impose its will.

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 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 comprises the board of directors that govern HFDC. HFDC met the financial benefit/burden and operational responsibility criteria; and the City has the ability to impose its will.

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 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. IDA met the financial benefit/burden and operational responsibility criteria; and the City has the ability to impose its will.

San Antonio Texas Municipal Facilities Corporation
P.O. Box 839966
San Antonio, TX 78283-3966
Contact: Margaret U. 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. The City can impose its will, and TMFC also meets the operational responsibility criteria.

Starbright Industrial Development Corporation
P.O. Box 839966
San Antonio, TX 78283-3966
Contact: Margaret U. 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. SIDC's governing board is substantially the same as the City's governing board, SIDC met the financial benefit/burden and the operational responsibility criteria. The City has the ability to impose its will.

Texas Public Facilities Corporation
P.O. Box 839966
San Antonio, TX 78283-3966
Contact: Margaret U. Villegas
Telephone No. (210) 207-5734

Texas Public Facilities Corporation (TPFC) was established in fiscal year 2012 in accordance with state laws for the purpose of, and to act on behalf of the City, in effectuating the buyout of the City's existing Hotel Revenue Bonds and funding for the expansion of the City's Convention Center through issuance of 2012 Lease Revenue Bonds. The TPFC is governed by a board of directors, which is comprised of the City Council. TPFC's governing board is substantially the same as the City's governing board, and TPFC meets the operational responsibility criteria. The City has the ability to impose its will.

Note 1 Summary of Significant Accounting Policies (Continued)

Blended Component Units (Continued)

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 78205
Contact: Veronica R. Soto
Telephone No. (210) 207-6459

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 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. OUR SA receives a majority of its operating funds from the City. OUR SA is governed by a six-member board of commissioners appointed by the City Council. OUR SA provides services entirely to the City and has met the fiscal dependency and financial benefit/burden criteria.

Visit San Antonio (VSA)
203 S. St. Mary's Street, Ste. 200
San Antonio, TX 78205
Contact: Casandra Matej
Telephone No. (210) 207-6700

Visit San Antonio (VSA) was established in fiscal year 2016 in accordance with state laws for the purposes of providing destination and marketing services, attracting leisure visitors, and events and conventions to the City's Henry B. Gonzalez Convention Center and other owned facilities. VSA will also serve as a liaison to local businesses, including hoteliers, sports foundations, and other similar entities to attract visitors and events to the City. VSA has a 21 member board, of which the City Manager and two Council members were appointed by the Mayor. VSA provides services almost entirely to the City, and meets the fiscal dependency and financial benefit/burden criteria.

Westside Development Corporation
630 S.W. 41st Street
San Antonio, TX 78237
Contact: Leonard Rodriguez
Telephone No. (210) 501-0192

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 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. The policy-setting oversight authority consists of 17 members, comprised of representatives of key stakeholders and Westside advocates. WDC provides services entirely to the City. The City has the ability to impose its will, and WDC has met the financial benefit/burden criteria.

The blended component unit with a different fiscal year-end from the City is Pre-K 4 SA with a fiscal year-end of June 30th.

Note 1 Summary of Significant Accounting Policies (Continued)

Fiduciary Component Units

The relationships among the following component units and the City meet the criteria, as set forth in GASB Statement No. 61, for inclusion in the reporting entity and are such that the financial statements are presented as fiduciary funds 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 Position and Changes in Fiduciary Net Position.

San Antonio Fire and Police Pension Fund
11603 W. Coker Loop, Ste. 201
San Antonio, TX 78216
Contact: Warren Schott
Telephone No. (210) 534-3262

The San Antonio Fire and Police Pension Fund (Pension Fund) is a single employer defined benefit plan established in accordance with state law. The Pension Fund is administered by a nine-member board of trustees, including two members of the City Council, the Mayor or his appointee, two active police officers, two active firefighters, and two uniformed retirees. The City and its active uniformed personnel 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. The Pension Fund provides services entirely to the City's active and retired uniformed personnel.

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 post-employment 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 San Antonio Fire and Police Retiree Health Care Fund (Health Fund), was created to provide these post-employment 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, the Mayor or his appointee, two active police officers, two active firefighters, and two uniformed retirees. The City, active uniform 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. The Health Fund provides services entirely to the City's active and retired uniformed personnel.

It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to the Pension Fund and Health Fund would be misleading. Therefore, relevant disclosures have been included in the City's financial statements.

The Pension Fund and Health Fund's fiscal year-end is December 31st; financial information disclosed in the City's CAFR for both entities is as of December 31, 2017.

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 Statement No. 61, for inclusion in the reporting entity as discretely presented component units.

Brooks
3201 Sidney Brooks
San Antonio, TX 78235-5355
Contact: Eric Greer
Telephone No. (210) 678-3319

Brooks 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 11 member board of directors appointed by the City Council governs Brooks 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 Brooks is through City Council having the power to remove board members.

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 City Council and has the City's Mayor as an ex-officio member. The City has the ability to impose its will on CPS Energy through the setting of user rates for services and charges and the issuance of bonds approved by the City Council.

Port Authority of San Antonio DBA Port San Antonio
907 Billy Mitchell Blvd,
San Antonio, TX 78226
Contact: Patrick Cruzen
Telephone No. (210) 314-9603

The Port Authority of San Antonio DBA Port San Antonio (the Port) is a special district and political subdivision of the State of Texas that was originally established in 1996 as a local development authority under the Development Corp Act of 1979 for the purpose of monitoring the proposed closing of Kelly Air Force Base (Kelly). The Port was to conduct comprehensive studies of all issues related to the closure, conversion, redevelopment, and future use of Kelly, and submit and implement the plan to the appropriate agency or agencies of the federal government. The Port is authorized to issue bonds, for which the City is not obligated in any manner, to finance projects as permitted by state laws. The Port is governed by an 11 member board of directors, appointed at will by City Council.

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 City Council for two-year terms. Board members are subject to removal by City Council for cause or at will. The issuance of bonds is approved by City Council.

Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

San Antonio Bexar County Soccer Public Facility Corporation (SABC PFC)
100 Military Plaza
San Antonio, TX 78205
Contact: Carlos Contreras
Telephone No. (210) 207-8821

San Antonio Bexar County Soccer Public Facility Corporation (SABC PFC) is a nonprofit corporation established in fiscal year 2016 in accordance with state laws for the purposes of, and to act on behalf of the City in, the renovation and operation of a facility and related property and infrastructure to be used for and to support professional soccer within the City. SABC PFC is governed by a four-member board of directors comprised of two appointees from the City and two from the County.

San Antonio Housing Trust Finance Corporation
2515 Blanco Rd
San Antonio, TX 78212
Contact: John Kenny
Telephone No. (210) 735-2772

The San Antonio Housing Trust Finance Corporation (HTFC) was established in 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's board of directors is appointed by City Council and consists of five City Council members.

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 providing administrative and other support for the operations of the City of San Antonio Housing Trust Fund, a Special Revenue Fund of the City. HTF is governed by an 11 member board of directors appointed by 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 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 City Council and consists of five City Council members.

San Antonio Housing Trust Reinvestment Corporation
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 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 30th, an audit is not deemed necessary in fiscal year 2018.

Note 1 Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units (Continued)

San Antonio Tricentennial Celebration Commission
P.O. Box 839966
San Antonio, TX 78283-3966
Contact: Carlos Contreras
Telephone No. (210) 207-7080

The San Antonio Tricentennial Celebration Commission (Commission) is a public nonprofit local government entity incorporated in 2015. The Commission was organized for the purpose of aiding and acting on behalf of the City to provide a means of assisting with the planning, developing, identifying potential partners, fundraising, managing, and financing of projects involved with the City's 300th anniversary celebration scheduled for 2018. All powers of the Commission shall be vested in the Board of Directors. The Board shall consist of not less than three nor more than 19 persons, provided that five shall come at the recommendation of the Bexar County Commissioners Court with the remainder of the Board chosen by City Council.

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 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 City Council for four-year staggered terms. The rates for user charges and bond issuance authorizations are approved by City Council.

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.

SAWS' fiscal year-end is December 31, 2017; while CPS Energy's and SA Energy Acquisition Public Facility Corporation's fiscal year-end is January 31, 2018.

Essential disclosures related to the previously mentioned discretely presented, fiduciary, 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 appoints members to the board of commissioners for the Housing Authority of the City of San Antonio (SAHA). However, the City's accountability for this entity does not extend beyond making appointments to its board and the coordination and approval of strategic plans.

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 non fiduciary 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, the effect of interfund activity has been removed from the statements.

The Statement of Net Position – Reflects both short-term and long-term assets and liabilities as well as deferred inflows and outflows of resources. In the government-wide Statement of Net Position, 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, long-term obligations, such as debt, and any deferred inflows and outflows of resources are now reported in the governmental activities. The components of Net Position are presented in three separate categories: (1) net investment in capital assets, (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 Position, which minimizes the duplication within the governmental and business-type activities. The net amount of interfund transfers between governmental and proprietary funds is the balance reported in the Statement of Net Position. Discretely presented component units are also reported in the Statement of Net Position.

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.

Fund Accounting

A reconciliation detailing the change in net position 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 Position and Statement of Revenues, Expenses, and Changes in Net Position related to the Internal Service Fund allocation. 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

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 and deferred outflows of resources, the total liabilities and deferred inflows of resources, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10.0% of the corresponding element total for all funds of that category or type (that is, total governmental or total enterprise funds), and the same element that met the 10.0% criterion above in the 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 separately presented 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 City has designated Pre-K 4 SA, a blended component unit, as a major fund due to the high-profile nature and fiscal transparency for the program, which was funded by a voter-increased sales tax.
- The Convention Center Hotel Finance Corporation, a blended component unit, accounts for the receipt and disbursement of resources within the local economy in order to stimulate business and commercial activity in the City. It was created to issue debt for the construction of the Grand Hyatt and to further promote tourism within the City.
- The 2017 General Obligation Bonds Fund, a capital projects fund, accounts for the receipt and disbursement of $850,000 in bond sales for physical infrastructure development and improvement projects approved by a bond election held on May 6, 2017.

The following is a brief description of the major enterprise funds that are separately presented 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's operations is provided by user fees, while financing for the Airport System's capital is primarily funded by City issued revenue bonds (repaid with user fees), grants and facility charges assessed to users.
- Solid Waste Management accounts for all revenues and expenses associated with the operations and maintenance of the City's solid waste and environmental management programs, required debt service for outstanding bonds, and construction and management of Solid Waste Management's assets.

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 comprise 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.

Permanent Funds are used to account for and report resources that are restricted to the extent that only earnings, 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, San Antonio Housing Trust, and most Community Services Funds), City Cemeteries, and Pre-K 4 SA.

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 Management Services (CMS) are accounted for in these funds.

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

Fiduciary Funds

The 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. The Fire and Police Retiree Health Care Fund is a statutory trust fund established to provide Other Post-Employment Retirement Benefits (OPEB) for retired uniformed employees and their dependents. The Fire and Police Pension Fund is a statutory trust fund established to provide pension benefits to eligible uniformed employees. The City's Retiree Health Care Fund meets the criteria of a fiduciary fund and manages OPEB for retired City civilian employees. 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.

The Private Purpose Trust Fund includes reporting on funds restricted for the City's literacy programs. The Fire and Police Pension Fund, Fire and Police Retiree Health Care Fund, Retiree Health Benefits Insurance 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 Position 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. 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. 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 resources 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, and flat rate parking fees. 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 whose resources may only be spent to purchase, build or use 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 susceptible to accrual. The City's availability period is no more than 60 days beyond the end of the fiscal year. Grant revenues are recognized when reimbursable expenditures are made, all other eligibility requirements imposed by the provider have been met, and the City receives reimbursement within 60 days of the fiscal year-end. Grant funds received in advance are recorded as unearned 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, pension, post-employment 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), as well as deferred inflows and outflows of resources associated with its activity, are included in their Statement of Net Position. The reported proprietary fund net position is segregated into three components: (1) net investment in capital assets, (2) restricted, and (3) unrestricted. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net position.

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 Position. The City defines operating revenues as those receipts generated by a specified program offering either a good or service. For example, parking garage and surface lot charges are operating revenues of the Parking System. 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.

CPS Energy

CPS Energy's operating revenue includes receipts from energy sales, ancillary services and miscellaneous revenue related to the operation of electric and gas systems. Miscellaneous revenue includes late payment fees and rental income.

CPS Energy's revenues are recorded when earned. Customers' meters are read or periodically estimated, 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 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. CPS Energy recovers 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. Regulatory assessments for fiscal year 2018 were $84,083.

Operating expenses are recorded as incurred and include those costs that result from the ongoing operations of the electric and gas systems.

Nonoperating revenue consists primarily of investment income, including fair market value adjustments and rental income from the sale of communication towers. 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.

CPS Energy accounts for decommissioning by recognizing a liability and an expense for a prorated share of projected decommissioning costs as determined by the most recent finalized cost study. A new cost study is performed every five years, and in years subsequent to the latest study, estimated annual decommissioning expense and an increase in the liability is calculated by applying the effects of inflation and the ratio of years of plant usage to total plant life.

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

CPS Energy (Continued)

Additionally, due to requirements under the Code of Federal Regulations governing nuclear decommissioning trust funds, guidance pertaining to regulated operations provided in GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* has been followed. Under this guidance, the zero net position approach is applied in accounting for the Decommissioning Trusts. In accordance with Statement No. 62, the cumulative effect of activity in the Decommissioning Trusts has been recorded as a regulatory liability reported on the Statement of Net Position as Other Payables (net of current portion), since any excess funds are payable to customers. Going forward, prolonged unfavorable economic conditions could result in the assets of the Decommissioning 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 decommissioning net costs recoverable. This amount would be receivable from customers.

To reflect funding methodology, the Allowance for Funds Used During Construction (AFUDC) rate includes both a debt and an equity component. The blended rate is composed of 50.0% equity and 50.0% debt based on construction funding. The investment rate is reviewed quarterly to determine if any adjustments are necessary. Alternate AFUDC rates are applied to projects costing more than $100,000, reflecting the method by which they are funded.

Periodically, federal grants are made available to CPS Energy as a subrecipient for a portion of grant funds allocated to the State of Texas. Grant receipts are recorded as non-operating income and generally reimburse CPS Energy for costs, recorded as operating expenses, incurred in the administration of the program. This accounting treatment results in no impact to CPS Energy's net position. Revenues associated with the grant-related programs are exempt from payments of a percentage of gross revenues made to the City. Grant funding received by CPS Energy is subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenses disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

San Antonio Water System (SAWS)

SAWS' revenues are recorded as goods or services are provided. Customers' meters are read and bills are prepared monthly based on billing cycles. SAWS uses historical information to estimate and record earned revenue not yet billed.

SAWS' principal operating revenues are charges to customers for water supply, water delivery, wastewater, and chilled water 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, debt related costs, sales of capital assets and payments to the City.

Note 1 Summary of Significant Accounting Policies (Continued)

Deferred Inflows and Outflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Primary Government (City)

Deferred outflows and inflows of resources in the Statement of Net Position (SONP) are shown in the table below:

	Primary Government		
Deferred Outflows of Resources:	**Governmental Activities**	**Business-Type Activities**	**Total**
Deferred Outflows of Resources related to Pensions	$ 180,630	$ 8,952	$ 189,582
Deferred Outflows of Resources related to OPEB	21,631	170	21,801
Loss on bond refunding	20,072	2,842	22,914
Total Deferred Outflows of Resources	$ 222,333	$ 11,964	$ 234,297
Deferred Inflows of Resources:			
Deferred Inflows of Resources related to Pensions	$ 221,960	$ 9,576	$ 231,536
Deferred Inflows of Resources related to OPEB	50,304	5,696	56,000
Total Deferred Inflows of Resources	$ 272,264	$ 15,272	$ 287,536

Additional information concerning deferred outflows of resources and deferred inflows of resources related to pensions can be found in Note 9 Pension and Retirement Plans and Note 10 Postemployment Retirement Benefits, respectively.

Deferred inflows of resources in the governmental fund financial statements related to the unavailable revenues are shown in the table below:

Deferred Inflows of Resources:	**Governmental Funds**
Revenues associated with property taxes, grant revenues, sale of Red Berry Mansion, EMS collections, fines and collections	$ 56,143
CCHFC - unavailable receipts for a loan from the Grand Hyatt Hotel	175,406
Total Deferred Inflows of Resources in the Balance Sheet - Governmental Funds Statement	$ 231,549

Note 1 Summary of Significant Accounting Policies (Continued)

Deferred Inflows and Outflows of Resources (Continued)

CPS Energy

Deferred outflows and inflows of resources are shown in the table below:

Deferred Outflows of Resources:	**CPS Energy**
Unrealized pension contributions	$ 46,200
Losses relating to pension	43,137
Unrealized contributions to the OPEB Plan	1,300
Losses related to OPEB	4,630
Unrealized losses on fuel hedges	6,866
Unamortized debt reacquisition costs	80,720
Total Deferred Outflows of Resources	$ 182,853
Deferred Inflows of Resources:	
Unrealized gains related to pension	$ 50,512
Unrealized gains on fuel hedges	2,824
Sale of future revenues	3,260
Total Deferred Inflows of Resources	$ 56,596

San Antonio Water System (SAWS)

Deferred outflows and inflows of resources are shown in the table below:

Deferred Outflows of Resources:	**SAWS**
Deferred charges on bond refunding	$ 48,055
Decrease of fair value of hedging derivatives	11,857
Unrealized pension contributions	12,149
Losses relating to pension	21,279
Total Deferred Outflows of Resources	$ 93,340
Deferred Inflows of Resources:	
Differences between expected and actual experience and changes of assumptions related to pension	$ 2,328
Total Deferred Inflows of Resources	$ 2,328

Year-Ended September 30, 2018 - 43 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 44 - Amounts are expressed in thousands

Note 1 Summary of Significant Accounting Policies (Continued)

Current Year GASB Statement Implementations

In fiscal year 2018, the City implemented the following GASB Statements:

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, addresses the need to improve the usefulness of information about OPEB included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended* and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, *as amended*, Statement No. 43, and Statement No. 50, *Pension Disclosures*. Additional Information regarding the City's OPEB can be found in Note 10 Postemployment Retirement Benefits.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, has as its primary objective to improve accounting and financial reporting by state and local governments for OPEB. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, *as amended*, Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, *for OPEB*. SAWS, a City discretely presented component unit, will implement GASB 75 in fiscal year 2019. Additional Information regarding the City's OPEB can be found in Note 10 Postemployment Retirement Benefits.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, will improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. It can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The government must also recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests and recognize revenue when the resources become applicable to the reporting period. The implementation of this GASB Statement did not impact the City.

Note 1 Summary of Significant Accounting Policies (Continued)

Current Year GASB Statement Implementations (Continued)

GASB Statement No. 82, *Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The City is reporting covered payroll in its required supplementary information, deviations are not used in the actuarial study, and the City does not contribute payments to satisfy employee contribution requirements.

GASB Statement No. 85**,** *Omnibus 2017* addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). Specifically, this Statement addresses the following topics: blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation; reporting amounts previously reported as goodwill and "negative" goodwill; classifying real estate held by insurance entities; measuring certain money market investments and participating interest-earning investment contracts at amortized cost; timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus; recognizing on-behalf payments for pensions or OPEB in employer financial statements; presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB; classifying employer-paid member contributions for OPEB; simplifying certain aspects of the alternative measurement method for OPEB; and accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans. Additional Information regarding the City's OPEB can be found in Note 10 Postemployment Retirement Benefits. For guidance related to blending component units, goodwill, fair value measurement and application, the implementation of this GASB Statement did not impact the City.

GASB Statement No. 86**,** *Certain Debt Extinguishment Issues,* improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of this GASB Statement did not impact the City.

Note 1 Summary of Significant Accounting Policies (Continued)

Future GASB Statement Implementations

GASB Statement No. 83, *Certain Asset Retirement Obligations,* addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The City will assess and implement this Statement where necessary in fiscal year 2019.

GASB Statement No. 84, *Fiduciary Activities* establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The City will assess and implement this Statement where necessary in fiscal year 2020.

GASB Statement No. 87, *Leases,* will better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The City will assess and implement this Statement where necessary in fiscal year 2021.

Note 1 Summary of Significant Accounting Policies (Continued)

Future GASB Statement Implementations (Continued)

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,* will improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The City will assess and implement this Statement where necessary in fiscal year 2019.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period,* will enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The City will assess and implement this Statement where necessary in fiscal year 2021.

GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 6*, the primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100.0% equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100.0% equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The City will assess and implement this Statement where necessary in fiscal year 2020.

Note 1 Summary of Significant Accounting Policies (Continued)

Future GASB Statement Implementations (Continued)

The City has not fully determined the effects that implementation of these statements 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 prorated basis. In addition, the City may purchase certain investments with the available balance of a specific fund for the sole benefit of such fund. Fair market value of the City's investments is determined by quoted market prices and valuations using interest rate curves and credit spreads applied to the terms of the debt instrument, while also considering the counterparty rating. 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. As of September 30, 2018, the City's investment portfolio did not contain any derivative or alternative investment products, nor was it leveraged in any way. Derivatives or alternative investment products are found only where noted in the Pension Fund and Health Fund. For a listing of authorized investments, see Note 4 Cash and Cash Equivalents, Securities Lending and Investments.

For purposes of the Statement of Cash Flows, the City considers 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 materials and supplies accounts and charged as expenditures for governmental funds and as expenses for proprietary funds when used.

Prepaid items are goods and services that are paid in advance. These payments reflect costs applicable to future accounting periods and are recorded in both government-wide and fund financial statements. Using the consumption method, prepaid items are charged as expenditures for governmental funds and as expenses for proprietary funds as the goods or services are used.

Note 1 Summary of Significant Accounting Policies (Continued)

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. With the implementation of GASB Statement No. 72, *Fair Value Measurement and Application*, donated capital assets, works of art, historical treasures, or capital assets received in a service concession agreement are valued at acquisition value. 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 Position. Depreciation is provided over the estimated useful lives of the assets using the straight-line method.

The City has established capitalization thresholds for automotive equipment, computer software, computer equipment, machinery and equipment, buildings, improvements, infrastructure, and depreciable intangible (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
Automotive Equipment	5-10	$ 5
Computer Software	5-10	5
Computer Equipment	5-10	5
Machinery and Equipment	5-20	5
Buildings	10-40	100
Depreciable Intangible	5-40	100
Improvements (other than buildings)	10-40	100
Infrastructure	10-100	100

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 a depreciable plant that is 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.

CPS Energy's utility plant is stated at the cost of construction, including expenses for contracted services; direct equipment, material and labor; indirect costs, including general engineering, labor, equipment and material overheads; and AFUDC, or capitalized interest. AFUDC is applied to projects that require 30 days or more to complete.

Year-Ended September 30, 2018 - 49 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 50 - Amounts are expressed in thousands

Note 1 Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation (Continued)

CPS Energy (Continued)

Proceeds from customers to partially fund construction expenses are reported as capital grants and contributions in the Statement of Activities as increases in net position in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The amount reported for capital grants and contributions was $43,868 for the period ending January 31, 2018, including donated assets of $2,559. The remaining portion of this balance, $41,309 for fiscal year 2018 represents contributions received from customers as payments for utility extensions and services, as well as funding for the Light Emitting Diode streetlight project and the Dry Cask Storage Project.

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 3.2% for fiscal year 2018.

The estimated useful lives of depreciable capital assets are as follows:

Depreciable Capital Assets	Useful Life (Years)
Buildings and Structures	20-45
Utility Plant in Service:	
Generation	18-49
Transmission and Distribution	15-60
Gas	35-65
Machinery and Equipment	4-20
Intangibles:	
Software	10
Other	20-30
Mineral Rights and Other	20-40
Nuclear Fuel	Units of Production

In fiscal year 2018, CPS Energy engaged an independent third-party consulting firm to conduct a depreciation study, which is performed every five years. The new depreciation rates resulting from the study were retroactively applied to the beginning of fiscal year 2018. As a result of the study, based on the plant in service as of January 31, 2017, total annual depreciation decreased by approximately 3.0% based on the updated estimated useful lives.

(The remainder of page left blank intentionally)

Note 1 Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation (Continued)

CPS Energy (Continued)

Thresholds contained in CPS Energy's capitalization policy for fiscal year 2018 are as follows:

Assets	Capitalization Threshold
Land, Land Improvements and Certain Easements	Capitalize All
Buildings and Building Improvements	$ 10
Computer Software:	
Purchased	50
Internally Developed	50
Enhancements/Upgrades	50
Computer Hardware	3
All Other Assets	3

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, direct internal costs, and interest capitalized during construction. Capital assets include intangible assets, which consist of purchased water rights and land capital easements, costs associated with acquiring additional Certificates of Convenience and Necessity related to new service areas, and development costs for internally generated computer software. Assets acquired through 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 acquisition value at date of donation. Maintenance, repairs, and minor renewals are charged to operating expense; major plant replacements are capitalized. Capital assets are depreciated on the straight-line method. This method is applied to all individual assets except mains and intangible assets. Groups of mains are depreciated on the straight-line method over an estimated average useful life of 50 years. Mains are included in the distribution and transmission system asset category. Intangible assets not considered to have indefinite useful lives are amortized over their estimated useful life. Capital assets are tested for impairment when a significant unexpected decline in its service utility occurs.

The following table shows an estimated range of useful lives used in providing for depreciation of capital assets:

Assets	Useful Life (Years)
Structures and Improvements	25-50
Pumping and Purification Equipment	10-50
Distribution and Transmission System	17.5-50
Collection System	50
Treatment Facilities	25
Machinery and Equipment	5-20
Furniture and Fixtures	3-10
Computer Equipment	5
Software	3-10
Intangible Assets (Definite Useful Life)	20

Year-Ended September 30, 2018 - 51 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 52 - Amounts are expressed in thousands

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 for both civilian and uniformed employees. Sick leave is not accrued for civilian employees and is not payable upon termination. The City accrues the matured portion of its uniformed employees' accrued sick leave, holiday, and bonus pay in accordance with the respective collective bargaining agreements, which state that uniformed employees must provide notice in writing ahead of the first pay period in October to be eligible for buyback. Because notice is provided to the City by fiscal year-end, the City accrues uniformed employees' eligible buyback, as it is due and payable by September 30th.

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 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 earned but unused employee vacation pay as well as the employer portion of Social Security taxes and required employer pension contributions related to the accrued vacation pay. Sick leave is not accrued and 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, retired employee health benefits, workers' compensation, unemployment compensation, and employee wellness are included.

The City is insured for property loss on a primary basis through Factory Mutual Insurance Company. The City is completely self-insured for liability claims. 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 less expenditures issued after fiscal year end and accrued during close out that were included in the reserve census data given to the actuaries.

The City also provides employee health insurance, which includes funding a prorated share of retiree health benefit costs, workers' compensation, and unemployment benefits under its self-insurance programs. In fiscal year 2018, the City purchased medical claims stop loss insurance from HM Life Insurance Company. The stop loss insurance covers civilian and uniformed active employees, non-Medicare eligible retirees, and eligible dependents for claims paid exceeding $1,000.

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 post-employment 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 post-employment liability as additional contributions.

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. 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. The City has been completely self-insured for workers' compensation claims since May 1, 2013.

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 more detailed explanation of the City's self-insurance programs, see Note 14 Risk Financing.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported by the City. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 9 Pension and Retirement Plans for more information.

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 imposed by law through enabling legislation.

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Balance (Continued)

- Committed – The committed fund balance includes amounts that can be used only for the specific purposes imposed by formal action (ordinance) 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 or City Manager, Executive Leadership Team, and Department Directors. Under the City Charter, the City Manager, Executive Leadership Team, and Department Directors are authorized to assign individual amounts up to $50 and City Council is authorized to assign amounts over $50.
- 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 expenditure is incurred for purposes for which more than one of the classification of fund balance is available. See Note 16 Fund Balance Classifications for more detail.

Restricted assets associated with cash and receivables received from restricted sources (grants, bond issuances, legislative items, or other third party restrictions) are categorized as restricted.

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 2018, general government expenditures were reduced by $17,874, resulting in increased expenditures/expenses in other governmental functions and in business-type activities in the amounts of $11,423 and $6,451, 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 Position. Bond premiums and discounts are amortized over the life of the debt. Deferred charges on refunding (the difference between the reacquisition price and the carrying value of the existing 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Elimination of Internal Activity

Elimination of internal activity, particularly related to internal service fund and blended component unit 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. The main objective in eliminating the effect of funding and reimbursement of costs between the primary government and blended component unit is to remove duplication of same activities.

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 prorated reduction in the charges made to the participating funds/functions. Conversely, an internal service fund net loss would require a prorated 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 Position 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 prorated share of the amounts charged to the participating funds/functions.

The City has four Internal Service Funds: Other Internal Services, Information Services, Self-Insurance Funds, and CMS. Building maintenance, a service component of the Other Internal Services Fund, charges user fees based on the space occupied by departments. Information Services also charges a monthly amount based on the usage by each department. Through the tracking of these charges to the applicable departments, the net income or loss will be allocated back to the user department, based on actual charges incurred.

The Self-Insurance Funds and Purchasing, a component of the Other Internal Service Funds, generate their revenues through fixed assessments charged to the various funds each year. The Employee Benefits Fund additionally charges prorated user fees to employees and retirees. The net income or loss generated by the Self-Insurance Funds and Purchasing are allocated back based on the same allocation by which the revenues are received over time.

The CMS Fund generates revenues by charging a capital administrative fee for activity worked projects. The fund additionally generates revenue through reimbursements of costs incurred. The net income or loss generated is allocated back to the user funds based on actual charges incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the City, Pension and Health Fund, CPS Energy, and SAWS to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 1 Summary of Significant Accounting Policies (Continued)

Application of Restricted and Unrestricted Net Position

The City may receive funding from an organization whose expenditures are restricted to certain allowable costs. In situations where both restricted and unrestricted net position are expended to cover allowable expenses, the City will first expend the restricted net position and cover additional costs with unrestricted net position. The City reserves the right to selectively defer the use of restricted assets or reimburse unrestricted net position with allowable restricted assets.

(The remainder of page left blank intentionally)

Note 2 Property Taxes

Property taxes are levied and due upon receipt on October 1, based on the assessed value of the previous January 1. The taxes are attached as an enforceable lien on property as of January 1 of the subsequent year, 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 (amounts are not reflected in thousands). The tax rate approved by City ordinance for the fiscal year-ended September 30, 2018, was $0.55827 per $100 taxable valuation, which means that the City has a tax margin of $1.94173 per $100 taxable valuation (tax rate amounts are not reflected in thousands). This could raise an additional $2,051,832 per year based on the net taxable valuation of $105,670,285 before the limit is reached. In fiscal year 2018, the City has forgone property tax revenues as a result of abatement agreements it has entered into. For more information see Note 3 Tax Abatements.

The City has adopted a Tax Increment Financing (TIF) Program Policy and Implementation Manual for the utilization of tax increment as a financing mechanism and the creation of Tax Increment Reinvestment Zones (TIRZ) pursuant to Chapter 311 of the Texas Tax Code. The City has utilized TIF 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, 2018, there were 19 existing TIRZ with a total taxable captured value of $3,782,267 for use by the City to fund capital costs of certain public infrastructure improvements in the TIRZ. For fiscal year 2018, this total taxable captured value produced $18,682 in tax increment revenues. The existing TIRZ have initial terms ranging from 19 years to 38 years which are anticipated to expire between fiscal year 2019 and fiscal year 2045. It is estimated that the City will contribute approximately $457,602 in tax increment revenues in aggregate over the life of these TIRZ projects.

TIRZ	Start Date	End Date	Taxable Captured Value
Rosedale	12/17/1998	9/30/2019	$ 7,189
Mission Del Lago	8/19/1999	9/30/2027	175,345
Houston Street	12/9/1999	9/30/2034	536,260
Stablewood Farm	12/14/2000	9/30/2025	49,633
Inner City	12/14/2000	9/30/2025	1,043,083
Plaza Fortuna	12/13/2001	9/30/2025	5,508
Lackland Hills	12/13/2001	9/30/2026	17,996
Northeast Crossing	6/13/2002	9/30/2028	137,240
Brooks City Base	12/9/2004	9/30/2029	473,620
Mission Creek	12/9/2004	9/30/2029	50,824
Hallie Heights	12/9/2004	9/30/2024	18,504
Heather Cove	12/16/2004	9/30/2024	19,337
Hunters Pond	6/1/2006	9/30/2031	33,020
Verano[1]	12/6/2007	9/30/2045	
Westside	12/11/2008	9/30/2032	270,305
Midtown	12/11/2008	9/30/2031	758,628
Mission Drive In	12/11/2008	9/30/2027	77,570
North East Corridor	12/4/2014	9/30/2034	108,205
Hemisfair[2]	2/2/2017	9/30/2037	
			$ 3,782,267

[1] Verano TIRZ was active during fiscal year 2018 but had a total taxable captured value of zero.

[2] Hemisfair TIRZ base year was 2017, the increase in taxable value will begin to be captured in fiscal year 2019.

Note 3 Tax Abatements

GASB Statement No. 77, *Tax Abatement Disclosures*, defines a tax abatement as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the government or citizens of those governments.

The City utilizes the following tax abatement programs to provide powerful new resources and incentives to grow the economy in the region, revitalize targeted areas of the City and promote strong, balanced growth throughout the community.

The City has not entered into agreements with other governments that would reduce the reporting government's tax revenues. Other entities are not authorized to enter tax abatement agreements that reduce the City tax revenue without the City's consent.

City Tax Abatement Program

- ***Purpose of program*** – Encourages a job creation environment to help attract, retain and expand targeted industries, increase employment and high-wage jobs, expand the tax base, and create long-term capital investment (including foreign direct investment) and new wealth opportunities in the community in accordance with the SA Tomorrow Comprehensive Plan.
- ***Taxes being abated*** – This program offers a tax abatement of up to 100.0% on real and/or personal property taxes on improvement values for a maximum term of up to ten years.
- ***Authority for entering program*** – Chapter 312 of the Texas Tax Code.
- ***Eligibility criteria for recipients*** – A new company or existing local company must meet or exceed all of the criteria; 1) minimum amounts of new real and/or personal property capital investment; 2) minimum levels of full-time job creation, excluding data center projects and solar farms; 3) employee and dependent access to health care benefits; 4) minimum living and all-industry wage requirements for new and existing employees at project site; and 5) applicant must be in a targeted industry, a qualifying project or business activity.
- ***Mechanism used to abate taxes*** – Through a reduction of the property's assessed value or as a credit to the amount of taxes owed.
- ***How the dollar amount of the abatement was determined*** – The amount and term of the tax abatement offered is dependent upon the location and industry of the project, other public incentives offered for the same project and the overall benefit to the City and community.
- ***Recapture Provisions*** – Violations for employment of undocumented workers, failure to meet investment requirements, failure to meet and maintain the minimum number of employees, failure to pay property taxes if owed or for refunding agreements, failure to complete project in the agreed upon deadline, events of relocation or cessation of business activities within the term of the agreement, or failure to meet other specified terms of the agreement.
- ***Types of commitments made by recipients*** – Varies by agreement, including investment in real and personal property, creating a minimum number of full time jobs, and commitment to maintain business activities for a set amount of time.
- ***Other commitments to the recipient*** – No other commitments are made with this program.

Note 3 Tax Abatements (Continued)

Economic Development Incentive Fund (EDIF) Program

- ***Purpose of program*** – Provide economic development grants and/or loans to eligible companies seeking to create or retain jobs and invest in San Antonio.
- ***Taxes being abated*** – These programs decrease the property tax revenue up to 100.0% from real and/or personal property for the City by reducing the amount of the assessed value of up to 15 years.
- ***Authority for entering program*** – Chapter 380 of the Local Government Code.
- ***Eligibility criteria for recipients*** – A new company or existing local company must meet or exceed all of the criteria; 1) minimum amounts of new real and/or personal property capital investment; 2) minimum levels of full-time job creation, excluding data center projects and solar farms; 3) employee and dependent access to health care benefits; 4) minimum living and all-industry wage requirements for new and existing employees at project site; and 5) applicant must be in a targeted industry, a qualifying project or business activity.
- ***Mechanism used to abate taxes*** – Through a reduction of the property's assessed value or as a credit to the amount of taxes owed.
- ***How the dollar amount of the abatement was determined*** – The amount of EDIF assistance for a business recruitment or retention/expansion project will be based on a determination of need for financial incentives from the City to ensure the attraction, retention and/or expansion of the eligible company or program. Staff will also conduct a fiscal benefit analysis on each such project and evaluate the total benefits from all financial incentive programs the City might offer for the project.
- ***Recapture Provisions*** – Violations for employment of undocumented workers, failure to meet investment requirements, failure to meet and maintain the minimum number of employees, failure to pay property taxes if owed or for refunding agreements, failure to complete project in the agreed upon deadline, events of relocation or cessation of business activities within the term of the agreement, or failure to meet other specified terms of the agreement.
- ***Types of commitments made by recipients*** – Varies by agreement, including investment in real and personal property, creating a minimum number of full time jobs, and commitment to maintain business activities for a set amount of time.
- ***Other commitments to the recipient*** – Varies by agreement, may include grants (usually most significant, amount depends on financial availability), loans, and forgivable loans.

Tax Increment Financing Program – Center City Housing Incentive Policy

- ***Purpose of program*** – Provides financial incentives for multi-family housing projects and focuses on housing redevelopment within the Greater Downtown Area.
- ***Taxes being abated*** – This program offers a tax reimbursement of up to 100.0% on real and/or personal property taxes on improvement values for a maximum term of up to 15 years.
- ***Authority for entering program*** – Chapter 311 of the Texas Tax Code, Chapter 380 of the Local Government Code.
- ***Eligibility criteria for recipients*** – All projects must create housing at a density of at least 8 units per acre for adaptive reuse or historic rehabilitation projects, or 16 housing units per acre for all other projects. Rental projects must maintain first year rental rate for 10.0% of units throughout agreement term. All projects must receive design approval prior to commencement.
- ***Mechanism used to abate taxes*** – Eligible projects will receive a tax reimbursement disbursed annually over the life of the agreement.
- ***How the dollar amount of the abatement was determined*** – The amount of the tax abatement offered is dependent on the location of the property and increase of the property value over the term of the agreement from the base year's value.

Note 3 Tax Abatements (Continued)

Tax Increment Financing Program – Center City Housing Incentive Policy (Continued)

- ***Recapture Provisions*** – Violations for employment of undocumented workers, failure to meet investment requirements, failure to meet and maintain the minimum number of employees, failure to pay property taxes if owed or for refunding agreements, failure to complete project in the agreed upon deadline, events of relocation or cessation of business activities within the term of the agreement, or failure to meet other specified terms of the agreement.
- ***Types of commitments made by recipients*** – Varies by agreement, including investment in real and personal property (generally rental housing units).
- ***Other commitments to the recipient*** – Varies by agreement, may include SAWS fee waivers (generally most significant up to $500), City fee waivers, low interest loans, low interest forgivable loans, and mixed-use forgivable loans.

Tax Increment Financing Program – Non - Center City Housing Incentive Policy

- ***Purpose of program*** – This program is to promote local economic development and to stimulate business and commercial activity.
- ***Taxes being abated*** – This program offers a tax reimbursement of up to 100.0% on real and/or personal property taxes on improvement values for a maximum term of up to 15 years.
- ***Authority for entering program*** – Chapter 311, 312 of the Texas Tax Code, Chapter 380 of the Local Government Code.
- ***Eligibility criteria for recipients*** – All projects must create housing at a density of at least 8 units per acre for adaptive reuse or historic rehabilitation projects, or 16 housing units per acre for all other projects. Rental projects must maintain first year rental rate for 10.0% of units throughout agreement term. All projects must receive design approval prior to commencement.
- ***Mechanism used to abate taxes*** – Eligible projects will receive a tax reimbursement disbursed annually over the life of the agreement.
- ***How the dollar amount of the abatement was determined*** – The amount of the tax abatement offered is dependent on the location of the property and increase of the property value over the term of the agreement from the base year's value.
- ***Recapture Provisions*** – Violations for employment of undocumented workers, failure to meet investment requirements, failure to meet and maintain the minimum number of employees, failure to pay property taxes if owed or for refunding agreements, failure to complete project in the agreed upon deadline, events of relocation or cessation of business activities within the term of the agreement, or failure to meet other specified terms of the agreement.
- ***Types of commitments made by recipients*** – Varies by agreement, including investment in real and personal property, creating a minimum number of full time jobs, and commitment to maintain business activities for a set amount of time.
- ***Other commitments to the recipient*** – Varies by agreement, may include SAWS fee waivers, (generally most significant up to $500), City fee waivers, low interest loans, low interest forgivable loans, and mixed-use forgivable loans.

Note 3 Tax Abatements (Continued)

Summary

A summary of these taxes forgone on the City's abatement programs for the year-ended September 30, 2018 follows:

Tax Abatement Program	Number of Agreements (Not in thousands)	Amount of Taxes Abated during the fiscal year
Tax Abatement Program	19	$ 4,665
Economic Development Program	6	1,039
Center City Housing Incentive Policy	22	1,346
Non-Center City Housing Incentive Policy	8	780
	55	$ 7,830

(The remainder of this page left blank intentionally)

Note 4 Cash and Cash Equivalents, Securities Lending and Investments

Summary of Cash and Cash Equivalents, Securities Lending and Investments

Totals from Statement of Net Position

	City [1]	Fire and Police Pension Fund [2 4]	Fire and Police Retiree Health Care Fund [2 4]	CPS Energy [3]	SAWS [4]
Unrestricted:					
Cash and Cash Equivalents	$ 70,619	$ 56,287	$ 7,664	$ 205,418	$ 36,688
Security Lending Collateral		64,037			
Investments	539,084	3,144,676	368,994	163,486	349,074
Total Unrestricted	609,703	3,265,000	376,658	368,904	385,762
Restricted:					
Cash and Cash Equivalents	256,075			166,669	93,013
Investments	862,809			1,116,139	446,183
Total Restricted	1,118,884			1,282,808	539,196
Total Cash and Cash Equivalents, Securities Lending Collateral and Investments	$ 1,728,587	$ 3,265,000	$ 376,658	$ 1,651,712	$ 924,958

[1] Private Purpose Trust and Agency Fund investments are included in the City's pooled cash and investments but are not available for City activities and are excluded from the primary government's Statement of Net Position. The Private Purpose Trust did not present any assets. The Agency assets are presented above as Restricted Cash and Cash Equivalents of $4,244 and Investments of $4,343.

[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 Position.

[3] For the fiscal year-ended January 31, 2018.

[4] For the fiscal year-ended December 31, 2017.

A summary of cash and cash equivalents, securities lending and investments for the primary government (City), Pension Fund, Health Fund, CPS Energy, and SAWS is presented below as of each entity's respective fiscal year-end. This information is provided in order to facilitate reconciliation between the Statement of Net Position and the following note disclosures:

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	$ 131,988	$ 320	$ 63	$ 16,440	$ 35,229
Investments with Original Maturities of Less than Ninety Days	138,615	55,967	7,601	355,594	94,443
Cash with Other Financial Agents	55,767				
Petty Cash Funds	98			53	
Cash on Hand	226				29
Total Cash and Cash Equivalents	$ 326,694	$ 56,287	$ 7,664	$ 372,087	$ 129,701

Note 4 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. Treasuries, Government Agencies, Money Market Mutual Funds, and Governmental Investment Pool	$ 1,538,409	$ 123,948	$ 7,664	$ 1,269,436	$ 889,700
Repurchase Agreements	1,249				
Corporate Bonds		327,968		130,092	
Foreign Bonds		258,894		10,957	
Common Stock		823,048	10,443	169,137	
Mutual Funds			145,161		
Real Estate		238,993	39,943	54,855	
Preferred Stock	850			742	
Hedge Funds		395,861	5,441		
International Equities - Common Stock		579,823			
Alternative Investment		452,108	168,006		
Total Investments	1,540,508	3,200,643	376,658	1,635,219	889,700
Less: Investments with Original Maturities of Less than Ninety Days included in Cash and Cash Equivalents	(138,615)	(55,967)	(7,664)	(355,594)	(94,443)
Total	$ 1,401,893	$ 3,144,676	$ 368,994	$ 1,279,625	$ 795,257

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 90 days or less, summarized by fund type and included in the combined Statement of Net Position 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 with 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, repurchase agreements, money market mutual funds and government investment pools. The City maintains in its investment portfolio U.S. Treasury securities and U.S. government agency securities with original maturities greater than 90 days. Each fund's pro rata share of these investments with original maturities greater than 90 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 Position, as of September 30, 2018.

Year-Ended September 30, 2018 - 63 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 64 - Amounts are expressed in thousands

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City)

With regard to money market investments that have a remaining maturity of one year or less at the time of purchase, the City's policy is to report these investments at amortized cost. Amortized cost approximates fair value for these investments. The decrease in fair value for investments of the City with a remaining maturity of greater than one year at the time of purchase was $506 for the year-ended September 30, 2018.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants,* applies to all state and local governments that participate in external investment pools. The City participates in two such pools: TexPool and TexPool Prime. The City's investments managed through TexPool are recorded at amortized cost in accordance with GASB Statement No. 79. These investments consist exclusively of United States government securities, its agencies or instrumentalities, repurchase agreements collateralized by United States government securities, its agencies or instrumentalities, AAA-rated, no-load money market mutual funds, certificates of deposit guaranteed or insured by the Federal Deposit Insurance Company or the National Credit Union Share Insurance Fund, commercial paper rated at least A-1 or P-1 by, (i) two Nationally Recognized Statistical Rating Organizations (NRSROs) or, (ii) one NRSRO and fully secured by an irrevocable letter of credit by a national or state bank, and securities lending programs. The Comptroller of Public Accounts is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company (the Trust Company), which is authorized to operate TexPool. Federated Investors, Inc. manages the assets under an agreement with the Comptroller, acting on behalf of the Trust Company. Additional information regarding TexPool and TexPool Prime may be found at, http://www.texpool.com/TexPool/home.do.

TexPool and TexPool Prime do not have any limitations or restrictions on participants' withdrawals that would have to be stated in the notes to the financial statements. All TexPool securities are reported within the highest category of credit ratings and are denominated in U.S. dollars. Per GASB Statement No. 40, *Deposit and Investment Risk Exposure*, TexPool is not exposed to custodial credit risk. Additionally, TexPool utilizes shadow pricing, which is consistently within 0.5% of amortized cost value per unit.

In accordance with GASB Statement No. 40, 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.

(The remainder of this page left blank intentionally)

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

City Investments

	Carrying [1] Amount	Fair [1] Value	Allocation [2]	Rating [3]	WAM
U.S. Government Agency Securities	$ 726,460	$ 726,362	47.1%	AA+/A-1+	.56 years
U.S. Treasuries	675,089	674,681	43.8%	N/A	.60 years
Money Market Mutual Funds	73,161	73,161	4.7%	AAAm	1 day
Government Investment Pool	64,205	64,205	4.2%	AAAm	1 day
Preferred Stock	850	850	0.1%	N/A	N/A
Repurchase Agreement	1,249	1,249	0.1%	N/A	1 day
Total City Investments	$ 1,541,014	$ 1,540,508	100.0%		

[1] The Carrying Amount and Fair Value include blended component units for SIDC, TMFC, CCHFC, and TPFC, which total $36,192.
[2] The allocation is based on fair value.
[3] Standard & Poor's Rating

Custodial Credit Risk (Deposits) – Collateral pledged for demand accounts and certificates of deposit is required to be held in the City's name in the custody of a third-party institution that customarily provides such custodial services at 102.0% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the U.S. government and its agencies and obligations of the State and its municipalities, school districts, and district corporations.

Written custodial agreements are required which provide, among other things, that the collateral securities are held separate from the assets of the custodial banks. The City periodically determines that the collateral has a market value adequate to cover the deposits (not less than 102.0% of the deposit amount) and that the collateral has been segregated either physically or by book entry. At fiscal year-end, cash deposits for the City were entirely collateralized by the City's depository with securities consisting of U.S. government and its agencies or U.S. government guaranteed obligations held in book entry form by the Federal Reserve Bank in the City's name.

Custodial Credit Risk (Investments) – The City's investment securities are held at the City's depository bank's third-party custodian, The Bank of New York Mellon, in the depository bank's name as a custodian for the City. Assets pledged as collateral must generally be a type of security specifically authorized to be held as a direct investment; must be held by an independent third party; and must be pledged in the name of the City.

Interest Rate Risk – The City manages exposure to value losses resulting from rising interest rates by limiting the investment portfolio's weighted-average maturity to five years. Per the City's Investment Policy, investments are diversified across issuers and maturity dates so that fewer funds will be subject to interest rate risk occurrence at any given time. In addition, the City generally follows a laddered approach to investing, whereby blocks of roughly the same increments are invested at similarly increased maturity lengths. This approach provides security that all investments will not become due at one particularly advantageous or disadvantageous period of time, thereby spreading the risk. Weighted-average maturity is defined as the weighted-average time to the return of a dollar of principal. It is used as an estimate of the interest rate risk of a fixed income investment. The City invests in money market mutual funds and government investment pools with 100.0% overnight liquidity. Additionally, the City has entered into a repurchase agreement with 100.0% overnight liquidity.

Year-Ended September 30, 2018 - 65 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 66 - Amounts are expressed in thousands

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

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, 2018, the City's investment portfolio, with the exception of the repurchase agreement, the money market mutual fund investments, and the government investment pools, 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, Federal Agricultural Mortgage Corporation and Federal Farm Credit Bank were rated 'AA+' (Long-term) and 'A-1+' (Short-term) by Standard & Poor's. The investments in the money market mutual fund and governmental investment pools were rated 'AAAm' by Standard & Poor's and the repurchase agreement 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, 2018, the U.S. government agency's 47.1% securities allocation was as follows: Federal National Mortgage Association 3.6%, Federal Home Loan Mortgage Corporation 7.0%, Federal Home Loan Bank 23.1%, Federal Agricultural Mortgage Corporation 8.0%, and Farm Federal Credit Bank 5.4%.

Fair Value Measurement – The City records assets and liabilities in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which determines fair value and establishes a framework for measuring fair value and expands disclosures about fair value measurement.

Fair value is defined by GASB Statement No. 72 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

As a basis for considering market participant assumptions in fair value measurements, GASB Statement No. 72 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value into three broad levels:

Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Equity securities are examples of Level 1 inputs.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Government agency and U.S. Government Treasury securities are examples of Level 2 inputs.

Level 3 inputs are unobservable inputs that reflect the entity's own assumptions about factors that market participants would use in pricing the asset or liability (including assumptions about risk).

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

		Fair Value Measurements Using		
	9/30/2018	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Debt Securities				
Government Agency Securities	$ 726,362	$ -	$ 726,362	$ -
Treasuries	674,681		674,681	
Total Debt Securities	$ 1,401,043	$ -	$ 1,401,043	$ -
Private Equity				
Preferred Stock	$ 850	$ -	$ 850	$ -
Total Private Equity	$ 850	$ -	$ 850	$ -
Total Investments by Fair Value Level	$ 1,401,893	$ -	$ 1,401,893	$ -

The City's investments in debt securities are valued using Level 2 measurements because the valuations use interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and consider the counterparty rating.

Fire and Police Pension Fund

Investments of the Pension Fund are administered by the Fire and Police Pension Fund Board of Trustees. Investment purchases and sales are recorded as of the trade date. Dividend income is recognized on the ex-dividend date. Other investment income is recognized when earned. Investments of the Pension Fund are reported at fair value. Fair value is the amount reasonably expected to be received for an investment in a current sale between a willing buyer and a willing seller. Common and preferred stocks are valued based on published market prices and quotations from national security exchanges and securities pricing services. International stocks are then adjusted to reflect the current exchange rate of the underlying currency. Investments, for which no notional exchanges or pricing service exists, such as private equity, are valued by the investment partnership based on the valuation methodology outlined in the partnership agreement. Real estate may be valued by the manager or independent appraisers. Commingled assets that are not traded on a national exchange are valued by the commingled manager. The Pension Fund performs due diligence reviews of the investment pricing, process, and infrastructure of private equity, commingled, and real estate investments to assure that the asset values provided by the managers are reasonable.

Net appreciation/(depreciation) is determined by calculating the change in fair value of investments between the beginning of the period and the end of the period, less purchases of investments at cost, plus sales of investments at fair value. Investment expenses consist of external expenses directly related to the Pension Fund's investment operations, as well as internal administrative expenses associated with the Pension Fund's investment program.

The Pension Fund's assets are invested as authorized by Texas state law. The fair value of the Pension Fund's cash, security lending, and investments is $3,265,000. A summary of the Pension Fund's cash, cash equivalents, security lending, and investments can be found at the beginning of Note 4.

Year-Ended September 30, 2018 - 67 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 68 - Amounts are expressed in thousands

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

Investment Policy – The Pension Fund's policy in regard to the allocation of invested assets is established and may be amended by the Pension Fund's Board of Trustees. The primary long-term objective will be to achieve a return of at least the actuarial return assumption. Preservation of capital and consistent capital appreciation are the key considerations in establishing acceptable levels of risk, however, since the Pension Fund enjoys a very long-term investment horizon, significant short-term fluctuations in value can be tolerated. Based on existing contribution rates and benefit payments, current income from investments should be addressed in the management of these assets. To pursue the foregoing objectives at an acceptable risk level, the following policy (i.e., long-term) allocation is considered appropriate as updated in July 2013 and compared to actual allocations at December 31, 2017.

Investment Type	Target Allocation	2017 Actual Allocation
Large Cap U.S. Equities	15.0%	16.1%
Small Cap U.S. Equities	3.0%	3.9%
Developed International Equities	15.0%	16.7%
Emerging International Equities	6.0%	7.1%
Hedge Funds	10.0%	9.3%
Private Equity	7.0%	4.6%
Sub Total Equity	56.0%	57.7%
Risk Parity	5.0%	3.1%
High Yield	5.0%	3.3%
Bank Loans	5.0%	6.4%
Global Fixed Income	0.0%	2.6%
Unconstrained Fixed Income	3.0%	2.7%
Emerging Market Debt	7.0%	5.0%
Private Debt	7.0%	5.0%
Real Estate	9.0%	7.5%
Real Assets	3.0%	4.9%
Cash	0.0%	1.8%
Sub Total Fixed Income	44.0%	42.3%
Total Investments	100.0%	100.0%

Rate of Return – The money weighted rate of return for the year-ended December 31, 2017 was 14.7%. The return is net of investment expenses and adjusted for the changing amounts actually invested.

Investment Risk – The Pension Fund's investments have been categorized to address deposit and investment risks related to custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

Custodial Credit Risk – Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the Pension Fund will not be able to recover the value of the investment or collateral in possession of the counterparty. The Pension Fund does not have an investment policy regarding custodial credit risk. The Pension Fund considers only demand deposits as cash. The Federal Depository Insurance Corporation (FDIC) covered cash on deposit up to $250 at each financial institution. As of December 31, 2017, the Pension Fund had cash deposits held by investment managers in the amount of $852 that were uninsured and uncollateralized.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributable to the magnitude of the Pension Fund's investment in a single issue. As of December 31, 2017, the Pension Fund did not have any single investment in any one organization which represented greater than 5.0% of plan net assets.

Credit Risk – Credit Risk is the risk that an issuer will not fulfill its obligations. Using Standard and Poor's rating system for fixed income securities as of December 31, 2017, 5.0% of the Pension Fund's bonds were rated 'AAA', 2.0% were rated 'AA', 6.0% were rated 'A', 13.0% were rated 'BBB', 22.0% were rated 'BB', 30.0% were rated 'B', 3.0% were rated 'CCC', and 16.0% were unrated or not rated. 3.0% of the securities were invested in U.S. Government and Agencies, which are not rated.

Credit risk for derivative instruments held by the Pension Fund results from counterparty risk, which is essentially that the counterparty will be unable to fulfill its obligations, which are then assumed by the Pension Fund. Information regarding the Pension Fund's credit risk related to derivatives is found under the derivatives disclosures. Policies pertaining to credit risk associated with the Pension Fund's securities lending program are found under the securities lending disclosures.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates of fixed income securities will adversely affect the fair value of an investment. 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. The Pension Fund does not have an investment policy specifically regarding interest rate risk. Investment managers have full discretion in adopting investment strategies to deal with these risks, and all of the Pension Fund's fixed income portfolios are managed in accordance with guidelines that are specific as to the degree of interest rate risk taken.

(The remainder of this page left blank intentionally)

Year-Ended September 30, 2018 - 69 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 70 - Amounts are expressed in thousands

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

Securities that are subject to interest rate risk as of December 31, 2017 are shown in the table below.

Investment Type	Fair Value	Weighted-Average Maturity (WAM) (Years)
Corporate Bonds	$ 51,733	6.1
Corporate Convertible Bonds	15,718	5.8
Government Agencies	2,977	1.3
Government Bonds	61,376	9.4
Municipal/Provincial bonds	3,193	7.9
Commercial Mortgage Backed	547	16.2
Non-government-backed C.M.O.s	1,623	32.9
Bank loans	205,121	5.2
Goldman Sachs Strategic Income[1]	84,846	5.9
Ashmore[2]	72,610	9.0
GoldenTree[3]	53,661	
Wellington emerging market debt[4]	101,439	
Total Interest Rate Sensitive Securities	$ 654,844	
Portfolio WAM (Weighted Average Maturity)		6.6

[1] Goldman Sachs Strategic Income, a commingled fund, invests opportunistically in any type of bond.

[2] Ashmore is a commingled fund invested in emerging market debt.

[3] GoldenTree is a commingled fund invested in high-yield corporate bonds. They report their portfolio effective duration as 3.3 as of December 31, 2017.

[4] Wellington, a commingled fund, also invests in emerging market debt. Wellington also reports the effective duration of the portfolio in lieu of WAM. The effective duration for Wellington was 6.7 as of December 31, 2017.

(The remainder of this page left blank intentionally)

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Pension Fund's exposure to foreign currency risk in U.S. dollars as of December 31, 2017 is shown in the table below.

Country	Equities	Bonds	Cash	Total
Argentinian Peso	$ 1,036	$ 4,568	$ -	$ 5,604
Australian Dollar	24,074	5,797	105	29,976
Brazilian Real	24,101	11,740	1	35,842
British Pound	73,021	4,280	65	77,366
Canadian Dollar	18,192	(169)		18,023
Chilean Peso	3,215	423		3,638
Chinese Yuan	60,889	1,353		62,242
Colombian Peso	513	771		1,284
Czech Republic Krona		4,426		4,426
Danish Krone	5,053			5,053
Dominican Republic Peso		85		85
Egyptian Pound	171	3,230		3,401
European Union Euro	140,825	(7,713)	13	133,125
Hong Kong Dollar	19,627	(3,976)	88	15,739
Hungarian Forint	19	2,876		2,895
Indian Rupee	19,473	8,511		27,984
Indonesian Rupiah	5,846	10,977		16,823
Israeli New Shekel	2,552		9	2,561
Japanese Yen	116,217	(8,205)	333	108,345
Malaysian Ringgit	6,065	5,618		11,683
Mexican Peso	8,501	13,546		22,047
New Taiwan Dollar	29,477	(6,514)	67	23,030
New Zealand Dollar	936	3,299	22	4,257
Norwegian Krone	5,640	9,728	60	15,428
Pakistani Rupee	872			872
Peruvian Nuevo Sol	684	508		1,192
Philippine Peso	345	423		768
Polish Zloty	6,357	12,791		19,148
Qatar Riyal	342			342
Russian Ruble	10,650	7,808		18,458
Singapore Dollar	8,113	169	18	8,300
South African Rand	12,042	9,891		21,933
South Korean Won	59,504	677		60,181
Swedish Krona	9,618	12,435		22,053
Swiss Franc	23,932	(1,861)	69	22,140
Thai Baht	13,602	2,214	1	15,817
Turkish New Lira	12,554	605		13,159
UAE Dirham	758			758
Uruguay Peso		355		355
	$ 724,816	$ 110,666	$ 851	$ 836,333

Year-Ended September 30, 2018 - 71 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 72 - Amounts are expressed in thousands

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

Securities Lending – State statutes and Pension Fund policies allow for securities lending transactions. The Pension Fund has entered into an agreement with its custodial bank to lend the Pension Fund's securities to one or more borrowers for a fee. It is the policy of the Pension Fund and the custodian 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 custodian bank. Collateral may be in the form of cash, U.S. government securities, and 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 when due and the value of the collateral is insufficient to replace 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 to the interest reset date of 27 days at December 31, 2017.

As of December 31, 2017, the Pension Fund had lending arrangements outstanding with a total market value of $84,467 which were fully collateralized with cash and securities. Cash collateral of $64,037 is recorded in the accompanying Statement of Fiduciary Net Position. Net income for the year-ended December 31, 2017, under the securities lending arrangement was $372.

Cash Collateral Pool	
Repo Agreements	$ 18,411
Variable Rate Certificates of Deposit	14,857
Commercial Paper	9,420
Time Deposit	9,183
ABS Commercial Paper	6,256
Certificates of Deposit	4,572
Municipal Variable Rate Notes/Bonds	749
Sweep Vehicle	371
Treasury Notes/Bonds	218
Total	$ 64,037

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

Derivatives and Structured Financial Instruments – 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 December 31, 2017, was $2,171, in commercial mortgage obligations, and is included with investments in the Statement of Fiduciary Net Position. 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 $395,861 as of December 31, 2017.

As of December 31, 2017, the Pension Fund held foreign currency forward contracts as follows:

Currency	Unrealized Gain (Loss)	Market Value U.S. Dollars
Australian Dollar	$ -	$ (14)
British Pound	61	5,831
Canadian Dollar	75	2,707
Canadian Dollar	(70)	(2,707)
European Union Euro	1	103
European Union Euro	(132)	(4,062)
Indian Rupee	55	3,967
Japanese Yen	(30)	6,811
Japanese Yen		(20)
New Zealand Dollar	106	4,385
Norwegian Krone	(93)	6,791
Polish Zloty	55	1,825
South African Rand	(312)	(2,928)
Swedish Krona	56	7,296
Thai Baht		(20)
Turkey Lira	(90)	2,461
Total	$ (318)	$ 32,426

The market value of the currency forwards is included with the investments on the Statement of Fiduciary Net Position. The gain realized during the year-ended December 31, 2017 was $1,617. This gain is included with net appreciation in fair value of investments on the Statement of Changes in Fiduciary Net Position.

Fair Value Measurement – The Pension Fund categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72. The hierarchy is based on valuation inputs used to measure the fair value of the investment.

Year-Ended September 30, 2018 - 73 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 74 - Amounts are expressed in thousands

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

	12/31/2017	Fair Value Measurement Using Level 1	Level 2	Level 3
Investments by Fair Value Level				
Debt Securities				
Government Bonds	$ 61,375	$ -	$ 61,375	$ -
Government Agencies	3,413		3,413	
Municipal/Provincial Bonds	3,193		3,193	
Corporate Bonds	67,451		67,451	
Bank Loans	205,121		205,121	
Commercial Mortgage Obligations	1,735		1,735	
Total Debt Securities	$ 342,288	$ -	$ 342,288	$ -
Equity Securities				
Domestic	$ 307,296	$ 307,296	$ -	$ -
International	183,014	182,008		1,006
Total Equity Securities	$ 490,310	$ 489,304	$ -	$ 1,006
Private Equity				
Venture	$ 26,433	$ -	$ -	$ 26,433
Buyout	58,654			58,654
Fund-of-funds - Diversified	55,392			55,392
Real Assets	143,096			143,096
Total Private Equity	$ 283,575	$ -	$ -	$ 283,575
Private Debt				
Fund-of-funds - Distressed	$ 7,260	$ -	$ -	$ 7,260
Mezzanine	33,768			33,768
Distressed	58,800			58,800
Senior Debt	68,705			68,705
Total Private Debt	$ 168,533	$ -	$ -	$ 168,533
Total Investments by Fair Value Level	$ 1,284,706	$ 489,304	$ 342,288	$ 453,114
Investments Measured at the Net Asset Value (NAV)				
Relative Value Hedge Funds	$ 52,530			
Event Driven Hedge Funds	69,682			
Macro/Directional Hedge Funds	32,304			
Re-Insurance Hedge Funds	9,713			
Long/Short	99,498			
Commodity Trading Advisor	23,921			
Hedge Fund of Funds	8,078			
Risk Parity	100,135			
Commingled Funds:				
Domestic Debt	53,661			
Global Debt	258,894			
Domestic Equity	332,738			
Global Equity	579,823			
Real Estate	238,993			
Total Investments Measured at the NAV	1,859,970			
Total Investments Measured at Fair Value	$ 3,144,676			

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

Debt and Equity Securities – Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Equity securities classified in Level 3 of the fair value hierarchy were valued based on theoretical relationships to other assets similar to the ones in the portfolio.

Private Equity – The Pension Fund is invested in 34 private equity funds that are diversified across four main types of strategies. There are five venture capital funds, eight buyout funds, 12 real assets funds, and 9 diversified fund of funds. These investee funds are considered Level 3 in the fair value hierarchy. These investee funds are limited partnerships, and the managing general partner is responsible for determining the fair market value of the underlying investments. The methods used to determine fair value include discounted cash flow, small public company comparison and appraisal. The partnerships have a ten year life with options to extend beyond the original term by as much as two years in most cases. Original capital commitments to these funds range from $10,000 to $20,000. It is expected that the investee funds will call between 70.0% and 80.0% of the committed capital. In most cases the final commitment is never called because the investee funds start to receive returned capital either from sales of or operations from the underlying investments. As of December 31, 2017, it is estimated that the unfunded commitments were approximately $168,000 of which $126,000 is expected to be called. These investments in the investee funds are diversified across vintage years so the investee funds are in different stages of their life cycles. The Pension Fund's allocation to this asset class requires that capital that is received from these investments will be reinvested in other investee funds as they become available. Even though these investments could be sold to other investors or secondary funds, the Pension Fund has no intention of doing so, so these investments are considered illiquid.

Private Debt – The Pension Fund is invested in 19 private debt funds, which include four funds of funds focused on distressed debt opportunities, four funds focused on mezzanine lending to companies that have operations that have good growth potential, but limited access to bank loans or public debt or equity markets, eight funds focused on loans that are senior in the borrowers' capital structure, and three funds that concentrate on distressed debt where debt is purchased at a cost that is less than the value of the collateral. These investee funds are considered Level 3 in the fair value hierarchy. These investee funds are limited partnerships, and the managing general partner is responsible for determining the fair market value of the underlying investments. The methods used to determine fair value include discounted cash flows plus the value of any equity that investee funds receive as part of the lending arrangements. The partnerships have a ten year life with options to extend beyond the original term by as much as two years in most cases. Original capital commitments to these funds range from $10,000 to $20,000. It is expected that the investee funds will call between 70.0% and 80.0% of the committed capital. In most cases the final commitment is never called because the investee funds start to receive repayment from the debt service of the underlying investments and in some cases extra capital from the sale of the equity received when underlying companies are sold or refinanced through public offerings.

As of December 31, 2017, it is estimated that unfunded commitments were approximately $70,800 of which $44,500 is expected to be called. These investments in the investee funds are diversified across vintage years so the investee funds are in different stages of their life cycles. The Pension Fund's allocation to this asset class requires that capital that is received from these investments will be reinvested in other investee funds as they become available. Even though these investments could be sold to other investors or secondary funds, the Pension Fund has no intention of doing so. As a result, these investments are considered illiquid.

Year-Ended September 30, 2018 - 75 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 76 - Amounts are expressed in thousands

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

Investment Measured at the Net Asset Value – The Pension Fund is also substantially invested in investee funds where fair value is measured at the net asset value (NAV). These funds invest in stocks, bonds, derivatives in some cases and real estate. The stocks, bonds or derivatives, if they were held directly by the Pension Fund, would have readily determinable values that would fit into the fair value levels. Most of these would be in Level 1 or 2. Real estate investments would fall into Level 3 since there is not usually a ready market for the underlying assets. The investee funds have both active and inactive managers. Inactive managers invest in stocks that are in an index such that the return on the investment equals the return on the index. Active managers will invest in stocks or bonds with intent of either achieving a higher rate of return than the market or one of the indexes, or lowering the amount of the risk involved. The investee funds in this category include hedge funds, a risk parity fund, index funds, commingled funds, and real estate funds.

Hedge Funds – The Pension Fund's investments in hedge funds include relative value, event driven, macro/directional and diversified hedge fund-of-funds. These hedge funds all require notice between 30-90 days of the intent to redeem cash from them. They will only redeem cash at the end of calendar quarters. The Pension Fund is invested in three relative value hedge funds. Relative value investing seeks to exploit relationships that are out of normal equilibrium. These investee funds are not concerned with the price of an asset such as a stock or bond by itself, but how that asset's price relates to other assets that historically display some correlation to the asset. The Pension Fund is invested in eight hedge funds that invest using a macro/directional strategy. These strategies base their investments, such as long and short positions in various equity, fixed income, currency, commodities and futures markets, primarily on the overall economic and political views of various countries, or their macroeconomic principles. The Pension Fund is invested in four event driven hedge funds. Event driven hedge funds invest based on the expectation of a particular event such as a merger or acquisition and how that event is expected to affect the price of the underlying investment. One of the hedge funds that the Pension Fund invests in actually invests alongside a reinsurance company. The Pension Fund has an investment in a hedge fund-of-funds, which invests in a diversified group of underlying hedge funds. In this category there are seven hedge fund remnants that are subject to a gate. Six of these gates have been in place since 2008 when the Pension Fund gave notice of redemption. One was redeemed in 2016. Most of the investments have been returned, $2,970 is expected to be received in 2018, but there is no certainty when the remaining investment of $5,107 will be returned. The gates were put in place to prevent having to sell the assets under duress.

Risk Parity Fund – The Pension Fund has one investee that is called risk parity which is similar to a hedge fund in that it attempts to mitigate large systemic risks such as hyperinflation, or market corrections by increasing exposure to low risk strategies while decreasing or hedging exposures to investments that are sensitive to those systemic risks.

Commingled Fund – The Pension Fund's investments in commingled funds consist of bond investors and stock investors. The bond funds invest in domestic high yield bonds, opportunistic global bonds and emerging market bonds. The stock funds are invested in domestic large and small cap stocks and global and emerging market stocks. Commingled funds are chosen for these investments either because of the size of the investment, or because of the transfer of the complexity of investing internationally.

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Fund (Continued)

Real Estate Fund – Real estate investments are diversified by type of real estate such as residential, commercial office, industrial and retail. They are also diversified by stage of development such as opportunistic, value added and core properties. Finally they are diversified geographically. Three of the investee managers representing $128,584 were open-ended funds that allow redemptions. Thirty-three of the investee managers were limited partnerships with durations of 10 to 15 years. These limited partnerships do not allow redemptions. They do distribute cash after the investment period, usually two to four years, from operations or sales of underlying properties. These investments are similar to the private equity partnerships and private debt partnerships in that funds are committed at the beginning of the investment and called by the partnerships as purchase opportunities present themselves. Commitments in this category are more likely to be called up. It is likely that 80.0% to 90.0% of the committed capital will ultimately be called. Unfunded commitments in this category were approximately $106,000, of which approximately $83,000 is expected to be called. Fair value for this asset class is determined by appraisals of the underlying properties. The Pension Fund's asset allocation requires that when capital is returned it is reinvested in new partnerships so that the percentage allotted to the asset class can be maintained. Like private equity and private debt limited partnerships, it is possible to sell partnership interests to other investors or secondary partnerships at a substantial cost to the Pension Fund. The Pension Fund has no intention of redeeming these investments prior to maturity. Consequently, these investments are considered illiquid.

Fire and Police Retiree Health Care Fund

The Health Care Fund Board of Trustees administers investments of the Health Fund. Investments are reported at fair value. Short-term investments are reported at amortized cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have an established market value are reported at estimated fair value.

Alternative investments are 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 position values as set by the partnerships' fund managers or general partners. These net position values may differ from the value that would have been used had a readily available market for the investments existed; accordingly, 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 Position.

The Health Fund's assets are invested as authorized by the Investment Policy, as set by the Board of Investees. 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 contracted with 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 cash and investments, with the exception of alternative investments, are held by a custodian bank, Frost Bank of San Antonio, Texas.

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

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 December 31, 2017 is $376,658. A summary of the Health Fund's cash, cash equivalents, and investments can be found at the beginning of Note 4.

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 December 31, 2017, the money market fund weighted average to maturity is 31 days. The Health Fund places no limit on maturities of Mutual Funds – Fixed Income.

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). At December 31, 2017, the money market mutual fund was rated 'AAAm' by S&P. The Health Fund's investments in Mutual Funds – Fixed Income are not rated by a nationally recognized statistical rating organization.

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 December 31, 2017, the Health Fund's common stock investments are held at Frost 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.

Concentration of Credit Risk – Concentration risk is the exposure to loss that can result from failing to diversify investments. Accordingly, a government should disclose investments that represent 5.0% or more of its total investments that are invested in a single issuer. Concentration risk does not arise in connection with U.S. government obligations and obligations explicitly guaranteed by the U.S. government; mutual funds; and, similar pooled investments which are designed, in part, to provide diversification. At December 31, 2017, the Health Fund's investments in Catalyst Fund Limited Partnership III, respectively, amount to $20,926 and represent 5.7% of the Health Fund's total investments.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As of December 31, 2017, one of the Health Fund's investments (an amount of $5,043 or 1.4% of total investments) is exposed to foreign currency risk. The primary currency for this risk is the Euro.

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

Fair Value Measurement – The Health Fund categorizes its fair value measurements of its investments within the fair value hierarchy established by GASB Statement No. 72. The hierarchy is based on valuation inputs used to measure the fair value of the investment.

The Health Fund uses the net asset value (NAV) per share as the fair value measurement for its alternative investments since they cannot be traded and; therefore, market-based information regarding their value does not exist. As such, these alternative investments are not categorized according to the fair value hierarchy. At December 31, 2017, the Health Fund's fair value measurements for its investments were as follows:

		Fair Value Measurement Using		
	12/31/2017	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Equity Securities				
U.S. Equity - Common Stock	$ 10,443	$ 10,443	$ -	$ -
Mutual Fund - Fixed Income	88,671	88,671		
Mutual Fund - International Equity	36,469	36,469		
Mutual Fund - Common Stock	20,021	20,021		
Total Investments by Fair Value Level	$ 155,604	$ 155,604	$ -	$ -
Investments Measured at the Net Asset Value (NAV)				
Real Estate Funds	$ 39,943			
Natural Resource Funds	30,953			
Hedge Funds - Open-Ended Funds	5,441			
Private Equity Funds	117,641			
Global & Domestic Equity Funds	19,412			
Total Investments Measured at the NAV	$ 213,390			
Total Investments	$ 368,994			

Investments Measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Real Estate Funds	$ 39,943	$ 15,685	Annually	120 Days
Natural Resource Funds	30,953	312		
Hedge Funds - Open-Ended Funds	5,441		Annually	90-120 Days
Private Equity Funds	117,641	33,702		
Global & Domestic Equity Funds	19,412		Monthly	15-30 Days
	$ 213,390	$ 49,699		

Year-Ended September 30, 2018 - 79 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 80 - Amounts are expressed in thousands

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

Real Estate Funds – The Health Fund is invested in ten real estate funds, which are generally diversified through fund-to-fund strategies. Portfolios include investments in assets and distressed debt for residential and commercial real estate (domestic and international). Fair values have been determined using NAV per share of investments. Real estate investment funds represent 11.0% of the Health Fund's portfolio. One investment fund (representing $8,779 or 22.0% of real estate funds) is redeemable on an annual basis with a 120 day formal notice. The Health Fund receives distributions as the underlying assets of investments are sold/liquidated for the other nine funds. Management estimates that two funds (representing $637 or 1.6% of real estate funds) will be liquidated within three years; two funds (representing $6,257 or 15.7% of real estate funds) will liquidate within five years; and, five funds (representing $24,269 or 60.8% of real estate funds) will liquidate within nine years. The Health Fund made two new investments in real estate funds. The new investments and associated appreciation represent approximately 2.0% of the Health Fund's portfolio.

Natural Resources Funds – The Health Fund is invested in six natural resources funds. These funds are limited partnerships that use harvesting and fund-to-fund strategies. Portfolios for these funds include investments in domestic and international commodities; such as, oil, gas, iron, copper, minerals, metals, and energy sources. Fair values have been determined using NAV per share of investments. These natural resources investment funds represent 8.0% of the Health Fund's portfolio, and are not redeemable. The Health Fund receives distributions as the underlying assets of investments are sold/liquidated. Management estimates that one fund (representing $6,780 or 22.0% of the natural resources funds) will liquidate within three years; two funds (representing $10,018 or 32.0% of natural resources funds) will liquidate within five years; and, three funds (representing $14,136 or 46.0% of natural resources funds) will liquidate within nine years.

Hedge Funds - Open-Ended Funds – The Health Fund is invested in two hedge funds. Portfolios for these funds include investments in common stock, preferred stock, United States government obligations, convertible securities, debt instruments, real estate assets, options, futures, swaps, and collateralized debt/securities. Fair values have been determined using NAV per share of investments. These hedge funds represent 1.0% of the Health Fund's portfolio. One of the two hedge funds (representing $3,929 or 72.0% of hedge funds) is eligible for redemption on an annual basis with a 90-120 day formal notice. The second hedge fund is not redeemable. The Health Fund receives distributions as the underlying assets of investments are sold/liquidated. Management estimates the second hedge fund investment ($1,512 or 28.0% of hedge funds) will liquidate within three years.

Private Equity Funds – The Health Fund is invested in 16 private equity investment funds. Strategies for these funds include two buyout funds, seven diverse fund-to-fund funds, two private debt funds, two secondary funds, two venture capital funds, and one special situations fund. Portfolios for these funds include assets in multiple domestic and international industries. These private equity funds represent 31.0% of the Health Fund's portfolio, and are invested in publicly and privately held Canadian-related assets. Fair values have been determined using NAV per share of investments, and are not redeemable. The Health Fund receives distributions as the underlying assets of investments are sold/liquidated. Management estimates that two funds (representing $4,438 or 4.0% of private equity funds) will liquidate within three years; seven funds (representing $36,805 or 31.0% of private equity funds) will liquidate within five years; and, seven funds (representing $76,397 or 65.0% of private equity funds) will liquidate within nine years.

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

Global & Domestic Equity Funds – The Health Fund is invested in two commingled global and domestic equity funds which consist of investments in bonds, equity and debt instruments. Portfolios for these funds include investments in international emerging markets in various industries. Fair values have been determined using NAV per share of investments. These investment funds represent 5.0% of the Health Fund's portfolio, and are eligible for redemption on a monthly basis with a 15-30 day formal redemption notice.

Subscribed Capital Commitments – As of December 31, 2017, the Health Fund had non-binding commitments to invest capital in 28 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 $49,699. As of December 31, 2017, $16,397 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. 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, 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. Also included in the restricted funds classification is the Repair and Replacement Account, restricted in accordance with CPS Energy's bond ordinances.

CPS Energy's cash deposits at January 31, 2018 were either insured by federal depository insurance or collateralized by banks. For deposits that were collateralized, the collateral included letters of credit and securities. 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 or other allowable banks in CPS Energy's name.

Separation – CPS Energy's cash, cash equivalents, and investments can be separated as 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.

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

Public Funds Investment Act (PFIA) – CPS Energy's investments and the investments held in the Decommissioning Trusts are subject to the rules and regulations of the 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 broker-dealers and investment managers.

Investments of CPS Energy – CPS Energy's allowable investments are defined by CPS Energy Board Resolution, CPS Energy Investment Policy, bond ordinances, Commercial Paper ordinances and State law. These investments are subject to market risk, and their fair value will vary as interest rates fluctuate. All CPS Energy investments are held in trust custodial funds by independent banks.

SEC Rule 2a-7 Money Market Reform – On July 23, 2014, the Securities and Exchange Commission (SEC) adopted Rule 2a-7 that governs money market funds. This rule was effective beginning October 14, 2016, and requires a floating net asset value (NAV) for institutional prime money market funds, which allows the daily share price of these funds to fluctuate along with changes in the market-based value of the fund's assets. The PFIA requires money market funds to have a stable $1 NAV. Therefore, prior to rule 2a-7 becoming effective, CPS Energy was required to transfer its investments in institutional prime money market funds to investment types that have a stable $1 NAV to remain in compliance with PFIA requirements. Permissible alternative investment types identified include government money market funds, investment pools, short-term commercial paper and Treasury and Agency securities.

Investments of the Decommissioning Trusts – 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 Committee, the Trust Agreements and State law, as well as Public Utility Commission of Texas (PUCT) and Nuclear Regulatory Commission (NRC) guidelines. Allowable investments for the Decommissioning Trusts include those directly permissible for CPS Energy (except for investment pools), 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. The target allocations for both Decommissioning Trusts are 63.5% fixed-income, 28.0% equities and 8.5% U.S. real estate investment trusts.

(The remainder of this page left blank intentionally)

Note 4 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, U.S. 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	✓	✓
Investment pools	✓	N/A
Equities	N/A	✓
Investment quality obligations	✓	✓
Corporate bonds	N/A	✓
International securities	N/A	✓
No-load commingled funds	N/A	✓
Securities lending programs	✓	✓
Other specific types of secured or guaranteed investments	✓	✓

Risk Exposure – 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. 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, market and general economic risks. Due to market fluctuations, it is possible that substantial changes in the fair value of investments could occur after the end of the reporting period.

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.

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

Investment Policies – 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.

GASB Statement No. 40 – 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. CPS Energy's investments and those in 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 concentration of credit risk and interest rate risk exposure by investment type using the weighted-average maturity ("WAM") method. Since CPS Energy does not hold foreign instruments in its direct investments (those held by CPS Energy), foreign currency risk is not applicable.

Interest Rate Risk – In accordance with its Investment Policy, CPS Energy manages exposure to fair value losses resulting from rising interest rates by placing a limit on the portfolio's WAM. The Investment Policy limits the WAM to three years or less, which allows for the management of risk while optimizing returns. CPS Energy invests in money market mutual funds that have no fixed maturities.

Concentration of Credit Risk – In accordance with its Investment Policy, CPS Energy manages exposure to concentration of credit risk through diversification and by limiting investment in each federal agency to 35.0% and investment in any other issuer of debt securities to 5.0% of the total fixed-income portfolio. Additionally, negotiable certificates of deposit are limited to 35.0% of the total portfolio per issuer.

Investment Type	Carrying Value	Fair Value	Allocation	Weighted-Average Maturity (Years)
U.S. Treasuries	$ 27,472	$ 27,472	2.6%	2.5
U.S. Agencies:				
Federal Agriculture Mortgage Corp.	24,813	24,813	2.4%	1.4
Federal Farm Credit Bank	97,858	97,858	9.3%	3.5
Federal Home Loan Bank	98,372	98,372	9.3%	3.4
Federal Home Loan Mortgage Corp.	105,793	105,793	10.1%	4.1
Federal National Mortgage Assn.	118,673	118,673	11.3%	5.5
Small Business Administration	32,382	32,382	3.1%	6.3
Municipal Bonds	152,918	152,917	14.6%	2.2
Commercial Paper	59,768	59,768	5.7%	0.2
Investment Pools	267,797	267,797	25.5%	N/A
Money Market Mutual Funds	64,585	64,585	6.1%	N/A
Total Fixed-Income Investments	$ 1,050,431	$ 1,050,430	100.0%	2.3

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

Credit Risk – In accordance with its Investment Policy, CPS Energy manages exposure to credit risk by limiting long-term debt security investments to a credit rating of 'A-' or better. As of January 31, 2018, CPS Energy held no debt securities with a long-term credit rating below 'A-', or equivalent, or short-term credit rating below 'A-1/P-1/F-1.'

Credit Rating	Carrying Value	Fair Value	Allocation
U.S. Treasuries (AA+)	$ 27,472	$ 27,472	2.6%
AAA	353,211	353,211	33.6%
AA+	505,164	505,163	48.1%
AA	55,326	55,326	5.3%
AA-	20,038	20,038	1.9%
A+	2,618	2,618	0.3%
A	1,407	1,407	0.1%
A-			
Short-term:			
A-1 / P-1 / F-1	59,768	59,768	5.7%
Not rated[1]	25,427	25,427	2.4%
Total Fixed-Income Investments	$ 1,050,431	$ 1,050,430	100.0%

[1] Money market mutual funds and deposit accounts which still meet PFIA/CPS Energy Investment Policy requirements.

Decommissioning Trust Investments – As mentioned previously, the Decommissioning Trusts report their assets on a calendar-year basis; therefore, the tables in this section are as of December 31, 2017. 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 fair value.

Interest Rate Risk – Generally, the long-term nature of the liabilities and the limited need for daily operating liquidity allow interim fluctuations in fair value to occur without jeopardizing the ultimate value of the assets. Where long-term securities are held, the interim fair value of assets can be sensitive to changes in interest rates. As the general level of interest rates moves up and down, the interim fair value of longer-maturity bonds may change substantially.

To mitigate this interest rate risk, a limitation is placed on the weighted-average duration of the fixed-income portfolio. The overall portfolio duration is limited by the Investment Policy to a deviation of no more than +/- 1.5 years from the weighted-average duration of the Investment Committee's specified fixed-income index. The specified fixed-income index for the 28% Trust and the 12% Trust is Barclays Capital Aggregate, which was 5.9 for the period ending December 31, 2017.

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 federal agency to 30.0% and investments in any other single issuer of debt securities to 5.0% of the total fixed-income portfolio. Likewise, equity investments are limited to 5.0% of the total portfolio for any one issuer. At December 31, 2017, total other debt securities (corporate and foreign issuers) amounted to 39.4% of the fixed-income portfolio for the 28% Decommissioning Trust and 38.6% for the 12% Decommissioning Trust.

Year-Ended September 30, 2018 - 85 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 86 - Amounts are expressed in thousands

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

The following table lists the fixed-income investment holdings by type:

Investment Type	28% Interest Fair Value [1]	28% Interest Allocation	28% Interest Weighted-Average Duration (Years)	12% Interest Fair Value [1]	12% Interest Allocation	12% Interest Weighted-Average Duration (Years)
U.S. Treasuries	$ 47,860	18.0%	10.0	$ 15,563	16.6%	12.5
U.S. Agencies:						
Federal National Mortgage Assn.	32,435	12.2%	5.0	10,315	11.0%	4.8
Federal Home Loan Mortgage Corp.	44,956	16.9%	4.4	14,726	15.7%	3.4
Federal Farm Credit Bank	5,656	2.1%	1.0	4,388	4.7%	0.7
Small Business Administration	3,995	1.5%	5.5	1,587	1.7%	5.4
Governmental National Mortgage Assn.	2,699	1.0%	5.5	1,284	1.4%	5.5
Municipal Bonds - Texas	1,228	0.5%	8.3	502	0.5%	7.9
Municipal Bonds - Other States	6,599	2.5%	9.2	2,000	2.1%	9.6
Corporate Bonds	96,019	36.0%	6.1	34,073	36.4%	6.4
Foreign Bonds	8,905	3.3%	5.7	2,052	2.2%	4.8
Money Market Mutual Funds	16,040	6.0%	N/A	7,172	7.7%	N/A
Total Fixed-income Portfolio	$ 266,392	100.0%	6.3	$ 93,662	100.0%	6.5
Combined Decommissioning Trust Funds Total	$ 360,054					

[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 equivalent, 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 table on the following page, which lists fixed-income holdings by credit rating, securities with a credit rating below 'BBB-' totaled 0.5% and below 0.1% of the fixed-income portfolio for the 28% Trust and the 12% Trust, respectively, at December 31, 2017.

(The remainder of this page left blank intentionally)

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

The following table lists the fixed-income investment holdings by credit rating:

Credit Rating	28% Interest Fair Value [1]	28% Interest Allocation	12% Interest Fair Value [1]	12% Interest Allocation
U.S. Treasuries (AA+)	$ 47,860	18.0%	$ 15,563	16.6%
AAA	35,739	13.4%	16,727	17.9%
AA+	93,245	35.0%	34,106	36.4%
AA	3,735	1.4%	866	0.9%
AA-	5,725	2.1%	1,025	1.1%
A+	5,039	1.9%	2,120	2.3%
A	12,005	4.5%	4,632	5.0%
A-	12,664	4.8%	5,350	5.7%
BBB+	22,809	8.5%	6,822	7.3%
BBB	13,746	5.2%	3,679	3.9%
BBB-	11,700	4.4%	2,044	2.2%
BB+	871	0.3%		
BB	64	0.0%	27	0.0%
BB-	265	0.1%		
Not Rated [2]	925	0.4%	701	0.7%
Total Fixed-income Portfolio	$ 266,392	100.0%	$ 93,662	100.0%
Combined Decommissioning Trust Funds Total	$ 360,054			

[1] Market Value and carrying value are the same amount.

[2] The NDT Investment Managers are given discretion to invest in unrated securities that are of suitable quality and in line with their investment strategy, as long as those do not exceed the 10.0% limit prescribed for the portfolio by the NDT Investment Policy.

Foreign Currency Risk – With the exception of dedicated foreign-equity portfolios, all investments authorized for purchase by the Decommissioning Trusts are in U.S. dollars. This reduces the potential foreign currency risk exposure of the portfolio. All foreign bonds outstanding were issued in the U.S. and amounted to $10,958 as of December 31, 2017. In accordance with the Investment Policy, investments in international equity securities are limited to international commingled funds, American Depository Receipts and exchange traded funds that are diversified across countries and industries. The international equity portfolio will be limited to 20.0% of the total portfolio. At December 31, 2017, total foreign equity securities amounted to 14.4% of the 28% Trust's total portfolio. At December 31, 2017, total foreign equity securities held by the 12% Trust amounted to 14.9% of the Trust's portfolio.

Year-Ended September 30, 2018 - 87 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 88 - Amounts are expressed in thousands

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

Fair Value Measurement – CPS Energy records assets and liabilities in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which determines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement.

Valuation methods of the primary fair value measurements are disclosed below:

The majority of investments in equity securities are valued using Level 1 measurements. Investments in equity securities are typically valued at the closing price in the principal active market. For equity securities, these markets include published exchanges such as the National Association of Securities Dealers Automated Quotations and the New York Stock Exchange. Foreign equity prices are translated from their trading currency using the currency exchange rate in effect at the close of the principal active market.

Most investments in debt securities are valued using Level 2 measurements because the valuations use interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and consider the counterparty credit rating.

Commodity derivatives, such as futures, swaps and options, which are ultimately settled using prices at locations quoted through clearinghouses are valued using Level 1 inputs. Options included in this category are those with identical strike price quoted through a clearinghouse.

Other commodity derivatives, such as swaps settled using prices at locations other than those quoted through clearinghouses and options with strike prices not identically quoted through a clearinghouse, are valued using Level 2 inputs. For these instruments, fair value is based on internally developed pricing algorithms using observable market quotes for similar derivatives. Pricing inputs are derived from published exchange transactions and other observable data sources.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. CPS Energy's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels.

CPS Energy's fair value measurements are performed on a recurring basis. The table on the following page presents fair value balances and their levels within the fair value hierarchy as of January 31, 2018. The CPS Energy and Decommissioning Trusts investment balances presented exclude amounts related to money market mutual fund investments, and short-term investments which are recorded at amortized cost. Financial instrument fair value balances are presented in Note 14 Risk Financing.

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

CPS Energy (Continued)

		Fair Value Measurement Using		
	1/31/2018	Level 1	Level 2	Level 3
Assets				
Fair Value Investments				
CPS Energy				
Debt Securities				
US Treasuries	$ 27,472	$ 27,472	$ -	$ -
US Agencies				
Federal Agricultural Mortgage Corp	24,813		24,813	
Federal Farm Credit Bank	97,858		97,858	
Federal Home Loan Bank	98,372		98,372	
Federal Home Loan Mortgage Corp	105,793		105,793	
Federal National Mortgage Assn	118,673		118,673	
Small Business Administration	32,382		32,382	
Municipal Bonds	151,728		151,728	
Total CPS Energy Fair Value of Investments	$ 657,091	$ 27,472	$ 629,619	$ -
Decomissioning Trust Investments				
28% Trust	12/31/2017	Level 1	Level 2	Level 3
Debt Securities				
US Treasuries	$ 47,860	$ 47,860	$ -	$ -
US Agencies				
Federal Farm Credit Bank	5,656		5,656	
Federal Home Loan Mortgage Corp	44,956		44,956	
Federal National Mortgage Assn	32,435		32,435	
Government National Mortgage Assn	2,699		2,699	
Small Business Administration	3,995		3,995	
Municipal Bonds - Texas	1,228		1,228	
Municipal Bonds - Other States	6,599		6,599	
Corporate Bonds	96,019		96,019	
Foreign Bonds	8,905		8,905	
Total 28% Trust Fair Value Fixed-Income Income Portfolio	$ 250,352	$ 47,860	$ 202,492	$ -
Equity Securities				
Common Stock	$ 120,803	$ 120,803	$ -	$ -
Real Estate Investment Trusts	40,416	40,416		
Preferred Stock	742		742	
Total 28% Trust Fair Value Investments	$ 412,313	$ 209,079	$ 203,234	$ -
12% Trust	12/31/2017	Level 1	Level 2	Level 3
Debt Securities				
US Treasuries	$ 15,563	$ 15,563	$ -	$ -
US Agencies				
Federal Farm Credit Bank	4,388		4,388	
Federal Home Loan Mortgage Corp	14,726		14,726	
Federal National Mortgage Assn	10,315		10,315	
Government National Mortgage Assn	1,284		1,284	
Small Business Administration	1,587		1,587	
Municipal Bonds - Texas	502		502	
Municipal Bonds - Other States	2,000		2,000	
Corporate Bonds	34,073		34,073	
Foreign Bonds	2,052		2,052	
Total 12% Trust Fair Value Fixed-Income Income Portfolio	$ 86,490	$ 15,563	$ 70,927	$ -
Equity Securities				
Common Stock	$ 48,334	$ 48,334	$ -	$ -
Real Estate Investment Trusts	14,439	14,439		
Total 12% Trust Fair Value Investments	$ 149,263	$ 78,336	$ 70,927	$ -
Total Trust Fair Value Investments	$ 561,576	$ 287,415	$ 274,161	$ -
Total Fair Value Investments	$ 1,218,667	$ 314,887	$ 903,780	$ -

Note: The difference of $60,958 between Total Fair Value Investments of $1,218,667 from investments of $1,279,625 on Summary of Investments table is due to the exclusion of investments accounted for using amortized cost.

Year-Ended September 30, 2018 - 89 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 90 - Amounts are expressed in thousands

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

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; municipal bonds; and other types of secured or guaranteed investments. These investments are subject to market risk, interest rate risk, and credit risk, which may affect the value at which these investments are recorded. Under the provisions of GASB Statement No. 31, money market investments, including U.S. Treasury and agency obligations, with a remaining maturity at time of purchase of one year or less are reported at amortized cost, which approximates fair value. Investments other than money market investments are reported at fair value which is based on quoted market prices or quotes from bond broker dealers. A summary of SAWS cash, cash equivalents, and investments can be found at the beginning of Note 4.

Custodial Credit Risk (Deposit) – As of December 31, 2017, SAWS' funds are deposited in demand and savings accounts at Frost Bank, SAWS' general depository bank. As required by state law, all SAWS' deposits are fully collateralized and/or are covered by federal depository insurance. At December 31, 2017, the collateral pledged is being held by the Federal Reserve Bank of Boston under SAWS' name so SAWS incurs no custodial credit risk. At December 31, 2017, the bank balance of SAWS' demand and savings accounts was $10,955 and the reported amount was $35,258 which included $29 of cash on hand. The primary reason for the difference between the bank balance and the reported balance relates to two investments totaling $23,021 that matured on December 31, 2017 but were not posted by the bank until January 2, 2018.

Custodial Credit Risk (Investment) – Investments include securities issued by the United States government and its agencies and instrumentalities along with funds held in money market funds. Securities issued by the U.S. government and its agencies and instrumentalities are held in safekeeping by SAWS' depository bank, Frost Bank and registered as securities of SAWS. Money Market Funds are managed by Frost Bank, US Bank, and Bank of New York Mellon and are invested in securities issued by the U.S. government or by U.S. Agencies. Funds in investment pools are invested in TexPool Prime. TexPool Prime may invest in commercial paper and certificates of deposit, as well as obligations of the U.S. government or its agencies and instrumentalities, and repurchase agreements as allowed under the PFIA.

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. At December 31, 2017, the longest remaining maturity for any investment was slightly over four years and 73.0% of the investment portfolio matures in less than one year.

Credit Risk – In accordance with its investment policies, SAWS manages exposure to credit risk by limiting its investments in long-term obligations of other states and cities to those with a credit rating of 'A' or better. Additionally, any short-term investments require a rating of at least 'A-1' or 'P-1'.

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

San Antonio Water System (SAWS) (Continued)

Concentration of Credit Risk – SAWS' investment policy does not limit the amount it may invest in U.S. Treasury securities, government-guaranteed securities, or government-sponsored entity securities. However, in order to manage its exposure to concentration of credit risk, the investment policy does limit the amount that can be invested in any one government-sponsored issuer to no more than 50.0% of the total investment portfolio, and no more than 30.0% of the total investment portfolio in any non-government issuer unless it is fully collateralized. As of December 31, 2017, the percentage of SAWS' investment portfolio for government-sponsored issuers was as follows: 32.0% in Federal Home Loan Bank, 15.0% in Federal National Mortgage Association, 11.0% in Federal Home Loan Mortgage Corporation, and 11.0% in Federal Farm Credit Bank.

Fair Value Measurement – SAWS categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Securities classified in Level 2 of the fair value hierarchy are valued using interest rate curves and credit spreads applied to the terms of the debt instruments (maturity and coupon interest) and consider the counterparty rating.

		Fair Value Measurement Using		
	12/31/2017	Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Treasury Securities	$ 178,523	$ -	$ 178,523	$ -
U.S. Agency Notes	616,574		616,574	
Total Investments measured at fair value	$ 795,097	$ -	$ 795,097	$ -
Investments measured at net asset value (NAV)				
Money Market Mutual Funds	29,162			
Texpool Prime Local Government Pool	65,280			
Total Investments at fair value and NAV	$ 889,539			

Restricted Cash and Investments – Cash and investments are restricted for a variety of purposes based on the requirement set forth in City Ordinance 75686, state law or SAWS policy. The following table summarizes both current and noncurrent restricted cash and investments by purpose at December 31, 2017.

	12/31/2017
Restricted for:	
Operations	$ 54,143
Debt Service	75,343
Debt Service Reserve	88,944
Construction - accrued liabilities	41,902
Construction - capital recovery fees	188,227
Construction - bond proceeds	90,637
Total Restricted Cash & Investments	$ 539,196

Year-Ended September 30, 2018 - 91 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 92 - Amounts are expressed in thousands

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

San Antonio Water System (SAWS) (Continued)

The requirements of City Ordinance 75686 stipulate that SAWS must accumulate and maintain a reserve equal to 100.0% of the maximum annual debt service requirements for senior lien debt obligations. Additional City ordinances require SAWS to maintain a debt service reserve equal to the average annual debt service on all junior lien debt obligations secured by a reserve fund. Not all SAWS junior lien debt obligations require the security of a debt service reserve. Increases in the required reserve amount may be deposited into a reserve account over a five year period. Ordinance 75686 allows for SAWS to provide surety policies equal to all or part of the required reserve. SAWS may use bond proceeds to make the required deposits related to new debt issued. Debt service reserve deposits are required to be maintained until a) the revenue bonds mature, b) the surety policy provider's credit ratings improve to the minimum ratings required under SAWS bond ordinance, or c) new surety policies are provided that meet the requirements of the bond ordinance.

The following table summarizes the cash and investments restricted for Debt Service Reserve at December 31, 2017 based on the allocation of the funds between junior lien and senior lien bond requirements.

	December 31, 2017
Deposits with Financial Institutions	$ 12,984
Restricted for Junior Lien Bonds	13,185
Restricted for Senior Lien Bonds	62,775
Total Cash & Investments - Debt Service Reserve	$ 88,944

Funds restricted for construction include amounts needed to pay accrued construction liabilities, collected but unspent capital recovery fees and unspent bond proceeds. Funds restricted for accrued construction liabilities and unspent bond proceeds are completely offset by related liabilities. By state law, capital recovery fees are restricted for the construction of the infrastructure upon which the calculation of the fee is based.

(The remainder of this page left blank intentionally)

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

San Antonio Water System (SAWS) (Continued)

San Antonio Water System Fiduciary Funds

The fiduciary financial statements include three fiduciary funds related to SAWS employee benefit plans: the San Antonio Water System Retirement Plan (SAWSRP), the District Special Project Retirement Income Plan (DSPRP) and the San Antonio Water System Retiree Health Trust (OPEB Trust).

While the SAWSRP and DSPRP plans have no specific policy relating to plan investments, plan trustees have instituted a plan to invest approximately 60.0% of plan assets in equity securities and the remainder in fixed income securities. Plan investments are not automatically rebalanced; however, contributions to the plan are invested in a manner to adhere to the investment plan.

In 2012, SAWS established an OPEB Trust for the exclusive purpose of providing benefits to eligible retirees and their dependents. It is the policy of the OPEB Trust to invest 50.0% - 70.0% of its assets in equity securities, 25.0% - 50.0% in fixed income securities and 0.0% - 5.0% in cash. OPEB Trust utilizes an investment manager to make recommendations as to the appropriate target portfolio weightings among major asset classes. Additionally, the investment manager has full discretionary authority to buy, hold, and sell investments subject to the guidelines as defined in the OPEB Trust's investment policy.

The following table summarizes fiduciary fund investments by plan and in total at December 31, 2017.

Investment Type	SAWSRP	DSPRP	OPEB TRUST	Total All Plans	Allocation Based on Fair Value
Collective, Pooled & Mutual Funds					
Domestic Equity	$ 126,660	$ 3,420	$ 26,778	$ 156,858	56.9%
International Equity	2	135	8,686	8,823	3.2%
Domestic Debt	81,597	386	21,314	103,297	37.5%
Balanced / Asset Allocation	3,133			3,133	1.1%
Commodities		69		69	0.0%
Money Market Mutual Funds			1,733	1,733	0.6%
Standard Insurance Company:					
Guaranteed Long-term Fund		1,696		1,696	0.7%
Total Investments	$ 211,392	$ 5,706	$ 58,511	$ 275,609	100.0%

All investments are reported at net asset value at December 31, 2017. Money market funds are reported as Cash and Cash Equivalents in the Statements of Fiduciary Net Position.

Fiduciary Fund investments are not subject to the PFIA. The investments are subject to the following risks:

Credit Risk – The individual investments held by the Collective, Pooled and Mutual funds at December 31, 2017 were not rated. The Standard Insurance Company Guaranteed Long-term Fund had a rating of A- by Standard & Poor's at December 31, 2017.

Year-Ended September 30, 2018 - 93 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 94 - Amounts are expressed in thousands

Note 4 Cash and Cash Equivalents, Securities Lending and Investments (Continued)

San Antonio Water System (SAWS) (Continued)

San Antonio Water System Fiduciary Funds (Continued)

Concentration of Credit Risk – Concentration of credit risk for investments is the risk of loss attributable to the magnitude of an investment in a single issuer. As of December 31, 2017, more than 99.0% of fiduciary fund investments were in collective, pooled and mutual funds. The following funds exceeded 5.0% of fiduciary net position at December 31, 2017: Principal LDI Intermediate Duration Separate Account – Z, Principal LDI Long Term Duration Separate Account – Z, Principal Extended Duration Separate Account – Z, and Principal LargeCap S&P 500 Index Fund.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates of fixed income securities will adversely affect the fair value of an investment. The effective duration of the debt funds was 15.3 years at December 31, 2017. The Standard Insurance Company Guaranteed Long-term Fund had an effective duration of 5.0 years at December 31, 2017.

(The remainder of this page left blank intentionally)

Note 5 Capital Assets

Primary Government (City)

The City identified and reduced $1,716 of impairment losses in fiscal year 2018 for governmental activities. Capital asset activity for governmental activities, to include internal service funds, for the year-ended September 30, 2018 is as follows:

Capital Assets - Governmental Activities

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Non-Depreciable Assets:					
Land	$ 1,465,578	$ 7,630	$ (46,205)	$ -	$ 1,427,003
Other Non-Depreciable Assets	2,166		(1,819)		347
Construction in Progress	660,428	262,537	(64,065)	(607,590)	251,310
Non-Depreciable Intangible Assets	160,181	16,564	(166)		176,579
Total Non-Depreciable Assets	$ 2,288,353	$ 286,731	$ (112,255)	$ (607,590)	$ 1,855,239
Depreciable Assets:					
Intangible Assets	3,899			409	4,308
Buildings	1,271,489	177	(18,028)	87,508	1,341,146
Improvements	918,400	6,571	(1,889)	100,539	1,023,621
Infrastructure	2,962,927			403,592	3,366,519
Machinery and Equipment	576,547	51,104	(26,082)	15,542	617,111
Total Depreciable Assets	$ 5,733,262	$ 57,852	$ (45,999)	$ 607,590	$ 6,352,705
Accumulated Depreciation:					
Intangible Assets	(3,899)	(75)			(3,974)
Buildings	(418,170)	(34,628)	14,138		(438,660)
Improvements	(319,637)	(44,789)	1,137		(363,289)
Infrastructure	(2,011,573)	(76,373)			(2,087,946)
Machinery and Equipment	(357,102)	(48,289)	21,604		(383,787)
Total Accumulated Depreciation	$ (3,110,381)	$ (204,154)	$ 36,879	$ -	$ (3,277,656)
Total Depreciable Assets, net	$ 2,622,881	$ (146,302)	$ (9,120)	$ 607,590	$ 3,075,049
Total Capital Assets, net	$ 4,911,234	$ 140,429	$ (121,375)	$ -	$ 4,930,288

Depreciation expense was charged to governmental functions as follows:	
General Government	$ 16,743
Public Safety	11,493
Public Works	110,643
Health Services	366
Sanitation	22
Welfare	1,218
Culture and Recreation	22,039
Convention and Tourism	12,739
Urban Redevelopment and Housing	148
Economic Development and Opportunity	275
Education	1,012
Depreciation on Capital Assets Held by City's Internal Service Funds are Charged to Various Functions Based on Asset Usage	27,456
Total Depreciation Expense for Governmental Activities	$ 204,154

The capital assets of internal service funds are included in governmental activities. In fiscal year 2018, internal service funds capital assets increased by $37,594, and decreased by $16,490, of which $760 was for impairments, resulting in an ending balance of $251,824. Depreciation expense of $27,456, less the $15,261 in previously depreciated assets disposed of during the current year, resulted in an ending accumulated depreciation balance of $130,775. Net book value is $121,049.

Year-Ended September 30, 2018 - 95 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 96 - Amounts are expressed in thousands

Note 5 Capital Assets (Continued)

Primary Government (City) (Continued)

The City identified and reduced $21 of impairment losses in fiscal year 2018 for the nonmajor enterprise funds. No impairments were identified for the Aviation System and Solid Waste Management.

Capital asset activity for business-type activities for the year-ended September 30, 2018, is as follows:

Capital Assets - Business-Type Activities	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Non-Depreciable Assets:					
Land:					
Airport System	$ 5,323	$ -	$ -	$ -	$ 5,323
Solid Waste Management	1,107				1,107
Nonmajor Enterprise Funds	9,366				9,366
Total Land	$ 15,796	$ -	$ -	$ -	$ 15,796
Construction in Progress:					
Airport System	206,264	44,641	(2,005)	(230,856)	18,044
Solid Waste Management	1,112	86		(1,135)	63
Nonmajor Enterprise Funds	2,177	9,219	(2,289)		9,107
Total Construction in Progress	$ 209,553	$ 53,946	$ (4,294)	$ (231,991)	$ 27,214
Total Non-Depreciable Assets	$ 225,349	$ 53,946	$ (4,294)	$ (231,991)	$ 43,010
Depreciable Assets:					
Intangible Assets:					
Airport System				352	352
Total Intangible Assets	$ -	$ -	$ -	$ 352	$ 352
Buildings:					
Airport System	352,977			170,549	523,526
Solid Waste Management	10,467			816	11,283
Nonmajor Enterprise Funds	26,187				26,187
Total Buildings	$ 389,631	$ -	$ -	$ 171,365	$ 560,996
Improvements:					
Airport System	512,516		(112)	58,317	570,721
Solid Waste Management	9,210			319	9,529
Nonmajor Enterprise Funds	14,276				14,276
Total Improvements	$ 536,002	$ -	$ (112)	$ 58,636	$ 594,526
Machinery and Equipment:					
Airport System	22,327	2,144	(182)	1,638	25,927
Solid Waste Management	32,583	2,355	(2,026)		32,912
Nonmajor Enterprise Funds[1]	2,161	3,142	(95)		5,208
Total Machinery and Equipment	$ 57,071	$ 7,641	$ (2,303)	$ 1,638	$ 64,047
Total Depreciable Assets	$ 982,704	$ 7,641	$ (2,415)	$ 231,991	$ 1,219,921
Accumulated Depreciation:					
Intangible Assets:					
Airport System		(29)			(29)
Total Intangible Assets	$ -	$ (29)	$ -	$ -	$ (29)
Buildings:					
Airport System	(134,364)	(12,998)			(147,362)
Solid Waste Management	(1,516)	(395)			(1,911)
Nonmajor Enterprise Funds	(14,700)	(655)			(15,355)
Total Buildings	$ (150,580)	$ (14,048)	$ -	$ -	$ (164,628)
Improvements:					
Airport System	(209,649)	(19,786)	22		(229,413)
Solid Waste Management	(4,013)	(384)			(4,397)
Nonmajor Enterprise Funds	(5,434)	(642)			(6,076)
Total Improvements	$ (219,096)	$ (20,812)	$ 22	$ -	$ (239,886)
Machinery and Equipment:					
Airport System	(11,293)	(3,195)	172		(14,316)
Solid Waste Management	(19,742)	(2,932)	2,026		(20,648)
Nonmajor Enterprise Funds[1]	(1,768)	(1,984)	94		(3,658)
Total Machinery and Equipment	$ (32,803)	$ (8,111)	$ 2,292	$ -	$ (38,622)
Total Accumulated Depreciation	$ (402,479)	$ (43,000)	$ 2,314	$ -	$ (443,165)
Total Depreciable Assets, net	$ 580,225	$ (35,359)	$ (101)	$ 231,991	$ 776,756
Total Capital Assets, net	$ 805,574	$ 18,587	$ (4,395)	$ -	$ 819,766

[1] The capital assets for a new permitting system were transferred from governmental to business-type activites. Capital assets increased in nonmajor enterprise funds by $7,267, less depreciation of $1,267 resulting in a net book value of $6,000.

Note 5 Capital Assets (Continued)

Primary Government (City) (Continued)

The City capitalizes interest incurred on construction projects, in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. In fiscal year 2018, the City capitalized $822 construction interest for the Airport System. Interest expense for Solid Waste Management and nonmajor enterprise funds were $969 and $665, respectively. Solid Waste Management and nonmajor enterprise funds did not capitalize interest. See Note 7 Long-Term Debt regarding the City's interest.

CPS Energy

CPS Energy's plant-in-service includes four power stations (units not in thousands) that are solely owned and operated by CPS Energy. In total, there are 19 generating units at these four power stations—four are coal-fired and 15 are gas-fired. Excluding STP (nuclear units), the following is a list of power stations and relative generating units in service at January 31, 2018:

Power Station	Generating Units	Type
Calaveras	6	Coal (4)/Gas (2)
Braunig	8	Gas
Leon Creek	4	Gas
Rio Nogales	1	Gas

In fiscal year 2012, CPS Energy announced plans to mothball its J.T. Deely Units 1 and 2 coal-fired power plants in fiscal year 2019 instead of the originally projected dates of fiscal year 2032 and fiscal year 2033, respectively. Therefore, depreciation for these two units was accelerated beginning in fiscal year 2013. To continue operating the units past the announced mothball dates, CPS Energy would need to install an estimated $565,000 in flue gas desulfurization equipment (commonly referred to as scrubbers) to cut sulfur dioxide emissions in order to be compliant with more stringent environmental regulations that were expected to take effect in the future. The signing of the Energy Independence executive order in March 2017 dismantles much of the former Administration's environmental regulations; however, CPS Energy is still committed to shutting down its J.T. Deely Units 1 and 2 in fiscal year 2019.

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 general plant are two data centers; 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, software, a tax exemption settlement and other intangible items.

Note 5 Capital Assets (Continued)

CPS Energy (Continued)

Impairments – During fiscal year 2018, an impairment loss of $2,539 was recorded related to the Customer Relationship Management (CRM) Project due to permanent stoppage of the software development activities. The CRM Project would have enabled scalability within the call center with advancements to the Salesforce software currently being utilized by CPS Energy.

Communication Towers Sale – In fiscal year 2014, CPS Energy entered into an agreement for $41,000 to sell 69 existing communication towers to an independent third party, including provisions for CPS Energy's continued use of select space on those towers, the purchaser's use of space in CPS Energy's communication shelters located near the towers, and the assignment of existing license agreements with other third parties using space on the towers. Title to 62 of the towers was conveyed to the purchaser in January 2014. Because the towers are subject to group depreciation as permitted under guidance provided in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, no gain or loss was recognized on the sale transaction. Instead, proceeds allocated to the sale were credited to accumulated depreciation. The costs of the assets sold were retired from the capital asset accounts in which they had originally been recorded.

Of the total purchase price, $3,336 was allocated to the seven towers not initially transferred to the purchaser pending resolution of easement issues and was recorded as a current liability. Additionally, CPS Energy recorded as a current liability $2,000 of the total purchase price received out of escrow in fiscal year 2015. This balance was available for the mitigation of easement issues related to the final seven towers. Final resolution of easement issues related to the seven towers not initially transferred to the purchaser was completed in early fiscal year 2017, resulting in the conveyance of five of those towers. CPS Energy retained title to the remaining two towers and refunded the portion of the initial allocated purchase price to the purchaser. Upon completion of the fiscal year 2017 transactions, the balance of the non-refunded purchase price and unused escrow proceeds was reclassified from a current liability to accumulated depreciation.

Plant Purchase – In the first quarter of fiscal year 2013, taxable senior lien bonds were issued to purchase the Rio Nogales combined-cycle natural gas electric generating plant in Seguin, Texas. The 800-MW plant was being utilized to provide a portion of its power to a third party that had executed a multiyear agreement, which expired September 2015, for an option to call on power from the plant. Any remaining power was available for CPS Energy to sell into the ERCOT market or to utilize to meet its commitments. As of February 1, 2016, CPS Energy integrated the Rio Nogales plant into its rate base to provide generation capacity that will not otherwise be available once J.T. Deely Units 1 and 2 are mothballed in fiscal year 2019.

In conjunction with the purchase, CPS Energy entered into a Tax Exemption Settlement Agreement in which CPS Energy agreed to pay $25,504 to certain parties to compromise, terminate claims and settle any disputes relating to exemption of ad valorem taxes involving the parties to this agreement. The payment was recorded as an intangible asset that is being amortized over the life of the agreement, which runs through December 2041.

The purchase price of the Rio Nogales plant was allocated to major subsets of assets including land, transmission lines, water treatment facilities, combustion and steam turbines, and switchyard assets. Other than the plant assets, the tax exemption settlement and normal working capital settlements, CPS Energy incurred no other material acquisition costs, nor did CPS Energy assume any material liabilities with the purchase of the plant.

Note 5 Capital Assets (Continued)

CPS Energy (Continued)

Investment in STP Unit 1 and 2 – 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.

STP Capital Investment, Net	January 31, 2018
STP Capital Assets, net	
Land	$ 5,701
Construction in progress, STP Units 1&2	32,493
Electrical and general plant	856,523
Intangibles	9,856
Nuclear Fuel	121,903
Total STP Capital Assets, net	$ 1,026,476
Total CPS Energy Capital Assets, net	$ 8,190,356
STP Capital Investments as a percentage of total CPS Energy Capital Assets, net	12.5%

(The remainder of this page left blank intentionally)

Year-Ended September 30, 2018 - 99 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 100 - Amounts are expressed in thousands

Note 5 Capital Assets (Continued)

CPS Energy (Continued)

The following table provides more detailed information on the activity of CPS Energy's net capital assets as presented on the Statement of Net Position, including capital asset activity for fiscal year 2018:

Capital Assets - CPS Energy

	Beginning Balance	Increases	Transfers	Decreases	Ending Balance
Non-Depreciable Assets:					
Land	$ 87,889	$ 24,508	$ (15,272)	$ -	$ 97,125
Land Easements	89,258		16,959		106,217
Construction in Progress	622,296	414,972	(515,797)		521,471
Total Non-Depreciable Assets	$ 799,443	$ 439,480	$ (514,110)	$ -	$ 724,813
Depreciable Assets:					
Utility Plant in Service:					
Electric Plant	10,880,247	82,184	339,220	(64,193)	11,237,458
Gas Plant	912,650	17,523	40,485	(512)	970,146
General Plant	694,989	6,286	64,546	(29,216)	736,605
Intangibles:					
Software	155,936		69,859	(16,065)	209,730
Other	28,704	9,844			38,548
Nuclear Fuel	934,865	37,403			972,268
Total Depreciable Assets	$ 13,607,391	$ 153,240	$ 514,110	$ (109,986)	$ 14,164,755
Accumulated Depreciation and Amortization:					
Utility Plant in Service:					
Electric Plant[1]	(4,906,904)	(329,531)		78,287	(5,158,148)
Gas Plant[1]	(356,088)	(21,030)		2,472	(374,646)
General Plant[1]	(230,002)	(54,554)		28,927	(255,629)
Intangibles:					
Software[1]	(51,013)	(19,125)		16,065	(54,073)
Other[1]	(5,331)	(1,020)			(6,351)
Nuclear Fuel	(804,192)	(46,173)			(850,365)
Total Accumulated Depreciation Depletion and Amortization	$ (6,353,530)	$ (471,433)	$ -	$ 125,751	$ (6,699,212)
Total Capital Assets, net	$ 8,053,304	$ 121,287	$ -	$ 15,765	$ 8,190,356

[1] Salvage and removal costs are also included in the accumulated depreciation; therefore there is not a corresponding reduction in the asset.

Cash flow information – Cash paid for additions and net removal costs totaled $559,844. This amount includes $545,473 in additions to land, construction-in-progress and electric, gas and general plant, plus net salvage and removal costs of $15,496, partially offset by $12,616 in AFUDC and $2,559 in donated assets.

Other – Depreciation and amortization expense for the period totaled $425,260, while amortization of nuclear fuel of $46,173 was included in fuel expense on CPS Energy's Statements of Revenues, Expenses and Changes in Net Position.

Note 5 Capital Assets (Continued)

San Antonio Water System (SAWS)

SAWS interest expense during the construction period is capitalized as part of the cost of capital assets. For the year-ended December 31, 2017, interest capitalized was $6,016. Capital asset activity for SAWS is as follows:

	Beginning Balance	Increases	Transfers	Decreases	Ending Balance
Non-Depreciable Assets:					
Land	$ 101,074	$ -	$ 5,959	$ (38)	$ 106,995
Intangible Assets:					
Water Rights	248,677				248,677
Other	370				370
Construction in Progress	228,595	309,263	(203,560)	(1,663)	332,635
Total Non-Depreciable Assets	$ 578,716	$ 309,263	$ (197,601)	$ (1,701)	$ 688,677
Depreciable Assets:					
Utility Plant in Service:					
Structures and Improvements	872,002	54	118,331	(153)	990,234
Pumping and Purification	336,421	515	(89,861)	(160)	246,915
Distribution and Transmission System	2,623,479	2	837		2,624,318
Treatment Facilities	2,186,893		70,379	(27)	2,257,245
Total Utility Plant in Service	$ 6,018,795	$ 571	$ 99,686	$ (340)	$ 6,118,712
Machinery and Equipment:					
Machinery and Equipment	185,956	7,814	104,348	(4,522)	293,596
Furniture and Fixtures	6,124		471		6,595
Computer Equipment	31,324	1,418	(7,713)	(491)	24,538
Software	52,915	529	809	(7,066)	47,187
Total Machinery and Equipment	$ 276,319	$ 9,761	$ 97,915	$ (12,079)	$ 371,916
Intangible Assets	1,354				1,354
Total Depreciable Assets	$ 6,296,468	$ 10,332	$ 197,601	$ (12,419)	$ 6,491,982
Accumulated Depreciation:					
Utility Plant in Service:					
Structures and Improvements	(235,680)	(23,620)		153	(259,147)
Pumping and Purification	(62,288)	(7,998)		34	(70,252)
Distribution and Transmission System	(776,744)	(47,299)			(824,043)
Treatment Facilities	(746,566)	(47,640)		27	(794,179)
Machinery and Equipment:					
Machinery and Equipment	(113,455)	(18,631)		4,522	(127,564)
Furniture and Fixtures	(5,945)	(120)			(6,065)
Computer Equipment	(17,370)	(2,200)		491	(19,079)
Software	(30,603)	(4,495)		7,056	(28,042)
Intangible Assets	(442)	(69)			(511)
Total Accumulated Depreciation	$ (1,989,093)	$ (152,072)	$ -	$ 12,283	$ (2,128,882)
Total Depreciable Assets, net	$ 4,307,375	$ (141,740)	$ 197,601	$ (136)	$ 4,363,100
Total Capital Assets, net	$ 4,886,091	$ 167,523	$ -	$ (1,837)	$ 5,051,777

Asset Impairment – SAWS periodically reviews its capital assets for possible impairment. As part of SAWS capital improvement program, SAWS incurs costs to design capital improvement projects. These costs are included in capital assets as Construction in Progress. Periodically the actual construction of these projects may not occur due to changes in plans. Once it has been determined that construction will not proceed, any capitalized costs are charged off to operating expenses. Design and project costs written off totaled $1,663 in 2017.

Year-Ended September 30, 2018 - 101 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 102 - Amounts are expressed in thousands

Note 6 Receivables and Payables

Disaggregation of Receivables and Payables

Primary Government (City)

Net receivables at September 30, 2018 are as follows:

	Accounts	Taxes	Note and Loans	Accrued Interest	Other	Total Net Receivables
Governmental Activities	$ 122,486	$ 22,850	$ 216,739	$ 3,010	$ 52,620	$ 417,705
Business-Type Activities	19,128			487		19,615
Total	$ 141,614	$ 22,850	$ 216,739	$ 3,497	$ 52,620	$ 437,320

The receivable balances for Governmental Activities have been reduced by estimated allowances for doubtful accounts of $65,238 against customer accounts, $4,864 against property and occupancy taxes, $39,486 against notes and loans, and $33,273 against other receivables. The receivable balances for Business-Type Activities have been reduced by estimated allowances for doubtful accounts of $78 against customer accounts and $125 for other receivables.

Of the $216,739 recorded in note and loans, $216,256 is not expected to be collected within one year. Included in the $216,256 is a loan receivable for $175,406 associated with CCHFC that is expected to be paid off in 2039. The remaining $40,850 note and loans receivables not expected to be collected within one year are related to General Fund, ARRA, CDBG, and HOME funds, net of allowance for doubtful accounts of $39,473. The $39,473 allowance is comprised of forgivable non-interest bearing notes and loans and aged loans greater than 90 days that are collectible. The $40,850 notes and loans have a corresponding unearned revenue balance recorded within the respective funds.

Payables at September 30, 2018 are as follows:

	Accounts	Accrued Payroll	Claims Payable	Total Payables
Governmental Activities	$ 128,902	$ 25,273	$ 60,551	$ 214,726
Business-Type Activities	23,979	3,331		27,310
Total	$ 152,881	$ 28,604	$ 60,551	$ 242,036

CPS Energy

Disaggregation of Receivables – Net customer accounts receivable as of January 31, 2018, included $47,699 for unbilled revenue receivables and $224,552 for billed utility services. Interest and other receivables included $10,127 for regulatory-related receivables; $4,955 for interest receivable; and $39,128 for other miscellaneous receivables.

Disaggregation of Payables – At January 31, 2018, accounts payable and accrued liabilities included $223,218 related to standard operating supplier and vendor accounts payables, including fuels payable; $42,273 for employee-related payables; $53,301 for customer related payables; $55,966 for STP-related payables; and $50,818 for other miscellaneous payables and accrued liabilities.

Note 6 Receivables and Payables (Continued)

Disaggregation of Receivables and Payables (Continued)

San Antonio Water System (SAWS)

Disaggregation of Receivables – Gross customer accounts receivables as of December 31, 2017, included $53,449 from customers, $27,274 in unbilled revenue, $2,336 in interest receivable, and $3,215 receivable from other governmental agencies, less an allowance of $8,217.

Disaggregation of Payables – At December 31, 2017, accounts payable and other current liabilities included $37,650 in accounts payable, $5,422 in vacation payable, $4,775 in accrued payroll and benefits, $41,902 in construction contracts, $14,135 in customer deposits, and $7,187 in claims payable.

Interfund Receivable and Payable Balances

Primary Government (City)

As of September 30, 2018, the interfund receivable and payable balances represent short-term loans resulting from timing differences between the dates that transactions are recorded in the accounting system and short-term borrowings at fiscal year-end. The General Fund reported $29,848 due from other funds as result of overdraws of pooled cash. All interfund balances are expected to be paid within one year.

Different fiscal year-ends exist between the City and Pre-K 4 SA component unit, (September 30th and June 30th, respectively) therefore interfund receivables and payables do not eliminate by $1,818. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the City's transfer to Pre-K 4 SA represents its obligation to provide the 1/8 cents sales tax collected 60 days after September 30; however, Pre-K 4 SA's due from other funds illustrates the City's 1/8 cents sales tax collected 60 days after June 30, 2018. These transactions are in accordance with legislative and contractual requirements.

In fiscal year 2018, with the implementation of GASB No. 75, the City has reclassed the City Retiree Health Care Fund from an internal service fund to a fiduciary fund. Due to negative cash, the Retiree Health Care Fund had to borrow cash from the General Fund and Internal Service Funds in the total amount of $297. Interfund receivables and payables will not eliminate by this amount.

(The remainder of this page left blank intentionally)

Year-Ended September 30, 2018 - 103 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 104 - Amounts are expressed in thousands

Note 6 Receivables and Payables (Continued)

Interfund Receivable and Payable Balances (Continued)

Primary Government (City) (Continued)

The following is a summary of interfund receivables and payables for the City as of September 30, 2018:

	Due From Other Funds	Due To Other Funds
General Fund:		
Debt Service Fund	$ -	$ 333
Nonmajor Governmental Funds	30,831	2,516
Internal Service Funds	3	678
Total General Fund	$ 30,834	$ 3,527
Debt Service Fund:		
General Fund	333	
Nonmajor Governmental Funds	126	
Total Debt Service Fund	$ 459	$ -
Pre-K 4 SA:		
Nonmajor Governmental Funds	3,437	
Total Pre-K 4 SA	$ 3,437	$ -
2017 General Obligation Bonds:		
Nonmajor Governmental Funds	588	4,869
Total 2017 General Obligation Bonds	$ 588	$ 4,869
Nonmajor Governmental Funds:		
General Fund	2,516	30,831
Debt Service		126
Pre-K 4 SA		5,255
2017 General Obligation Bonds	4,869	588
Nonmajor Governmental Funds	25,635	25,635
Solid Waste Management	196	
Internal Service Funds		177
Total Nonmajor Governmental Funds	$ 33,216	$ 62,612
Solid Waste Management:		
Nonmajor Governmental Funds		196
Total Solid Waste Management	$ -	$ 196
Internal Service Funds:		
General Fund	678	
Nonmajor Governmental Funds	177	
Internal Service Funds	294	
Total Internal Service Funds	$ 1,149	$ -
Total	$ 69,683	$ 71,204

Note 7 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 2018.

On August 30, 2018, the City issued $154,850 in General Improvement Bonds, Series 2018; $131,610 in Combination Tax and Revenue Certificates of Obligation, Series 2018; $28,070 in Tax Notes, Series 2018; and $8,600 in Combination Tax and Revenue Certificates of Obligation, Taxable Series 2018.

The General Improvement Bonds, Series 2018 included a premium of $15,445, and were issued to finance improvements to streets, bridges, and sidewalks; drainage and flood control; parks, recreation and open spaces; library and cultural facilities; public safety facilities; and neighborhood initiatives. The Bonds have maturities ranging from 2019 to 2038, with interest rates ranging from 3.0% to 5.0%.

The Combination Tax and Revenue Certificates of Obligation, Series 2018 allocated $22,375 from proceeds to Solid Waste Management, $5,265 to Other Internal Service Funds, and the remaining $103,970 were issued to finance improvements to municipal facilities and infrastructure; parks and recreation improvements; public safety facilities; public safety radios and system replacement; service centers; street maintenance; library improvements; and drainage facility. The proceeds from the Certificates included a premium of $15,558 and have maturities ranging from 2019 to 2038, with interest rates ranging from 4.0% to 5.0%.

The Tax Notes, Series 2018 proceeds included a premium of $1,192, and were issued to finance improvements to information technology systems and street maintenance. The Tax Notes have maturities ranging from 2019 to 2020, with an interest rate ranging from 4.0% to 5.0%.

The Combination Tax and Revenue Certificates of Obligation, Taxable Series 2018 proceeds were issued to finance improvements to the Alameda Theater Building. The Taxable Certificates have maturities ranging from 2019 to 2038, with interest rates ranging from 2.6% to 4.1%.

Pledges

The City's General Obligation Bonds, Certificates of Obligation, and Tax Notes are secured 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 revenues of the City's municipal parks system not to exceed $1 during the entire period the Certificates of Obligation or interest thereon remains outstanding in order to permit the Certificates of Obligation to be sold for cash. The total outstanding debt that is secured by an ad valorem tax pledge is $1,915,155.

The Municipal Drainage Utility System Revenue Bond is secured by a lien on Stormwater revenues. Texas Municipal Facility Corporation Lease Revenue Bonds are paid by annually appropriated lease payments made by the City which equal the annual debt service on the Bonds.

Year-Ended September 30, 2018 - 105 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 106 - Amounts are expressed in thousands

Note 7 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

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 2.0% Expansion HOT revenues.

The Starbright Industrial Development Corporation Contract Revenue Bonds are secured with a pledge of utility revenue received by the City from CPS Energy.

Texas Public Facilities Corporation Improvement and Refunding Lease Revenue Bonds are paid by annually appropriated lease payments from any money that has not been encumbered to secure the payment of any indebtedness of the City and that may lawfully be used with respect to any payment obligated or permitted under the Lease Agreement, including but not limited to unencumbered and lawfully available revenues derived by the City from Hotel Occupancy Taxes levied by the City, annual ad valorem taxes levied for maintenance and operation purposes, the 1.0% general sales and use tax levied by the City, and transfers from City-owned utility systems. The finance plan is to utilize hotel occupancy taxes; no other sources are intended to be used.

The Revenue Notes are secured by a commitment of the City to pay principal and interest on the Notes when due from any and all lawful and available sources, subject to annual appropriation by the City Council.

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. As of September 30, 2018, there are no bonds outstanding which have been reported as defeased.

Note 7 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, 2018 for governmental activity:

Governmental Activity Long-Term Debt							
	Time of Original Issuance						
Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2017	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2018
Tax-Exempt General Obligation Bonds:							
Series 2008	$ 75,060	2028	4.000-5.500	$ 3,730	$ -	$ (3,730)	$ -
Series 2010 Refunding	155,710	2023	2.000-5.000	97,775		(15,390)	82,385
Series 2010A	8,800	2020	5.000	8,800			8,800
Series 2011	59,485	2031	2.000-5.000	45,945		(2,465)	43,480
Series 2012 Refunding	33,410	2024	2.000-5.000	19,870		(1,785)	18,085
Series 2012	148,600	2032	2.000-5.000	115,100		(8,000)	107,100
Series 2013	114,435	2033	2.000-5.000	95,110		(3,980)	91,130
Series 2014	227,030	2034	2.000-5.000	195,295		(16,375)	178,920
Series 2014 Refunding	51,955	2025	0.500-5.000	26,650		(9,860)	16,790
Series 2015 Refunding	233,220	2035	4.000-5.000	173,850		(19,970)	153,880
Series 2016 Refunding	193,875	2036	3.000-5.000	187,600		(7,195)	180,405
Series 2017	88,070	2037	4.000-5.000	88,070		(11,580)	76,490
Series 2018	154,850	2038	3.000-5.000		154,850		154,850
Total Tax-Exempt General Obligation Bonds	$ 1,544,500			$ 1,057,795	$ 154,850	$ (100,330)	$ 1,112,315
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 2008	$ 85,005	2028	3.500-5.500	$ 3,925	$ -	$ (3,925)	$ -
Series 2010	38,375	2019	4.000-5.000	10,110		(7,940)	2,170
Series 2011	79,780	2031	2.000-5.000	62,905		(3,220)	59,685
Series 2012	19,340	2032	1.000-5.000	16,250		(825)	15,425
Series 2013	15,145	2028	2.000-5.000	11,875		(885)	10,990
Series 2015	36,360	2035	1.500-5.000	33,960		(1,195)	32,765
Series 2016	78,270	2036	2.000-5.000	75,540		(2,555)	72,985
Series 2017	67,295	2037	3.000-5.000	68,070		(11,785)	56,285
Series 2018	109,235	2038	4.000-5.000		109,235		109,235
Total Tax-Exempt Certificates of Obligation	$ 528,805			$ 282,635	$ 109,235	$ (32,330)	$ 359,540
Taxable Certificates of Obligation:							
Series 2015	$ 43,820	2035	0.880-4.162	$ 40,315	$ -	$ (1,735)	$ 38,580
Series 2016	24,830	2036	0.921-3.278	24,830		(685)	24,145
Series 2016	47,000	2046	2.640	47,000			47,000
Series 2018	8,600	2038	2.580-4.050		8,600		8,600
Total Taxable Certificates of Obligation	$ 124,250			$ 112,145	$ 8,600	$ (2,420)	$ 118,325
Tax Notes:							
Series 2014	$ 1,400	2021	1.800	$ 835	$ -	$ (200)	$ 635
Series 2014B	5,970	2021	2.000-3.000	3,525		(845)	2,680
Series 2015	4,780	2018	5.000	1,670		(1,670)	
Series 2016	27,410	2019	3.000-5.000	18,605		(9,070)	9,535
Series 2017	18,725	2020	5.000	18,725		(5,990)	12,735
Series 2018	28,070	2020	4.000-5.000		28,070		28,070
Total Tax Notes	$ 86,355			$ 43,360	$ 28,070	$ (17,775)	$ 53,655
Revenue Bonds:							
Series 2013 Municipal Drainage	$ 70,685	2030	3.000-5.000	$ 60,660	$ -	$ (3,785)	$ 56,875
Series 2010 Municipal Facility Corp Ref	9,090	2020	1.000-3.250	3,160		(1,025)	2,135
Series 2011 Municipal Facility Corp	27,925	2041	2.000-5.000	24,980		(630)	24,350
Series 2005A Convention	129,930	2039	4.750-5.000	129,930			129,930
Series 2005B Convention	78,215	2028	4.500-5.310	55,590		(3,860)	51,730
Series 2013 Starbright Industrial Dev Corp	20,890	2033	1.078-4.750	19,130		(950)	18,180
Series 2012 Public Facilities Corp[1]	550,374	2042	3.000-5.100	547,604		(2,880)	544,724
Total Revenue Bonds	$ 887,109			$ 841,054	$ -	$ (13,130)	$ 827,924
Revenue Notes:							
Series 2013A	$ 20,900	2020	2.320	$ 9,715	$ -	$ (3,140)	$ 6,575
Total Revenue Notes	$ 20,900			$ 9,715	$ -	$ (3,140)	$ 6,575
Total	$ 3,383,469			$ 2,538,254	$ 300,755	$ (169,125)	$ 2,669,884

[1] A portion of the Public Facilities Corporation Improvement and Refunding Lease Revenue Bonds, Series 2012 was sold as Capital Appreciation Bonds (CABS). Interest on the CABS accretes from date of delivery and will be payable only at maturity or redemption. The interest accreted has resulted in an increase of $1,953 in revenue bonds payable, resulting in an ending balance of $10,191. This increase is reflected in the combined Statement of Net Position but is not reflected in this table.

Year-Ended September 30, 2018 - 107 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 108 - Amounts are expressed in thousands

Note 7 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Annual Requirements

The annual requirements to amortize all General Obligation Bonds, Certificates of Obligation, Tax Notes, Revenue Bonds, and Revenue Notes outstanding as of September 30, 2018 are as follows:

Principal and Interest Requirements

Year-Ending September 30,	General Obligation Bonds[1] Principal	General Obligation Bonds[1] Interest	General Obligation Bonds[1] Direct Subsidy[3]	Certificates of Obligation[2] Principal	Certificates of Obligation[2] Interest	Tax Notes Principal	Tax Notes Interest
2019	$ 108,960	$ 60,971	$ (3,588)	$ 19,900	$ 19,468	$ 30,625	$ 2,116
2020	91,970	56,340	(3,588)	20,170	19,133	21,890	1,086
2021	92,715	51,800	(3,530)	20,970	18,326	1,140	16
2022	84,085	47,465	(3,430)	21,855	17,434		
2023	79,605	43,448	(3,325)	22,850	16,466		
2024-2028	357,045	162,491	(14,712)	128,725	66,166		
2029-2033	300,150	85,074	(10,865)	135,085	36,419		
2034-2038	163,800	28,529	(5,939)	90,755	11,379		
2039-2043	25,535	2,328	(764)	10,530	1,637		
2044-2046				7,025	281		
Total	$ 1,303,865	$ 538,446	$ (49,741)	$ 477,865	$ 206,709	$ 53,655	$ 3,218

[1] Includes both Tax-Exempt and Taxable General Obligation Bonds.

[2] Includes both Tax-Exempt and Taxable Certificates of Obligation.

[3] 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 fiscal year 2018, the City collected $3,573 in Direct Subsidies.

Principal and Interest Requirements

Year-Ending September 30,	Revenue Bonds Principal	Revenue Bonds Interest	Revenue Notes Principal	Revenue Notes Interest
2019	$ 13,760	$ 34,612	$ 3,240	$ 115
2020	14,450	34,006	3,335	39
2021	14,090	33,329		
2022	16,970	32,640		
2023	19,125	31,803		
2024-2028	135,610	142,706		
2029-2033	188,775	108,540		
2034-2038	191,994	139,056		
2039-2042	233,150	23,459		
Total	$ 827,924	$ 580,151	$ 6,575	$ 154

Note 7 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

In May 2017, the citizens authorized the City to sell $850,000 in debt for the 2017-2022 Bond Program. The program includes 180 projects designed to improve and enhance existing, as well as acquire or construct, streets, bridges, and sidewalks; drainage and flood control; parks, recreation, and open spaces; library and cultural facilities; public safety facilities; and neighborhood improvements. The Bonds are pledged with and will be repaid from ad valorem tax revenue the City collects on an annual basis.

Authorized but Unissued General Obligation Debt

Authorization Date	Purpose	Amount Authorized	Bonds Previously Issued[1]	Bonds Authorized but Unissued
5/6/2017	Streets, Bridges, and Sidewalks	$ 445,263	$ 131,304	$ 313,959
5/6/2017	Drainage and Flood Control	138,988	47,545	91,443
5/6/2017	Parks, Recreation, and Open Space	187,313	62,224	125,089
5/6/2017	Library and Cultural Facilities	24,025	6,773	17,252
5/6/2017	Public Safety Facilities	34,411	9,614	24,797
5/6/2017	Neighborhood Improvements	20,000	12,000	8,000
Total		$ 850,000	$ 269,460	$ 580,540

[1] The amount issued of $269,460 includes the par value of the bonds in the amount of $242,920, the premium of the bonds in the amount of $28,383, and less the cost of issuance of $1,843.

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 2018 was $124,335,990 which provides a debt ceiling of $12,433,599. The total outstanding debt that is secured by an ad valorem tax pledge is $1,915,155 including $79,770 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. The Debt Service component is determined by the City's debt service requirements. The fiscal year 2018 Debt Service rate is 21.150 cents per $100 of taxable valuation. (Figures in this paragraph are not in thousands).

Note 7 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

Notes Payable

In September 2004, City Council authorized the submission of a $57,000 HUD 108 loan application to HUD, which was received August 2006. Proceeds of the loan have been utilized to fund various capital improvement projects including streets and drainage projects, and to fund improvements to public health facilities, parks, libraries, and community recreation and cultural facilities. The loan amount outstanding as of September 30, 2018 is $25,692.

In June 2015, a three year, 3.3% interest loan was authorized in the amount of $6,100 to finance the costs related to the acquisition of the Frost Tower and Frost Parking Garage that will be used to consolidate City administration into a single facility. Proceeds of the loan have been utilized to fund the acquisition of the acquired property, as well as the payment for professional services related to the acquisition and ultimate utilization by the City. The loan amount outstanding as of September 30, 2018 is $6,100.

In 2016, Hemisfair Park Area Redevelopment Center (HPARC), a component unit of the City, entered into two five year, 4.5% interest, loan agreements totaling $511 to finance the construction of two parking lots. The loans allow for accelerated payments which they intend to make from the proceeds of parking lot revenues. As of September 30, 2018 the loan has an outstanding balance of $261.

Interfund Borrowings

In 2016, the City authorized proceeds from the Combination Tax and Revenue Certificates of Obligation, Taxable Series 2016 to finance improvements to Hemisfair Park including continuing restoration of historic buildings, a civic park, landscaping and other improvements. HPARC will repay the interfund borrowing from revenues generated from its operations.

The following is a summary of changes for the fiscal year-ended September 30, 2018:

	Time of Original Issuance						
Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2017	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2018
Series 2016	$ 18,275	2036	1.365-3.278	$ 18,275	$ -	$ -	$ 18,275

(The remainder of this page left blank intentionally)

Note 7 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

The City has authorized loans to MGA-SA to finance improvements to City owned golf courses. MGA-SA will repay the interfund borrowing with interest from revenues generated by its golf operations. Since MGA-SA is a blended component unit, activity between the Community Service Funds and MGA-SA are eliminated as part of government-wide reporting.

The following is a summary of changes in the loans for the fiscal year-ended September 30, 2018:

	Time of Original Issuance						
Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2017	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2018
Series 2010	$ 1,185	2025	3.676	$ 710	$ -	$ (80)	$ 630
Series 2015	4,000	2025	1.500-5.000	3,310		(345)	2,965
Series 2016	3,275	2031	2.000-5.000	3,105		(160)	2,945
2017 Note	300	2020	0.000	300		(100)	200
Series 2018	1,315	2033	4.000-5.000		1,315		1,315
Total	$ 10,075			$ 7,425	$ 1,315	$ (685)	$ 8,055

Leases

The City leases property and equipment from others. Leased property having elements of ownership is 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, is 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, 2018 were approximately $14,276.

The City has entered into various lease purchase agreements for the acquisition of laptops and related components, energy/water saving conservation improvements, thermal-imaging cameras, various emergency services equipment, and helicopters. 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	$ 32,368
Less: Accumulated Depreciation	(24,395)
Total	$ 7,973

Year-Ended September 30, 2018 - 111 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 112 - Amounts are expressed in thousands

Note 7 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental Activity Long-Term Debt (Continued)

As of September 30, 2018, 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,			
2019	$ 4,781	$ 12,336	$ 17,117
2020	4,738	10,645	15,383
2021	3,996	8,576	12,572
2022	3,695	2,743	6,438
2023	3,293	2,026	5,319
2024-2028	4,568	3,662	8,230
2029-2033		2,391	2,391
2034-2038		1,497	1,497
2039-2043		1,477	1,477
2044-After		3,466	3,466
Future Minimum Lease Payments	25,071	$ 48,819	$ 73,890
Less: Interest	(2,182)		
Present Value of Future Minimum Lease Payments	22,889		
Less: Current Portion	(4,158)		
Capital Lease, Net of Current Portion	$ 18,731		

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 November 14, 2017, the City issued $36,000 in Tax Notes, Taxable Series 2017. Proceeds from this issuance were utilized to finance improvements to San Antonio International Airport. The Tax Notes have maturities ranging from 2021 to 2024, with an interest rate of 3.1%.

On August 30, 2018, $22,375 of the $131,610 in Combination Tax and Revenue Certificates of Obligation, Series 2018 was allocated to Solid Waste Management, and were issued to finance infrastructure improvements. The proceeds from the allocated portion of the Certificates included a premium of $3,950 and have maturities ranging from 2019 to 2038, with interest rates ranging from 4.0% to 5.0%.

In fiscal year 2018, a portion of the Combination Tax and Revenue Certificate, Series 2017 was transferred from governmental activity funds to Solid Waste Management. The amount of debt moved was $775. This transaction was executed in order to move self-supporting debt into its assigned proprietary funds. In addition to the bonds payable, a premium of $4 was also moved. The net dollar impact between the governmental activity funds and Solid Waste Management was $779.

Note 7 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

Pledges

The Airport System includes the City of San Antonio International Airport, 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 (GARB), Passenger Facility Charge and Subordinate Lien Bonds (PFC), and Customer Facility Charge Revenue Bonds (CFC). GARBs 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. PFCs 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. CFCs are payable from and secured by an irrevocable first lien on and pledge of the CFC revenues. The Tax Notes, Taxable Series 2017 are payable from Airport System Revenues and secured by an ad valorem tax pledge.

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 operation includes the collection and processing of refuse, recycling, and brush. 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.

The total outstanding debt that is secured by an ad valorem tax pledge allocated to business-type activities is $79,770.

Capitalized Interest Costs – Interest costs incurred on revenue bonds and other borrowing totaled $23,895 for the Airport System. For fiscal year 2018, the amount of $822 was capitalized for the Airport System and included as an addition to construction in progress. Solid Waste Management and nonmajor enterprise funds did not have any capitalized interest in fiscal year 2018.

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. As of September 30, 2018, there are no bonds outstanding which have been reported as defeased.

Year-Ended September 30, 2018 - 113 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 114 - Amounts are expressed in thousands

Note 7 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

The following table is a summary of changes for the year-ended September 30, 2018 for business-type activity debt:

Business-Type Long-Term Debt							
	Time of Original Issuance						
Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2017	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2018
Airport System:							
Revenue Bonds:							
Series 2005 PFC	$ 38,085	2030	3.375-5.250	$ 25,475	$ -	$ (1,425)	$ 24,050
Series 2007	82,400	2032	4.950-5.250	63,630		(2,905)	60,725
Series 2007 PFC	74,860	2032	5.000-5.250	54,940		(2,505)	52,435
Series 2010A Refunding	42,220	2040	2.000-5.250	38,900		(880)	38,020
Series 2010B Refunding	20,885	2018	3.197-4.861	4,750		(4,750)	
Series 2010 PFC Refunding	37,335	2040	2.000-5.375	31,855		(820)	31,035
Series 2012 Refunding	70,135	2027	2.000-5.000	51,770		(4,260)	47,510
Series 2012 PFC Refunding	25,790	2027	2.000-5.000	19,260		(1,515)	17,745
Series 2015	38,805	2045	5.000	38,805			38,805
Series 2015 CFC	123,900	2045	2.910-5.871	123,900			123,900
Taxable Tax Notes:							
Series 2017	36,000	2024	3.080		36,000		36,000
Subtotal	$ 590,415			$ 453,285	$ 36,000	$ (19,060)	$ 470,225
Parking System:							
Taxable General Obligation Bonds:							
Series 2008 Refunding	10,120	2024	5.820-6.570	9,095		(1,080)	8,015
Subtotal	$ 10,120			$ 9,095	$ -	$ (1,080)	$ 8,015
Solid Waste Management:							
Tax-Exempt General Obligation Bonds:							
Series 2010 Refunding	$ 545	2021	2.000-5.000	$ 545	$ -	$ (115)	$ 430
Series 2014 Refunding	245	2023	5.000	210		(35)	175
Series 2015 Refunding	1,290	2028	4.000-5.000	1,290			1,290
Series 2016 Refunding	300	2026	3.000-5.000	265		(25)	240
Tax-Exempt Certificates of Obligation:							
Series 2016	6,585	2036	2.000-5.000	6,370		(200)	6,170
Series 2017	6,065	2037	3.000-5.000	5,290	775	(990)	5,075
Series 2018	22,375	2038	4.000-5.000		22,375		22,375
Subtotal	$ 37,405			$ 13,970	$ 23,150	$ (1,365)	$ 35,755
Total	$ 637,940			$ 476,350	$ 59,150	$ (21,505)	$ 513,995

The annual requirements to amortize long-term debt for the City's Enterprise Funds related to General Obligation Bonds, Certificates of Obligation, Tax Notes, and Revenue Bonds outstanding at September 30, 2018 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
2019	$ 15,665	$ 23,376	$ 39,041	$ 1,145	$ 502	$ 1,647	$ 1,270	$ 1,587	$ 2,857
2020	17,355	22,682	40,037	1,215	433	1,648	1,340	1,622	2,962
2021	27,340	21,879	49,219	1,290	358	1,648	1,405	1,558	2,963
2022	28,465	20,745	49,210	1,370	280	1,650	1,480	1,488	2,968
2023	29,635	19,555	49,190	1,450	195	1,645	1,545	1,413	2,958
2024-2028	123,815	78,698	202,513	1,545	102	1,647	8,760	5,833	14,593
2029-2033	90,075	51,507	141,582				9,715	3,673	13,388
2034-2038	57,845	32,134	89,979				10,240	1,336	11,576
2039-2043	57,075	15,648	72,723						
2044-2046	22,955	1,974	24,929						
Total	$ 470,225	$ 288,198	$ 758,423	$ 8,015	$ 1,870	$ 9,885	$ 35,755	$ 18,510	$ 54,265

Note 7 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Business-Type Activity Long-Term Debt (Continued)

Leases

The City has entered into various lease purchase agreements for the acquisitions of refuse collections trucks, brush grappler trucks, brush tractor/trailer combinations, wheel loaders, roll off trucks, toter carts, 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	$ 24,540
Less: Accumulated Depreciation	(14,114)
Total	$ 10,426

As of September 30, 2018, 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,			
2019	$ 9,020	$ 629	$ 9,649
2020	3,276	495	3,771
2021	2,574	490	3,064
2022	961	411	1,372
2023	808	5	813
2024-2028	971		971
Future Minimum Lease Payments	$ 17,610	$ 2,030	$ 19,640
Less: Interest	(671)		
Present Value of Future Minimum Lease Payments	16,939		
Less: Current Portion	(8,772)		
Capital Leases, Net of Current Portion	$ 8,167		

Year-Ended September 30, 2018 - 115 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 116 - Amounts are expressed in thousands

Note 7 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	$ 1,057,795	$ 154,850	$ (100,330)	$ 1,112,315	$ 108,960
Taxable General Obligation Bonds	191,550			191,550	
Tax-Exempt Certificates of Obligation	282,635	109,235	(32,330)	359,540	17,135
Taxable Certificates of Obligation	112,145	8,600	(2,420)	118,325	2,765
Tax Notes	43,360	28,070	(17,775)	53,655	30,625
Revenue Bonds	841,054		(13,130)	827,924	13,760
Revenue Notes	9,715		(3,140)	6,575	3,240
Gross Bonds Payable	$ 2,538,254	$ 300,755	$ (169,125)	$ 2,669,884	$ 176,485
Unamortized (Discount) / Premium	$ 140,711	$ 32,195	$ (28,249)	$ 144,657	$ 23,230
Net Bonds Payable	$ 2,678,965	$ 332,950	$ (197,374)	$ 2,814,541	$ 199,715
Other Payables:					
Capital Lease Liability	$ 11,540	$ 15,069	$ (3,720)	$ 22,889	$ 4,158
Accrued Leave Payable	216,422	87,913	(80,836)	223,499	95,217
Notes Payable	35,080		(3,027)	32,053	8,753
Pollution Remediation Liability [4]	288	64	(156)	196	196
Net Pension Liability [1]	977,725	207,972	(492,437)	693,260	
Net OPEB Liability [2]	854,249	28,940	(44,989)	838,200	
Other Payable	9	2		11	
Total Other Payables	$ 2,095,313	$ 339,960	$ (625,165)	$ 1,810,108	$ 108,324
Total Governmental Activities	$ 4,774,278	$ 672,910	$ (822,539)	$ 4,624,649	$ 308,039
Business-Type Activities:					
Bonds Payable:					
Tax-Exempt General Obligation Bonds	$ 2,310	$ -	$ (175)	$ 2,135	$ 185
Taxable General Obligation Bonds	9,095		(1,080)	8,015	1,145
Tax-Exempt Certificates of Obligation	11,660	23,150	(1,190)	33,620	1,085
Taxable Tax Notes		36,000		36,000	
Revenue Bonds	453,285		(19,060)	434,225	15,665
Gross Bonds Payable	$ 476,350	$ 59,150	$ (21,505)	$ 513,995	$ 18,080
Unamortized (Discount) / Premium	$ 8,863	$ 3,950	$ (1,731)	$ 11,082	$ 1,550
Net Bonds Payable	$ 485,213	$ 63,100	$ (23,236)	$ 525,077	$ 19,630
Other Payables:					
Capital Lease Liability	$ 23,425	$ 3,564	$ (10,050)	$ 16,939	$ 8,772
Accrued Leave Payable	6,105	3,383	(3,168)	6,320	4,838
Accrued Landfill Postclosure Costs [3]	1,728	103	(710)	1,121	176
Pollution Remediation Liability [4]	1,274			1,274	219
Net Pension Liability [1]	94,080	18,760	(34,396)	78,444	
Net OPEB Liability [2]	66,794	227	(3,318)	63,703	
Total Other Payables	$ 193,406	$ 26,037	$ (51,642)	$ 167,801	$ 14,005
Total Business-Type Activities	$ 678,619	$ 89,137	$ (74,878)	$ 692,878	$ 33,635

NOTE: Interest accreted increased by $1,953 due to the bond payment's maturity schedule, resulting in an ending balance of $10,191, which increases governmental activities' revenue bonds payable. This increase is reflected in the combined Statement of Net Position but is not reflected in this table.

1 See Note 9 Pension and Retirement Plans for a description of the pension program.
2 See Note 10 Post-employment Retirement Benefits for a description of the post-employment program.
3 See Note 12 Commitments and Contingencies for a description of the Landfill Postclosure Care Costs.
4 See Note 13 Pollution Remediation Obligation for a description of the Pollution Remediation Liability.

Note 7 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 payable for the fiscal year-ended September 30, 2018:

	Governmental Activities				
Fund Type	Short-Term Available	Short-Term Remaining	Total Short-Term	Long-Term	Total
Governmental Funds	$ 8,336	$ 83,233	$ 91,569	$ 127,298	$ 218,867
Internal Service Funds		3,648	3,648	984	4,632
Total Governmental Activities	$ 8,336	$ 86,881	$ 95,217	$ 128,282	$ 223,499

The General Fund accounts for approximately 68.6% of the City's employees; therefore, most of the accrued leave payable has been liquidated from the General Fund. When a City employee terminates, the fund that his or her salary was last charged to will be the same fund that will pay their accrued leave. However, there is an exception for some grant funds, which will be paid by the General Fund.

	Business-Type Activities		
Fund	Short-Term	Long-Term	Total
Airport System	$ 2,110	$ 802	$ 2,912
Solid Waste Management	1,624	661	2,285
Nonmajor Enterprise Funds	1,104	19	1,123
Total Business-Type Activities	$ 4,838	$ 1,482	$ 6,320

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, 2018, the aggregate principal amounts payable are as follows: seven series of EFC Revenue Bonds in the amount of $175,734; two series of IDA Revenue Bonds in the amount of $6,400; and two series of EZDC Revenue Bonds in the amount of $39,900.

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, 2018 was $1,400.

Year-Ended September 30, 2018 - 117 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 118 - Amounts are expressed in thousands

Note 7 Long-Term Debt (Continued)

Primary Government (City) (Continued)

Governmental and Business-Type Activities Long-Term Debt (Continued)

The City has authorized the San Antonio Housing Trust Finance Corporation 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, 2018, the amount of conduit debt was $191,986.

The City also facilitates the issuance of tax-exempt revenue bonds for SA Energy Acquisition Public Facility Corporation (SAEAPFC) to enter into long-term prepaid purchases of natural gas. SAEAPFC, in turn, sells contracted volumes of the prepaid gas to CPS Energy on a monthly basis at a discounted rate, which is passed on to CPS Energy's gas customers through reduced utility costs. The bonds are secured by the gas supplier and are payable primarily from the contracted volume sales and associated gas swap payments. As of September 30, 2018, SAEAPFC has one series of tax-exempt revenue bonds with an aggregate principal amount outstanding of $264,525.

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, 2018 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 Statements of Net Position, the related unamortized costs are expensed, and the gain or loss is immediately recognized.

Current refundings involve issuing new debt (refunding bonds) to redeem existing debt (refunded bonds) that can be called within 90 days of the call date of the refunded 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. In December 2017, Congress passed the Tax Cuts & Jobs Act (Act). The Act preserved tax-exempt financing for municipal bonds but eliminated the use of advanced refundings at the end of calendar year 2017.

Bond premiums and discounts are amortized using the effective interest method over the life of the related debt.

Note 7 Long-Term Debt (Continued)

CPS Energy (Continued)

As of January 31, 2018, the bond ordinances for New Series Bonds 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;
- Payment 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 and interest on the New Series Bonds, which are classified as senior lien obligations. All New Series Bonds and the interest thereon shall have a first lien upon the net revenues of CPS Energy.

The junior lien obligations are composed of two categories of debt: fixed interest rate and variable interest rate. The junior lien fixed interest rate Series Bonds are 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 Obligations and Variable-Rate Note bonds are variable interest rate 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.

Note 7 Long-Term Debt (Continued)

CPS Energy (Continued)

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 (as defined in the ordinance authorizing the commercial paper), the interest on and principal of all notes (as defined in said ordinance), and the credit agreement (as defined in said ordinance); and
- Any inferior lien obligations or any other legal debt or obligation of CPS Energy as and when the same shall become due.

Revenue Bonds

On April 27, 2017, CPS Energy issued $308,005 of New Series 2017 Senior Lien Revenue and Refunding Bonds. Proceeds, including the $36,736 premium associated with the bonds, are primarily being used to fund construction projects and were partially used to advanced refund $32,800 and $17,290 par value of the New Series 2006B Revenue Refunding Bonds and New Series 2007 Revenue and Refunding Bonds, respectively. Consequently, the New Series 2006B Revenue Refunding Bonds and New Series 2007 Revenue and Refunding Bonds were considered defeased and were removed from the CPS Energy financial statements in fiscal year 2018. The refunding transaction resulted in a net present value debt service savings of $1,797, or 3.6% of the par amount of the bonds being refunded. The true interest cost for this issue, which has maturities in 2018 through 2047, is 3.8%.

On August 30, 2017, CPS Energy issued $194,980 of New Series 2017 Senior Lien Revenue Refunding Bonds. Proceeds, including the $36,492 premium associated with the bonds, were used to advance refund $150,000 and $80,000 par value of the Commercial Paper Series A and Commercial Paper Series C, respectively. The true interest cost for this issue, which has maturities in 2026 through 2047, is 3.6%.

On September 14, 2017, CPS Energy remarketed $123,275 of Series 2015B Variable-Rate Junior Lien Revenue Refunding Bonds. The issuance of a $2,306 premium, in conjunction with the remarketing, resulted in a principal paydown for the remarketed bonds of approximately $1,725. The bonds have maturities in 2029 through 2033. The coupon rate for these bonds is 2.0%, with a current yield of 1.5% and true interest cost of 4.9%, which reflects stepped interest rate provisions applicable to the bonds.

Note 7 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds (Continued)

The Series 2012A Junior Lien Bonds were issued as variable-rate bonds that utilize an interest rate of 2.0% through their term rate period’s expiration in fiscal year 2019. A stepped rate of 7.0% is assumed in the table on the following page for this series thereafter through applicable final maturity. The Series 2012B bonds were issued as variable-rate bonds that utilize an interest rate of 1.8% through their term rate period's expiration in fiscal year 2019. A stepped rate of 8.0% is assumed in CPS Energy’s Principal and Interest Requirements table for this series thereafter through applicable final maturity. The Series 2012C Junior Lien Bonds were issued as variable-rate bonds that utilize an interest rate of 2.0% through their term rate period’s expiration in fiscal year 2019. A stepped rate of 8.0% is assumed in CPS Energy’s Principal and Interest Requirements table for this series thereafter through applicable final maturity. The stepped rate is applicable only if the bonds are not remarketed by their respective expiration date.

The Series 2015A and Series 2015B Junior Lien Bonds were issued as multi-modal variable-rate bonds issued initially in a Securities Industry and Financial Markets Association (SIFMA) Index Mode. The Series 2015A Junior Lien Bonds were remarketed in fiscal year 2017 and issued as variable-rate bonds that utilize an interest rate of 2.3% through their term rate period’s expiration in fiscal year 2020. A stepped rate of 8.0% is assumed in CPS Energy’s Principal and Interest Requirements table for this series thereafter through applicable final maturity. The Series 2015B Junior Lien Bonds were remarketed in fiscal year 2018 and issued as variable-rate bonds that utilize an interest rate of 2.0% through their term rate period’s expiration in fiscal year 2022. A stepped rate of 7.0% is assumed in CPS Energy’s Principal and Interest Requirements table for this series thereafter through applicable final maturity.

The Series 2015C and Series 2015D Junior Lien Bonds were issued as multi-modal variable-rate bonds initially issued in a term rate mode as variable-rate bonds that utilize an interest rate of 3.0% through their term rate period's expiration in fiscal year 2020 and 2021, respectively. A stepped rate of 8.0% is assumed in CPS Energy’s Principal and Interest Requirements table for each series thereafter through applicable final maturity. The stepped rate is applicable only if the bonds are not remarketed by their respective expiration date.

(The remainder of this page left blank intentionally)

Note 7 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, 2017	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2018
Revenue and Refunding Bonds:							
2006B Tax Exempt New Series	$ 128,845	2021	3.974	$ 32,800	$ -	$ (32,800)	$ -
2007 Tax Exempt New Series	46,195	2018	4.159	16,630		(16,630)	
2007 Tax Exempt New Series	403,215	2032	4.575	660		(660)	
2008 Tax Exempt New Series	287,935	2032	4.582	20,470		(20,470)	
2009A Tax Exempt New Series	442,005	2034	4.863	31,500		(15,380)	16,120
2009C Taxable New Series [1]	375,000	2039	3.944	375,000			375,000
2009D Tax Exempt New Series	207,940	2021	3.720	175,935		(28,485)	147,450
2010A Taxable New Series [1]	380,000	2041	3.834	380,000			380,000
2010A Taxable Junior Lien [1]	300,000	2041	3.806	300,000			300,000
2010B Taxable Junior Lien [1]	200,000	2037	4.101	200,000			200,000
2012 Taxable New Series	521,000	2042	4.382	521,000			521,000
2012 Tax Exempt New Series	655,370	2025	2.552	655,370			655,370
2012A Tax Exempt Junior Lien	48,170	2027	Variable	47,135			47,135
2012B Tax Exempt Junior Lien	47,815	2027	Variable	47,650			47,650
2012C Tax Exempt Junior Lien	47,660	2027	Variable	47,500			47,500
2013 Tax Exempt Junior Lien	375,000	2048	4.753	375,000			375,000
2014 Tax Exempt Junior Lien	200,000	2044	4.142	200,000			200,000
2014 Tax Exempt Junior Lien	262,530	2020	1.220	206,990		(48,445)	158,545
2015A Tax Exempt Junior Lien	125,000	2033	Variable	124,555			124,555
2015B Tax Exempt Junior Lien	125,000	2033	Variable	125,000	123,275	(125,000)	123,275
2015 Tax Exempt Senior Lien	320,530	2032	2.992	320,530		(14,450)	306,080
2015 Tax Exempt Senior Lien	235,000	2039	3.476	235,000			235,000
2015C Tax Exempt Junior Lien	100,000	2045	Variable	100,000			100,000
2015D Tax Exempt Junior Lien	100,000	2045	Variable	100,000			100,000
2016 Tax Exempt Senior Lien	544,260	2034	2.144	544,260			544,260
2017 Tax Exempt Senior Lien	40,685	2047	1.126		40,685	(21,950)	18,735
2017 Tax Exempt Senior Lien	267,320	2047	3.804		267,320		267,320
2017 Tax Exempt Senior Lien	194,980	2047	3.619		194,980		194,980
Bonds Outstanding				$ 5,182,985	$ 626,260	$ (324,270)	$ 5,484,975
Bond Current Maturities				(156,810)	(13,085)		(169,895)
Bond (Discount)/Premium				330,138	75,534	(46,984)	358,688
Revenue Bonds, Net				$ 5,356,313	$ 688,709	$ (371,254)	$ 5,673,768
Tax Exempt Commercial Paper (TECP)			Variable	360,000	30,000	(230,000)	160,000
Total Long-Term Debt, Net				$ 5,716,313	$ 718,709	$ (601,254)	$ 5,833,768

[1] Direct Subsidy Build America Bonds

In fiscal year 2018, CPS Energy received a total of $24,368 in BABs subsidy.

Note 7 Long-Term Debt (Continued)

CPS Energy (Continued)

Revenue Bonds (Continued)

As of January 31, 2018, 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
2019	$ 169,895	$ 260,707	$ (24,407)	$ 406,195
2020	180,085	261,817	(24,407)	417,495
2021	180,335	263,913	(24,407)	419,841
2022	198,860	261,070	(24,407)	435,523
2023	208,790	256,253	(24,407)	440,636
2024-2028	895,025	1,124,630	(126,347)	1,893,308
2029-2033	938,826	901,917	(130,659)	1,710,084
2034-2038	1,225,968	619,775	(96,381)	1,749,362
2039-2043	1,141,171	261,710	(18,645)	1,384,236
2044-2048	346,020	48,325		394,345
Totals	$ 5,484,975	$ 4,260,117	$ (494,067)	$ 9,251,025

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 Build America Bonds (BABs) has been presented in a separate column and includes the impact of sequestration. CPS Energy has taken the position that the BABs direct subsidy should be deducted when calculating total debt service since the subsidy is received directly by the trustee to be used solely for BABs debt service payments.

Pursuant to guidance provided in GASB Statement No. 65, debt reacquisition costs meet neither the definition of an asset nor a liability and are therefore required to be classified as deferred outflows or inflows of resources on the Statements of Net Position. The debt refunding that occurred in fiscal year 2018 resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $521. Debt reacquisition costs reported as deferred outflows of resources totaled $80,720 at January 31, 2018. These amounts are amortized as components of interest expense using the effective interest method over the shorter of the remaining life of the refunding or the refunded debt.

CPS Energy, as a rate-regulated entity and in accordance with guidance found in GASB Statement No. 62, has established regulatory assets for debt issuance costs that would otherwise be required to be expensed in accordance with GASB Statement No. 65. This regulatory accounting treatment results in the amortization of these costs over the life of the related debt. Debt issuance costs, which are reported within other noncurrent assets on the Statements of Net Position, totaled $35,398 at January 31, 2018.

Year-Ended September 30, 2018 - 123 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 124 - Amounts are expressed in thousands

Note 7 Long-Term Debt (Continued)

CPS Energy (Continued)

Flexible Rate Revolving Note

In fiscal year 2010, the 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 the currently effective limit of $26,000 reduced in fiscal year 2016 from $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.

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 Nuclear Innovation North America, Inc. (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, 2018 was $25,200.

The FRRN has been classified as current in accordance with the financing terms under the taxable Note Purchase Agreement and is reported on the Statements of Net Position under current maturities of debt. At January 31, 2018, 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, 2018, but through an annual renewal process may be extended through November 1, 2028.

Prior Years' Defeased Debt

In current and prior years, CPS Energy 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 CPS Energy's financial statements. As of January 31, 2018, $16,120 of previously defeased bonds were outstanding.

Accrued Leave

Employees earn vacation benefits based upon their employment status and years of service. As of January 31, 2018, the accruals for employee vested benefits were $20,098. These accruals are reported under Accounts Payable and Other Current Liabilities.

Note 7 Long-Term Debt (Continued)

San Antonio Water System (SAWS)

City Ordinance No. 75686 requires that SAWS' gross revenues 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 SAWS' Renewal and Replacement Fund.

City Ordinance No. 75686 also provides for no free services except for municipal firefighting purposes.

City Ordinance No. 75686 requires SAWS to make payments to the City each month after making all other payments required by the ordinance. The amount of the payment is determined by City Council from time to time and cannot exceed 5.0% of gross revenues. Gross Revenues consist of all revenue with respect to the operation and ownership of SAWS with the exception of capital contributions, payments received under the CPS Energy contract, the federal subsidy of interest on Build America Bonds and earnings on funds deposited in the Project Fund and Reserve Fund until the Reserve Fund contains the required reserve amount. Currently, SAWS pays 2.7% of gross revenues to the City.

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 payments to the City's General Fund.

Revenue Bonds

On February 28, 2017, SAWS issued $90,915 City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2017A (No Reserve Fund). The proceeds from the sale of bonds were used to (i) refund the remaining City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2007 (Series 2007), (ii) refund a portion of the City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2007A (Series 2007A), and (iii) pay the cost of issuance. The refunding of the Series 2007 and Series 2007A bonds reduced total future debt service payments by approximately $9,919 and resulted in an economic gain of $7,524. The bonds are secured together with other outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On November 1, 2017, SAWS remarketed $99,590 City of San Antonio, Texas Water System Variable Rate Junior Lien Revenue and Refunding Bonds, Series 2014B Bonds (No Reserve Fund). The proceeds from the sale of the bonds were used to pay the principal of the maturity bonds and the cost of issuance. The bonds are secured together with other outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations. There was no economic gain or loss on this transaction.

Senior lien water system revenue bonds, comprised of Series 2009, Series 2009B, Series 2010B, Series 2011, Series 2011A, Series 2012, and Series 2012A, outstanding in the amount of $742,025 at December 31, 2017, 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 on senior lien bonds range from 3.0% to 6.2%, exclusive of any federal interest subsidy on the Series 2009B and 2010B Build America Bonds.

Note 7 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

The junior lien water system revenue bonds are composed of two categories of debt: fixed rate debt and variable rate debt. The junior lien fixed rate debt is similar to the senior lien bonds, as they have fixed interest rates for the life of the bonds. The junior lien variable rate bonds have interest rates that are periodically reset throughout the life of the bonds. All the junior water system revenue bonds are collateralized by a junior lien and pledge of the gross revenue 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.

The junior lien fixed rate bonds, comprised of Series 2007, Series 2008, Series 2008A, Series 2009, Series 2009A, Series 2010, Series 2010A, Series 2011, Series 2011A, Series 2012 (No Reserve Fund), Series 2012, Series 2013A, Series 2013B (No Reserve Fund), Series 2013C, Series 2013D, Series 2013E (No Reserve Fund), Series 2014A (No Reserve Fund), Series 2014C, Series 2014D, Series 2015A, Series 2015B (No Reserve Fund), Series 2016A (No Reserve Fund), Taxable Series 2016B, Series 2016C (No Reserve Fund), Series 2016D, Series 2016E, and Series 2017A (No Reserve Fund), are outstanding in the amount of $1,597,110 at December 31, 2017. Interest rates on the junior lien fixed rate bonds range from 0.0% to 5.0%.

The junior lien variable rate bonds, comprised of the Series 2013F (No Reserve Fund) (Series 2013F Bonds) and the Series 2014B (No Reserve Fund) (Series 2014B Bonds), are outstanding in the amount of $198,385 at December 31, 2017. The Series 2013F Bonds are tax-exempt variable rate notes initially issued in a SIFMA Index Mode, with the interest rate reset weekly, through the initial interest period which expired October 31, 2016. On November 1, 2016, SAWS remarketed $98,795 in Series 2013F Bonds into a five-year interest rate period that ends October 31, 2021, the new interest period. During the new interest period, the Series 2013F Bonds bear interest at 2.0% with a yield of 1.6%. The Series 2014B Bonds are tax-exempt variable rate notes initially issued in a SIFMA Index Mode, with the interest rate reset weekly, through the initial interest period expiring October 31, 2017. On November 1, 2017, SAWS remarketed $99,590 in Series 2014B Bonds into a five-year interest rate period that ends October 31, 2022, the new interest period. During the new interest period, the Series 2014B Bonds bear interest at 2.0% with a yield of 1.8%.

Upon conclusion of the initial interest period, or any subsequent new interest period, SAWS is permitted to change the mode for all or any portion of the junior lien variable interest bonds to a different mode or to a SIFMA Index Mode of different duration. The Bonds are subject to a mandatory tender without right of retention at the conclusion of the initial interest period or any subsequent new interest period. During the initial interest period and any subsequent new interest period the Bonds are not subject to the benefit of a liquidity facility provided by a third party. Accordingly, a failure to remarket the Bonds at the end of the initial interest period or subsequent new interest period will result in the rescission of the notice of mandatory tender with respect to the Bonds and SAWS has no obligation to purchase the Bonds at such time. The occurrence of a failed remarketing will not result in an event of default under the ordinance. Until SAWS redeems or remarkets the Bonds that had a failed remarketing, the Bonds shall bear interest at the stepped rate of 8.0%.

Note 7 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Revenue Bonds (Continued)

The following summarizes transactions of the Revenue Bonds for the year-ended December 31, 2017:

	Beginning Balance January 1, 2017	Additions	Reductions	Ending Balance December 31, 2017	Due Within One Year
Bonds Payable	$ 2,630,350	$ 190,505	$ (283,335)	$ 2,537,520	$ 84,875
(Discounts)/Premiums	209,932	12,102	(23,815)	198,219	
Total Bonds Payable, Net	$ 2,840,282	$ 202,607	$ (307,150)	$ 2,735,739	$ 84,875

The following table shows the annual debt service requirements on SAWS' debt obligations for each of the next five years and then in five year increments:

Annual Debt Service Requirements
Revenue and Refunding Bonds

	Fixed Rate				Variable Rate	
Year-Ended December 31,	Principal	Interest Expense	Direct Subsidy[1]	Net Interest	Principal	Interest Expense
2018	$ 84,875	$ 99,237	$ (3,547)	$ 95,690	$ -	$ 3,968
2019	85,930	96,451	(3,481)	92,970		3,968
2020	89,800	93,245	(3,412)	89,833		3,968
2021	94,425	89,461	(3,336)	86,125		3,968
2022	98,005	85,364	(3,255)	82,109		4,462
2023-2027	527,240	360,303	(14,819)	345,484		24,800
2028-2032	456,510	247,417	(11,816)	235,601	30,825	23,781
2033-2037	505,170	142,067	(5,865)	136,202	66,620	16,877
2038-2042	332,145	39,372	(685)	38,687	76,625	7,934
2043-2046	65,035	4,687		4,687	24,315	496
Total	$ 2,339,135	$ 1,257,604	$ (50,216)	$ 1,207,388	$ 198,385	$ 94,222

[1] Federal interest rate subsidy on Build America Bonds is utilized to pay interest on those bonds but is reported as nonoperating revenue.

In fiscal year 2017, SAWS received a total of $3,596 in BABs subsidy.

SAWS is required to comply with various debt covenant provisions included in the ordinances which authorized the bond issuances. SAWS is in compliance with all significant provisions of the bond ordinances.

Year-Ended September 30, 2018 - 127 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 128 - Amounts are expressed in thousands

Note 7 Long-Term Debt (Continued)

San Antonio Water System (SAWS) (Continued)

Prior Years' Defeased 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. As of December 31, 2017, $78,592 of previously defeased bonds were outstanding.

Accrued Leave

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. The current and long term portion of these accruals are reported under the Accounts Payable and Other Current Liabilities and Other Payables line items, respectively.

Year-Ended	Liability Beginning Balance	Current-Year Accruals	Payments	Liability Ending Balance	Estimated Due Within One Year
December 31, 2017	$ 8,853	$ 6,113	$ (5,422)	$ 9,544	$ 5,422

(The remainder of this page left blank intentionally)

Note 8 Commercial Paper Programs

Primary Government (City)

The City had no commercial paper debt during fiscal year 2018.

CPS Energy

As of January 31, 2018, the commercial paper ordinances contain, among others, the following provisions:

- Authorized capacity of $600,000;
- Allow flexibility to issue tax-exempt or taxable commercial paper;
- Allow the issuance of multiple series notes; and
- Final maturity on November 1, 2042.

Eligible projects include fuel acquisition, capital improvements to CPS Energy, 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. Pledge of net revenues is subordinate and inferior to the pledge securing payment of existing senior lien and junior lien obligations.

To secure the payment of commercial paper 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 Project Notes;
- Loans under and pursuant to a revolving credit agreement;
- Amounts held in funds used specifically for payment of commercial paper principal and interest balances and unspent proceeds from commercial paper; and
- The net revenues of CPS Energy, after payment on New Series Bond requirements and prior lien bond obligations.

On August 30, 2017, outstanding amounts of $150,000 for Series A and $80,000 for Series C were refunded. On January 24, 2018, $30,000 from Series C was issued. As of January 31, 2018, the outstanding commercial paper balance was $160,000, all of which was tax-exempt.

Commercial Paper Summary

	January 31, 2018
Commercial Paper Outstanding	$ 160,000
New Commercial Paper Issues	$ 30,000
Weighted Average Interest Rate of Outstanding	1.2%
Average Life Outstanding (Number of Days)	60

The commercial paper has been classified as long-term in accordance with the refinancing terms under three revolving credit agreements with a consortium of banks, which support the commercial paper program. Each revolving credit agreement relates to a particular series of notes and provides liquidity support therefore in the amount specified. The Series A agreement, which provides $150,000 in liquidity support for the Series A Notes, is effective through February 6, 2019. The Series B agreement, which provides $225,000 in liquidity support for the Series B Notes, is effective through June 21, 2019.

Year-Ended September 30, 2018 - 129 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 130 - Amounts are expressed in thousands

Note 8 Commercial Paper Programs (Continued)

CPS Energy (Continued)

The Series C agreement, which provides $225,000 in liquidity support for the Series C Notes, is effective through June 21, 2019. Under the terms of these revolving credit agreements, CPS Energy may borrow up to an aggregate amount not to exceed $600,000 for the purpose of paying principal due under the commercial paper program. At January 31, 2018, there was no amount outstanding under the revolving credit agreements. Further, there have been no borrowings under the agreements since inception of the program.

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 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 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.

The borrowings under the commercial paper program are equally and ratably secured by and are payable from (i) the proceeds from the sale of bonds or additional borrowing under the commercial paper program and (ii) borrowing under and pursuant to the revolving credit agreement. The capacity of the combined revolving credit agreements is $450,000 with the Revolving Credit Agreement with Bank of Tokyo-Mitsubishi UFJ, Ltd in the amount of $350,000, supporting the Series A Notes expiring October 4, 2018; and the Revolving Credit Agreement with Wells Fargo Bank, N.A. in the amount of $100,000, supporting the Series B Notes expiring January 15, 2021.

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 LLC., Ramirez & Co., Inc., and Mitsubishi UFJ Securities (USA), Inc.
- Issuing and Paying Agency Agreement with The Bank of New York Mellon Trust Company, N.A.

Commercial paper notes of $278,060 are outstanding as of December 31, 2017. Interest rates on the notes outstanding at December 31, 2017 range from 1.0% to 1.2% and maturities range from 32 to 180 days. The outstanding notes had an average rate of 1.1% and averaged 73 days to maturity.

SAWS intends to reissue maturing commercial paper, in accordance with the terms of the revolving credit agreement, and ultimately refund such maturities with proceeds from the issuance of long-term revenue bonds. Consistent with this intent, and since SAWS has the available $450,000 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, SAWS intends to redeem $3,710 of commercial paper in 2018. Therefore, this portion of outstanding commercial paper is classified as a current liability.

The following table summarizes transactions of the program for the year-ended December 31, 2017.

	Beginning Balance January 1, 2017	Additions	Reductions	Ending Balance December 31, 2017	Due Within One Year
Tax Exempt Commercial Paper Notes	$ 241,610	$ 40,000	$ (3,550)	$ 278,060	$ 3,710

Note 9 Pension and Retirement Plans

Summary of Pension and Retirement Plans

	City - TMRS	Fire and Police Pension Plan	Total City - TMRS and Fire and Police Pension Plan	CPS Energy All Employee Plan	SAWS-TMRS	SAWS Retirement Plan	District Special Project Retirement Income Plan
Total Pension Liability	$ 1,914,057	$ 3,545,800	$ 5,459,857	$ 1,784,838	$ 198,069	$ 218,571	$ 6,694
Plan Fiduciary Net Position	1,491,624	3,196,529	4,688,153	1,472,376	170,589	175,279	5,410
Net Pension Liability	$ 422,433	$ 349,271	$ 771,704	$ 312,462	$ 27,480	$ 43,292	$ 1,284
Deferred Inflows of Resources	$ (42,749)	$ (188,787)	$ (231,536)	$ (50,512)	$ (1,495)	$ (494)	$ (339)
Deferred Outflows of Resources	$ 2,231	$ 100,113	$ 102,344	$ 43,137	$ 7,716	$ 13,026	$ 537
Contributions Post Measurement Date	$ 31,815	$ 55,423	$ 87,238	$ 46,200	$ 3,852	$ 7,982	$ 315
Pension Expenses	$ 64,304	$ 74,366	$ 138,670	$ 46,247	$ 6,005	$ 10,051	$ 203

Primary Government (City)

Texas Municipal Retirement System (TMRS)

Plan Description — The City participates as one of the 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by TMRS. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS' defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code.

Benefits Provided — TMRS provides retirement, disability, and death benefits to all eligible employees, excluding firefighters and police officers. Members are eligible to retire upon attaining the retirement age of 60 and above with five or more years of service, or with 20 years of service regardless of age. 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.

Benefits depend upon the sum of the employee's contributions to the TMRS plan, with interest, and the City-financed monetary credits with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. Prior service credit, granted by the City, is a monetary credit equal to the accumulated value of the percentage of prior service credit adopted times an employee's deposits that would have been made, based on the average salary prior to participation, for the number of months the employee has been employed, accruing 3.00% annual interest, and including the matching ratio adopted by the City (2 to 1). 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 or annually on a repeating basis, another type of monetary credit referred to as an updated service credit.

Year-Ended September 30, 2018 - 131 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 132 - Amounts are expressed in thousands

Note 9 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

This monetary credit is determined by hypothetically re-computing the employee's account balance by assuming that the current City deposit rate (6.00%) has always been in effect. The computation also assumes that the employee's salary has always been the employee's average salary, using a salary calculation based on the 36-month period ending a year before the effective date of calculation. This hypothetical amount is increased by 3.00% each year and increased by the City's match currently in effect (200.00% match). The resulting sum is then compared to the employee's actual account balance increased by the actual City match and actual interest credited. If the hypothetical calculation exceeds the actual calculation, the member is granted a monetary credit (or updated service credit) equal to the difference between the hypothetical calculation and the actual calculation times the percentage adopted.

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. Employees may choose to receive their retirement benefit in one of seven payment options: retiree life only; one of three survivor lifetime options; or one of the three guaranteed term options. Employees may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments under the retiree life only option, which cannot exceed 75.00% of the total employee's deposits and interest. The City may elect to increase the annuities of its retirees, either annually or on an annually repeating basis, effective January 1 of the calendar year. The City may also adopt annuity increases at a rate equal to 30.00%, 50.00%, or 70.00% of the increase in the Consumer Price Index – all Urban Consumers between the December preceding the employee's retirement date and the December one year before the effective date of the increase, minus any previously granted increases.

The City, based on available financial resources, may approve an annual ad hoc cost of living adjustment for its retirees. City Council approves this recommendation as part of the annual adopted budget. TMRS provisions and contribution requirements are adopted by the City Council within the options available in the state statutes governing TMRS and within the actuarial constraints contained in the statutes. The ad hoc cost of living adjustments were deemed to be substantively automatic in TMRS' actuarial report. The default method for determining whether ad hoc benefit enhancements are substantively automatic is if the City had granted them in one of the last two years and two of the last five years. The City has met these requirements.

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Membership as of the Valuation Date	December 31, 2017
Number of:	
Active members	6,939
Retirees and beneficiaries	4,671
Inactive members [1]	2,777
Total	14,387

[1] Inactive members are vested employees no longer employed by the City, but are eligible for a deferred retirement benefit.

Note 9 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Contributions — Under the state law governing TMRS, the employer's contribution rates are annually determined by the actuary using the Entry Age Normal (EAN) 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 percent of payroll from year to year. The normal cost contribution rate is the contribution rate which, if applied to an employee's compensation throughout their period of anticipated covered service with the City, would be sufficient to meet all benefits payable on the City's behalf. The salary-weighted average of the individual rates is the total normal cost rate. 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 City's contribution rate cannot exceed a statutory maximum rate, which is based on a combination of the employee contribution rate and the City matching percentage.

In the fiscal year 2018 budget, City Council adopted a one-time annuity increase that was 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 70.00% 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. The provision for the one-time annuity contribution rate increased from 11.45% to 11.66%, effective January 1, 2018.

The contribution rate for the City's employees is 6.00% of their annual gross earnings during the fiscal year and the matching percent was 11.66% for calendar year 2018, both as adopted by the governing body of the City. The City's contribution to TMRS for fiscal year 2018 was $66,187, with $22,556 contributed by City employees, and $43,631 contributed by the City. These amounts were equal to required contributions.

Net Pension Liability — The City's Net Pension Liability (NPL) was measured as of December 31, 2017 and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

The components of the Net Pension Liability are as follows:

Total Pension Liability	$ 1,914,057
Plan Fiduciary Net Position	1,491,624
Net Pension Liability	$ 422,433
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	77.93%

Year-Ended September 30, 2018 - 133 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 134 - Amounts are expressed in thousands

Note 9 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Actuarial Assumptions — The TPL calculated in the December 31, 2017 actuarial valuation was determined using the 10 year smoothed market, 15.00% soft corridor asset valuation method and the following actuarial assumptions:

Inflation	2.50%
Salary increases	3.50% to 10.50% including inflation
Investment rate of return	6.75%, including inflation, net of pension plan investment expense
Retirement Age	Experience-based table of rates specific to the City
Cost-of-living adjustments	Granted 70.00% ad hoc COLA
Mortality	RP-2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109.00% and female rates multiplied by 103.00% and projected on a fully generational basis with scale BB

Salary increases were based on a service-related table. The Retirement Age was last updated for the 2015 valuation pursuant to an experience study of the period 2010 – 2014. Mortality rates for active members, retirees, and beneficiaries are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP-2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, TMRS adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy.

The long-term expected rate of return on pension plan investments is 6.75%. A single discount rate of 6.75% was used to measure the TPL as of December 31, 2017. This single discount rate was based on the expected rate of return on pension plan investments of 6.75%. Based on the stated assumptions and projections of cash flows, the City's fiduciary net position and future contributions were sufficient to finance the future benefit payments of the current plan members for all projection years. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the TPL for the City. The projection of cash flows used to determine the single discount rate for the City assumed that the funding policy adopted by the TMRS Board will remain in effect for all future years. Under this funding policy, the City will finance the unfunded actuarial accrued liability over the 28 years remaining for the closed period existing for each base in addition to the employer portion of all future benefit accruals.

Note 9 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.50%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the table below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.90%
Real Return	10.00%	3.80%
Real Estate	10.00%	4.50%
Absolute Return	10.00%	3.75%
Private Equity	5.00%	7.50%
Total	100.00%	

Sensitivity of the Net Pension Liability to Changes in the Discount Rate — The following presents the Net Pension Liability, calculated using the discount rate of 6.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower, 5.75%, or 1.00% higher, 7.75%, than the current rate:

	1.00% Decrease 5.75%	Current Discount Rate 6.75%	1.00% Increase 7.75%
Net Pension Liability	$ 685,787	$ 422,433	$ 205,696

Pension Plan Fiduciary Net Position — Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained at http://www.tmrs.com.

Year-Ended September 30, 2018 - 135 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 136 - Amounts are expressed in thousands

Note 9 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Schedule of Changes in Net Pension Liability and Related Ratios — The following table presents the changes in the Net Pension Liability as of year-ended September 30, 2018, based on the measurement date and actuarial valuation date of December 31, 2017.

Changes in the Net Pension Liability	
Total Pension Liability	
Service Cost	$ 53,965
Interest	122,010
Difference between expected and actual experience	(1,637)
Benefit payments, including refunds of employee contributions	(81,702)
Net change in TPL	$ 92,636
Total Pension Liability - Beginning	1,821,421
Total Pension Liability - Ending	$ 1,914,057
Plan Fiduciary Net Position	
Contributions - Employer	$ 41,828
Contributions - Employee	21,922
Net investment income	183,805
Benefit payments, including refunds of employee contributions	(81,702)
Administrative Expense	(953)
Other	(48)
Net change in Plan Fiduciary Net Position	$ 164,852
Plan Fiduciary Net Position - Beginning	1,326,772
Plan Fiduciary Net Position - Ending	$ 1,491,624
Net Pension Liability	$ 422,433

Notes to Financial Statements

Note 9 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Pension Expense — For the year-ended September 30, 2018, based on the actuarial valuation of December 31, 2017, the City recognized pension expense of $64,304.

Schedule of Pension Expense	
Total Service Cost	$ 53,965
Interest	122,010
Employee Contributions (Reduction of Expense)	(21,922)
Projected Earnings on Plan Investments (Reduction of Expense)	(89,557)
Administrative Expense	953
Other Changes in Fiduciary Net Position	48
Recognition of Current Year Outflow (Inflow) of Resources-Liabilities	(357)
Recognition of Current Year Outflow (Inflow) of Resources-Assets	(18,850)
Amortization of Prior Year Outflows (Inflows) of Resources-Liabilities	(2,659)
Amortization of Prior Year Outflows (Inflows) of Resources-Assets	20,673
Total Pension Expense	$ 64,304

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions — At September 30, 2018, the City reported pension-related deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference in expected and actual experience	$ 684	$ (5,537)
Changes of assumptions	1,547	
Net difference in projected and actual earnings on pension plan investments		(37,212)
Total	$ 2,231	$ (42,749)

Year-Ended September 30, 2018 - 137 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 138 - Amounts are expressed in thousands

Note 9 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Deferred outflows and deferred inflows of resources, by year, are to be recognized in future pension expense as follows:

	Net Deferred Outflows (Inflows) of Resources
2018	$ (531)
2019	(1,852)
2020	(19,079)
2021	(19,056)
2022	
Thereafter	
Total	$ (40,518)

Subsequent to the measurement date of December 31, 2017, and through fiscal year-end 2018, the City contributed $31,815 to TMRS. The deferred outflows of resources balance for such contribution amounts at the end of a fiscal period are recognized fully as adjustments to the net pension liability in the subsequent fiscal year. As of September 30, 2018, the City reported a payable to TMRS in the amount of $3,415 for the outstanding amounts of contributions required.

City Deferred Compensation

The City has a deferred compensation plan for its employees, created in accordance with Internal Revenue Code Section 457. The plan, available to all regular employees, permits them to defer a portion of their salary on a pre-taxed basis. The compensation deferred under this plan is not available to employees until termination, retirement, death, loan, or qualifying unforeseeable emergency. Participation in the plan is voluntary. In fiscal year 2012, the City implemented a matching contribution of up to 1.00% of base salary to eligible executives who participated in the plan. In fiscal year 2015, the City increased its matching contribution up to 2.00% of base salary. There has been no change to the matching contribution rate since 2015. In fiscal year 2018, executives in the third and fourth quartile of their salary ranges received 1.00% of their performance pay as a deferred compensation contribution. The City has no liability for losses under this plan but does have the usual fiduciary responsibilities of a plan sponsor.

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, administered by the San Antonio Fire and Police Pension Fund. 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 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 Pension Fund is provided in the Pension Fund's separately issued financial statements.

Note 9 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

Membership of the Pension Fund as of December 31, 2017 consisted of:

Membership as of the Valuation Date	December 31, 2017
Number of:	
Active members	3,906
Retirees and beneficiaries	2,719
Inactive members[1]	26
Total	6,651

[1] Inactive participants are only entitled to a refund of their contributions, and are not eligible for benefits.

Currently, the Pension Fund provides retirement benefits to eligible uniformed 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, 87.50% 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.

There is also a provision for a 13th and 14th pension check. At the end of each fiscal year, the Board may authorize the disbursement of a 13th monthly pension check if the annualized yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year fiscal period by at least 100 basis points (basis points not reported in thousands). In the same way, the Board may authorize a 14th 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 13th and 14th 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 13th and 14th check for any other year. The Pension Fund did meet the criteria for the 13th check for the year-ended December 31, 2017. Based on the performance of the Pension Fund's investments, a 13th check was approved by the Board on April 12, 2018 at a Special Board Meeting and paid on April 20, 2018. The amount of the disbursement was $10,970. The Pension Fund has not met the criteria for the 14th check since the fiscal year 2007.

Note 9 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

The Pension Fund also provides benefits when service is terminated by reason of death or disability. The employee's beneficiary or the employee shall be entitled to one-half of the average of the employee's total salary, excluding overtime pay, or vested benefit as is provided in the computation of normal retirement benefits, whichever is higher. If a member dies after retiring, spouses or beneficiaries who were married to or dependents of the member at the time of retirement receive the same annuity paid to the member as of the date of the member's death up to the maximum benefit. The maximum benefit for surviving spouses and dependent children is equal to a 27 year service pension. As of October 1, 2009, the allocation of death benefits between a surviving spouse and the dependent children of a member is 75.00% to the spouse and 25.00% to the children. The spousal death benefit provided to 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. In the case of marriage after retirement, a spouse who is otherwise qualitied to receive a pension is subject to a 55-year-old minimum age to begin receiving 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, is $15 if there are no other beneficiaries.

The Pension Fund provides a disability annuity equal to 87.50% of average total salary, if the member suffers a catastrophic injury. A catastrophic injury is described as an irreparable physical bodily injury suffered during the performance of high-risk line of duty activities, when the injury results in the individual being unable to obtain any sort of employment sufficient to generate income above the poverty level.

The surviving spouse of an active member may elect to receive benefits in the form of a lump-sum payment and reduced annuity, similar to a BackDROP election made by a retiring member.

The 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, 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-U) as published by the Bureau of Labor Statistics. Members whose retirement, disability, or death occurred before August 30, 1971, receive an increase equal to 100.00% of the increase in the CPI-U. Members whose retirement, disability, or death occurred after August 30, 1971, but before October 1, 1999, receive an increase equal to 100.00% of the increase in the CPI-U up to 8.00% and 75.00% of the increase in the CPI-U in excess of 8.00%. Members whose retirement, disability, or death occurred after October 1, 1999 receive an increase equal to 75.00% of the increase in the CPI-U.

Note 9 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

The Pension Fund is funded in accordance with Texas state statutes and is not actuarially determined. In fiscal year 2018, the City was required to contribute 24.64% of salary, or $76,033, excluding overtime pay, and the employee contribution rate was 12.32%, or $40,101. New firefighters 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.

The Pension Fund has a provision that allows the fire chief and police chief to opt out of membership in the Pension Fund.

The components of the net pension liability (NPL) of the City, as of December 31, 2017, are as follows:

Total Pension Liability	$ 3,545,800
Plan Fiduciary Net Position	3,196,529
City's Net Pension Liability	$ 349,271
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	90.15%

The total pension liability was determined by an actuarial valuation as of January 1, 2017, using the entry age, level percent of payroll, and the following actuarial assumptions, applied to the period included in the measurement, with the results rolled forward to December 31, 2017:

Inflation	3.00%
Salary increases	3.00% plus merit scale of 0.75% - 11.25%
Investment rate of return	7.25% including inflation, net of pension plan investment expense
Cost-of-living adjustments	3.00% for retirements before October 1, 1999 2.25% for retirements on or after October 1, 1999
Retirement rates	Group-specific rates based on years of service ranging from 20 to 40 years, with 100.00% retirement age at 65 or 40 years of service

For the actuarial valuation as of January 1, 2017 with results rolled forward to December 31, 2017, healthy mortality rates were based on the sex-distinct RP-2014 Employee and Healthy Annuitant Tables, with rates loaded by 7.00% for females. Disabled mortality rates were based on sex-distinct RP-2014 Annuitant Tables, set forward by six years, again loading the female rates by 7.00%. The tables are projected generationally using 50.00% of the MP-2014 improvement scale to anticipate future mortality improvements. The actuarial assumptions used are based on the results of an experience study for the period October 1, 2009 to September 30, 2014.

Year-Ended September 30, 2018 - 141 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 142 - Amounts are expressed in thousands

Note 9 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Pension Fund's target asset allocation as of December 31, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic equity	18.00%	6.40%
International Equity	21.00%	8.10%
Fixed Income	20.00%	2.40%
Alternative investments	29.00%	5.70%
Real estate	12.00%	5.10%
Total	100.00%	

The blended discount rate used to measure the total pension liability is 7.25%. The projection of cash flows used to determine the discount rate assumed contributions will continue to be made at 12.32% of the compensation from plan members and 24.64% of the compensation from the City. Based on these assumptions, the Pension Fund's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the Pension Fund's investments was applied to all periods of the projected benefit payments to determine the total pension liability.

The following presents the net pension liability of the City, calculated using the discount rate of 7.25%, for the year-ending December 31, 2017, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower, 6.25%, or one percentage point higher, 8.25%, than the current rate:

	1.00% Decrease 6.25%	Current Discount Rate 7.25%	1.00% Increase 8.25%
Net Pension Liability/(Asset)	$ 852,393	$ 349,271	$ (62,609)

The City 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.

Note 9 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

Schedule of Changes in Net Pension Liability and Related Ratios — The following table presents the changes in the Net Pension Liability through December 31, 2017, based on the measurement date and actuarial valuation date of January 1, 2017.

Changes in the Net Pension Liability	
Total Pension Liability (TPL)	
Service Cost	$ 71,161
Interest	246,848
Difference between expected and actual experience	(27,776)
Benefit payments, including refunds of employee contributions	(156,137)
Net change in TPL	$ 134,096
Total Pension Liability - Beginning	3,411,704
Total Pension Liability - Ending	$ 3,545,800
Plan Fiduciary Net Position	
Contributions - Employer	$ 75,916
Contributions - Employee	37,958
Net investment income	407,278
Benefit payments, including refunds of employee contributions	(156,137)
Administrative Expense	(3,034)
Net change in Plan Fiduciary Net Position	$ 361,981
Plan Fiduciary Net Position - Beginning	2,834,548
Plan Fiduciary Net Position - Ending	$ 3,196,529
Net Pension Liability	$ 349,271

Year-Ended September 30, 2018 - 143 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 144 - Amounts are expressed in thousands

Note 9 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

For the fiscal year-ended September 30, 2018, based on December 31, 2017 measurement date, the City recognized pension expense as follows:

Service Cost	$ 71,161
Interest	246,848
Employee contributions	(37,958)
Administrative expenses	3,034
Expected return on assets	(203,863)
Expensed portion of current year period differences between expected and actual experience	(3,086)
Expensed portion of current year period differences between projected and actual earnings	(40,684)
Current year recognition of deferred inflows and outflows established in prior years	38,914
Total Expense	$ 74,366

At September 30, 2018, the City reported pension-related deferred outflows of resources and deferred inflows of resources from the following:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference in expected and actual experience	$ -	$ (75,737)
Changes of assumptions	100,113	
Net difference in projected and actual earnings on pension plan investments		(113,050)
Total	$ 100,113	$ (188,787)

Note 9 Pension and Retirement Plans (Continued)

Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Net Deferred Outflows (Inflows) of Resources
2019	$ (2,925)
2020	(9,488)
2021	(46,816)
2022	(36,305)
2023	4,379
Thereafter	2,481
Total	$ (88,674)

Subsequent to the measurement date of December 31, 2017, and through fiscal year-end 2018, the City contributed $55,423 to the Pension Fund. The deferred outflows of resources balance for such contribution amounts at the end of a fiscal period are recognized fully as adjustments to the net pension liability in the subsequent fiscal year. As of September 30, 2018, the City reported a payable in the amount of $6,036 due to the Pension Fund for contribution from the City and active uniform employees.

The Pension Fund issues a publicly available financial report that includes financial statements and required supplemental information, and detailed information about the Pension Fund's net pension liability. 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.

CPS Energy

All Employee Plan

Plan Description — The CPS Energy Pension Plan (the Plan) is a self-administered, single-employer, defined-benefit contributory pension plan covering substantially all employees who have attained age 21 and completed one year of service. The Plan is sponsored by and may be amended at any time by CPS Energy, acting by and through the Employee Benefits Oversight Committee (EBOC), 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. The Plan reports results on a calendar-year basis, and the separately audited financial statements, which contain historical trend information, may be obtained at www.cpsenergy.com or by contacting Benefit Trust Administration at CPS Energy. The Plan's financial statements include certain disclosures related to CPS Energy's net pension liability. However, because the financial reporting and pension measurement dates for the Plan and CPS Energy are not aligned, the Plan's disclosures will vary from information provided by CPS Energy in this footnote and in the accompanying RSI.

Year-Ended September 30, 2018 - 145 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 146 - Amounts are expressed in thousands

Note 9 Pension and Retirement Plans (Continued)

CPS Energy (Continued)

All Employee Plan (Continued)

In addition to the defined-benefit 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 $20 for fiscal year 2018. These costs were recorded when paid.

Benefits Provided — Participants become fully vested in the benefits of the Plan upon attainment of age 40 or after completion of seven years of vesting service before age 40. Normal retirement is age 65; however, early retirement is available with 25 years of benefit service, as well as to those employees who are age 55 or older with at least ten years of benefit service. Retirement benefits consist of a normal retirement annuity calculated based primarily are on length of service and compensation. 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. If early retirement occurs due to disability, the reductions in benefits normally associated with early retirement are modified.

Payments to retirees are adjusted each year by an amount equal to 50.00% of the change in the Consumer Price Index-U, limited to a maximum adjustment of 5.00% each year, with no reduction allowed below the retirees' initial benefit levels.

The following table presents information about Plan participants covered by the benefit terms. Participants providing the basis of the actuarial valuations used to calculate, as of the measurement date of January 31, 2017, the net pension liability for the fiscal year-ended January 31, 2018:

Membership as of the Valuation Date	January 31, 2017
Number of:	
Active members	2,860
Retirees and beneficiaries	2,360
Inactive members [1]	151
Total	5,371

[1] Inactive members are Plan participants that are entitled to deferred benefits.

Contributions — With recommendations from the Administrative Committee, composed of a cross-functional group of active and retired CPS Energy employees, CPS Energy establishes funding levels, considering annual actuarial valuations. Generally, participating employees contribute 5.00% of their total compensation, commencing with the effective date of participation and continuing until normal or early retirement, completion of 44 years of benefit service, or termination of employment. Participants who leave CPS Energy service before becoming eligible for retirement benefits receive a return of the total amount they contributed to the Plan, plus the vested portion of accumulated interest. Beginning January 1, 2015, the employee contribution interest crediting rate was 5.50%.

Note 9 Pension and Retirement Plans (Continued)

CPS Energy (Continued)

All Employee Plan (Continued)

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 2018, 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 using the entry-age normal cost method.

Schedule of Changes in Net Pension Liability and Related Ratios — The Net Pension Liability for fiscal year-end January 31, 2018, was measured as of January 31, 2017. The total pension liability used to calculate the net pension liability was determined by actuarial valuation as of January 1, 2016, rolled forward using generally accepted actuarial procedures to the January 31, 2017 measurement date.

Total Pension Liability	$ 1,784,838
Plan Fiduciary Net Position	1,472,376
Net Pension Liability	$ 312,462
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	82.49%

Actuarial Assumptions — The Total Pension Liability was determined using the Entry Age Normal actuarial cost method, and the Level dollar amortization method. Significant actuarial assumptions used in the January 31, 2016, valuation include a rate of return on the investment of present and future assets of 7.50%, a discount rate on Plan liabilities of 7.50%, annual projected salary increases averaging 4.66% per year, and annual post-retirement cost-of-living increases of 1.50%. The projected salary increases include an inflation rate of 3.00%. Mortality rates were based on the RP-2000 Combined Healthy Annuitant Mortality Tables for Males or Females, as appropriate, projected using Scale BB. There have been no significant changes to the actuarial assumptions used in the January 1, 2016, valuation compared to the January 1, 2015 valuation.

The actuarial assumptions used in the January 1, 2016 valuation for amounts reported in fiscal year 2018 were based on the results of an actuarial experience study completed in 2014 covering experience for the period January 1, 2009, through December 31, 2013.

The long-term expected rate of return on Plan investments was determined based on a blend of historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions, developed on a geometric basis. An economic simulation method was used in which best-estimate ranges of expected future rates of return (expected returns net of Plan investment expense) for each major asset class were combined using simulations that ensure the economic consistency of each individual trial, and then reduced by a factor representing inflation to produce long-term expected real rates of return for each major asset class.

Year-Ended September 30, 2018 - 147 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 148 - Amounts are expressed in thousands

Note 9 Pension and Retirement Plans (Continued)

CPS Energy (Continued)

All Employee Plan (Continued)

The assumed allocation and expected real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Expected Real Rate of Return (Arithmetic)
Domestic equity	55.20%	5.49%
International equity	10.70%	5.40%
U.S. government and corporate bonds	19.60%	0.97%
Real estate	10.50%	3.80%
Cash equivalents	4.00%	
Total Investments	100.00%	

Discount Rate — The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that future employee contributions will be made at the current contribution rate and that future CPS Energy contributions will be made in a manner consistent with the current contribution practices. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

An actuarial experience study was completed in 2017 covering the period covering January 1, 2012, through December 31, 2016. As a result of the study, the discount rate was lowered to 7.25% to more closely reflect actual experience. This change in assumption will be reflected in the January 1, 2017, actuarial valuation with a measurement date of January 31, 2018, to be recorded in the fiscal year-ending January 31, 2019.

The following table presents the sensitivity of net pension liability calculation to a 1.00% increase and a 1.00% decrease in the discount rate used to measure the total pension liability.

	1.00% Decrease 6.50%	Current Discount 7.50%	1.00% Increase 8.50%
Net Pension Liability	$ 533,656	$ 312,462	$ 125,823

Plan Fiduciary Net Position — Detailed information about the Plan's fiduciary net position is available in separately issued Plan financial statements. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position for the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. Investments are stated at fair market value. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the terms of the Plan.

Note 9 Pension and Retirement Plans (Continued)

CPS Energy (Continued)

All Employee Plan (Continued)

Net Pension Liability — CPS Energy's net pension liability at January 31, 2017 was measured as of January 31, 2017. The total pension liability used to calculate the net pension liability was determined by actuarial valuations as of January 1, 2016, and rolled forward using generally accepted actuarial procedures to the January 31, 2017 measurement date.

Changes in Net Pension Liability	
Total Pension Liability	
Service Cost	$ 31,547
Interest	128,991
Differences Between Expected and Actual Experience	(18,647)
Benefit Payments	(91,230)
Net Change in Total Pension Liability	$ 50,661
Total Pension Liability - Beginning	1,734,177
Total Pension Liability - Ending	$ 1,784,838
Plan Fiduciary Net Position	
Contributions - Employer	$ 44,500
Contributions - Employee	12,144
Earnings on Plan Assets	207,196
Benefit Payments	(91,230)
Net Change in Plan Fiduciary Net Position	$ 172,610
Plan Fiduciary Net Position - Beginning	1,299,766
Plan Fiduciary Net Position - Ending	$ 1,472,376
Net Pension Liability - Ending	$ 312,462

CPS Energy recorded $46,247 in pension expense for the year-ended January 31, 2018.

Year-Ended September 30, 2018 - 149 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 150 - Amounts are expressed in thousands

Note 9 Pension and Retirement Plans (Continued)

CPS Energy (Continued)

All Employee Plan (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension – The following table presents information about the pension-related deferred outflows of resources and deferred inflows of resources for CPS Energy at January 31, 2018:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference in expected and actual experience	$ 21,253	$ (48,748)
Changes of assumptions	21,884	
Net difference in projected and actual earnings on pension plan investments		(1,764)
Total	$ 43,137	$ (50,512)

Subsequent to the measurement date of January 1, 2017, and through fiscal year-end 2018, the employer contributed $46,200 to the Plan.

The following table presents the future amortization of pension-related deferred outflows of resources and deferred inflows of resources, excluding the balance attributable to the employer's contribution to the Plan in the current fiscal year and subsequent to the net pension liability measurement date. The deferred outflows of resources balance for such contribution amounts at the end of a fiscal period are recognized fully as adjustments to the net pension liability in the subsequent fiscal year.

Year-Ended January 31,	Net Deferred Outflows (Inflows) of Resources
2019	$ (935)
2020	11,937
2021	5,863
2022	(21,725)
2023	149
Thereafter	(2,664)
Total	$ (7,375)

Note 9 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS)

Texas Municipal Retirement System (TMRS)

Plan Description — SAWS' pension program includes benefits provided by TMRS, the San Antonio Water System Retirement Plan (SAWSRP), the District Special Project Retirement Income Plan (DSPRP), and the San Antonio Water System Deferred Compensation Plan.

SAWS provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide TMRS, an agent multiple employer public employee retirement system.

Benefits Provided — TMRS provides retirement benefits. Members are eligible to retire upon attaining the normal retirement age of 60 and above with five or more years of service, or with 20 years of service regardless of age. A member is vested after five years.

At retirement, the benefit is calculated as if the sum of the employee's contribution, with interest, and the SAWS financed monetary credits with interest were used to purchase an annuity. Members choose to receive their benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in the amount equal to 12, 24 or 36 monthly payments which cannot exceed 75.00% of the member's deposits and interest.

All eligible employees of the SAWS are required to participate in TMRS. Membership in TMRS as of the actuarial valuation date is as follows:

Membership as of the Valuation Date	December 31, 2016
Number of:	
Active members	1,648
Retirees and beneficiaries	1,175
Inactive members [1]	595
Total	3,418

[1] Inactive members are vested employees no longer employed by SAWS, but are eligible for a deferred retirement benefit.

Contributions — Under the state law governing TMRS, SAWS' contribution rate is annually determined by the actuary using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Eligible SAWS employees are required to contribute 3.00% of their annual gross earnings. The employer required contribution rate for SAWS was 3.67% in calendar year 2017. SAWS' contribution to TMRS totaled $7,001 for the year-ended December 31, 2017, with $3,149 contributed by SAWS' employees, and $3,852 contributed by SAWS. The total contribution equaled the required contributions.

Year-Ended September 30, 2018 - 151 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 152 - Amounts are expressed in thousands

Note 9 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

The components of the Net Pension Liability are as follows:

Total Pension Liability	$ 198,069
Plan Fiduciary Net Position	170,589
Net Pension Liability	$ 27,480
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	86.13%

Actuarial Assumptions — The Total Pension Liability calculated in the December 31, 2016 actuarial valuation was determined using the Entry Age Normal actuarial cost method, the Level percentage of payroll amortization method, and the following actuarial assumptions:

Investment rate of return	6.75%, including inflation, net of pension plan investment expense
Inflation	2.50%
Wage growth	3.00%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment with male rates multiplied by 109.00% and female rates multiplied by 103.00%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109.00% and female rates multiplied by 103.00% with a 3-year set-forward for both males and females. In addition, a 3.00% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3.00% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

Note 9 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the plan actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
Total	100.00%	

The discount rate of 6.75% was used to measure the Total Pension Liability in the December 31, 2016 actuarial valuation. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the TMRS pension plans' Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate — The following presents the Net Pension Liability, calculated using the discount rate of 6.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower, 5.75%, or 1.00% higher, 7.75%, than the current rate:

	1.00% Decrease 5.75%	Current Discount Rate 6.75%	1.00% Increase 7.75%
Net Pension Liability - TMRS	$ 53,499	$ 27,480	$ 5,901

Year-Ended September 30, 2018 - 153 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 154 - Amounts are expressed in thousands

Note 9 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Schedule of Changes in Net Pension Liability and Related Ratios — The table presents the components used to calculate the NPL for fiscal year-ended December 31, 2017, based on the measurement date and actuarial valuation date of December 31, 2016.

Changes in the Net Pension Liability	
Total Pension Liability	
Service Cost	$ 4,979
Interest	12,623
Difference between expected and actual experience	29
Benefit payments	(8,186)
Net change in TPL	$ 9,445
Total Pension Liability - Beginning	188,624
Total Pension Liability - Ending	$ 198,069
Plan Fiduciary Net Position	
Contributions - Employer	$ 3,609
Contributions - Employee	2,935
Net investment income	10,909
Benefit payments	(8,186)
Administrative Expense	(123)
Other	(7)
Net change in Plan Fiduciary Net Position	$ 9,137
Plan Fiduciary Net Position - Beginning	161,452
Plan Fiduciary Net Position - Ending	$ 170,589
Net Pension Liability	$ 27,480

San Antonio Water System Retirement Plan (SAWSRP)

Plan Description — The San Antonio Water System Retirement Plan (SAWSRP) is a single-employer pension plan controlled by the provisions of Ordinance No. 75686, which serves as a supplement to TMRS and Social Security. The plan has both a defined benefit and a defined contribution component. SAWS delegated to Principal Financial Group the authority to manage plan assets and administer the payment of benefits under the plan. Eligible employees hired prior to June 1, 2014 participate in the defined benefit component of the plan. Eligible employees vest in this plan after completion of five years of service.

The financial information for SAWSRP is reported in the SAWS Fiduciary Funds financial statements. SAWSRP does not issue stand-alone financial statements.

Note 9 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

San Antonio Water System Retirement Plan (SAWSRP) (Continued)

SAWSRP membership in the defined benefit component consisted of:

Membership as of the Valuation Date	January 1, 2017
Number of:	
Active members	1,285
Retirees and beneficiaries	946
Inactive members [1]	522
Total	2,753

[1] Inactive members are vested employees no longer employed by SAWS, but are eligible for a deferred retirement benefit.

Benefits Provided — 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.

An employee is automatically 100.00% vested upon attainment of age 65 or upon becoming totally and permanently disabled.

The normal retirement benefit is based upon two factors: average compensation and years of vesting service. Average compensation is defined as the monthly average of total compensation received for the three consecutive years ending December 31, out of the last ten compensation years prior to normal retirement date, which gives the highest average.

The normal retirement benefit under SAWSRP is equal to the following:

- 1.20% of the average compensation, times years of credited service not in excess of 25 years, plus
- 0.75% of the average compensation, times years of credited service in excess of 25 years but not in excess of 35 years, plus
- 0.38% 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 disability benefits.

Year-Ended September 30, 2018 - 155 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 156 - Amounts are expressed in thousands

Note 9 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

San Antonio Water System Retirement Plan (SAWSRP) (Continued)

Contributions — Eligible employees hired on or after June 1, 2014 participate in the defined contribution component of the plan. SAWS contributes 4.00% of participant's compensation into an individual retirement account. Participants are required to contribute 3.00% of their compensation into their individual retirement account. Contributions under the defined contribution feature of the plan are made to participants' individual retirement accounts on a bi-weekly basis based on the participants' compensation during the period. An eligible employee totally vests in SAWS contributions to the individual retirement account after one year of service and immediately vests in the employee's contributions to the plan. The employee directs the investments in their individual retirement account. SAWS has no liability for losses under the defined contribution component of the SAWSRP but does have the usual fiduciary responsibilities of a plan sponsor.

During the year-ended December 31, 2017, SAWS made contributions to participants' individual retirement accounts totaling $850, net of forfeitures of $35 and employees contributed $663.

Net Pension Liability — The Net Pension Liability (NPL) for the defined benefit component of the SAWSRP as of December 31, 2017 was measured as of January 1, 2017 and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

The components of the Net Pension Liability, measured at January 1, 2017 are as follows:

Total Pension Liability	$ 218,571
Plan Fiduciary Net Position	175,279
Net Pension Liability	$ 43,292
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	80.19%

The Total Pension Liability presented above was calculated with the actuarial valuation performed at January 1, 2017.

Actuarial Assumptions — The Total Pension Liability calculated in the January 1, 2017 actuarial valuation was determined using the Entry Age Normal actuarial cost method and the following actuarial assumptions:

Investment rate of return	6.50%, including inflation, net of pension plan investment expense
Inflation	2.00%
Salary increases	Scale based on 2011-2013 SAWS experience

Note 9 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

San Antonio Water System Retirement Plan (SAWSRP) (Continued)

Real wage growth is based on a service-related table based on SAWS' experience from 2011 to 2013. Mortality rates for the January 1, 2017 valuation were based on RP-2006 total dataset mortality table projected to future years with historical and assumed mortality improvement (MI) rates using the Principal Mortality Improvement (PMI) Scale. RP-2006 is a baseline mortality rates table underlying the Society of Actuaries (SOA) RP-2014 experience study as of central year of the experience data for 2004-2008 years. The PMI scale is based on the SOA MI model PREC_2014_v2016 and Principal selected assumption set published November 2016. MI beyond 2007 was based on the RPEC_2014 model and assumes a convergence period of 10 years. Long-term MI is the sex-distinct and the age based assumption calibrated to the annual improvement averages, for the period 2010-2088 published by the SOA Trustees Report for 2014.

The expected long-term return on plan assets assumption was developed as a weighted average rate based on target asset allocation of the plan and the Long-Term Capital Market Assumptions (CMA) 2014. The capital market assumptions were developed with a primary focus on forward-looking valuation models and market indicators. The key fundamental economic inputs for these models are future inflation, economic growth, and interest rate environment. Due to the long-term nature of pension obligations, the investment horizon for the CMA 2014 is 20 – 30 years. Primarily as a result of a change in the target allocation of assets, the long-term expected rate of return used in the January 1, 2017 valuation was reduced to 6.50% from the long-term expected rate of return used in the January 1, 2016 valuation of 6.75%.

The discount rate used to measure the Total Pension Liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions will be made based on actuarial determined amounts. Based on that assumption, the SAWSRP defined benefit component's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine Total Pension Liability.

The target allocation and best estimates of arithmetic real rates of return for each major asset class including inflation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
US Equity - Large Cap	65.00%	6.50%
Core Bond	6.60%	3.60%
Cash	0.10%	1.55%
Aggregate Credit Bond	7.30%	4.05%
Long Credit Bond	5.50%	4.75%
Long Gov't Bond	1.80%	2.65%
Ultra Long Gov't Bond	13.70%	1.85%
Total	100.0%	

Year-Ended September 30, 2018 - 157 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 158 - Amounts are expressed in thousands

Note 9 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

San Antonio Water System Retirement Plan (SAWSRP) (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate — The following presents the Net Pension Liability, calculated using the discount rate of 6.50%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower, 5.50%, or 1.00% higher, 7.50%, than the current rate:

	1.00% Decrease 5.50%	Current Discount 6.50%	1.00% Increase 7.50%
Net Pension Liability - SAWSRP	$ 72,690	$ 43,292	$ 18,862

Schedule of Changes in Net Pension Liability and Related Ratios — The following table summarizes changes in the SAWSRP Net Pension Liability for the fiscal year-ended December 31, 2017, based on the measurement date and actuarial valuation date of January 1, 2017.

Changes in the Net Pension Liability	
Total Pension Liability	
Service Cost	$ 5,724
Interest	13,680
Difference between expected and actual experience	712
Changes of assumptions	5,532
Benefit payments	(7,283)
Net change in TPL	$ 18,365
Total Pension Liability - Beginning	200,206
Total Pension Liability - Ending	$ 218,571
Plan Fiduciary Net Position	
Contributions - Employer	$ 7,367
Contributions - Employee	2,533
Net investment income	6,971
Benefit payments	(7,283)
Administrative Expense	(195)
Net change in Plan Fiduciary Net Position	$ 9,393
Plan Fiduciary Net Position - Beginning	165,886
Plan Fiduciary Net Position - Ending	$ 175,279
Net Pension Liability	$ 43,292

Note 9 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

District Special Project Retirement Income Plan (DSPRP)

Plan Description — The District Special Project Retirement Income Plan (DSPRP) is a single-employer defined benefit pension plan that covers all eligible employees. The plan was originally established by Bexar Metropolitan Water District (BexarMet) to provide pension benefits to its employees. In 2008, the BexarMet Board elected to freeze pension benefits and entry into the plan effective September 30, 2008. In 2012, upon dissolution of BexarMet and the transfer of all assets and liabilities to the San Antonio Water System District Special Project (DSP), the plan was renamed District Special Project Retirement Income Plan. DSPRP is governed by SAWS, which is authorized to establish and amend all plan provisions. SAWS has delegated to Standard Insurance Company the authority to manage plan assets and administer the payment of benefits under the plan.

The financial information for DSPRP is reported in the SAWS Fiduciary Funds financial statements. DSPRP does not issue stand-alone financial statements.

DSPRP membership consisted of:

Membership as of the Valuation Date	January 1, 2017
Number of:	
Active members	108
Retirees and beneficiaries	12
Inactive members [1]	29
Total	149

[1] Inactive members are vested employees no longer employed by DSP, but are entitled to a deferred retirement benefit.

Benefits Provided — Prior to freezing entry into the plan, employees were eligible to enter on May 1st or November 1st following the completion of 12 months of employment and attaining the age of 21. Eligible employees vest in this plan after the completion of five years of service. Employees are 100.00% vested in any benefits derived from employee contributions regardless of years of service. A terminating participant who has completed five years of service is entitled to receive a vested benefit starting on his/her normal retirement date.

The normal retirement benefit is a percentage of average monthly earnings. Effective March 1, 1996, the monthly benefit is 40.00% of average monthly earnings reduced proportionately for less than 20 years of service. Average monthly earnings are determined by the 10 consecutive and complete calendar years after December 31, 1990 which produce the highest average. Upon retirement, retirees may choose from three different types of annuities or receive a single lump sum distribution.

Contributions — The plan's funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits as they come due. The contribution requirements of plan are established and may be amended by the Board. The unit credit method is used to calculate the actuarial determined contribution for 2017. Under this method, the actual or expected accrued benefit of each participant is allocated to the year in which it accrues. The normal cost is the present value of benefits expected to accrue in the current year.

Year-Ended September 30, 2018 - 159 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 160 - Amounts are expressed in thousands

Note 9 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

District Special Project Retirement Income Plan (DSPRP) (Continued)

Net Pension Liability — The following table summarized the changes in the DSPRP Net Pension Liability for the year-ended December 31, 2017 based on the measurement date of January 1, 2017.

Total Pension Liability	$ 6,694
Plan Fiduciary Net Position	5,410
Net Pension Liability	$ 1,284
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	80.82%

Actuarial Assumptions — The Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation using the Unit Credit method as of the January 1, 2017 measurement date and the actuarial assumptions described below:

Investment rate of return	6.50%, net of pension plan investment expense, including inflation
Inflation	2.75%

Mortality rates are based on the SOA RP-2014 table projected on a fully generational basis using mortality improvement scale MP-2016. Due to the limited size of this plan and the frozen nature of benefits under the plan, an experience study has not been done.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Primarily as a result of a change in the target allocation of assets, the long-term expected rate of return used in the January 1, 2017 valuation was reduced to 6.50% from the long-term expected rate of return used in the January 1, 2016 valuation of 7.00%.

The discount rate used to measure the Total Pension Liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions will be made equal to the actuarially determined contributions. Based on that assumption, the defined benefit component's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the defined benefit component's investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Note 9 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

District Special Project Retirement Income Plan (DSPRP) (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	56.00%	6.00%
International Equity	5.00%	6.00%
Fixed Income	39.00%	1.00%
Total	100.0%	

Sensitivity of the Net Pension Liability to Changes in the Discount Rate — The following table presents the Net Pension Liability, calculated at December 31, 2017 using the discount rate of 6.50%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower, 5.50%, or 1.00% higher, 7.50%, than the current rate. The discount rate was changed in 2017 to 6.50% from 7.00% in 2016.

	1.00% Decrease 5.50%	Current Discount 6.50%	1.00% Increase 7.50%
Net Pension Liability - DSPRP	$ 1,568	$ 1,284	$ 1,134

(The remainder of this page left blank intentionally)

Year-Ended September 30, 2018 - 161 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 162 - Amounts are expressed in thousands

Note 9 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

District Special Project Retirement Income Plan (DSPRP) (Continued)

Schedule of Changes in Net Pension Liability and Related Ratios — The following table summarizes the changes in the DSPRP Net Pension Liability for the fiscal year-ended December 31, 2017 based on the measurement date of January 1, 2017.

Changes in the Net Pension Liability		
Total Pension Liability		
Service Cost	$	71
Interest		418
Difference between expected and actual experience		(381)
Changes in assumptions		224
Benefit payments		(324)
Net change in TPL	$	8
Total Pension Liability - Beginning		6,686
Total Pension Liability - Ending	$	6,694
Plan Fiduciary Net Position		
Contributions - Employer	$	280
Net investment income		306
Benefit payments, including refunds of employee contributions		(324)
Administrative Expense		(8)
Net change in Plan Fiduciary Net Position	$	254
Plan Fiduciary Net Position - Beginning		5,156
Plan Fiduciary Net Position - Ending	$	5,410
Net Pension Liability	$	1,284

Deferred Compensation Plans — SAWS is the plan sponsor for two deferred compensation plans: San Antonio Water System Deferred Compensation Plan and the District Special Project Employee's 457 Plan. Both plans were created in accordance with Internal Revenue Code Section 457 and allow employees to defer a portion of their salary until future years. The compensation deferred under these plans is not available to employees until termination, retirement, death, or qualifying unforeseeable emergency. Participation is voluntary, and SAWS does not make any contributions to these plans. The District Special Project Employee's 457 Plan was closed to new contributions effective October 1, 2013. SAWS has no liability for losses under these plans but does have the usual fiduciary responsibilities of a plan sponsor.

Note 9 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

Other Pension Disclosures

Pension Expense — For the year-ended December 31, 2017, SAWS recognized pension expense under the TMRS, SAWSRP, and DSPRP as follows:

Schedule of Pension Expense		
TMRS	$	6,005
SAWSRP - Defined Benefit		9,201
SAWSRP - Defined Contribution		850
DSPRP		203
Total Pension Expense	$	16,259

Amounts payable to the pension plans by SAWS for contributions totaled $200 at December 31, 2017.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions — At December 31, 2017, Deferred Outflows of Resources and Deferred Inflows of Resources associated with SAWS plans related to the following sources:

	SAWSRP		TMRS		DSPRP		ALL PLANS	
	Deferred Outflows of Resources	Deferred (Inflows) of Resources	Deferred Outflows of Resources	Deferred (Inflows) of Resources	Deferred Outflows of Resources	Deferred (Inflows) of Resources	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference in expected and actual experience	$ 890	$ (248)	$ 23	$ (1,495)	$ 121	$ (339)	$ 1,034	$ (2,082)
Changes of assumptions	5,407	(246)	257		199		5,863	(246)
Net difference in projected and actual earnings on pension plan investments	6,729		7,436		217		14,382	
Total	$ 13,026	$ (494)	$ 7,716	$ (1,495)	$ 537	$ (339)	$ 21,279	$ (2,328)

Contributions made after the measurement date of $12,149 will be recognized as a reduction of the Net Pension Liability for the year-ending December 31, 2018.

(The remainder of this page left blank intentionally)

Year-Ended September 30, 2018 - 163 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 164 - Amounts are expressed in thousands

Note 9 Pension and Retirement Plans (Continued)

San Antonio Water System (SAWS) (Continued)

Other Pension Disclosures (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year-Ended December 31,	Net Deferred Outflows (Inflows) of Resources SAWSRP	TMRS	DSPRP	Combined
2018	$ 3,400	$ 2,105	$ 64	$ 5,569
2019	3,400	2,105	64	5,569
2020	4,181	2,007	79	6,267
2021	1,551	4	11	1,566
2022			(1)	(1)
Thereafter			(19)	(19)
Total	$ 12,532	$ 6,221	$ 198	$ 18,951

(The remainder of this page left blank intentionally)

Note 10 Postemployment Retirement Benefits

Summary of Postemployment Retirement Benefits

	Retiree Health Care Fund	Fire and Police Retiree Health Care Fund (Health Fund)	Total Retiree Health Care Fund and Health Fund	CPS Energy: Health, Life, and Disability
Total OPEB Liability	$ 306,065	$ 972,646	$ 1,278,711	$ 288,392
Plan Fiduciary Net Position	-	376,808	376,808	314,580
Net OPEB Liability	$ 306,065	$ 595,838	$ 901,903	$ (26,188)
Total Deferred Inflows of Resources	$ (28,401)	$ (27,599)	$ (56,000)	$ -
Total Deferred Outflows of Resources	$ -	$ -	$ -	$ 4,630
Contributions Post Measurement Date	$ -	$ 21,801	$ 21,801	$ 1,300
Total OPEB Expense	$ 19,295	$ 52,247	$ 71,542	$ (10,396)

SAWS did not implement GASB 75 in the City's fiscal year-end 2018. SAWS will implement GASB 75 in the City's fiscal year-end 2019.

Primary Government (City)

Plan Description — In addition to the pension benefits discussed in Note 9 Pension and Retirement Plans, the City provides Medicare eligible civilian and pre-October 1, 1989 uniformed retirees with certain health benefits under two postemployment benefit programs. Pursuant to GASB Statement No. 75, *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.

As of September 30, 2018, there were 393 retirees and surviving spouses participating in this program. These retirees are covered under a program comprised of two self-funded PPO health plans currently administered by Blue Cross Blue Shield of Texas. These plans may be amended at any time with approval from the City Council.

The other program is for Medicare eligible retirees and surviving spouses. These retirees and surviving spouses may participate in one of two Medicare Advantage PPO Plans or the Medicare Part D Drug Plan. All retirees and surviving spouses are required to apply for and maintain Medicare Parts A & B coverage once they reach age 65 or otherwise become eligible for Medicare in order to participate in this option. Of the current 1,143 participating Medicare retirees and surviving spouses, 147 participate in a fully insured Medicare Advantage PPO Plus plan, 993 participate in a Medicare Advantage PPO plan, and three participate in the Medicare Part D Drug Plan.

A dental and vision insurance benefit is made available to eligible retired employees on a fully contributory basis. Since retirees pay the full premium for dental and vision benefits, there is no liability associated with either benefit.

Employees must be a minimum of age 60 and have at least five years of service, or have at least 20 years of service at any age to be eligible for retiree health benefits.

Employees who qualify for a disability pension under TMRS rules are also eligible to receive the retiree medical benefit under this plan. There is no minimum length of service or age required to be eligible.

Year-Ended September 30, 2018 - 165 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 166 - Amounts are expressed in thousands

Note 10 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Contributions — The two postemployment benefit programs are funded on a pay-as-you-go basis with an aggregate sharing of premium costs based on the following targets: 67.00% by the City and 33.00% 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 ten years of service are eligible to participate in the program but without City subsidy; and (3) Employees who separate from employment with ten years of service or more will pay for 50.00% of the pay-as-you-go contributions to the program and the City will contribute the remaining 50.00%. The ability to participate in the program remains based on meeting retirement criteria for the TMRS Pension Plan.

Retirees may waive coverage at retirement but must do so at the exact time of retirement. These retirees are allowed a one-time opportunity to re-enter the plan at a later date upon submitting proof of continuous health coverage. Retirees may only enroll dependents that were covered at the time coverage was waived. Dependents must return to the plan with the retiree, otherwise coverage for the dependent is forfeited.

A summary of the current active employee and retiree population for the City at September 30, 2018 is provided in the table below:

Active members	7,092
Inactive members currently receiving benefits	1,536
Inactive members entitled to but not yet receiving benefits	1,159
Total Membership	9,787

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. No contributions were made in fiscal year 2018 to prefund benefits. Total contributions by the City and Retirees for fiscal year-ended September 30, 2018 were $7,439 and $1,691 respectively.

Net OPEB Liability — The net OPEB liability of $306,065 was determined by an actuarial valuation as of September 30, 2018.

Total OPEB liability	$ 306,065
Plan fiduciary net position	
Total OPEB Liability	$ 306,065

Note 10 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

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. This valuation's assumptions are as follows:

Actuarial Cost Method	Entry Age Normal based on level percentage of projected salary
Amortization Method	Experience/Assumptions gains and losses are amortized over a closed period of 7.5 years starting on October 1, 2017, equal to the average remaining service of active and inactive plan members (who have no future service)
Salary Increase Rate	3.50% per annum
Discount Rate	4.24% per annum (EOY)

Mortality Rates were based on the RP-2014 generational table scaled using MP-18 and applied on a gender-specific basis.

The City's retiree participation percentage is the assumed rate of future eligible retirees who elect to continue health coverage at retirement. It is assumed that 60.00% of all employees and their dependents who are eligible for early retiree benefits will participate in the retiree medical plan. Additionally, current waived retirees that are eligible to return to the plan have a 10.00% participation rate for returning to a Medicare Advantage plan.

Annual retirement probabilities have been determined based on the TMRS Actuarial Valuation as of December 31, 2017. The annual retirement probability is dependent on an employee's gender, entry age group, and age. Additional criteria that adjust the probabilities include employee contribution rate, employer match, and if the City has a reoccurring COLA.

The rate of withdrawal for reasons other than death and retirement has been developed from the TMRS Actuarial Valuation as of December 31, 2017. The annual termination probability is dependent on an employee's age, gender, and years of service.

A retiree pre-65 plan cost is projected at health care cost trend and compared to the excise tax cost threshold beginning in 2022 and continuing thereafter. On December 18, 2015, a bill was signed delaying the excise tax for two years. On January 22, 2018, a bill was signed delaying the implementation for an additional two years. The threshold is assumed to increase at health C-CPI trend each year. The City will be liable for 40.00% of the difference between plan costs and the cost threshold, when the plan costs are greater than the cost threshold. Excise tax is not applied to Medicare retiree coverage. The 2018 annual threshold costs for excise tax are as follows and are trended by CPI to 2022: Pre-65 Retiree Single $12 and $31 for Pre-65 Retiree Family.

Year-Ended September 30, 2018 - 167 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 168 - Amounts are expressed in thousands

Note 10 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate — The following shows the current total OPEB liability, calculated using the discount rate of 4.24% in comparison to what the total OPEB liability would be if it were calculated using a discount rate that is 1.00% lower (3.24%) or 1.00% higher (5.24%) than the current rate:

	1.00% Decrease 3.24%	Current Discount 4.24%	1.00% Increase 5.24%
Total OPEB Liability	$ 362,627	$ 306,065	$ 261,920

Sensitivity of the Total OPEB Liability to Changes in the Health Care Trend Rates — The following shows the current net OPEB liability, calculated using the assumed health benefit cost trend rates, in comparison to what the total OPEB liability would be if it were calculated using trend rates that are 1.00% lower (6.00% decreasing to 3.50%) or 1.00% higher (8.00% decreasing to 5.50%) than the assumed health benefit costs trend rates:

	1.00% Decrease (6.00% decreasing to 3.50%)	Assumed Rates (7.00% decreasing to 4.50%)	1.00% Increase (8.00% increasing to 5.50%)
Total OPEB Liability	$ 263,021	$ 306,065	$ 359,983

(The remainder of this page left blank intentionally)

Note 10 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Changes in the Net OPEB Liability — The following table shows the changes in the Net OPEB Liability as of the fiscal year-ended September 30, 2018.

Changes in the Net OPEB Liability	
Total OPEB Liability	
Service Cost	$ 11,665
Interest	11,999
Difference between expected and actual experience	
Assumption changes	(32,771)
Benefit payments	(7,439)
Net change in Total OPEB Liability	$ (16,546)
Total OPEB Liability - Beginning	322,611
Total OPEB Liability - Ending	$ 306,065
Plan Fiduciary Net Position	
Contributions - Employer	$ 7,439
Benefit payments	(7,439)
Net change in Plan Fiduciary Net Position	$ -
Plan Fiduciary Net Position - Beginning	-
Plan Fiduciary Net Position - Ending	$ -
Total OPEB Liability	$ 306,065

OPEB Expense — For the year-ended September 30, 2018, the recognized OPEB expense was $19,295.

Schedule of OPEB Expense	
Service Cost	$ 11,665
Interest	11,999
Current Recognized deferred outflows/(inflows):	
Changes in assumptions or other inputs	(4,369)
Total OPEB Expense	$ 19,295

Year-Ended September 30, 2018 - 169 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 170 - Amounts are expressed in thousands

Note 10 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB — At September 30, 2018, the City reported OPEB related deferred outflows of resources and deferred inflows of resources from the following:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Changes of assumptions	$ -	$ (28,401)
Total	$ -	$ (28,401)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in OPEB expense as follows:

	Net Deferred Outflows (Inflows) of Resources
2019	$ (4,370)
2020	(4,370)
2021	(4,370)
2022	(4,370)
2023	(4,370)
Thereafter	(6,551)
Total	$ (28,401)

Contact Information — For additional information regarding the separately issued actuarial valuation report contact the City of San Antonio Human Resource Department, Employee Benefit Division, at 111 Soledad, Suite 200, San Antonio, Texas, 78205. The City's Retiree Health Care Fund's financials are reported as a fiduciary fund in the City's CAFR. The City's CAFR is available for viewing at www.sanantonio.gov.

Note 10 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund

Plan Description — 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, established under Article 6243q, Vernon's Texas Civil Statutes. 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 healthcare 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 regulations enacted by the Texas Legislature 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 representative; two members of the City Council; one retired and two active duty police officers; and one retired and two active duty firefighters. The City is the only participating employer in the Plan.

WEB-TPA Employer Services, LLC and WellDyncRx serve as the medical and prescription third party administrators for the Health Fund.

Benefits Provided — The Health Fund provides postretirement health benefits for uniform employees of the fire and police departments who become eligible retirees, and their spouses. Eligible retirees are those who retire after October 1, 1989. Eligible spouses are spouses at the time of retirement of the eligible retirees and either remain married to or survive the eligible retiree. In addition, eligible spouses include the surviving spouses of active members whose death was duty-related or who died while eligible for retirement. Retirement eligibility is according to the provisions of the Fire and Police Pension Fund, San Antonio, which requires 20 or more years of service after completing the retired training to be certified.

The health benefits are indemnity style coverage with a maximum annual deductible per individual ($654 in-network) and maximum out-of-pocket payments per individual ($2,482 in-network) (amounts not expressed in thousands). After age 65, the benefits are coordinated with Medicare. The maximum deductible and out-of-pocket payments are indexed according to the annual increase in the medical care category of the CPI-U.

Contributions — Since its inception, the Health Fund has been funded primarily by contributions from the City and active firefighters and police officers, as part of the compensation for services rendered by members, and by contributions made by retirees for their dependents. As of the January 1, 2018 valuation date, the contributions required by the City were 10.34% of average covered pay of the combined fire and police departments for the City's fiscal year 2017-2018. For the active fire and police employees, the contributions required were 5.17% of the average covered pay for the City's fiscal year 2017-2018. Based on the January 1, 2018 actuarial valuation, the rates will be 12.51% and 6.26% for the City's fiscal year 2019-2020 for the City and the employees, respectively.

Note 10 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

The total statutorily determined contribution rates effective October 1, 2017 through October 1, 2021 are presented in the table below.

Contribution Rates

Effective Date	City	Member	Total
10/1/2017	10.34%	5.17%	15.51%
10/1/2018	11.37%	5.69%	17.06%
10/1/2019	12.51%	6.26%	18.77%
10/1/2020 [1]	13.21%	6.60%	19.81%
10/1/2021 [1]	13.39%	6.70%	20.09%

[1] The January 1, 2019 actuarial valuation will determine the actual increase beginning October 1, 2020.

Total contributions by the City and active members for fiscal year-ended September 30, 2018 were $29,775 and $14,885 respectively.

Ultimately, the funding policy also depends upon the total return of the Fund's assets, which varies from year to year. Investment policy decisions are established and maintained by the Board of Trustees. The board selects and employs investment managers with the advice of their investment consultant who is completely independent of the investment managers. The measurement of the investment performance is net of investment-related expenses, reflecting the effect of the timing of the contributions received and the benefits paid during the year.

Membership in the Plan consisted of the following at December 31, 2017 (not expressed in thousands):

Active members	3,901
Inactive members currently receiving benefits	3,716
Inactive members entitled to but not yet receiving benefits	-
Total Membership	7,617

Net OPEB Liability — The net OPEB liability of $595,838 was measured as of December 31, 2017, and was determined by an actuarial valuation as of January 1, 2018.

Total OPEB liability	$ 972,646
Plan fiduciary net position	376,808
Net OPEB Liability	$ 595,838
Plan fiduciary net position as a percentage of the total OPEB liability	38.74%

Note 10 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

Actuarial Assumptions — The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.00% plus merit and promotion increases that vary by age and service
Discount rate	7.25%
Health benefit costs trend rates	7.00% for 2019 decreasing 0.5% per year to an ultimate rate of 4.5% for 2024 and beyond

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table for males and for females (sex distinct) projected to 2024 by scale AA. The assumed retirement rates, termination rates, and rates of merit and promotion increases were based on an experience study of the Pension Fund over the five plan years ending in 2014. The discount rate was based on the expected long-term rate of return for the Fund and is the same as in the prior actuarial valuation.

The long-term expected rate of return on plan investments is reviewed for each actuarial valuation and was determined using a building-block method in which expected future net real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future net real rates of return by target asset allocation percentage (currently resulting in 4.54%) and by adding expected inflation (3.00%). In addition, the final 7.25% assumption was selected by rounding down.

(The remainder of this page left blank intentionally)

Note 10 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

The target allocation and expected arithmetic net real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Net Real Rate of Return
Equities		
Global	5.00%	5.36%
Domestic small cap	4.00%	6.05%
International developed	4.00%	6.72%
Emerging markets	7.00%	7.84%
Fixed Income		
Domestic core	12.00%	1.58%
Domestic TIPS	7.00%	2.33%
Bank loans	3.00%	2.53%
Emerging markets	3.00%	2.15%
Domestic high yield	2.00%	2.72%
Alternatives		
Private equity	22.00%	6.90%
Real estate	15.00%	4.15%
Hedge funds	2.00%	2.15%
Natural resources	13.00%	3.65%
Cash	1.00%	0.30%
Total	100.00%	
Weighted Average		4.54%

Discount Rate — The discount rate used to measure the total OPEB liability was 7.25%. No projection of cash flows was used to determine the discount rate because the January 1, 2018 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years beginning in 2020. Because the 30-year amortization period of the UAAL, the plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on plan investments of 7.25% was applied to all periods of projected benefit payments as the discount rate to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate — The following shows the current net OPEB liability, calculated using the discount rate of 7.25% in comparison to what the net OPEB liability would be if it were calculated using a discount rate that is 1.00% lower (6.25%) or 1.00% higher (8.25%) than the current rate:

	1.00% Decrease 6.25%	Current Discount 7.25%	1.00% Increase 8.25%
Net OPEB Liability	$ 739,594	$ 595,838	$ 477,848

Note 10 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Health Care Trend Rates — The following shows the current net OPEB liability, calculated using the assumed health benefit cost trend rates, in comparison to what the net OPEB liability would be if it were calculated using trend rates that are 1.00% lower (6.00% decreasing to 3.50%) or 1.00% higher (8.00% decreasing to 5.50%) than the assumed health benefit costs trend rates:

	1.00% Decrease (6.00% decreasing to 3.50%)	Assumed Rates (7.00% decreasing to 4.50%)	1.00% Increase (8.00% decreasing to 5.50%)
Net OPEB Liability	$ 462,547	$ 595,838	$ 753,802

Changes in the Net OPEB Liability — The following table shows the changes in the Net OPEB Liability as of the fiscal year-ended September 30, 2018, based on the measurement date of December 31, 2017.

Changes in the Net OPEB Liability	
Total OPEB Liability	
Service Cost	$ 24,289
Interest	68,947
Difference between expected and actual experience	(5,165)
Assumption changes	(25,344)
Benefit payments	(33,560)
Net change in Total OPEB Liability	$ 29,167
Total OPEB Liability - Beginning	943,479
Total OPEB Liability - Ending	$ 972,646
Plan Fiduciary Net Position	
Contributions - Employer	$ 27,242
Contributions - Employee	13,616
Net investment income	25,294
Benefit payments	(33,560)
Administrative Expense	(2,660)
Other	1,829
Net change in Plan Fiduciary Net Position	$ 31,761
Plan Fiduciary Net Position - Beginning	345,047
Plan Fiduciary Net Position - Ending	$ 376,808
Net OPEB Liability	$ 595,838

Year-Ended September 30, 2018 - 175 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 176 - Amounts are expressed in thousands

Note 10 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

OPEB Expense — For the year-ended September 30, 2018, based on the actuarial valuation of December 31, 2017, the recognized OPEB expense was $52,247. Amounts recognized in the fiscal year represent changes between current and prior measurement dates.

Schedule of OPEB Expense	
Service Cost	$ 24,289
Interest	68,947
Employee Contributions	(13,616)
Projected Earnings on OPEB Plan Investments	(25,250)
Amortization of differences between projected and actual earnings on plan investments	(9)
Amortization of changes of assumptions	(2,446)
Amortization of differences between expected and actual experience	(499)
OPEB plan administrative expenses	2,660
Other contributions (retirees)	(1,829)
Total OPEB Expense	$ 52,247

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB — At September 30, 2018, the City reported OPEB related deferred outflows of resources and deferred inflows of resources from the following:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Net difference in projected and actual earnings on OPEB plan investments	$ -	$ (35)
Changes of assumptions		(22,898)
Difference in expected and actual experience		(4,666)
Total	$ -	$ (27,599)

Note 10 Postemployment Retirement Benefits (Continued)

Primary Government (City) (Continued)

Fire and Police Retiree Health Care Fund (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Net Deferred Outflows (Inflows) of Resources
2019	$ (2,954)
2020	(2,954)
2021	(2,954)
2022	(2,954)
2023	(2,944)
Thereafter	(12,839)
Total	$ (27,599)

Subsequent to the measurement date of the net OPEB liability, December 31, 2017 through fiscal year-end September 30, 2018, the total contributions of $21,801 is a deferred outflow of resources that will be recognized as a reduction to the net OPEB liability in the fiscal year-ending September 30, 2019.

Contact Information — Additional information regarding the Health Fund separately issued stand-alone financial report, or the actuarial valuation report for OPEB, may be obtained at 11603 W. Coker Loop, Suite 130, San Antonio, Texas, 78216.

CPS Energy

CPS Energy provides certain health, life insurance and disability income benefits for active and retired employees. CPS Energy employees and their dependents may elect to participate in the plans and most CPS Energy employees continue eligibility upon retirement from CPS Energy. Disclosures in this footnote are limited to information related only to those benefits provided on a postemployment basis. Assets of the plans are held in three separate, single-employer contributory plans:

- CPS Energy Group Health Plan (Health Plan) – a defined-benefit contributory group health plan that provides health, dental and vision benefits.
- CPS Energy Group Life Insurance Plan (Life Plan) – a defined-benefit contributory plan that provides life insurance benefits.
- CPS Energy Long-Term Disability Income Plan (Disability Plan) – a defined-benefit contributory 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 the Employee Benefits Oversight Committee (EBOC), which includes the President and CEO, the Chief Financial Officer, and the Audit Committee of the Board.

Year-Ended September 30, 2018 - 177 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 178 - Amounts are expressed in thousands

Note 10 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 EBOC. 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. The Employee Benefit Plans' financial statements include certain disclosures related to CPS Energy's Net OPEB liabilities. However, because the financial reporting and OPEB measurement dates for the Employee Benefits Plans and CPS Energy are not aligned, the Employee Benefit Plans' disclosures will vary from information provided by CPS Energy in this footnote and in the accompanying RSI.

Benefits Provided — The Health Plan provides health, dental and vision benefits to eligible retirees and the spouse and dependent children of deceased employees. The Life Plan provides life insurance benefits and death benefits to eligible retired employees and enrolled dependents. The Disability Plan provides disability income benefits to employees as of an employee's date of hire; however, benefits under the Plan are reduced if the employee is receiving certain other disability, retirement or welfare benefits.

The following table presents information about the Employee Benefit Plans participants covered by the benefit terms. Participants providing the basis of the actuarial valuation used to calculate the net OPEB liability, as of the measurement date were:

Membership as of the Valuation Date	January 31, 2018		
	Health	Life	Disability
Number of:			
Active Participants	2,886	2,886	2,992
Participants currently receiving benefits		2,268	69
Retirees receiving medical and vision	1,926		
Retirees receiving dental	1,863		
Total	6,675	5,154	3,061

Contributions — 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 13 months after the valuation date. The January 1, 2016 valuation was the basis for contributions in fiscal year 2018.

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 2.25% 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. Based on the funded status of the Health Plan, CPS made no contributions in fiscal year 2018. The CPS Energy average contribution rate of the Health plan was 3.80% of covered payroll in fiscal year 2017.

Note 10 Postemployment Retirement Benefits (Continued)

CPS Energy (Continued)

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 $933 for fiscal year 2018. 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.

Active employees contribute to the Life Plan at a rate of $0.13 per $1 of insurance per month on amounts in excess of $20. Employees who retired prior to February 1, 1993, contribute to the Life Plan at a rate of $0.13 per $1 of insurance per month on amounts in excess of $20 plus 2.25% of the difference between that amount and the aggregate rate for retiree coverage for each year the sum of retirement age and service is less than 95. Those who retired on or after February 1, 1993, contribute $0.13 per $1 of insurance per month on amounts in excess of $20 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. Based on the funded status of the Life Plan, CPS made no contributions in fiscal year 2018.

Beginning February 1, 2014, the Disability Plan is funded by a combination of employee and employer contributions. Active employee contribution rates are determined by CPS Energy and may be adjusted on an annual basis. CPS Energy's contributions are determined on a discretionary basis and are generally based on the actuarial valuation calculations. Retired employees are not eligible to participate and therefore do not contribute to the Disability Plan. Prior to fiscal year 2015, the Disability Plan was funded completely by CPS Energy. CPS Energy's average contribution rate was 0.60% of covered payroll in fiscal year 2018.

CPS Energy's net OPEB (asset) liability at January 31, 2018 was measured as of January 31, 2017. The total OPEB liability used to calculate the new OPEB (asset) liability was determined by actuarial valuations as of January 1, 2017, rolled forward using generally accepted actuarial procedures to the January 31, 2017 measurement date. The components of CPS Energy's net OPEB (asset) liability at January 31, 2018, were as follows:

	Health	Life	Disability	Total
Total OPEB liability	$ 234,808	$ 47,289	$ 6,295	$ 288,392
Plan fiduciary net position	260,648	49,698	4,234	314,580
Net OPEB (asset) liability	$ (25,840)	$ (2,409)	$ 2,061	$ (26,188)
Plan fiduciary net position as a percentage of the total OPEB liability	111.00%	105.09%	67.26%	109.08%

Year-Ended September 30, 2018 - 179 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 180 - Amounts are expressed in thousands

Note 10 Postemployment Retirement Benefits (Continued)

CPS Energy (Continued)

Actuarial Methods and Assumptions — Significant actuarial assumptions used in the calculations for the January 1, 2017, actuarial valuation for fiscal year 2018 included (a) a rate of return on the investment of present and future assets of 7.50% for the Health, Life and Disability Plans, (b) a Consumer Price Index increase of 3.00% per year for the Life and Disability Plan, (c) projected annual base salary increases for the Health Plan ranging from 4.00% to 9.50% depending on age and projected annual salary increases of 4.78% for the Life and Disability Plans, and (d) overall medical and prescription cost increases projected at 7.00% for 2017, decreasing annually to 5.00% in 2022 and thereafter. Mortality rates for retirees were based on the RP-2000 Combined Healthy, with No Collar Adjustment, Projected to 2020 using Scale BB, Male and Female tables. Mortality rates for disabled lives were based on the 1987 Commissioners Group Disabled Life Mortality Table. There were no significant changes to the January 1, 2017 valuation assumptions, compared to the January 1, 2015 valuation for the Life and Disability Plans. The January 1, 2017 valuation for the Health Plan includes updated claims costs to reflect plan changes and recent experience, as well as resetting of the medical and prescription costs trend.

The actuarial assumptions used in the January 1, 2017 valuation for amounts reported in fiscal year 2018 were based on the results of an actuarial experience study completed in 2014 covering experience for the period January 1, 2009 through December 31, 2013.

The long-term expected rate of return on OPEB plan investments was determined based on a blend of historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions, developed on a geometric basis. An economic simulation method was used in which best-estimate ranges of expected future rates of return (expected returns on Employee Benefit Plans investment expense) for each major asset class were combined using simulations that ensure the economic consistency of each individual trial, then reduced by a factor representing inflation to produce long-term expected real rates of return for each major asset class. The assumed allocation and expected real rates of return for each major asset class are summarized in the table below.

	Assumed Asset Allocation	Expected Real Rate of Return
Asset Class		
Domestic equity	55.20%	5.49%
International equity	10.70%	5.40%
U.S. government and corporate bonds	19.60%	0.97%
Real estate	10.50%	3.80%
Cash equivalents	4.00%	
Total Investments	100.00%	

Discount Rate and Healthcare Cost Trend Rates — The discount rate used to measure the total OPEB liability for fiscal year 2018 was 7.50%. The projection of cash flows used to determine the discount rate assumed that CPS Energy contributions will be made in a manner consistent with the current contribution practices. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Note 10 Postemployment Retirement Benefits (Continued)

CPS Energy (Continued)

An actuarial experience study was completed in 2017 covering the period January 1, 2012 through December 31, 2016. As a result of the study, the discount rate was lowered to 7.25% to more closely reflect actual experience. This change in assumption will be reflected in the January 1, 2017 actuarial valuation with a measurement date of January 31, 2018 to be recorded in the fiscal year-ending January 31, 2019.

The following tables present the sensitivity of the net OPEB (asset) liability calculation to a 1.00% increase and a 1.00% decrease in the discount rate used to measure the total OPEB Liability:

	1.00% Decrease 6.50%	Current Discount 7.50%	1.00% Increase 8.50%
Health	$ 2,203	$ (25,840)	$ (53,883)
Life	4,135	(2,409)	(8,639)
Disability	2,219	2,061	1,911
Total	$ 8,557	$ (26,188)	$ (60,611)

The following table presents the sensitivity of net Health Plan OPEB (asset) liability calculation to a 1.00% increase and a 1.00% decrease in the healthcare cost trend rates used to measure the total Health Plan OPEB liability:

	1.00% Decrease 6.50% to 4.00%	**Current Discount 7.50% to 5.00%**	**1.00% Increase 8.50% to 6.00%**
Health Plan OPEB (Asset)/Liability	$ (51,252)	$ (25,840)	$ 4,508

(The remainder of this page left blank intentionally)

Year-Ended September 30, 2018 - 181 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 182 - Amounts are expressed in thousands

Note 10 Postemployment Retirement Benefits (Continued)

CPS Energy (Continued)

Net OPEB (Asset) Liability — CPS Energy's net OPEB (asset) liability at January 31, 2018 was measured as of January 31, 2017. The total OPEB liability used to calculate the net OPEB (asset) liability was determined by actuarial valuations as of January 1, 2017, rolled forward using generally accepted actuarial procedures to the January 31, 2017 measurement date.

Changes in Net OPEB (Asset) Liability

		Health		Life		Disability		Total
Total OPEB Liability								
Service cost	$	3,435	$	336	$	527	$	4,298
Interest cost		18,176		3,256		455		21,887
Changes in Plan Benefits		(19,185)						(19,185)
Differences between expected and actual experience		475		2,378		255		3,108
Benefit payments		(14,001)		(3,469)		(974)		(18,444)
Net Change in Total OPEB Liability		(11,100)		2,501		263		(8,336)
Total OPEB Liability - Beginning		245,908		44,788		6,032		296,728
Total OPEB Liability - Ending	$	234,808	$	47,289	$	6,295	$	288,392
Plan Fiduciary Net Position								
Contributions - employer	$	8,500	$	-	$	700	$	9,200
Contributions - employee		6,802		972		260		8,034
Medicare Part D payment		933						933
Loss on Plan assets		38,949		6,936		501		46,386
Benefit payments		(20,804)		(3,469)		(974)		(25,247)
Administrative expense		(1,621)		(27)		(15)		(1,663)
Net Change in Plan Fiduciary Net Position	$	32,759	$	4,412	$	472	$	37,643
Plan Fiduciary Net Position - Beginning		227,889		45,286		3,762		276,937
Plan Fiduciary Net Position - Ending	$	260,648	$	49,698	$	4,234	$	314,580
Net OPEB (Asset) Liability	$	(25,840)	$	(2,409)	$	2,061	$	(26,188)

CPS Energy recorded $(10,396) in OPEB expense for the year-ended January 31, 2018.

Plan Fiduciary Net Position — Detailed information about the OPEB plans' fiduciary net position is available in the separately issued Employee Benefit Plans financial statements. For purposes of measuring the net OPEB (asset) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position for the Employee Benefit Plans and additions to/deductions from the Employee Benefit Plans' fiduciary net position have been determined on the same basis as they are reported by the Employee Benefit Plans. Investments are stated at fair value. Benefit payments are recognized when due and payable in accordance with the terms of the Employee Benefit Plans.

Note 10 Postemployment Retirement Benefits (Continued)

CPS Energy (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB — The following table presents information about the OPEB-related deferred outflows of resources and deferred inflows of resources for CPS Energy at January 31, 2018:

		Health		Life		Disability		Total
Deferred Outflows of Resources								
Differences between projected and actual earnings on OPEB assets	$	787	$	1,019	$	159	$	1,965
Differences between expected and actual experience in the measurement of total OPEB liability		408		2,038		219		2,665
Total Deferred Outflows of Resources	$	1,195	$	3,057	$	378	$	4,630

Subsequent to the measurement date and through fiscal year-end 2018, CPS contributed $1,300 to the Plan.

The following table presents the future amortization of OPEB-related deferred outflows of resources and deferred inflows of resources, excluding the balance attributable to the employer's contribution to the Employee Benefit Plans in the current fiscal year and subsequent to the net OPEB (asset) liability measurement date. The deferred outflows of resources balance for such contribution amounts at the end of a fiscal period are recognized fully as adjustments to the net OPEB (asset)/liability in the subsequent fiscal year.

		Health		Life		Disability		Total
Year-ended January 31,								
2019	$	2,150	$	1,001	$	113	$	3,264
2020		2,150		1,001		113		3,264
2021		1,166		762		87		2,015
2022		(4,407)		(387)		(7)		(4,801)
2023		68		340		36		444
Thereafter		68		340		36		444
Total	$	1,195	$	3,057	$	378	$	4,630

Year-Ended September 30, 2018 - 183 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 184 - Amounts are expressed in thousands

Note 10 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 San Antonio Water System Retiree Health Trust (SAWS OPEB Plan), 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. Retirees may also purchase coverage for their spouse and qualifying dependents at group rates partially subsidized by SAWS. Any plan participant eligible for Medicare is required to enroll in a Medicare Advantage Plan. No supplemental health benefits are provided to those participants enrolled in Medicare Advantage Plans. Employees hired after December 31, 2013 will not be eligible for any subsidized medical benefits upon retirement from SAWS.

SAWS does not issue a separate financial report for its OPEB plan.

The following is the participant summary as of January 1, 2017, the most recent actuarial valuation date:

Active employees	1,501
Retired employees	833
Total	2,334

Funding Policy — The contribution requirements of plan participants are established and may be amended by the SAWS Board of Trustees. Contributions made by retirees for health insurance benefits vary based on retirement date, years of service and the health care options selected. Plan participants made contributions toward plan benefits totaling $1,103 for year-ended December 31, 2017.

SAWS contributions to the plan are also established by the Board. Prior to 2012, SAWS only funded the shortfall between annual benefit payments and retiree contributions (“current benefit payments”). In March 2012, SAWS established an OPEB Trust for the exclusive purpose of prefunding future benefit payment for eligible retirees and their dependents. In addition to making contributions to the trust, SAWS has continued to fund current benefit payments outside of the trust. SAWS intends to fund current benefit payments as well as make annual contributions to the trust in accordance with a plan that, at a minimum, fully funds the actuarially determined annual required contributions for these benefits thereby improving the funded status of the SAWS OPEB Plan over a period of time.

Annual OPEB Cost and Net OPEB Obligation — For the year-ended December 31, 2017, SAWS’ annual OPEB cost is calculated based on the annual required contribution (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. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Note 10 Postemployment Retirement Benefits (Continued)

San Antonio Water System (SAWS) (Continued)

The following table summarizes the actuarial methods and assumptions used in the most recent actuarial valuation for SAWS’ OPEB plan.

Assumptions	
Actuarial Valuation Date	1/1/2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
Remaining Amortization Period	17 Years - Closed
Actuarial Assumptions:	
Investment Rate of Return	6.50%
Inflation Rate	2.50%

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 are as follows:

	Annual Rate of Increase
Year Beginning January 1,	Medical Trend
2017	5.50%
2018	5.40%
2019	5.30%
2020	5.20%
2025	5.45%
2030	5.49%
2035	5.49%
2040	5.49%
2050	5.11%
2060	4.93%
2070	4.41%
Ultimate - 2074	4.14%

(The remainder of this page left blank intentionally)

Year-Ended September 30, 2018 - 185 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 186 - Amounts are expressed in thousands

Note 10 Postemployment Retirement Benefits (Continued)

San Antonio Water System (SAWS) (Continued)

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										
OPEB 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 (Asset) at Beginning of Year	Net OPEB Obligation (Asset) at End of Year	Percentage of OPEB Cost Contributed
SAWS - OPEB[1]	2015	$ 12,978	$ 3,977	$ (6,578)	$ 10,377	$ (13,761)	$ (3,384)	$ 83,734	$ 80,350	132.61%
	2016	11,416	5,223	(7,704)	8,935	(15,746)	(6,811)	80,350	73,539	176.23%
	2017	12,412	4,780	(7,273)	9,919	(14,525)	(4,606)	73,539	68,933	146.44%

SAWS' funded status for the most recent year is as follows:

Funded Status and Funding Progress	
OPEB Plan	SAWS
Actuarial value of plan assets (a)	$ 44,028
Actuarial accrued liability (b)	144,960
Unfunded actuarial accrued liability (funding excess) (b) - (a)	$ 100,932
Funded ratio (a) / (b)	30.37%
Covered payroll (c)	$ 79,417
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(b) - (a)] / (c))	127.09%

Note 11 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 1,330 MW. 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. CPS Energy's 40.0% ownership in STP Units 1 and 2 represents approximately 1,064 MW of total plant capacity.

Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated. At that time, the South Texas Project Nuclear Operating Company (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.

On October 28, 2010, STP submitted license renewal applications to the Nuclear Regulatory Commission (NRC) to extend the operating licenses of STP Units 1 and 2 to 2047 and 2048, respectively. The NRC issued a letter on February 10, 2017 which provided an Updated Safety Review Schedule for the STP Units 1 and 2 license applications and indicated the scheduled date for issuance of the Safety Evaluation Report (SER) as June 2017, followed by a full Advisory Committee on Reactor Safeguards (ACRS) meeting on the SER in July 2017. The issuance of the SER and the full ACRS meeting were both completed as scheduled. In September 2017, the NRC approved STPNOC's license renewal applications for STP Units 1 and 2, which extends the operating licenses to 2047 and 2048, respectively.

Under the Nuclear Waste Policy Act (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 U.S. commercial nuclear power plants such as STP. To fund that obligation, all owners or operators of commercial nuclear power plants entered into a standard contract under which the owners paid a fee to the DOE based on the amount of electricity generated and sold from the power plant, along with additional assessments. In exchange for collecting this fee and the assessments, the 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. The National Association of Regulatory Utility Commissioners (NARUC) challenged further collection of this fee; and on November 19, 2013, the Court ruled in favor of NARUC and ordered the DOE to submit to the U.S. Congress a proposal to reduce the fee to zero until certain conditions are met. While the reporting to the DOE of used nuclear fuel volumes will continue, effective May 16, 2014, the rate was reduced to zero.

Multiple cases have been filed in the U.S. Court of Federal Claims by the existing owners or operators of nuclear facilities against the DOE related to its failure to meet its obligations under the NWPA. The owners/operators were seeking damages related to ongoing used nuclear fuel storage costs incurred because the DOE did not meet its obligation. On August 31, 2000, in *Maine Yankee Atomic Power Company, et. al. v. United States*, the U.S. Court of Appeals for the Federal Circuit affirmed that the DOE had breached its obligations to commercial nuclear power plant owners for failing to live up to its obligations to dispose of used nuclear fuel. Subsequent to that decision, the DOE settled with certain commercial nuclear power plant owners and agreed to provide funds to pay for storage costs while the DOE continues to develop a permanent high-level waste repository.

Year-Ended September 30, 2018 - 187 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 188 - Amounts are expressed in thousands

Note 11 CPS Energy South Texas Project (STP) (Continued)

Joint Operations (Continued)

In February 2013, STPNOC, on behalf of the owners of STP, entered into a similar settlement with the DOE. Under the terms of the settlement, the DOE reimbursed STP for certain costs incurred in continuing onsite storage of all of its used nuclear fuel through December 2013. A settlement extension, executed on January 24, 2014, extended the term of the Spent Fuel Settlement Agreement with the DOE through December 31, 2016. In the most recent settlement agreement dated March 15, 2017, the DOE extended its commitment to reimburse STP for allowable spent fuel management expenditures through December 31, 2019. Pursuant to STPNOC's analysis of NRC guidance, STPNOC has started the process of planning, licensing, and building an on-site independent spent fuel storage installation (ISFSI; also known as the Dry Cask Storage Project) with an expectation that the ISFSI will be operational in 2019.

Ongoing costs for the spent fuel management project are being funded by the STP owners as expenditures are incurred. CPS Energy requests reimbursement periodically from its Decommissioning Trusts for CPS Energy's portion of allowable costs. Annually, STPNOC submits claims to the DOE for the reimbursement of allowable costs for spent fuel management. Allowable costs are returned by STP to the owners upon receipt of funds from the DOE. In turn, the settlement amount received from the DOE by CPS Energy is reimbursable to the Trusts. Qualifying spent fuel management costs not reimbursable by the DOE are funded by the Trusts. Any costs not reimbursable by the DOE or the Trusts are recorded as an STP operating and maintenance expense or capital costs.

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 damaged areas were the Fukushima Daiichi 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 convened a Near-Term Task Force to conduct a review of the Commission's processes and regulations in light of the events at Fukushima. The Near-Term Task Force's 90-day report 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 directed the staff to implement several of the recommendations that were identified as those that should be implemented without unnecessary delay. In addition, the Commissioners directed the staff to identify the schedule and resource needs associated with those 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 12, 2012, the NRC issued three Orders and one Request for Information letter. These actions represented the first regulatory activity initiated as a result of the lessons learned from the events at Fukushima. The Orders outlined actions that must be taken and also provided a compliance deadline. License holders were to complete the actions within two refueling outages or by December 31, 2016, whichever came first. They requested an exemption from certain changes and had to complete additional documentation during this time. All necessary actions were performed and they received an exemption from other changes issued on July 11, 2017. To date, STPNOC has submitted the requested information and complied with the NRC Orders in a timely manner on all deadlines that have come due.

Unit 1 Project – On November 18, 2015, STP Unit 1 Shutdown Bank Control Rod D6 was determined to be inoperable following a scheduled refueling and maintenance outage. STP Unit 1 operated with 56 full-length control rods instead of 57 based on an Emergency License Amendment Request (LAR) that was approved by the NRC on December 11, 2015. In December 2016, STP received notification from the NRC that Unit 1 Control Rod D6 LAR had been approved. The approved LAR permanently changes the Unit 1 Technical Specifications to reflect future operations without Shutdown Bank Control Rod D6. The approved changes were implemented during the spring 2017 Unit 1 refueling outage.

Note 11 CPS Energy South Texas Project (STP) (Continued)

Joint Operations (Continued)

On February 9, 2017, STPNOC received a final significance determination notice from the NRC that concluded a previously identified security-related finding was Greater than Green and of low to moderate security significance. The finding was identified during an NRC inspection conducted from October 19 through December 1, 2016. STPNOC took prompt actions to address the finding. Beginning February 16, 2017, the NRC webpage reflected STP Units 1 and 2 in the Regulatory Response Column of the Reactor Oversight Process (ROP) Action Matrix. In August 2017, STP successfully completed an NRC Inspection (95001) and in September 2017, the NRC determined that the actions taken by STPNOC were effective in identifying and correcting the cause and returned STP to the Licensee Response column of the NRC ROP effective October 2017.

On June 24, 2017, STPNOC informed the Owners that they had received NRC notification regarding two proposed apparent violations related to an Office of Investigation (OI) review into its Fire Watch Program. The two proposed violations were both based on results of the OI investigation into apparent willful violations involving the Fire Marshall during the 2014 – 2015 timeframe. Both violations are related to the falsification of Fire Watch records, whereby the Fire Marshall failed to provide complete and accurate information. Following an internal STP investigation into the Fire Watch Program in 2015, the Fire Marshall was terminated.

The NRC assessed these issues under the Traditional Enforcement program and recommended Severity Level 3 for these apparent violations because they involved supervisory personnel. For reference, Severity Level 4 violations are the lowest level of significance, with Severity Level 1 infractions being the most severe.

On June 29, 2017, STPNOC received a letter from the NRC that includes options of response. In response, STP documented in its corrective action program the reasons for the violations and the actions taken to address the issue. The NRC has noted that STP has already taken significant actions to address the Fire Marshall issue.

In late August 2017, the NRC upheld their recommendation and assigned Severity Level 3 to the violations under the Traditional Enforcement program. The NRC noted to STPNOC that civil penalty could have been assessed for these violations but the NRC considered STP's significant actions to address the issues and terminate the employment of the Fire Marshall. The NRC assigned credit for these actions and the violations were closed with no further action.

On January 11, 2018, STPNOC received a draft notice of enforcement letter from the Texas Commission on Environmental Quality (TCEQ) for three violations, which all occurred in 2016. The violations were identified and reported by STPNOC to TCEQ and are related to STP's air quality permit. These deviations were included in STP's 2017 semi-annual report submitted to the TCEQ in February 2017.

On February 15, 2018, the TCEQ transmitted a proposed agreed order assessing a minimal administrative penalty regarding the Notice of Enforcement issued on January 11, 2018, for late reporting of the air quality permit deviation in 2016. The order acknowledges that STP submitted the report in February 2017 and did not require any additional corrective action. On June 26, 2018, the TCEQ issued a letter approving closure of the enforcement action received in January 2018 related to an air quality permit violation that occurred in 2016. The TCEQ acknowledged that corrective action was complete and the administrative penalty had been paid. No further action is required.

Note 11 CPS Energy South Texas Project (STP) (Continued)

Joint Operations (Continued)

Units 3 and 4 Project – In September 2007, NRG and CPS Energy signed the South Texas Project Supplemental Agreement under which CPS Energy elected to participate in the development of two new nuclear units at the STP site, 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. 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 (NINA). Upon the formation of NINA, NRG had an 88.0% ownership interest in NINA, while Toshiba America Nuclear Energy Corporation (TANE) owned the remaining 12.0%. 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. Receipt of the NRC-approved combined operating license was a condition precedent to starting significant project construction.

In June 2009, CPS Energy management provided the Board its formal assessment and recommendations concerning these options compared to other possible new generation types including the first public estimate of the cost of the first possible project at $13,000,000, inclusive of financing costs. Reports of higher cost estimates, however, resulted in reconsideration of the advisability of participating in the STP Units 3 and STP 4 Project and, ultimately, in CPS Energy's decision to limit participation in further development of STP Units 3 and 4. In a settlement negotiated with NRG and the other participants in the development of STP Units 3 and 4, CPS Energy received a 7.6% ownership interest in STP Units 3 and 4. CPS Energy is not liable for any STP Units 3 and 4 project development costs incurred after January 31, 2010, however, once the new units reach commercial operation, CPS Energy will be responsible for its 7.6% share of ongoing costs to operate and to maintain the units. CPS Energy will also receive two $40,000 installment payments upon DOE issuance of a conditional loan guarantee to NINA. NINA agreed to and has completed, a contribution of $10,000 over a four-year period to the Residential Energy Assistance Partnership, which provides emergency bill payment assistance to low income customers in the City and Bexar County.

In August 2015, Toshiba Corporation (Toshiba) announced that it planned to write down its semiconductor, home appliance, and nuclear business units following an investigation into accounting issues that have resulted in the need for Toshiba to restate their past financial results. In its fiscal year ended March 31, 2017, Toshiba recorded a loss and wrote down the value of its Westinghouse nuclear power subsidiary, worth $6,300,000. Previously in 2011, NRG announced it had written off its investment in STP Units 3 and 4. On October 1, 2015, the NRC issued a press release indicating that NRC staff had completed its Final Safety Evaluation Report for the Combined Licenses (COL) for the proposed STP Units 3 and 4. The NRC staff provided the Final Safety Evaluation Report along with the Final Environmental Impact Statement on the application to the NRC for the mandatory hearing phase of the licensing process on November 19, 2015. On February 9, 2016, the NRC commissioners authorized issuance of the COL for STP Units 3 and 4 and the licenses were issued on February 12, 2016.

Note 11 CPS Energy South Texas Project (STP) (Continued)

Joint Operations (Continued)

Despite the project having secured the NRC's authorization for the issuance of the COL, in January 2016 CPS Energy concluded that as a result of sustained changes in a number of environmental and economic factors directly affecting the projected economic feasibility of completing construction of STP Units 3 and 4, the project had experienced a permanent impairment. CPS Energy determined it was appropriate to write off the entire investment in STP Units 3 and 4. The impairment loss was reported as an extraordinary item on CPS Energy's Statements of Revenues, Expenses, and Changes in Net Position for the period ended January 31, 2016. This noncash transaction did not impact CPS Energy's debt service coverage ratio; however, there was a resulting increase from 61.1% to 63.7% in the debt to debt and net position ratio at January 31, 2016. CPS Energy continues to retain a legal interest in the STP Units 3 and 4.

See Note 5 Capital Assets for more information about CPS Energy's capital investment in STP.

Nuclear Insurance

STP maintains required insurance coverage pursuant to the Price-Anderson Act, providing limitations on liability and governmental indemnities with respect to nuclear incidents. Pursuant to the Price-Anderson Act, effective January 1, 2017, the maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $127,318, taking into account a 5.0% adjustment for administrative fees and subject to adjustment for inflation every five years, for the number of operating nuclear units and for each licensed reactor, payable at $18,963 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 currently 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 nuclear liability policy, with a maximum limit of $450,000 for the nuclear industry as a whole, provides protection from nuclear-related claims. A Master Worker Certificate policy, also with a maximum limit of $450,000 for the nuclear industry as a whole, provides protection from radiation tort claims of workers at nuclear facilities.

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 nuclear property insurance at or above the legally required amount. The nuclear property insurance consists of primary property damage insurance and 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. CPS Energy also maintains accidental outage insurance through STP's NEIL membership, that provides weekly indemnity payments for an insured property loss subject to an applied deductible period.

Note 11 CPS Energy South Texas Project (STP) (Continued)

Nuclear Decommissioning

In 1991, CPS Energy started accumulating funds for the decommissioning of its 28.0% ownership in STP Units 1 and 2 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 distributed to or received from CPS Energy's ratepayers after decommissioning is complete.

In conjunction with the acquisition of the additional 12.0% interest in STP Units 1 and 2 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). The 12% Decommissioning Trust's assets and related liabilities are also included in CPS Energy's financial statements as a component unit. Subject to Public Utility Commission of Texas (PUCT) approval as may be requested in the future, excess or deficient funds related to the 12% Trust will be distributed to or received from AEP's ratepayers 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 owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically.

The most recent cost study, which was finalized in May 2013, estimated decommissioning costs for the 28.0% ownership in STP Units 1 and 2 at $627,495 in 2012 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% Trust and an analysis of this cost study, CPS Energy determined that no further decommissioning contributions will be required to be deposited into the Trust.

In fiscal year 2009, CPS Energy determined that some preshutdown decommissioning and spent fuel management activities would be required prior to shutdown of STP Units 1 and 2. As a result, separate trust accounts were created to pay for preshutdown decommissioning activities. Additionally, funds in the Trusts applicable to spent fuel management were transferred to separate spent fuel management accounts so that they were not commingled with funds allocable to preshutdown or postshutdown decommissioning costs. Based on projected costs, the spent fuel management accounts are currently fully funded; therefore, no contributions were made to these accounts in fiscal year 2018. In fiscal year 2018, no contributions were made to fund preshutdown decommissioning costs for CPS Energy's 28.0% ownership in STP. No preshutdown decommissioning expenses were incurred for the 28.0% ownership in calendar year 2017. For the 12% Trust, preshutdown costs were funded by AEP's ratepayers. The 12% Trust incurred no preshutdown decommissioning expenses in the calendar year 2017.

As of December 31, 2017, CPS Energy had accumulated $431,928 in the 28% Trust. Total funds are allocated to decommissioning costs, preshutdown decommissioning costs, spent fuel management and site restoration. Based on the most recent annual calculation of financial assurance required by the NRC as of December 31, 2016, the 28% Trust funds allocated to decommissioning costs totaled $248,987, which exceeded the calculated financial assurance amount of $152,465.

Note 11 CPS Energy South Texas Project (STP) (Continued)

Nuclear Decommissioning (Continued)

The May 2013 cost study estimated decommissioning costs for the 12.0% ownership in STP Units 1 and 2 at $268,927 in 2012 dollars. As of December 31, 2017 $157,542 had been accumulated in the 12% Trust. Total funds are allocated to decommissioning costs, preshutdown decommissioning costs, spent fuel management and site restoration. Based on the most recent annual calculation of financial assurance required by the NRC as of December 31, 2016, the 12% Trust funds allocated to decommissioning costs totaled $97,221, which exceeded the calculated financial assurance amount of $65,342.

CPS Energy accounts for decommissioning by recognizing a liability and expense for a pro rata share of projected decommissioning costs as determined by the most recent finalized cost study. A new cost study is performed every five years; and, in years subsequent to the latest study, estimated annual decommissioning expense and an increase in the liability is calculated by applying the effects of inflation and the ratio of years of plant usage to total plant life. Additionally, a zero net position approach is applied in accounting for the Decommissioning Trusts. The total decommissioning liability and related annual decommissioning expense is calculated assuming the longer total plant life due to the license extensions.

Both Decommissioning Trusts also 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 Post-retirement Benefits

STPNOC maintains several pension and other post-retirement benefit plans covering most employees, including a noncontributory defined-benefit pension plan, defined-benefit post-retirement plan, supplementary nonqualified unfunded pension plan, supplemental retirement plan, deferred compensation program, and a contributory savings plan. The owners of STPNOC, including CPS Energy, although not sponsors to the STP plans, share in all plan costs in the same proportion as their respective ownership percentages.

The noncontributory defined-benefit pension plan covers certain employees. Effective January 1, 2007, STPNOC approved a change to the pension plan to preclude the eligibility of employees hired after December 31, 2006, in the plan. Employees hired after this date receive enhanced matching contributions under the STP Nuclear Operating Company Savings Plan.

STPNOC also maintains a defined-benefit post-retirement plan that provides post-retirement health and welfare benefits. As of May 1, 2014, certain STPNOC employees voted to transition STPNOC's medical plan to a Taft-Hartley multi-employer health and welfare plan. STPNOC pays monthly premiums for the benefits, to be partially funded by participating employees.

Employees whose eligible compensation exceeds the limitations established under the 1974 Employee Retirement Income Security Act, $270 for 2017 are covered by a supplementary nonqualified, unfunded pension plan, which is provided for by charges to operations sufficient to meet the projected benefit obligations. The accruals for the costs of that plan are based on substantially the same actuarial methods and economics as the noncontributory defined-benefit pension plan.

An unfunded supplemental retirement plan and other unfunded deferred compensation programs are maintained by STPNOC for certain key individuals.

Note 11 CPS Energy South Texas Project (STP) (Continued)

STP Pension Plan and Other Post-retirement Benefits (Continued)

The effect to CPS Energy of funding obligations related to the defined-benefit plans sponsored by STPNOC was $10,610 for fiscal year 2018 and was reflected as an adjustment for STP Pension Cost on the Statement of Activities.

(The remainder of this page left blank intentionally)

Note 12 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, 2018. Grant funding received from federal, state, and other governmental agencies but not yet earned as of September 30, 2018 was $44,334.

Capital Improvement Program

The City will be undertaking various capital improvements during fiscal year 2019. The estimated cost of these improvements is $690,378; of this amount $207,250 will be funded from the 2017 General Obligation Bonds. The 2019 Capital Improvements Program consists of the following:

Function/Program	2019
General Government	
Information Technology	$ 68,951
Municipal Facilities	85,513
Total General Government	$ 154,464
Public Health & Safety	
Drainage	$ 78,075
Fire Protection	5,453
Law Enforcement	5,675
Total Public Health & Safety	$ 89,203
Recreation & Culture	
Libraries	$ 6,319
Parks	106,117
Total Recreation & Culture	$ 112,436
Transportation	
Air Transportation	$ 75,123
Street	253,152
Total Transportation	$ 328,275
Total Neighborhood Improvements	$ 6,000
Total Capital Plan	$ 690,378

These projects are scheduled to be funded with a combination of grants, contributions from others, bonds, certificates, notes and other designated City resources.

Year-Ended September 30, 2018 - 195 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 196 - Amounts are expressed in thousands

Note 12 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Litigation

The City is a party to various claims and lawsuits alleging personal and property damages, wrongful death, breach of contract, environmental matters, civil rights violations, and employment matters. The estimated liability, including an estimate of incurred but not reported claims, is recorded in the Insurance Reserve Fund in the amount $16,880. The City estimates the amounts of unsettled claims under its self-insurance program and believes that the self-insurance reserves recorded as appropriations 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 basic financial statements cannot be determined.

Cheryl Jones, et al. v. City of San Antonio, et al. On February 28, 2014, Marquise Jones was shot by a SAPD police officer at a restaurant. Plaintiffs are asserting claims under 42 USC §1983 against the City and the officer for excessive force, racial profiling, and failure to train under the Texas Survivor Statute and Texas Wrongful Death Statute. Plaintiffs seek damages of at least $5,000 for loss of affection, consortium, financial assistance, pain and suffering of decedent prior to death, mental anguish, emotional distress, quality of life, exemplary and punitive damages, attorney fees, and costs of court. This case was tried beginning on March 27, 2017. A jury rendered a verdict in favor of the City and the officer on April 4, 2017. Plaintiffs filed a motion for a new trial, which was denied on August 30, 2017. Plaintiffs appealed this matter to the Fifth Circuit. Initial briefing has been concluded. This matter is set for oral argument on March 14, 2019.

Jimmy Maspero and Regina Maspero, et al. v. City of San Antonio, et al. Plaintiffs allege that on September 19, 2012, Plaintiffs' vehicle was involved in a collision with a vehicle being pursued by a SAPD patrol car causing the death of two of Plaintiffs' children and severe permanent injuries to the remaining Plaintiffs (two children, two adults). The Plaintiffs have asserted a "state-created danger" theory under 42 USC §1983 alleging a violation of Plaintiffs' 14th Amendment substantive due process. Plaintiffs are also asserting state law theories of negligence. Plaintiffs seek to recover damages for mental anguish, physical pain, impairment, medical expenses, and the wrongful death of two of their children. Plaintiffs are seeking monetary damages of at least $3,000. This case has been remanded back to state district court. On February 19, 2018, the trial court granted the City's plea to the jurisdiction, dismissing all claims. Plaintiffs motion for a new trial was denied. Plaintiffs have filed an appeal to the Fourth Court of Appeals. This matter is set for oral argument on April 12, 2019.

Estate of Norman Cooper, et al. v. City of San Antonio, et al. SAPD officers were called to a residence on a report of domestic violence. At the scene, decedent was tased on two separate occasions. Decedent later collapsed and died. Decedent's estate and family members have filed suit against the City and named officers alleging use of excessive force in violation of 42 USC §1983. Plaintiffs seek damages in excess of $250. Discovery closed on September 1, 2017. This matter is not yet set for trial. The Court granted the City's motion for Summary Judgment, but denied the officers' motions for Summary Judgment. The denial of the officers' motions for summary judgment on the issue of excessive force has been appealed to the Fifth Circuit. Trial on this matter has been stayed pending a ruling from the Fifth Circuit.

Note 12 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Litigation (Continued)

Elena Scott, Individually and as Representative of the Estate of Antronie Scott v. City of San Antonio, et al./Diane Peppar, et al. v. City of San Antonio. An SAPD officer was attempting to execute an arrest warrant when Plaintiff's decedent exited his vehicle with an object the officer believed was a weapon. The officer discharged his service weapon, fatally wounding decedent. Plaintiff has filed suit under 42 USC §1983 alleging use of excessive force. This case was consolidated with *Diane Peppar vs. City of San Antonio*. Diane Peppar is decedent Antronie Scott's mother. Discovery has been completed in this case. Summary Judgment motions are currently pending before the court. This case is not yet set for trial.

Rogelio Carlos lll, et al. v. Carlos Chavez, et al. SWAT officers were assisting High Intensity Drug Trafficking Areas (HIDTA) in searching for a fleeing suspect. Plaintiff was misidentified by the HIDTA officer as being the suspect. HIDTA officer engaged and attempted to physically apprehend Plaintiff and was assisted by SAPD SWAT officers. Plaintiff suffered minor injuries as a result of the arrest, although he later complained of neck and shoulder/arm pain. Several months after the incident, Plaintiff underwent surgery, during which procedure, Plaintiff was paralyzed. Plaintiff has filed suit against the City and various officers under 42 USC §1983. Discovery is ongoing. The Plaintiff has amended their suit to include physicians involved in the Plaintiff's surgical procedure. This case has not been set for trial.

Neka Scarborough Jenkins v. City of San Antonio. Plaintiff's decedent was driving northbound on Blanco Road and attempted to turn left onto Lockhill Selma at a controlled traffic signal. Plaintiff contends that the traffic signal for her lane of traffic was facing the wrong direction. While making the turn, decedent was struck by an oncoming vehicle and was killed. Plaintiff claims the City of San Antonio had prior notice but failed to correct the issue within a reasonable period of time. Plaintiff also claims the investigation revealed the light was placed too low and was not at the correct height for a traffic signal. Under the Texas Tort Claims Act, damages are capped at $250. Discovery is ongoing. This case is not yet set for trial.

Patricia Slack, et. al. v. The City of San Antonio, Texas and Steve Casanova. SAPD officers responded to persons complaining they had been assaulted in front of a nearby residence. The officers went to the wrong address provided by the victims and approached the front door, which was behind a security door made of metal bars. The officers knocked, and the door swung open to the living room. One individual stood and approached the door while reaching his hand into his waistband. Officer Casanova discharged his weapon. A bullet fired by Officer Casanova grazed one individual and fatally struck a second individual. Suit is brought on behalf of the estate of the deceased, the injured individual and another individual on the scene. Plaintiffs have filed suit under 42 U.S.C. §1983 alleging use of excessive, deadly force. This suit has only recently been filed; no scheduling order or trial date has been entered.

Note 12 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

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. Total rental revenue from operating leases received for the fiscal year-ended September 30, 2018 was $20,211 for Governmental Activities and $52,011 for Business-Type Activities, which consisted of $50,709 for the Airport System, $115 for Solid Waste Management and $1,187 for Nonmajor Enterprise. The Airport System's revenue is net of Ground Abatement Credits and Building Improvement Credits allowed to lessees per signed contracts. As of September 30, 2018, the leases provide for the following future minimum rentals:

	Lease Revenue				
	Governmental Activities	Airport System	Solid Waste Management	Nonmajor Enterprise	Total
Fiscal year-ending September 30,					
2019	$ 18,999	$ 43,549	$ 100	$ 945	$ 63,593
2020	16,400	40,497	100	163	57,160
2021	16,004	38,797	100	155	55,056
2022	14,035	38,179	100	156	52,470
2023	14,421	37,247	100	158	51,926
2024-2028	48,293	182,504	500	146	231,443
2029-2033	10,382	171,227	125		181,734
2034-2038	1,998	169,460			171,458
2039-2043	793	168,622			169,415
2044-After	28	33,706			33,734
Future Minimum Lease Rentals	$ 141,353	$ 923,788	$ 1,125	$ 1,723	$ 1,067,989

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 projected 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 for the Nelson Gardens Landfill is recorded as a liability and expensed in the Solid Waste Management Fund. 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, 2018 resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of $1,121. The City contracted with a third party in 2010 to capture and sell methane gas in exchange for a percentage of the revenue earned and postclosure maintenance costs assumed by the third party. The third party presented going concerns in the prior fiscal year, resulting in the City increasing its liability in preparation of the third party cancelling the contract. Going concerns were remedied in the current fiscal year with the contract still viable. This resulted in the City reducing its postclosure liability by $607 from the prior fiscal year.

Note 12 Commitments and Contingencies (Continued)

Primary Government (City) (Continued)

Texas Commission on Environmental Quality (TCEQ) Financial Assurance

The City is required under the provision of the Texas Administrative Code to provide financial assurance to the Texas Commission on Environmental Quality (TCEQ) related to the closure of municipal solid waste operations including, but not limited to, storage, collection, handling, transportation, processing, and disposal of municipal solid waste. In relation to new and modification permits for closed landfills from TCEQ, the City has an obligation to provide financial assurance of the postclosure cost estimates for landfills. 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. The City completes and submits its financial assurance to TCEQ annually.

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, 2018, the City has no arbitrage liability for its governmental or proprietary funds.

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.

(The remainder of this page left blank intentionally)

Year-Ended September 30, 2018 - 199 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 200 - Amounts are expressed in thousands

Note 12 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Leases

Capital Leases – CPS Energy was not a contracted party to any capital leases during fiscal year 2018, either as a lessee or lessor.

Operating Leases – In fiscal year 2014, CPS Energy entered into an agreement to sell 69 of its communication towers to an independent third party. Title to 62 of the towers was conveyed to the purchaser in January 2014. (Towers count is not expressed in thousands). Resolution of easement issues related to the remaining sites was concluded in February 2017, resulting in the transfer of title to the purchaser for five additional towers for a total of 67 towers. CPS Energy retained title to the remaining two towers. Additionally, new licensing agreements were entered into between CPS Energy and the purchaser for CPS Energy's ongoing use of the towers and the purchaser's use of CPS Energy's communication buildings for a period of 40 years, with three five-year options by the purchaser to extend the agreement.

See Note 5 Capital Assets, Net for additional information related to the sale.

In accordance with lease guidance provided in GASB Statement No. 62, leases related to the communication towers sale, both with CPS Energy as lessor and as lessee, have been classified as operating leases. Future minimum lease payment information provided on the following pages includes lease revenue and lease expense to be recognized as a result of the following lease components of the communication towers sale.

- **Lease of Tower Space for CPS Energy Communication Equipment –** The parties to the sale transaction agreed that no cash would be paid by CPS Energy for the space it leased on the communication towers for the 40-year term of the lease agreement. As a result, the total sale transaction proceeds received from the purchaser were reduced by an amount representing an advance payment to the purchaser of the net present value of the estimated total lease obligation. This value represents a prepaid lease expense to CPS Energy, benefitting a period of time equal to the 40-year term of the leases. In accordance with GASB Statement No. 62, the value of this prepaid lease obligation for space on the 67 towers (not in thousands) was recorded at fair value and totaled $20,190, which is being amortized to lease expense over the 40-year term.

- **Lease of Communication Building Space –** The parties agreed that no cash would be paid by the purchaser for the space it leased in CPS Energy's communication buildings for the term of the lease agreement. As a result, the total sale transaction proceeds received from the purchaser included an additional amount representing an advance payment by the purchaser of the net present value of the estimated total lease obligation. This value represents unearned lease revenue to CPS Energy to be generated over a period of time equal to the 40-year term of the leases. In accordance with GASB Statement No. 62, the value of this unearned lease revenue for space in the 67 communication buildings (not in thousands) was recorded at fair value and totaled $6,831, which is being amortized to nonoperating income over the 40-year term.

Note 12 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Leases (Continued)

Additionally, the communication towers sale transaction included an assignment of existing operating lease agreements with tenants who had equipment located on the towers. At the time of sale, there were approximately 127 lease agreements outstanding (not in thousands), with CPS Energy as lessor for space on the towers and in CPS Energy's communication buildings, having remaining terms varying from fewer than two years to ten years. In fiscal year 2014, these leases provided approximately $2,845 in proceeds to CPS Energy, which was recognized as nonoperating income. With the sale of the towers, these leases were assigned to the purchaser, and the right to collect future cash flows from the leases was conveyed. The estimated net present value of these cash flows, including annual escalations based on estimate future Consumer Price Indices, total approximately $6,500 for the 62 towers conveyed in the initial closing plus an additional $463 for the five towers subsequently conveyed. Proceeds to CPS Energy from the tower sale transaction included a purchase price for these leases, which was recorded as a deferred inflow of resources totaling $6,500 in accordance with guidance provided in GASB Statement 65. As of January 31, 2018, the balance of unearned revenue reported as deferred inflow of resources was $3,260. Revenue from the sale of future revenues related to these leases will be recognized over the term of the original leases in accordance with guidance provided in GASB Statement No. 48, *Sales and Pledges of Receivable and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues.*

CPS Energy has entered into operating lease agreements to secure the usage of communication towers space, railroad cars, natural gas storage facilities, land, office space, parking lot space and engineering equipment. The lease for the parking lot space and several of the leases for office space, as well as the communication towers space, include an escalation in the monthly payment amount after the first year of each lease.

CPS Energy's projected future minimum lease payments for noncancelable operating leases with terms in excess of one year are as follows:

Year-Ended January 31,	Operating Lease Payments
2019	$ 7,132
2020	4,912
2021	3,062
2022	1,555
2023	1,519
Thereafter	72,809
Total future minimum lease payments	$ 90,989

CPS Energy's minimum lease payments for all operating leases for which CPS Energy was the lessee amounted to $10,149 in fiscal year 2018. Contingent lease payments amounted to $47 in fiscal year 2018.

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 and transmission towers. As described previously, CPS Energy sold 67 of its communication towers to a third party in January 2014.

Note 12 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Leases (Continued)

CPS Energy has three operating leases for the use of land that it owns, and it has entered into multiple agricultural leases allowing the lessees to use CPS Energy's land for sheep and cattle grazing. The three land leases contain provisions for contingent lease receipts based on the Consumer Price Index. Additionally, the majority of the operating leases pertaining to the use of CPS Energy's transmission towers contain provisions 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.

Projected future minimum lease receipts to CPS Energy for noncancelable operating leases with terms in excess of one year are as follows:

Year-Ended January 31,	Operating Lease Receipts
2019	$ 1,050
2020	849
2021	799
2022	817
2023	648
Thereafter	24,037
Total future minimum lease receipts	$ 28,200

CPS Energy's minimum lease receipts for all operating leases for which CPS Energy was the lessor amounted to $8,433 in fiscal year 2018. Contingent lease receipts amounted to $33 in fiscal year 2018. There were no sublease receipts in fiscal year 2018.

Other

Purchase and construction commitments approximated $6,869,952 at January 31, 2018. This amount includes construction commitments, provisions for coal purchases through December 2021, coal transportation through December 2018 and natural gas purchases through June 2027; the actual amount to be paid will depend on CPS Energy's actual requirements during the contract period and the price of gas. Also included are provisions for wind power through 2038, solar power through 2043, landfill power through 2029, 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 affirming 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, including low and non-carbon emitting sources. To be sustainable, CPS Energy has to balance its financial viability, environmental commitments and social responsibility as a community-owned provider.

Note 12 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Other (Continued)

In fiscal year 2008, CPS Energy entered into a Natural Gas Supply Agreement with SA Energy Acquisition Public Facility Corporation (SAEAPFC), a component unit of the City, to purchase, to the extent of its gas utility requirements, all natural gas to be delivered under a Prepaid Natural Gas Sales Agreement. Under the Prepaid Natural Gas Sales Agreement between SAEAPFC and a third-party gas supplier, SAEAPFC has prepaid the cost of a specified supply of natural gas to be delivered over 20 years. On February 25, 2013, SAEAPFC executed certain amendments to the Prepaid Natural Gas Sales Agreement entered into with J. Aron in 2007 and other related documents with respect to the 2007 prepayment transaction with J. Aron. Under the resolution and the amendments, Goldman, Sachs & Co. surrendered for cancellation $111,060 of the SA Energy Acquisition Public Facility Corporation Gas Supply Revenue Bonds, Series 2007 owned by J. Aron; Goldman, Sachs & Co.; or affiliates. In exchange, SAEAPFC agreed to reduce future required natural gas delivery volumes from 104.6 MMBtu to 81.3 MMBtu and to adjust the notional amount of its commodities price hedge so that hedged revenue from gas sales will bear at least the same proportion to annual debt service requirements as before the transaction. In conjunction with the transaction, a portion of the savings related to the purchase of natural gas from SAEAPFC that would have been passed on to CPS Energy's distribution gas customers over the 20-year life of the original agreement was accelerated. Distribution gas customers benefitted from the accelerated savings from March 1, 2013 through June 30, 2015. CPS Energy's 20-year commitment under the Natural Gas Supply Agreement is included in the aforementioned purchase and construction commitments amount.

On June 30, 2016, as a result of a Novation Agreement by and among The Bank of New York Mellon Trust Company, N. A., as trustee (Trustee), the SAEAPFC, Depfa Bank plc (Transferor) and J. Aron & Company (Transferee), the Transferee assumed all of the Transferor's rights, title and interest in and to the Investment Agreement and all the duties, obligations and liabilities under the Investment Agreement (excluding any rights, obligations or liabilities of the Trustee or the Transferor prior to the Novation Effective Date). In addition, an Amended and Restated Investment Agreement was entered into to amend and restate the terms of the Investment Agreement. Consequently, a Second Supplemental Indenture to the Trust Indenture, by and between the SAEAPFC and the Trustee, was executed. The original Investment Agreement dated June 21, 2007, was replaced by the Amended and Restated Investment Agreement. The amendments contain provisions in the event of a downgrade in the credit rating on the guaranteed investment contract (GIC) provider. If the higher rating between J. Aron and its guarantor, Goldman, Sachs & Co., falls below 'BB+' by S&P, or 'Ba1' by Moody's, which results in a ratings event, J. Aron is required to provide collateral equal to 100% of the invested balance held by J. Aron plus any accrued interest.

In fiscal year 2003, CPS Energy entered into a 20-year agreement with Brooks to upgrade the electric and gas utility systems located within the Brooks City-Base. CPS Energy and Brooks have each committed to invest $6,323 ($4,284 in year 2002 dollars, which accumulates interest at the rate of 3.7% compounded annually) to upgrade the infrastructure at that location. Annual reductions to Brooks' obligation were made from incremental revenues to the City for electric and gas sales to customers that reside on the Brooks-developed property. Annual reductions to Brooks' obligation were also made in accordance with contract terms for economic development at Brooks City-Base that benefits CPS Energy's systems. To date, capital renewals and upgrades of $14,099 have surpassed the $12,646 commitment and Brooks has met its obligation, net of annual interest of $4,192.

Year-Ended September 30, 2018 - 203 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 204 - Amounts are expressed in thousands

Note 12 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Other (Continued)

In September 2010, CPS Energy and the University of Texas at San Antonio (UTSA) entered into an agreement (Strategic Alliance) whereby UTSA agreed to perform services for CPS Energy in support of its function as a provider of electric and gas utility services while supporting the progress of the City in renewable energy technologies and energy research. The Strategic Alliance calls for CPS Energy to invest up to but not exceeding $50,000 over ten years. The investment made through January 31, 2018 was approximately $8,742 from funds currently allocated to research and development. Future funding will be determined by the scope of the projects defined by the partnership and is subject to annual approval by the CPS Energy Board of Trustees. Projects will be designed to produce clear value to CPS Energy and its customers.

CPS Energy sells its excess power into the wholesale market with a balanced portfolio that includes a mix of short-term and mid-term transactions with market participants and long-term wholesale power agreements with other public power entities. In addition to long-standing wholesale power relationships with the cities of Castroville, Floresville, and Hondo, CPS Energy currently has agreements to provide either full or partial requirements to five additional public power entities. These agreements have varying terms expiring between 2018 and 2025. The volumes committed under these agreements represent approximately 5.0% to 7.0% of current capacity. CPS Energy regularly monitors the market values of these transactions to manage contract provisions with the counterparties.

On June 20, 2011, CPS Energy announced its New Energy Economy initiative. The program is designed to focus on more clean energy sources rather than traditional energy sources and includes several major initiatives to which CPS Energy has committed (current commitments are included in the aforementioned $6,869,952):

- CPS Energy offers customers the opportunity to better manage their home's energy use through the My Thermostat Rewards program. The program gives customers access to a wide choice of programmable thermostat options. Customers benefit from better control of their home's air conditioning use and the visibility to program settings from their mobile devices. Customers in My Thermostat Rewards can choose to have a CPS Energy contractor install a free programmable thermostat in their place of residence. Alternatively, they can purchase and self-install their own thermostat from a list of qualifying devices and receive a rebate from CPS Energy. In exchange for the rebate, customers allow CPS Energy to periodically control and interrupt service to manage peak energy periods. The program is funded through STEP. As of January 31, 2018 there were 139,621 CPS Energy customers enrolled in My Thermostat Rewards.

- CPS Energy is in the process of replacing 25,000 San Antonio street lights with 250 Watt equivalent light-emitting diode (LED) street lights. The lights were purchased from GreenStar, a worldwide supplier of LED lighting. The street lights use 60.0% less energy than standard sodium lights and are designed to last 12 to 15 years, thereby reducing maintenance costs. Approximately $2,200 of the deployment costs were funded through STEP, with the remainder being funded by the City. Through January 31, 2018, approximately 23,500 LED street lights have been installed. The remaining lights required for replacement within the downtown area are expected to be replaced throughout fiscal year 2019 pending completion of the City's Downtown Master Lighting Plan. GreenStar LED lights are also being used to replace 30,000 San Antonio residential 100 Watt sodium street lights. The project began in Districts 2 and 5, in fiscal year 2017 where a total of 5,100 were replaced with LED lights. A total of 4,275 were installed in fiscal year 2018. LED street lights have become the standard for street light maintenance. As sodium lights fail, street lights are being replaced with GreenStar LED equivalents. (Street lights in this paragraph are not reported in thousands).

Note 12 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Other (Continued)

- In November 2011, CPS Energy entered into a $77,025 prepaid agreement with SunEdison for purchased power equal to approximately 60.0% of the anticipated output from 30 MW of solar energy facilities in the San Antonio area. Subsequent to the execution of this agreement, SunEdison transferred 100.0% of its interests in these facilities to San Antonio Solar Holdings LLC. A subsidiary of SunEdison continued as operator of these facilities. The unamortized balance of the prepayment was $59,894 at January 31, 2018. The agreement expires in 2037, and the purchase of the balance of the output is on a pay-as-you-go basis. As part of the agreement, CPS Energy has the right to purchase the facilities six years after commencement of commercial operations, which occurred in May 2012. CPS Energy is currently considering its right to purchase the facilities, but no decision has been made.

- In July 2012, CPS Energy and OCI Solar Power (OCI) entered into an agreement for CPS Energy to purchase solar power produced by OCI. OCI created a consortium of partners to deliver approximately 400 MW of solar energy, produced at solar farms primarily in and around San Antonio, to CPS Energy throughout the life of the 25-year power purchase agreement. Also as part of the agreement, Mission Solar Energy, LLC, the anchor manufacturer in the consortium, has built a high-tech manufacturing facility to produce components for solar power generation and has relocated its headquarters to San Antonio, creating over 400 jobs (jobs not expressed in thousands). The table below represents the OCI solar farms included in the 25-year power purchase agreement:

Project	Capacity in MW	Achieved Commercial Operations
Alamo 1	40.7	December 2013
Alamo 2	4.4	March 2014
Alamo 3	5.2	January 2015
Alamo 4	39.6	August 2014
Alamo 5	95.0	December 2015
Alamo 6	110.2	March 2017
Alamo 7	106.4	September 2016

In October 2015, CPS Energy and OCI entered into an agreement for CPS Energy to purchase an additional 50 MW of solar power produced by OCI. The solar energy will be delivered to CPS Energy by the same consortium of partners throughout the life of the 25-year power purchase agreement. This facility, Pearl, achieved commercial operation in October 2017.

In March 2017, CPS Energy and OCI entered into an agreement for CPS Energy to purchase an additional 50 MW of solar power produced by OCI. This is a 25-year purchase power agreement and the facility will be located in West Texas and is expected to be operational in October 2018.

Note 12 Commitments and Contingencies (Continued)

CPS Energy (Continued)

Other (Continued)

- In December 2013, CPS Energy, along with partners Silver Spring Networks and Landis+Gyr, began CPS Energy's Grid Optimization project, or more commonly known as Smart Grid. The project will provide a standards-based networking platform, advanced metering infrastructure and distribution automation solutions across CPS Energy's service territory. The completed system will also facilitate wireless two-way communication between CPS Energy and its customers and allow for increased energy efficiency and offer greater customer control and savings. The project is on schedule, to be completed in the August 2018. The estimated cost of this project is approximately $290,000 and has brought approximately 40 jobs (not expressed in thousands) to San Antonio.

- Simply Solar is the trademarked name for CPS Energy's pilot solar initiatives – Roofless Solar and SolarHostSA. Roofless Solar is being offered by CPS Energy in partnership with Clean Energy Collective (CEC). CEC built and maintains a 1 MW community solar farm in the CPS Energy service territory and sold 107.5 Watt panels in the array to customers who wanted to enjoy the benefits of solar power without having to install their own system. On June 18, 2015, CPS Energy entered into an agreement to purchase the output from the solar farm for 25 years. For the SolarHostSA program, CPS Energy partnered with PowerFin Partners to install up to 10 MW of rooftop systems on customer homes and businesses. CPS Energy opted to limit the size of this pilot program to a maximum of 5 MW. The program provides participating customers a monthly credit for hosting the systems on their rooftops. The program makes solar accessible to more customers by eliminating the significant upfront cost of traditional rooftop systems. On August 12, 2015, CPS Energy entered into an agreement to purchase the output from the rooftop systems for an initial term of 20 years.

In June 2018 CPS Energy awarded a construction contract to renovate the new corporate headquarters to Sundt Construction. The Board approved a guaranteed maximum price of $145,000. CPS Energy also made provisions for a $5,000 contingency fund which may be used to fund additional requirements related to the headquarters project. CPS Energy expects to start moving its employees into the renovated headquarters during 2020.

In fiscal year 2018, CPS Energy entered into a 50-year agreement with Joint Base San Antonio (JBSA) to operate and maintain the natural gas and electric utility systems as JBSA Randolph, Lackland and Lackland Training Annex. The Department of Defense (DOD) will transfer ownership of these systems to CPS Energy for a total of $42,026. The agreement includes a $4,577 cost reimbursable transition period that closes on December 31, 2018. CPS Energy will acquire the natural gas and electric assets through a bill of sale effective January 1, 2019. The DOD will reimburse CPS Energy for the costs to operate, maintain and upgrade these systems at a net present value of $243,867 throughout the contract term.

Note 12 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.

Postclosure Care Costs

In connection with a desalination injection well permits obtained by SAWS from the Texas Commission on Environmental Quality (TCEQ), SAWS has an obligation to plug the injection wells once the wells are no longer in service. These wells became operational in 2016 and have an expected useful life of 50 years based on SAWS experience with other wells throughout the system. At December 31, 2017, SAWS has recorded a liability of $457 related to this post-closure obligation based on the current projected cost to plug wells of similar size, depth and diameter.

Other

In March 2007, SAWS was notified by Region 6 of the United States Environmental Protection Agency (EPA) of alleged failures to comply with the Clean Water Act due to the occurrence of sanitary sewer overflows. The EPA subsequently referred the matter to the United States Department of Justice (DOJ) for enforcement action. SAWS engaged in settlement negotiations with the EPA and the DOJ to resolve the allegations. On June 4, 2013, the Board approved a Consent Decree between SAWS, the United States of America, and the State of Texas to resolve this enforcement action. During the 10 to 12 year term of the Consent Decree, SAWS estimates the cost to perform the operating and maintenance requirements of the Consent Decree will be approximately $250,000. SAWS initially estimated that capital investments of approximately $850,000 would be required over the Consent Decree term. During the last several years, through flow monitoring during significant rainfall events, physical inspection and televising, SAWS has accumulated additional information relative to the performance of its collection system. Based upon this additional information, as well as inflationary cost increases, SAWS currently estimates that the capital expenditures associated with the requirements of the Consent Decree could range from $1,200,000 to $1,300,000. As with any estimate, the actual amounts incurred could differ materially.

Through December 31, 2017, capital expenditures related to the Consent Decree total $303,529. Since entry into the Consent Decree, SAWS has performed its obligations under terms of the Consent Decree and management believes SAWS is in material compliance with such terms, conditions, and requirements. Since 2010, SAWS has seen a significant reduction in sanitary sewer overflows, from 538 in 2010 to 193 in 2017 (figures in this sentence are not in thousands).

SAWS operates the Mitchell Lake Site Wastewater Treatment Facility pursuant to a Texas Pollutant Discharge Elimination Permit (Permit) issued by the TCEQ under a delegation of authority from the EPA. On August 18, 2016 SAWS received an Administrative Order from EPA that alleges that SAWS violated the Permit by failing to meet effluent limits as required by the Permit.

Note 12 Commitments and Contingencies (Continued)

San Antonio Water System (SAWS) (Continued)

Other (Continued)

Mitchell Lake (Lake) is not a standard brick and mortar water treatment facility. Instead, the Lake is a unique and environmentally sensitive facility that has become a wildlife refuge and an active tourist destination within San Antonio. The Lake surface area covers approximately 600 acres and provides an essential habitat where migrating birds can rest and feed. Discharges from the Lake only occur after significant rainfall events. The intermittent nature of the discharges after rainfall makes traditional treatment options impractical.

Upon receiving the Administrative Order, SAWS began working with consulting experts and conducted preliminary feasibility evaluations of two potential solutions: a) reconstructing the existing dam and spillway and b) constructing extensive treatment wetlands below the Lake. SAWS has hired a nationally recognized wetlands firm to develop and conduct a three year pilot wetlands program. This program will evaluate the viability of the proposed wetlands as a solution and, if appropriate, guide the optimization of potential full scale wetlands. Concurrently, improvements to the dam and spillway structures are being evaluated and cost projections are being developed.

SAWS will also continue to explore other treatment and operational alternatives and work with the EPA and TCEQ to develop an appropriate plan that ensures compliance with the Permit. At this time, SAWS does not know what actions may ultimately be required or the costs associated with those actions.

On October 30, 2014 the City Council adopted an ordinance, approving the execution of a Water Transmission and Purchase Agreement (the Agreement) between the City, acting by and through SAWS and Vista Ridge, LLC (VR), pursuant to which VR has committed to make available to SAWS, and SAWS has agreed to pay for, up to 50,000 acre-feet of potable water (Project Water) per year for an initial period of 30 years plus a limited (ten year) extension period under certain circumstances, hereinafter referred to as the operational phase. To produce and deliver the Project Water, VR will develop well fields to withdraw water from the Carrizo and Simsboro Aquifers in Burleson County, Texas pursuant to currently-held long-term leases with landowners and construct (or cause to be constructed) a 142-mile pipeline from this well field to northern Bexar County (the well fields and the pipeline, together, the Project). The pipeline will be connected to the SAWS distribution system at this delivery point in northern Bexar County (the Connection Point). The execution of the Agreement represents a significant diversification of the City's water source, as SAWS projects that Project Water, if delivered at the maximum amount, will account for approximately 20.0% of the SAWS' current annual usage. (Figures in this paragraph are not in thousands).

The project achieved financial close in November 2016 and is now in the construction phase. During the construction phase of the Project, VR will complete the construction of the Project and SAWS must construct any improvements necessary to accept and integrate Project Water. The anticipated capital cost of SAWS improvements was initially estimated at approximately $145,000. As design of these improvements has not been completed, the potential cost of these improvements could materially differ from the initial estimate. This construction phase is scheduled to be completed in 2020 and will result in the commencement of the aforementioned 30-year operational phase, during which period SAWS is obligated to pay for water (up to 50,000 acre-feet annually) made available to it by VR at the Connection Point.

Note 12 Commitments and Contingencies (Continued)

San Antonio Water System (SAWS) (Continued)

Other (Continued)

Pursuant to the terms of the Agreement, SAWS will pay costs arising under the Agreement, as maintenance and operating expense of the system for rate setting purposes, only for Project Water made available at the Connection Point (which payment will include the costs of operating and maintaining the Project). SAWS will have no obligation to pay for any debt issued by VR, and any such debt will be non-recourse to SAWS.

On May 17, 2016, SAWS exercised its contractual right to fix the Capital and Raw Groundwater Unit Price under the Agreement based on the methodology provided for therein. This action served to lock in the price of the Project Water component of SAWS annual payment requirement of $1,606 per acre-foot for the entire 30 year term (and any extension of that term) of the Agreement. (Figures in this sentence are not in thousands).

In addition to the Capital and Raw Groundwater unit Price, SAWS will pay operations and maintenance costs as a direct pass through under the Agreement and electricity cost (paid directly by SAWS to the utility providers). It is estimated that the water will initially cost approximately $2 per acre-foot, resulting in an estimated initial annual cost to SAWS of approximately $100,000 for 50,000 acre-feet (acreage not in thousands) of delivered water. Delivery of water from the Project is expected to begin in 2020. On November 19, 2015, the City Council approved a series of increases to the water supply fee through 2020 to support the acquisition of new water supplies, including water supplied from the Project.

SAWS has the right to terminate the Agreement at any time by purchasing the Project for the aggregate amount of the outstanding VR debt, contract breakage costs and return of and return on equity contributions by VR's principals. The termination payment as of December 31, 2017 was estimated to be approximately $540,000. The termination payment will continue to increase throughout the construction phase as additional funds are expended by the Project Company on the construction of the project. By the time the operational phase is reached in 2020 the termination payment could be as much as $1,000,000. At the end of the operational phase, ownership of the Project will be transferred to SAWS at no cost. SAWS has also entered into a separate agreement with Blue Water Vista Ridge, LLC, the lessee of the Project Water, to continue to acquire the 50,000 acre-feet of untreated groundwater upon the termination of the Agreement and transfer of the Project to SAWS, and the cost of such water at the end of the Agreement will be tied to prevailing Edwards Aquifer leases.

As of December 31, 2017, SAWS has entered into various water leases to obtain rights to pump water from the Edwards Aquifer. Some of the leases include price escalations and the annual cost per acre-foot ranges from $100 to $140. (Figures in this sentence are not in thousands). Under these various leases, SAWS paid $4,674 in 2017. The future commitments under these leases are as follows:

	2018	2019	2020	2021	2022	Thereafter
Lease obligations	$ 4,456	$ 3,232	$ 2,873	$ 2,674	$ 2,101	$ 564
Lease obligations (acre-feet)	28,121	21,498	20,588	19,108	15,008	4,026

SAWS also has commitments to purchase water supplies under various contracts. All water provided under these contracts is subject to availability.

Note 12 Commitments and Contingencies (Continued)

San Antonio Water System (SAWS) (Continued)

Other (Continued)

Total payments under these water purchase agreements were $38,475 in 2017. A summary of all estimated future payments under all these commitments is provided in the following table. The estimated fixed water payments consist of the take or pay commitments under the agreements. The estimated variable water payments will be made only if water is made available to SAWS. These estimates assume price escalations but do not assume the extension of any water purchase agreement. As with any estimates, the actual amounts paid could differ materially.

	2018	2019	2020	2021	2022	Thereafter
Purchased water payments - fixed	$ 22,110	$ 22,290	$ 22,687	$ 22,822	$ 23,238	$ 600,395
Acre-feet purchased - fixed	43,031	44,031	44,031	42,531	42,531	1,047,390
Purchased water payments - variable	$ 14,928	$ 15,032	$ 15,144	$ 14,718	$ 14,834	$ 97,905
Acre-feet purchased - variable	15,962	15,786	15,614	14,944	14,779	90,157

Under a contract with Guadalupe Blanco River Authority (GBRA), SAWS will receive 4,000 acre-feet of water annually through the end of the contract in 2037. Additionally, SAWS must purchase water not sold by GBRA to other third parties. The additional amount of water available in 2018 is estimated to be 4,800 acre-feet and is projected to decline over the remaining term of the contract as the demand of GBRA's other customer's increases. The cost of the water escalates over time with projected prices ranging from $970 per acre-foot in 2018 to approximately $1,451 per acre-foot by 2037. SAWS has an option to extend this contract until 2077 under new payment terms. (Figures in this paragraph are not in thousands).

Under a contract with the Massah Development Corporation, SAWS has a minimum take or pay commitment to purchase 100 acre-feet per month or 1,200 acre-feet per year of raw water from the Lower Glen Rose/Cow Creek formations of the Trinity Aquifer in northern Bexar County at projected prices ranging from $621 to $764 per acre-foot. This agreement expires in 2025 and SAWS has a unilateral option to extend the contract for ten years. (Figures in this paragraph are not in thousands).

Under a contract with Sneckner Partners, Ltd., SAWS has a take or pay commitment to purchase 1,500 acre-feet of water annually from the Trinity Aquifer at a minimum annual cost of $225 per acre-foot through 2020. (Figures in this sentence are not in thousands). SAWS has a unilateral option to extend the contract through 2026. As part of this contract, SAWS agreed to make quarterly defined payments for any residential customers that are connected to the system within a defined geographical area that begin taking water service from SAWS. SAWS began making these payments during 2012 as the area has begun to experience some development. SAWS has made payments totaling $340 for new customer connections under the terms of this contract. While it is impossible to estimate the exact amount of any potential future payments associated with this provision of the agreement, management's estimate of this potential contingent liability is less than $5,000.

Note 12 Commitments and Contingencies (Continued)

San Antonio Water System (SAWS) (Continued)

Other (Continued)

In 2012, SAWS entered into an agreement with Water Exploration Company, Ltd. (WECO) to purchase groundwater produced by WECO from the Trinity Aquifer. In connection with this agreement, two prior water purchase agreements between SAWS DSP and WECO were terminated. The 2012 agreement has a term of 15 years, with two optional five-year extensions. SAWS is obligated to purchase up to 17,000 acre-feet per year in monthly increments not to exceed 1,417 acre-feet if water is available to be produced. SAWS only pays for delivered water meeting all state and federal drinking water standards. Pumping by WECO may not reduce the Trinity Aquifer below 600 feet Mean Sea Level at test wells on the tracts. The projected price to be paid per acre-foot of raw water ranges from $965 in 2018 to $1,153 by 2027. (Figures in this paragraph are not in thousands).

In 2010, SAWS was granted a permit by the Gonzales County Underground Water Conservation District (District) to produce 11,688 acre-feet of water from the Carrizo Aquifer in Gonzales County. SAWS has entered into 23 separate agreements with land owners to produce water under that permit. (Agreement count and acreage not in thousands). These agreements remain in force indefinitely as long as SAWS continues to make payments in accordance with the terms of the agreements. SAWS makes payments to the landowners based on actual water produced. SAWS expects to produce the maximum water available under its permit in 2018 and projects payments to landowners will be $1,134. These payments escalate annually based on the average of the increase in the Consumer Price Index and Producers Price Index.

In 2011, SAWS entered into an agreement with the Schertz Seguin Local Government Corporation (SSLGC) to treat the water produced by SAWS under its permit with the District at its treatment plant in Guadalupe County and transport that water through SSLGC's existing transportation pipeline to a SAWS facility in Schertz, Texas, and to purchase up to 5,000 acre-feet of wholesale water annually from SSLGC. As part of this agreement, SSLGC agreed to expand its treatment facilities to handle the volume of water supplied by SAWS. SSLGC issued contract revenue bonds in 2012 to finance the expansion. SAWS is unconditionally obligated to make monthly payment to SSLGC beginning in December 2014 equal to 1/12th the annual debt service payment owed by SSLGC on the contract revenue bonds regardless of the amount of water actually provided by SAWS to SSLGC for treatment and transportation. In addition to the payment made to SSLGC for the expansion of the treatment plant, SAWS makes payments to SSLGC for treating and transporting the SAWS produced water. (Figures in this paragraph are not in thousands).

The initial term of the agreement with SSLGC expires in 2050 and can be renewed for successive terms of five years unless SAWS chooses to cancel the contract upon the expiration of any term. The projected price paid to SSLGC to treat and transport water provided by SAWS is projected to be $499 per acre-foot in 2018 increasing to $636 per acre-foot by 2050. This projected price includes the debt service associated with the expansion of SSLGC's treatment plan. Payments for any wholesale water purchased from SSLGC is based on SSLGC's wholesale water rates. (Figures in this paragraph are not in thousands).

Under a contract with Bexar-Medina-Atascosa Counties W.C.I.D. No. 1 (BMA), SAWS has a take or pay commitment to purchase 19,974 acre-feet of untreated water annually from Medina Lake. If BMA is unable to deliver water to SAWS, BMA issues a credit for the undelivered water which can be used to offset payments due to BMA during the next calendar year. The price of the water is based on the rate charged by Guadalupe Blanco River Authority (GBRA) for raw water. GBRA's rate for raw water at December 31, 2017 was $145 per acre-foot. The agreement has been amended several times with the current agreement being effective in 2008 and ending in 2049. (Figures in this paragraph are not in thousands).

Note 12 Commitments and Contingencies (Continued)

San Antonio Water System (SAWS) (Continued)

Other (Continued)

Under a contract with Canyon Regional Water Authority (CRWA), SAWS is required to make certain contractually required minimum payments each year to fund capital and operating expenses of CRWA. Additionally, SAWS makes payments based on the number of acre-feet of water SAWS commits to take in a given year. SAWS currently has access to 6,300 acre-feet through 2023 and 6,800 acre-feet annually from 2024 through 2042. For 2018, SAWS has committed to taking 5,300 acre-feet with a projected cost of $1,391 per acre-foot. (Figures in this paragraph are not in thousands).

SAWS is also committed under various contracts for completion of construction or acquisition of utility plant totaling approximately $369,858 as of December 31, 2017. Funding of this amount will come from excess revenues, contributions from developers, restricted assets and available commercial paper capacity.

Arbitrage

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax exempt borrowing rates. The Treasury requires payment for each issue every five years. The estimated liability is updated annually for all tax-exempt issuances or changes in yields until such time payment of the calculated liability is due. A liability is recorded once payment appears to be probable. As of December 31, 2017, SAWS has no arbitrage rebate liability associated with any outstanding bonds.

(The remainder of this page left blank intentionally)

Note 13 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, price increases or reductions, improvements to technology, or changes in applicable laws or regulations.

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Liabilities	$ 288	$ 64	$ (156)	$ 196
Construction in Progress	246	24	(114)	156
Business-Type Activities:				
Liabilities	$ 1,274			$ 1,274

The Governmental Activities' liabilities were a result of cost estimates to clean existing pollution found on land acquired by the City's Transportation and Capital Improvements Department for the construction of streets, drainage and parks. Any net change in the Governmental Activities pollution remediation liability that was not capitalized under Construction in Progress was expensed under the City's public works and public safety activities.

The City foresees receiving $85 in recoveries from third parties for the costs associated with cleaning up these pollution obligations.

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 City had no additional pollution remediation costs in business-type activities in fiscal year 2018.

CPS Energy

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, requires that a liability be recognized for expected outlays for remediating existing pollution when certain triggering events occur. The general nature of existing pollution that has been identified at CPS Energy sites is consistent with that experienced within the electric and gas utilities industry. Under most circumstances, the triggering event most relevant to CPS Energy is the voluntary commencement of activities to clean up pollution.

Under Federal Energy Regulatory Commission guidance, reserves have been established for dismantling and closure costs. In fiscal year 2008, in preparation for implementation of GASB Statement No. 49, a portion of those reserves were reclassified to remediation and dismantling reserve accounts reported on the Statements of Net Position within other liabilities. When a triggering event occurs, those reserves will be reclassified as a pollution remediation liability also reported within other liabilities.

Note 13 Pollution Remediation Obligation (Continued)

CPS Energy (Continued)

The pollution remediation liability was $2,616 as of January 31, 2018. 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, 2017.

(The remainder of this page left blank intentionally)

Note 14 Risk Financing

Primary Government (City)

Property and Casualty Liability

Factory Mutual Insurance Company provides coverage for the City's real property and contents. The City's deductible for property damage is $100 and the insurance will reimburse up to $2,000,000.

As of October 1, 2013, the City is completely self-insured for liability claims. Effective January 1, 2015, all auto and general liability claims were brought in-house to be administered internally.

Obligations for claims under these programs are accrued in the City's Self-Insurance Program's 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.

Workers' Compensation

As of May 1, 2013, the City is completely self-insured for workers' compensation claims. 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 Program's 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.

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. The City's health program is self-insured and the City's vision plan is fully-insured. The City offers two dental plans: one is self-insured and one is fully-insured; effective January 1, 2018, both plans became fully insured. Obligations for benefits are accrued in the Employee Health Benefits Fund based upon the City's estimates of the aggregate liability for unpaid benefits.

In fiscal year 2018, the City purchased medical claims stop loss insurance from HM Life Insurance Company. The stop loss insurance covers civilian and uniformed active employees, non-Medicare eligible retirees, and eligible dependents for claims paid exceeding $1,000. The purchase of the stop loss insurance mitigates the risk to the City's Self Insurance Fund – Employee Benefits and Retiree Health Care Fund in the event a large catastrophic claim occurs.

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 employees who are eligible to retire from the TMRS Pension Plan immediately following severance from the City. Self-Funded obligations for benefits are accrued in the City's Retiree Health Benefits Insurance Fund (a fiduciary fund of the City) 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.

Note 14 Risk Financing (Continued)

Primary Government (City) (Continued)

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 Benefits Insurance Fund.

Extended Sick Leave Program

The Extended Sick Leave Program is used to pay benefits associated with short-term disability, long-term disability and continued long-term disability. Benefits are administered by the City. Actual costs are incurred when extended leave is taken. Short-term and long-term disability is funded by the employee's department. Continued long-term disability is funded out of the Employee Benefits Insurance Fund and is reimbursed by the employee's department.

Employee Wellness Program

The Employee Wellness Program supports a culture of wellness and provides employees and their family members with the necessary tools to achieve and maintain a healthy lifestyle, while positively impacting medical claim trends. The City offers a variety of programs including personalized onsite and telephonic health coaching, smoking cessation, health education sessions, and an activity-based program that outfits employees with a free pedometer. Through this activity-based program, employees are able to track their activity over the course of 12 months, during which they can earn up to $0.5 in financial contributions. In fiscal year 2018, the City contributed $723 towards employees' Flexible Spending or Health Savings accounts. The Employee Wellness Program is managed out of the Employee Benefits Insurance Fund.

Claims Liability

The liability for the Employee Health Benefits Program is based on the estimated aggregate amount outstanding at the Statement of Net Position 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 Position 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 2.0% 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.

Note 14 Risk Financing (Continued)

Primary Government (City) (Continued)

Claims Liability (Continued)

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 fiscal years as indicated:

Fund	October 1,	Change in Estimate	Claims Incurred	Claims Payments	September 30,
Insurance Reserve:					
Fiscal Year 2017	$ 18,556	$ 2,778	$ 754	$ (5,037)	$ 17,051
Fiscal Year 2018	17,051	3,730	693	(4,594)	16,880
Employee Health Benefits[1]:					
Fiscal Year 2017	$ 13,844	$ 40,172	$ 74,470	$ (119,095)	$ 9,391
Fiscal Year 2018	9,391	33,807	77,799	(111,788)	9,209
Retiree Health Care:					
Fiscal Year 2017	$ 421	$ (4,163)	$ 4,241	$ (78)	421
Fiscal Year 2018	421	2,898	4,051	(6,921)	449
Workers' Compensation:					
Fiscal Year 2017	$ 35,316	$ (1,288)	$ 9,855	$ (8,470)	$ 35,413
Fiscal Year 2018	35,413	(78)	8,437	(9,310)	34,462

[1] Fiscal Year 2018 fund financial claims expense reflects an additional $165 paid for Unemployment Claims that are not included in the calculation of claims liability.

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 $3,500,000 of replacement-value coverage for property and boiler machinery loss, including comprehensive automobile coverage, and fire damage coverage for construction equipment, and valuable papers. The deductible for the property insurance policy is $1,000 for non-power plant/non-substation locations, $2,500 for substations, and $5,000 for power plant locations.

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 directors and officers, commercial crime, employee travel and 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 CPS Energy insurance reserve retentions. Actuarial valuations include nonincremental claims expenses. An actuarial study was performed in the fourth quarter of fiscal year 2018.

Year-Ended September 30, 2018 - 217 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 218 - Amounts are expressed in thousands

Note 14 Risk Financing (Continued)

CPS Energy (Continued)

In the following table, the remaining balance under the property reserves column at January 31, 2018 relates to estimated obligations for the cleanup, 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 landfills, surface impoundment, and ash ponds 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.

Fund	Liability February 1,	Claims Adjustments	Claims Payments	Liability January 31,
Property Reserves:				
Fiscal Year 2017	$ 6,150	$ 585	$ -	$ 6,735
Fiscal Year 2018	6,735	1,873		8,608
Employee and Public Liability Claims:				
Fiscal Year 2017	$ 18,477	$ 8,442	$ (4,822)	$ 22,097
Fiscal Year 2018	22,097	4,589	(5,869)	20,817

Counterparty Risk — CPS Energy is exposed to counterparty risk associated with various transactions primarily related to debt, investments, fuel hedging, suppliers, 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 and Solution Division.

Fuel Hedging — The 1999 Texas utility deregulation legislation, Senate Bill 7, contained provisions modifying the Texas Public Funds Investment Act (PFIA) to allow municipal utilities the ability to purchase and sell energy-related derivative 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.

CPS Energy reports its derivative instruments in accordance with 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 11, 2017, the Board 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 exposure in order to stabilize pricing and costs for the benefit of CPS Energy and its customers.

Note 14 Risk Financing (Continued)

CPS Energy (Continued)

In accordance with the requirements of GASB Statement No. 53, all fuel hedges are reported on the Statements of Net Position 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 fixed-price 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.

All hedging derivative instruments were evaluated for effectiveness at January 31, 2018. The instruments were categorized into two broad groups for the purposes of this testing. In one category, hedges utilize natural gas forwards 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 by GASB Statement No. 53 as 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 of 0.96 and 0.98 respectively, indicating that the changes in cash flows of the derivative instruments substantially offset the changes in cash flows of the hedgeable item. Additionally, the substantive characteristics of the hedge have been considered, and the evaluation of this effectiveness measure has been sufficiently completed and documented such that a different evaluator, using the same method and assumptions, would reach substantially similar results.

In the second category, hedges utilize both Henry Hub based natural gas forwards and locational basis swaps to the 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.

In fiscal year 2018, as a result of revisions to the expected volumes of some underlying wholesale physical transactions, it was determined that a group of existing financial hedge positions in this category were no longer effective. Offsetting financial positions were executed, and the fair value of the ineffective hedges resulted in a loss totaling $79, which was recognized as a reduction in investment income. All other hedging derivative instruments in both effectiveness testing categories were determined to be effective in substantially offsetting the changes in cash flows of the hedgeable items at January 31, 2018.

As of January 31, 2018, the total fair value of outstanding hedge instruments was a net liability of ($1,943). Fuel hedging instruments with a fair value of $618 and ($403) are classified on the Statements of Net Position as a component of current assets and current accounts payable and accrued liabilities, respectively. Long-term fuel hedges with a fair value of ($1,565) and $3,736 are classified as a component of other noncurrent assets and other noncurrent liabilities, respectively.

Year-Ended September 30, 2018 - 219 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 220 - Amounts are expressed in thousands

Note 14 Risk Financing (Continued)

CPS Energy (Continued)

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 Statements of Net Position 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 deferred outflows and deferred inflows of resources related to fuel hedges totaled $6,866 and $2,824 respectively at January 31, 2018.

Following is information related to CPS Energy's outstanding fuel hedging derivative instruments, using the referenced index of Henry Hub:

Fuel Derivative Transactions as of January 31, 2018

Type of Transaction		Duration	Volumes in MMBtu	Fair Value	Changes in Fair Value
Long	Natural Gas SWAP	Feb 2018 - Dec 2022	29,916,034	$ (218)	$ 5,234
Short	Natural Gas SWAP	Feb 2018 - Dec 2022	3,793,245	(178)	23
Long	Natural Gas Call Option	Feb 2018 - Jan 2021	26,375,251	2,599	(3,811)
Short	Natural Gas Call Option	Nov 2018 - Jan 2020	23,218	(2)	5
Long	Natural Gas Put Option	Nov 2018 - Jan 2020	23,218	1	(3)
Short	Natural Gas Put Option	Feb 2018 - Jan 2021	26,320,251	(2,151)	1,981
Long	HSC Basis Swap	Feb 2018 - Dec 2022	23,269,064	(1,906)	144
Short	HSC Basis Swap	Mar 2018 - Dec 2022	1,545,681	58	(212)
Long	HSC Gas Daily Swap	Feb 2018 - Sep 2018	3,252,000	(27)	(22)
Long	WAHA Basis Swap	Apr 2018 - May 2018	1,525,000	(101)	(101)
Long	WAHA Gas Daily Swap	Feb 2018 - Feb 2018	350,000	(18)	(13)
				$ (1,943)	$ 3,225

In the event purchased options are allowed to expire, the related premiums paid to acquire those options will be lost. When a short position is established and options are sold, premiums are received, and an obligation to honor the terms of the option contract, if exercised, is created. The decision to exercise the options or let them expire rests with the purchasing party.

Futures contracts represent a firm obligation to buy or sell the underlying asset. If held to expiration, the contract holder must take delivery of, or deliver, the underlying asset at the established contract price. Basis swap contracts represent a financial obligation to buy or sell the underlying delivery point basis. If held to expiration, the financial difference determined by mark-to-market valuation must be settled on a cash basis. Only if expressly requested in advance may an exchange for physical assets take place.

Note 14 Risk Financing (Continued)

CPS Energy (Continued)

Credit Risk — CPS Energy executes over-the-counter hedge transactions directly with approved counterparties. 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 investment grade, 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, 2018, the exposure to all hedge-related counterparties was such that no material 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.

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 2018, the HSC price was $2.66 per MMBtu, the WAHA price was $2.33 per MMBtu and the Henry Hub price was $2.74 per MMBtu. (Figures in this paragraph are not in thousands).

Congestion Revenue Rights — In the normal course of business, CPS Energy acquires Preassigned Congestion Revenue Rights (PCRR) and Congestion Revenue Rights (CRR) as a hedge against unexpected congestion costs. The CRRs are purchased at market value, at semi-annual and monthly auction. Municipally owned utilities are granted the right to purchase PCRRs annually at a percentage of the cost of CRRs. While PCRRs exhibit the three characteristics of derivatives as defined in GASB Statement No. 53, they are generally used by CPS Energy as factors in the cost of transmission. Therefore, these PCRRs meet the normal purchases and sales scope exception and are reported on the Statements of Net Position at cost and classified as prepayments. From time to time, CPS Energy purchases PCRRs and sells them at the same auction at market price. In this case, the PCRRs are considered investments, and the proceeds are reported as either investment gains or losses. There were no gains or losses on the sale of PCRRs and CRRs for fiscal year 2018.

Note 14 Risk Financing (Continued)

CPS Energy (Continued)

Fair Value Measurement — CPS Energy records assets and liabilities in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which determines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. More information regarding GASB Statement No. 72 is disclosed in Note 4 Cash and Cash Equivalents, Security Lending and Investments. Below is the liability portion disclosure of GASB Statement No. 72:

	January 31, 2018			
	Level 1	Level 2	Level 3	Total
Liabilities				
Financial Instruments				
Current fuel hedges	$ 2	$ -	$ -	$ 2
Noncurrent fuel hedges	2,376	(68)		2,308
Total financial instruments	$ 2,378	$ (68)	$ -	$ 2,310

San Antonio Water System (SAWS)

Risk Management — SAWS provides health care benefits to eligible employees and retirees through a self-insured plan that includes medical, prescription drug, and dental benefits. The payment of claims associated with these benefits is handled by third party administrators. Plan participants contribute a portion of the cost of providing these benefits through payroll deductions or monthly premiums, annual deductibles, and other co-payments. SAWS was self-insured for the first $325 of medical claims per person during 2017.

SAWS is exposed to various risks of financial loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. SAWS is self-administered and self-insured for the first $2,000 of each workers' compensation and general liability claim and is fully self-insured for automobile liability. Claims that exceed the self-insured retention limit for workers' compensation and general liability are covered through SAWS' comprehensive commercial insurance program (CCIP). Additionally, under the CCIP, SAWS maintains deductible programs for public officials and employment practices liability, fiduciary liability, pollution legal liability, drone liability, cyber liability and crime with varying deductibles. Property coverage is on a replacement cost basis with a deductible of $250 per occurrence. Settled claims during the last three years have not exceeded the insurance coverage in any year.

The claims liability for health care benefits and other risks, including incurred but not reported claims, is based on the estimated ultimate cost of settling the claims. Changes in the liability amount for the last two fiscal years were as follows:

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, 2017	$ 7,273	$ 22,586	$ (22,672)	$ 7,187	$ 7,187
December 31, 2016	4,787	28,063	(25,577)	7,273	7,273

Note 14 Risk Financing (Continued)

San Antonio Water System (SAWS) (Continued)

Pay-Fixed, Receive-Variable Interest Rate Swap — In 2003, SAWS entered into an interest rate swap agreement in connection with its City of San Antonio, Texas, Water System Subordinate Lien Revenue and Refunding Bonds, Series 2003-A and 2003-B (Series 2003 Bonds) issued in a variable interest rate mode. The Series 2003 Bonds were issued to provide funds for SAWS' capital improvements program and to refund certain outstanding commercial paper notes.

The swap was used to hedge interest rates on the Series 2003 Bonds to a synthetic fixed rate that produced a lower interest rate cost than a traditional long-term fixed rate bond issued at that time. In August 2008, SAWS used commercial paper notes to redeem $110,615 of the $111,615 outstanding principal of the Series 2003 Bonds due to unfavorable market conditions relating to the ratings downgrade of the 2003 Bond insurer, MBIA Insurance Corporation. In 2009, SAWS redeemed the remaining $1,000 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 notes are expected to closely match the debt service requirements of the refunded debt. At December 31, 2017, $84,705 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 Municipal Swap Index.

In 2008, JPMorgan Chase & Co. announced its acquisition of The Bear Stearns Companies, Inc., the parent of Bear Stearns FPI. JPMorgan Chase & Co. has guaranteed the trading obligations of Bear Stearns and its subsidiaries. Effective June 16, 2009, the swap agreement was amended between SAWS, JPMorgan Chase & Co., and MBIA to provide for JPMorgan Chase Bank N.A. to become the swap counterparty and allow for the remainder of outstanding Series 2003 Bonds to be redeemed, while maintaining the swap agreement as an obligation to all parties. The amendment provides for the conditional release of MBIA's swap insurance policy upon the occurrence of certain future events. The combination of commercial paper notes and a floating-to-fixed swap creates a synthetic fixed-rate of 4.2%. The synthetic fixed-rate protects against the potential of rising interest rates.

Fair Value — The swap had a negative fair value of approximately $15,394 at December 31, 2017. This value is based on Level 2 inputs in the fair value hierarchy using the zero-coupon valuation 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.

Year-Ended September 30, 2018 - 223 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 224 - Amounts are expressed in thousands

Note 14 Risk Financing (Continued)

San Antonio Water System (SAWS) (Continued)

The swap agreement meets the criteria of an effective hedge under GASB Statement No. 53 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 of resources and included on the Statement of Net Position. At the time the 2003 Bonds were redeemed in 2008, the fair value of the swap was negative $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 included in the deferred charge on bond refunding on the Statement of Net Position and is being amortized over the remaining life of the 2003 Bonds. The unamortized deferred charge on bond refunding related to the swap was $3,537 at December 31, 2017.

Credit Risk — As of December 31, 2017, SAWS was not exposed to credit risk on its outstanding swap because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, SAWS would be exposed to credit risk in the amount of the swap's fair value. The swap counterparty, JPMorgan Chase Bank, N.A., was rated 'Aa3' by Moody's Investors Service, 'A+' by Standard & Poor's, and 'AA-' by Fitch Ratings as of December 31, 2017. 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 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 selecting an index for the variable-rate leg of the swap that is reasonably expected to closely match the interest rate on the hedged commercial paper notes.

Termination Risk — SAWS may terminate the swap at any time for any reason. JPMorgan Chase may terminate the swap if SAWS fails to perform under the terms of the agreement. The ongoing payment obligations under the swap are insured as provided for in the swap amendment, and JPMorgan Chase cannot terminate as long as the insurer does not fail to perform. Also, if at the time of the termination the swap has a negative fair value, SAWS would be liable to the counterparty for a payment equal to the swap's fair value.

Market-access Risk — SAWS is subject to market-access risk as $84,705 of variable-rate debt hedged by the swap is outstanding in commercial paper notes with current maturities of approximately 32 days. As previously noted, SAWS intends to reissue the commercial paper notes in amounts matching the notional amounts of the swap.

Swap Payments and Associated Debt — As of December 31, 2017, 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.

Note 14 Risk Financing (Continued)

San Antonio Water System (SAWS) (Continued)

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
2018	$ 3,710	$ 896	$ 2,031	$ 6,637
2019	3,880	855	1,936	6,671
2020	4,055	811	1,838	6,704
2021	4,240	766	1,735	6,741
2022	4,435	718	1,627	6,780
2023-2027	25,405	2,795	6,334	34,534
2028-2032	31,740	1,233	2,793	35,766
2033	7,240	26	60	7,326
Total	$ 84,705	$ 8,100	$ 18,354	$ 111,159

(The remainder of this page left blank intentionally)

Year-Ended September 30, 2018 - 225 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 226 - Amounts are expressed in thousands

Note 15 Interfund Transfers

The following is a summary of interfund transfers for the City for the fiscal year-ended September 30, 2018:

Interfund Transfers	Transfers In From Other Funds	Transfers Out To Other Funds
General Fund:		
Debt Service Fund	$ 24	$ 2,635
Nonmajor Governmental Funds	17,782	34,907
Airport System	236	
Solid Waste Management	1,376	180
Nonmajor Enterprise Funds	2,739	4,026
Internal Service Funds		344
Total General Fund	$ 22,157	$ 42,092
Debt Service Fund:		
General Fund	2,635	24
Nonmajor Governmental Funds	15,231	
Total Debt Service Fund	$ 17,866	$ 24
Pre-K 4 SA:		
Nonmajor Governmental Funds	35,697	2
Total Pre-K 4 SA	$ 35,697	$ 2
2017 General Obligation Bonds:		
Nonmajor Governmental Funds		33,409
Total 2017 General Obligation Bonds	$ -	$ 33,409
Nonmajor Governmental Funds:		
General Fund	34,907	17,782
Debt Service Fund		15,231
Pre-K 4 SA	2	36,544
2017 General Obligation Funds	33,409	
Nonmajor Governmental Funds	271,159	271,159
Solid Waste Management	36,614	906
Nonmajor Enterprise Funds	1,380	532
Internal Service Funds	639	
Total Nonmajor Governmental Funds	$ 378,110	$ 342,154
Airport System:		
General Fund		236
Total Airport System	$ -	$ 236
Solid Waste Management:		
General Fund	180	1,376
Nonmajor Governmental Funds	906	36,614
Internal Service Funds	300	
Total Solid Waste Management	$ 1,386	$ 37,990
Nonmajor Enterprise Funds:		
General Fund	4,026	2,739
Nonmajor Governmental Funds	532	1,380
Nonmajor Enterprise Funds	211	211
Total Nonmajor Enterprise Funds	$ 4,769	$ 4,330
Internal Service Funds:		
General Fund	344	
Nonmajor Governmental Funds		639
Solid Waste Management		300
Internal Service Funds	85	85
Total Internal Service Funds	$ 429	$ 1,024
Total	$ 460,414	$ 461,261

Note 15 Interfund Transfers (Continued)

Transfers are made to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds. These transfers are in the form of operating subsidies, grant matches, and funding for capital projects. In addition, transfers are routinely made from other funds to fund debt service payments and for other restricted purposes. Some examples include the 1/8 cent sales and use tax collected by the City and provided to Pre-K 4 SA for operations; 15% Hotel Occupancy Tax (HOT) collections used to fund Historic Preservation which operates in the General Fund; and Bond proceeds used to fund capital projects. All transfers are in accordance with budgetary authorizations.

Different fiscal year-ends exist between the City and Pre-K 4 SA (September 30th and June 30th, respectively); therefore, interfund transfers do not eliminate by $847. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the City's transfer to Pre-K 4 SA represents its obligation to provide the 1/8 cents sales tax collected 60 days after September 30, 2018; however, Pre-K 4 SA's due from other funds illustrates the City's 1/8 cents sales tax collected 60 days after June 30, 2018. These transfers are in accordance with legislative and contractual requirements.

(The remainder of this page left blank intentionally)

Year-Ended September 30, 2018 - 227 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 228 - Amounts are expressed in thousands

Note 16 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.

	General Fund	Debt Service Fund	Pre-K 4 SA	Convention Center Hotel Finance Corporation	2017 General Obligation Bonds	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances:							
Nonspendable:							
In nonspendable form:							
Materials and Supplies	$ 6,070	$ -	$ -	$ -	$ -	$ 2,326	$ 8,396
Prepaid, Deposits and Other	817					1,214	2,031
Legally or contractually intact:							
Permanent Fund Corpus						4,817	4,817
Total Nonspendable	$ 6,887	$ -	$ -	$ -	$ -	$ 8,357	$ 15,244
Restricted:							
Education			8,740			12,535	21,275
Environmental						39	39
Social Services						381	381
Parks & Recreation						83,416	83,416
Library						379	379
Health Services						20,917	20,917
Welfare						286	286
Convention and Tourism						3,239	3,239
Urban Redevelopment and Housing						1,659	1,659
Economic Development & Opportunity						40,956	40,956
Law Enforcement						8,271	8,271
Fire Protection						2,590	2,590
Debt Service	2,283	38,146		6,271		6,268	52,968
Other Purposes						936	936
Drainage - Capital Projects					37,431	74,994	112,425
Municipal Facilities - Capital Projects					13,265	77,046	90,311
Parks - Capital Projects					45,824	14,638	60,462
Streets - Capital Projects					117,426	133,342	250,768
Other Capital Projects					12,070	79,310	91,380
Total Restricted	$ 2,283	$ 38,146	$ 8,740	$ 6,271	$ 226,016	$ 561,202	$ 842,658
Committed:							
Education						125	125
Social Services						3,199	3,199
Parks & Recreation	4,777					6,380	11,157
Library	64						64
Health Services	420						420
Welfare	1,633						1,633
Convention and Tourism						67,865	67,865
Urban Redevelopment and Housing	299					11,953	12,252
Economic Development & Opportunity	22,090						22,090
Law Enforcement	3,351					742	4,093
Fire Protection	989						989
Other Purposes						4,444	4,444
Public Works	5,124						5,124
General Government	6,043						6,043
Municipal Facilities - Capital Projects						1,942	1,942
Parks - Captial Projects	1,038						1,038
Streets - Capital Projects	50,745					701	51,446
Other - Capital Projects	561					1,624	2,185
Total Committed	$ 97,134	$ -	$ -	$ -	$ -	$ 98,975	$ 196,109
Assigned:							
Education						193	193
Parks & Recreation						725	725
Health Services						7	7
Economic Development & Opportunity						2,442	2,442
Other Purposes	8						8
Total Assigned	$ 8	$ -	$ -	$ -	$ -	$ 3,367	$ 3,375
Unassigned	243,828					(7,346)	236,482
Total Fund Balance	$ 350,140	$ 38,146	$ 8,740	$ 6,271	$ 226,016	$ 664,555	$ 1,293,868

Note 16 Fund Balance Classifications (Continued)

The City utilizes encumbrance accounting to ensure specified remaining unspent balances are adequately 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. The encumbrance and carryforward amounts are reported in fund balance as follows:

General Fund	Nonmajor Governmental Funds	Total Governmental Funds
$ 93,219	$ 445,190	$ 538,409

The City further maintains a 10.0% of General Fund revenues 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 are contingent upon the General Fund's overall estimated expenditures and related funding.

The Reserve may be utilized to meet one or 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 occurrences 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, 2018 was $118,226. 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. In addition, at the end of fiscal year 2018, $100,807, or 5.4% of budgeted revenues, was reserved for a two-year balanced budget. The establishment and maintenance of appropriate reserves within the General Fund is critical to prudent financial management.

(The remainder of this page left blank intentionally)

Year-Ended September 30, 2018 - 229 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 230 - Amounts are expressed in thousands

Note 17 Deficits in Fund Balances / Net Position

Grants

As of September 30, 2018, a deficit fund balance is reported in the Categorical Grant-in Aid, Community Development Program, and HOME Program in the amounts of $7,289, $383, and $306, respectively. These deficits are due to costs not being reimbursed by the grantor within 60 days after year-end. The City anticipates receiving payment in fiscal year 2019 for these costs.

Capital Projects Funds

As of September 30, 2018, a deficit fund balance is reported in the General Obligation Projects Fund in the amount of $1,189 due to timing of funding. The City maintains a one year reimbursement resolution for projects included in the annually adopted capital budget; thereby covering these deficits in fiscal year 2019.

Enterprise Funds

As of September 30, 2018, deficit net positions are reported in Solid Waste Management and Development Services in the amounts of $69,615 and $5,098, respectively. The City does not currently prefund OPEB liability or the net pension liability; as a result, these funds will continue to exhibit an increasing deficit net position. The City will analyze the growing deficits and its funding policy at a future period.

Internal Service Funds

As of September 30, 2018, a deficit net position is reported for Information Services in the amount of $39,069. The deficit is due to the fund not including long-term liabilities in its rate assessments. The City does not prefund OPEB liability or the net pension liability; as a result, this fund will continue to exhibit an increasing deficit net position, which will be analyzed at a future period.

As of September 30, 2018, a deficit net position is reported in Capital Management Service Fund (CMS) in the amount of $21,713. The deficit in CMS is due to the fund not including long-term liabilities (OPEB, net pension liability, and accrued leave) in its rate assessments. Due to the fund's GASB Statement No. 54 reclassification, accrued leave not previously recorded in the fund has now been incorporated in future assessments and fees. However, since the City does not prefund OPEB liability, nor net pension liability, this fund will continue to exhibit an increasing deficit net position, which will be analyzed at a future period. The City will continue to pay for these obligations as they become due.

Fiduciary Funds

As of September 30, 2018, a deficit of net position is reported in the City Retiree Health Care Fund in the amount of $731. The deficit in the City Retiree Health Care Fund is due to claims and other expenses exceeding employer and employee contributions. The City plans to reduce the deficit through changes to benefit options, sharing of premiums and additional plan design changes to avoid unsustainable increases in health costs.

Note 18 Other Disclosures

Primary Government (City)

Donor Restricted Endowment

The City has five Permanent Funds: Carver Cultural Center Endowment, City Cemeteries, William C. Morris Endowment, Boza Becica Endowment and Southern Edwards Plateau Endowment. 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 increases 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 position from these endowment funds are reported in the government-wide financial statements.

The Carver Cultural Center Endowment Fund generated $5 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 City Cemeteries Fund generated $52 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 William C. Morris Endowment Fund generated $5 in investment earnings. These earnings are used on an annual basis to enhance educational programming and services for children provided at the City libraries. 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 $8 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.

The Southern Edwards Plateau Endowment generated $3 in investment earnings. This fund is managed in accordance with the Endangered Species Act of 1973, which is codified as Section 83.005 in the Texas Parks and Wildlife Code Chapter 83. These earnings will be used to fund management and monitoring of the preserves in support of the Southern Edwards Plateau Habitat Conservation Plan. The principal amount of this fund is increased each year by outside donations and transfers from the Development Services Fund. The principal is required to be retained in perpetuity.

Note 18 Other Disclosures (Continued)

Primary Government (City) (Continued)

Service Concession Agreements

The City has a fixed term agreement with Mission Park in which Mission Park pays the City 40.0% of burial plot sales and 10.0% of revenue from services, merchandise and products for the life of the contract (ending December 2035 with an option to renew). All capital improvements become property of the City, and the City retains ownership of the property after the contract expires. All permanent improvements of material nature have to be approved by the City. The City approves the rates and services Mission Park will provide. Mission Park collects all fees and pays the City its portion. The assets include 84 acres acquired at a value of $1,820. The City received an upfront payment of $130 in fiscal year 2011. In fiscal year 2018, the City received $381 in revenue from Mission Park.

The City has a Management Agreement with MGA-SA. In the agreement, MGA-SA manages the City's golf courses and in return retains all funding to cover operations and improvements. All permanent structures existing on the golf courses and those added during the term of the agreement are property of the City. The City determines and/or approves of the services provided to the public. The assets include eight golf courses valued at $42,793.

The City has a concession agreement with Go Rio San Antonio, LLC (Go Rio) in which Go Rio pays the City 51.0% of river barge services and 15.0% of revenue from merchandise, food and beverage, advertising and other ancillary services for the life of the contract (ending December 2027 with an option to renew). The assets include 44 barges and accompanying equipment acquired at a value of $9,137. All capital improvements to the barges become property of the City, and the City retains ownership of the property after the contract expires. All permanent improvements of material nature have to be approved by the City. The City approves the rates and services Go Rio will provide. Go Rio collects all fees and pays the City its portion. In fiscal year 2018, the City received $8,754 in revenue from Go Rio.

The City has a concession agreement with Willie G's Post Oak for operation of the Tower of the Americas (ending June 2021 with an option to renew). The City will receive the greater of a minimum annual guaranteed payment of $984,375 or revenue based on 10.0% of restaurant services, 35.0% of revenue from admission fees, 30.0% of revenue from parking, 15.0% from retail at the ground level gift shop and observation deck, 5.0% from theater tickets and vending, and 50.0% from telescope and other revenues not otherwise listed. The assets include the Tower of the Americas building, telescopes, movie theatre equipment and renovations with a combined value of $1,042, net of depreciation. All capital improvements have to be approved and become property of the City. The City retains ownership of the property after the contract expires. The City approves the rates and services Landry's will provide. Landry's collects all fees and pays the City its portion. In fiscal year 2018, the City received $1,626 in revenue from Landry's.

The City has a concession agreement with San Antonio Botanical Garden Society, Inc., (SABGC) for operation of the San Antonio Botanical Garden (ending December 31, 2039 with an option to extend). The City will receive revenue based on restaurant, gift shop, plant sales and rentals. SABGC is also entitled to keep part of this revenue to reinvest in capital improvements in lieu of payments to the City. All capital improvements become property of the City, and the City retains ownership of the property after the contract expires. All permanent improvements of material nature have to be approved by the City. The City approves the rates and services SABGC will provide. SABGC collects all fees and pays the City its portion. The assets include the 37.8 acres, new welcome center, education and events center, classrooms, various new garden areas and expanding parking lot, with a combined value of $14,305, net of depreciation, and $5,450 made in improvements in fiscal year 2018. In fiscal year 2018, the City received $392 in revenue from SABGC.

Note 18 Other Disclosures (Continued)

Primary Government (City) (Continued)

Service Concession Agreements (Continued)

The City has a concession agreement with Alanis Wrecker Service for operation of the Growden Vehicle Storage Facility (ending September 30, 2023 with an option to extend). The City will receive a minimum annual guaranteed payment of $2,000 or a percentage amount calculated based on their total adjusted gross sales, whichever is greater. Alanis Wrecker Service is required to make minimum $500 in improvements per year for the first two years to the vehicle storage facility. All capital improvements become property of the City, and the City retains ownership of the property after the contract expires. All permanent improvements of material nature have to be approved by the City. The assets include the vehicle storage facility, administration building, supply shed, drop shed, golf cart shed, and property shed with a combined value of $953. In fiscal year 2018, the City received $3,000 in revenue from Alanis.

(The remainder of this page left blank intentionally)

Note 19 Prior Period Restatement

Primary Government (City)

GASB 75 Restatement

In fiscal year 2018, the City implemented GASB 75, which will improve accounting and financial reporting by state and local governments for Postemployment Benefits Other Than Pensions (OPEB). It also provides information provided by state and local governmental employers about financial support for OPEB that is provided. The implementation resulted in a restatement of the City's governmental and business-type activities beginning net positions.

Governmental Activities

The City's Statement of Net Position restatements for the Governmental Funds are as follows:

	Net Position
Fiscal Year 2018 Beginning Net Position, as previously reported	$ 2,312,987
GASB 75 Restatement - City Health Care Fund OPEB	68,239
GASB 75 Restatement - Fire and Police Health Fund OPEB	497,895
Net Position as Restated, October 1, 2017	1,746,853
City Retiree Health Care Restatement	363
Net Position as Restated, October 1, 2017	$ 1,746,490

Enterprise Funds and Business-Type Activities

The Enterprise Funds and Business-Type Activities' restatement per GASB 75 is as follows:

	Airport System	Solid Waste	Nonmajor Enterprise Funds	Total
Beginning Net Position, as previously reported	$ 393,770	$ (31,769)	$ 19,953	$ 381,954
GASB 75 Restatement - City Health Care Fund OPEB	(3,604)	(5,034)	(3,030)	(11,668)
GASB 75 Restatement - Fire and Police Health Fund OPEB	(3,988)			(3,988)
Restated Beginning Net Position, Enterprise Funds	$ 386,178	$ (36,803)	$ 16,923	$ 366,298

Note 19 Prior Period Restatement (Continued)

Primary Government (City) (Continued)

Enterprise Funds and Business-Type Activities (Continued)

	Business-Type Activities
Beginning Net Position, as previously reported	$ 375,705
GASB 75 Restatement - City Health Care Fund OPEB	(11,668)
GASB 75 Restatement - Fire and Police Health Fund OPEB	(3,988)
GASB 75 Restatement - Internal Services Fund Allocation	1,026
Restated Beginning Net Position, Government-wide	$ 361,075

City of San Antonio Retiree Health Care Fund and Employee Health Benefits

With the adoption of GASB 75, the City reassessed the Employee Health Benefit Fund and determined the retiree component, should be treated as an "equivalent arrangements". This retiree component is reported as a fiduciary fund titled City of San Antonio Retiree Health Care Fund in fiscal year 2018. The fiduciary fund's beginning net position was restated to $363. The beginning net position for the Employee Health Benefits Fund was restated to $542, to account for the $363 adjustment to the City of San Antonio Health Care Fund.

(The remainder of this page left blank intentionally)

Year-Ended September 30, 2018 - 235 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 236 - Amounts are expressed in thousands

Note 19 Prior Period Restatement (Continued)

Discretely Presented Component Units

CPS Energy

CPS Energy adopted the requirements of GASB Statement No. 75 in fiscal year 2018. The impact for CPS Energy is as follows:

	As Originally Reported	As Restated	Effect of Change
Statement of Net Position			
Noncurrent assets*			
Net OPEB obligation	$ 14,435	$ -	$ (14,435)
Net OPEB liability		(19,791)	(19,791)
Total noncurrent assets	14,435	(19,791)	(34,226)
Deferred outflows of resources			
Unamortized loss on OPEB resources		31,013	31,013
Employer OPEB contributions		9,200	9,200
Total deferred outflows of resources		40,213	40,213
Net Position	3,382,256	3,388,243	5,987
Statement of Revenues, Expenses and Changes in Net Position			
Operating expense			
Operation and maintenance	507,478	514,824	7,346
Annual OPEB and pension expense	91,271	86,048	(5,223)

*The Net OPEB obligation previously reported under GASB Statement No. 45 was an asset balance as of January 31, 2017. With the adoption of GASB Statement No. 75, CPS Energy restated the Net OPEB liability and recorded a liability.

San Antonio Bexar County Soccer Public Facility Corporation (SABC PFC)

In fiscal year 2018, SABC PFC reported a beginning Net Position of $22,349, which is being restated to $18,677. This restatement is due to the Stadium Facility value being separated from the Land value, and accounting for depreciation of $3,672 in fiscal year 2018.

Note 20 Subsequent Events

Primary Government (City)

Charter Amendments

The San Antonio Professional Firefighters Association conducted a petition drive seeking three changes to the City Charter. The Propositions on the November 6, 2018 special election ballot permit qualified voters of the City to vote on the three following propositions to amend the City Charter of the City. The following are the propositions as stated on the Ballot and their respective results.

CITY OF SAN ANTONIO PROPOSITION A
Shall the City Charter be amended to expand the types of ordinances that may be subject to referendum including appropriation of money, levying a tax, granting a franchise, fixing public utility rates, zoning and rezoning of property; increase the number of days within which a petition may be filed seeking a referendum on an ordinance passed by council from forty to one hundred eighty days after passage of the ordinance; and to provide that no more than twenty thousand signatures of registered voters are required for a referendum petition instead of ten percent of those electors qualified to vote at the last regular municipal election? Voters elected to not pass this proposition.

CITY OF SAN ANTONIO PROPOSITION B
Shall the City Charter be amended to limit the term the City Manager may serve to no longer than eight years, limit the compensation of the City Manager to no more than ten times the annual salary furnished to the lowest paid full-time city employee, and to require a supermajority vote to appoint the City Manager? Voters elected to pass this proposition.

CITY OF SAN ANTONIO PROPOSITION C
Shall the City Charter be amended to provide the International Association of Fire Fighters Local 624 with unilateral authority to require the City to participate in binding arbitration of all issues in dispute with the Association within forty-five days of the City's receipt of the Association's written arbitration request? Voters elected to pass this proposition.

Bond Rating

After nine consecutive years of 'AAA' bond ratings from the three major ratings agencies, one of those agencies, Fitch, downgraded its bond rating of the City on December 19, 2018. Fitch downgraded the City one notch from a 'AAA' to a 'AA+' while Moody's and Standard & Poor's, reaffirmed the City's AAA bond rating on its ad valorem debt. The downgrade from Fitch is a direct result of the City's diminished expenditure flexibility triggered by a voter-approved city charter amendment that permits firefighters to call for binding arbitration during future collective bargaining agreement negotiations that result in an impasse.

Build America Bonds (BABs) Subsidy Sequestration

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the federal government will reduce the BABs subsidy by 6.2% for payments to be made during the period beginning October 1, 2018, through the end of the fiscal year (September 30, 2019). There is still uncertainty regarding whether or not the reduction will continue after that date. In February 2019 the City received $1,794 from the IRS for the BAB's payment. The subsidy reduction for fiscal year 2019 will result in an approximate $237 increase in the City's debt-related interest expense. The change does not have a material impact on the City's debt financing.

Year-Ended September 30, 2018 - 237 - Amounts are expressed in thousands
Year-Ended September 30, 2018 - 238 - Amounts are expressed in thousands

Note 20 Subsequent Events (Continued)

Primary Government (City) (Continued)

City Manager Position

On November 29, 2018, City Manager Sheryl Scully announced her retirement after serving the City for more than 13 years. An extensive search was conducted to find the City's next City Manager. On January 31, 2019, the Mayor and City Council appointed Erik Walsh as the new City Manager effective March 1, 2019. Erik Walsh has 24 years of municipal government experience with the City of San Antonio. He was appointed to Deputy City Manager in October 2011. Prior to his appointment, Mr. Walsh was promoted to Assistant City Manager in February 2006.

Collective Bargaining Agreement

The collective bargaining agreement between the City and the International Association of Fire Local 624 (IAFF) expired September 30, 2014, with the parties continuing to operate under the ten year evergreen clause included in the agreement. The City filed a lawsuit questioning the constitutionality of the evergreen clause and on August 23, 2017, the Texas Fourth Court of Appeals ruled that the City's collective bargaining agreement with IAFF does not violate the Texas Constitution. The Texas Supreme Court declined to hear the City's appeal on the issue in June 2018. On November 6, 2018, Proposition C, amended the City Charter to give the firefighters' union the ability to unilaterally take contract negotiations to binding arbitration, passed. The City requested the lawsuit be dismissed on November 29, 2018, in order to allow negotiations to resume. After more than 4 years of the IAFF refusing to negotiate, negotiations began on February 6, 2019.

Long-Term Debt

On January 22, 2019, the City issued $24,750 in General Improvement Refunding Bonds, Series 2019. The Bonds were issued to refund the HUD 108 Loan for debt service savings of $3,289 and to pay the costs of issuance. The bonds have maturities ranging from 2019 to 2025, with interest rates ranging from 2.0% to 5.0%.

San Antonio Tourism Public Improvement District (SATPID)

Visit San Antonio (VSA) and the San Antonio Hotel and Lodging Association (SAHLA), an association group representing the hospitality industry in San Antonio, worked to establish the San Antonio Tourism Public Improvement District (SATPID) by adding a 1.25% fee per night hotel stay that would be reinvested into VSA's marketing budget. In June 2018 City Council preliminary approved the SATPID. SAHLA and VSA then worked to obtain 60.0% of eligible hotel signatures within the district boundaries, as required by state law. After sufficient petition signatures were obtained from hotel owners within the district, a formal request to establish a TPID was presented to City Council in December 2018. On January 1, 2019, the SATPID became effective; creating as a new revenue source for VSA. The funds will be collected by the City but will be managed by VSA and used for funding the sales, marketing, and promotion of San Antonio to convention, group, business and leisure visitors. The eight-year agreement is expected to raise more than $10,000 annually.

Note 20 Subsequent Events (Continued)

CPS Energy

Long-Term Debt

On November 15, 2018, CPS Energy issued $218,285 of New Series 2018 Senior Lien Revenue Refunding Bonds. Bond proceeds, including the $25,257 premium associated with the bonds, were used to refund $99,130 par value of the New Series 2009D Revenue Refunding Bonds and convert the outstanding $142,285 Series 2012A, Series 2012B and Series 2012C Variable-Rate Junior Lien Bonds from variable rate debt to fixed rate debt. The refunding transaction, resulted in net present value debt service savings of $3,618, or 3.6% of the par amount of the bonds being refunded. The true interest cost for this issue, which has maturities in 2020, 2021, 2027, and 2028, is 2.80%.

On December 20, 2018, CPS Energy issued $130,220 of New Series 2018A Senior Lien Revenue Refunding Bonds. Proceeds, including the $20,934 premium associated with the bonds, were used to refund $60,000 and $90,000 par value of the Commercial Paper Series A and Commercial Paper Series C, respectively. The true interest cost for this issue, which has maturities in 2026 through 2048, is 3.69%.

On December 20, 2018, CPS Energy issued $134,870 of Series 2018 Variable-Rate Junior Lien Revenue Refunding Bonds. Proceeds, including the $1,157 premium associated with the bonds, were used to refund $135,000 par value of the Commercial Paper Series C. The true interest cost for this issue, which has maturities in 2043 through 2048, is 6.56%.

On January 22, 2019, the outstanding balance of $25,200 of the Flexible Rate Revolving Note was defeased with cash.

On January 24, 2019, $52,515 of New Series 2015 Senior Lien Revenue Refunding Bonds and $25,120 of New Series 2016 Senior Lien Revenue Refunding Bonds will be legally defeased with cash. Under this defeasance, the debt obligations were technically voided, as the cash was escrowed with a third party to service the debt.

Impairment NRG Energy, Inc.

In March 2018, NRG Energy, Inc. (NRG) filed its December 31, 2017, Form 10-K with the SEC in which the company recognized an impairment loss of $1,248,000 related to its subsidiary, NRG South Texas LP's, 44.0% interest in STP Units 1 and 2. The impairment was primarily due to the revised outlook of future commodity prices and NRG management's view of a decrease in future cash flows from STP operations as a result of accounting requirements under Financial Accounting Standards Board. CPS Energy does not expect to write-down its investment in STP Units 1 and 2 as a result of this news.

Deely1 and Deely2 were deactivated and removed from service on December 31, 2018. CPS Energy prepared for Deely's recent deactivation by expanding its efficiency programs and adding solar farms with 450 megawatts of capacity. With the deactivation of the Deely units and a projected remaining book value of $186,000 at January 31, 2019, CPS Energy is planning to recognize an impairment loss in its Fiscal Year 2019 financial statements. The impairment loss will be classified as a special item to be reported below net income on CPS Energy's Statement of Revenues, Expenses and Changes in Net Position.

Note 20 Subsequent Events (Continued)

San Antonio Water System (SAWS)

Rate Increase

On December 7, 2017, the City Council approved a two year rate adjustments that will increase SAWS water and sewer rates on average by 5.8% beginning January 1, 2018 and 4.7% beginning January 1, 2019. The additional revenue will enable SAWS to replace aging critical systems throughout the City, as well as support SAWS improvements being made in connection with street projects funded by the City's 2017 bond program.

Long-Term Debt

On May 23, 2018, SAWS issued $208,825 City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2018A (No Reserve Fund). The proceeds from the sale of the bonds were used to (i) refund the City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2008 (Series 2008), (ii) refund the City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2008A (Series 2008A), (iii) refund $125,655 in outstanding commercial paper notes, (iv) finance capital improvement projects, and (v) pay the cost of issuance. The refunding of the Series 2008 and Series 2008A bonds reduced total future debt service payments by approximately $7,910 and resulted in an economic gain of $2,893. The bonds are secured together with other outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On June 14, 2018, SAWS issued $10,500 City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2018B through the Texas Water Development Board. The bonds were sold under the Drinking Water State Revolving Fund 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) pay the cost of issuance. The bonds are secured together with other outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

On January 29, 2019, SAWS issued $166,480 City of San Antonio, Texas Water System Variable Rate Junior Lien Revenue Bonds, Series 2019A (No Reserve Fund) in a Fixed Rate Mode for a period of five years ending May 1, 2024. The proceeds were used to (i) finance capital improvement projects, and (ii) pay the cost of issuance. The bonds are secured together with other outstanding Junior Lien Obligations solely by a lien on a pledge of net revenues and are subordinate to outstanding Senior Lien Obligations.

SAWS currently has authorization to issue an amount not to exceed $33,550 in additional debt that will be placed with the Texas Water Development Board under the Drinking Water State Revolving Fund for Water Delivery projects. The authorization for this bond issue expires December 13, 2019. SAWS will most likely issue the debt in the 3rd quarter 2019.

Note 20 Subsequent Events (Continued)

San Antonio Water System (SAWS) (Continued)

Commercial Paper

SAWS maintains a commercial paper program that is used to provide funds for the interim financing of a portion of its capital improvements. City Council 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 (Note Ordinance) the issuance of City of San Antonio, Texas Water System Commercial Paper Notes, Series A (Series A Notes), the issuance of City of San Antonio, Texas Water System Commercial Paper Notes, Series B (Series B Notes), and the maintenance at all times of credit facilities with banks or other financial institutions which would provide available borrowing capacity sufficient to pay the principal of the commercial paper program.

The credit facility is maintained under the terms of a revolving credit agreement. The Ordinance also authorizes the ability to designate and issues subseries of notes. The Series A Notes are currently authorized as City of San Antonio, Texas Water System Commercial Paper Notes, Subseries A-1 (Subseries A-1 Notes) and City of San Antonio, Texas Water System Commercial Paper Notes, Subseries A-2 (Subseries A-2 Notes). The Subseries A-2 Notes are directly placed with JPMorgan Chase Bank, N.A. under a Note Purchase Agreement.

The borrowings under the commercial paper program are equally and ratably secured by and are payable from (i) the proceeds from the sale of bonds or additional borrowing under the commercial paper program and (ii) borrowing under and pursuant to the revolving credit agreement. The capacity of the combined revolving credit and note purchase agreements is $500,000 with the Revolving Credit Agreement with JPMorgan Chase Bank, N.A. in the amount of $400,000, supporting the Series A Notes expiring October 4, 2023; and the Revolving Credit Agreement with Wells Fargo Bank, N.A. in the amount of $100,000, supporting the Series B Notes expiring January 15, 2021.

Mitchell Lake

SAWS operates the Mitchell Lake Site Wastewater Treatment Facility pursuant to a Texas Pollutant Discharge Elimination Permit issued by the TCEQ under a delegation of authority from the EPA (the Permit). On August 18, 2016, SAWS received an Administrative Order from the EPA that alleges that SAWS violated the Permit by failing to meet effluent limits as required by the Permit. On December 7, 2017 the SAWS' Board of Trustees unanimously approved a resolution awarding a professional services contract to Alan Plummer Associates, Inc. in an amount not to exceed $1,321 for the period of October 16, 2017 to December 31, 2020 in connection with the Mitchell Lake Wetlands Water Quality Treatment Initiatives. The contract is to develop and conduct a three year pilot wetlands program. This program will evaluate the viability of the proposed wetlands as a solution and, if appropriate, guide the optimization of potential full scale wetland.

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule
General Fund
Year-Ended September 30, 2018
(In Thousands)

	2018			
	BUDGETED AMOUNTS		BUDGETARY BASIS	VARIANCE WITH
	ORIGINAL	FINAL	ACTUAL	FINAL BUDGET
Resources (Inflows):				
Taxes	$ 671,450	$ 667,238	$ 669,961	$ 2,723
Licenses and Permits	9,199	9,389	9,157	(232)
Intergovernmental	6,916	6,869	8,113	1,244
Revenues from Utilities	368,857	370,041	389,319	19,278
Charges for Services	65,358	71,009	69,753	(1,256)
Fines and Forfeits	11,950	11,414	11,885	471
Miscellaneous	10,311	11,878	20,323	8,445
Investment Earnings	1,656	3,615	4,421	806
Contributions			81	81
Transfers from Other Funds	21,877	21,798	22,157	359
Amounts Available for Appropriation	1,167,574	1,173,251	1,205,170	31,919
Charges to Appropriations (Outflows):				
General Government	83,484	86,166	82,358	3,808
Public Safety	755,540	756,451	750,394	6,057
Public Works	63,658	67,036	66,466	570
Health Services	28,234	28,523	28,592	(69)
Welfare	38,308	38,914	38,640	274
Culture and Recreation	117,900	124,083	123,454	629
Economic Development and Opportunity	10,307	20,494	23,487	(2,993)
Urban Redevelopment and Housing	17,931	18,026	17,565	461
Debt Service:				
Principal Retirement	3,140	3,140	3,140	
Interest	189	189	189	
Transfers to Other Funds	67,283	98,520	98,113	407
Total Charges to Appropriations:	1,185,974	1,241,542	1,232,398	9,144
Surplus (Deficiency) of Resources Over (Under) Charges to Appropriations	(18,400)	(68,291)	(27,228)	41,063
Fund Balance Allocation	18,400	68,291	27,228	(41,063)
Excess (Deficiency) of Revenues Over Expenditures	$ -	$ -	$ -	$ -

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	$ 1,205,170
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(22,157)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 1,183,013
Uses/Outflows of Resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 1,232,398
Differences - budget to GAAP:	
Encumbrances and Earmarks for supplies and equipment ordered but not received is reported in the year the orders are placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	(93,219)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(42,092)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 1,097,087

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 department and activity 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's prepares an annual budget for the General Fund on a modified accrual basis which is consistent with generally accepted accounting principles. The annual budgetary data reported for the General Fund represents the original appropriation ordinance and amendments thereto as adopted by the City Council, adjusted for encumbrances outstanding at the beginning of the fiscal year. All annual appropriations lapse at fiscal year-end.

Budgetary Comparison Schedule
Pre-K 4 SA
Year-Ended June 30, 2018
(In Thousands)

	2018			
	BUDGETED AMOUNTS		BUDGETARY BASIS	VARIANCE WITH
	ORIGINAL	FINAL	ACTUAL	FINAL BUDGET
Resources (Inflows):				
Sales & Use Tax [1]	$ 35,202	$ 35,034	$ 35,697	$ 663
State/Local Match [1]	4,464	4,177	4,159	(18)
USDA (Food) [1]	1,455	1,368	1,376	8
Charges for Services [1]	600	699	697	(2)
Interest/Miscellaneous	34	82	137	55
Amounts Available for Appropriation	41,755	41,360	42,066	706
Charges to Appropriations (Outflows):				
Education:				
Pre-K Education Centers	25,416	26,018	25,606	412
Transportation Services	870	884	864	20
Pre-K Facility Leases	9,500	9,388	9,402	(14)
Competitive Grants	4,955	4,864	4,466	398
Professional Development	2,250	2,118	2,091	27
Program Assessment	313	434	434	
Enrollment/Attendance Services	750	655	555	100
Public Relations/Marketing	953	777	731	46
Sales Tax Collection Fee	704	699	706	(7)
Administration	2,563	2,508	2,241	267
Transfers to Other Funds [2]	4,134	4,122	4,149	(27)
Total Charges to Appropriations:	52,408	52,467	51,245	1,222
Surplus (Deficiency) of Resources Over (Under) Charges to Appropriations	(10,653)	(11,107)	(9,179)	1,928
Fund Balance Allocation	10,653	11,107	9,179	(1,928)
Excess (Deficiency) of Revenues Over Expenditures	$ -	$ -	$ -	$ -

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	$ 42,066
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(35,697)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 6,369
Uses/Outflows of Resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 51,245
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	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(4,149)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 47,096

[1] For financial reporting presentation the revenue is reported as transfers in or intergovernmental; however, the above schedule reflects the fund schedule from the City's 2018 Adopted Budget.

[2] Transfers to funds within Pre-K 4 SA are shown as Education program expenditures for financial reporting purposes.

Pre-K 4 SA prepares an annual budget for their fund on a modified accrual basis which is consistent with generally accepted accounting principles. The annual budgetary data reported for the Pre-K 4 SA Fund represents the original appropriation ordinance as adopted by the Pre-K 4 SA board, and any amendments thereto as approved by the City Council, adjusted for encumbrances outstanding at the beginning of the fiscal year. All annual appropriations lapse at fiscal year-end.

Pension and Postemployment Schedules

Required Supplementary Schedule – (Unaudited)
City of San Antonio (TMRS)
Schedule of Changes in Net Pension Liability and Related Ratios
Last Ten Fiscal Years

	Measurement Period Ended			
	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Total Pension Liability				
Service Cost	$ 53,965	$ 51,329	$ 47,521	$ 40,902
Interest	122,010	115,882	114,257	109,316
Differences Between Expected and Actual Experience	(1,637)	1,226	(8,192)	(9,979)
Changes of Assumptions			4,540	
Benefit Payments, including Refunds of Employee Contributions	(81,702)	(76,256)	(74,742)	(71,197)
Net Change in Total Pension Liability	$ 92,636	$ 92,181	$ 83,384	$ 69,042
Total Pension Liability - Beginning	1,821,421	1,729,240	1,645,856	1,576,814
Total Pension Liability - Ending (a)	$ 1,914,057	$ 1,821,421	$ 1,729,240	$ 1,645,856
Plan Fiduciary Net Position				
Contributions - Employer	$ 41,828	$ 36,327	$ 35,915	$ 33,125
Contributions - Employee	21,922	20,830	20,027	18,438
Net Investment Income	183,805	85,229	1,888	70,349
Benefit Payments, including Refunds of Employee Contributions	(81,702)	(76,256)	(74,742)	(71,197)
Administrative Expense	(953)	(963)	(1,150)	(735)
Other	(48)	(52)	(57)	(60)
Net Change in Plan Fiduciary Net Position	$ 164,852	$ 65,115	$ (18,119)	$ 49,920
Plan Fiduciary Net Position - Beginning	1,326,772	1,261,657	1,279,776	1,229,856
Plan Fiduciary Net Position - Ending (b)	$ 1,491,624	$ 1,326,772	$ 1,261,657	$ 1,279,776
City's Net Pension Liability - Ending (a) - (b)	$ 422,433	$ 494,649	$ 467,583	$ 366,080
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.93%	72.84%	72.96%	77.76%
Covered Payroll	$ 365,112	$ 346,584	$ 333,714	$ 307,138
City's Net Pension Liability as a Percentage of Covered Payroll	115.70%	142.72%	140.11%	119.19%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available. Fiscal year 2015 information, which used measurement period ending December 31, 2014, is the first year available under implementation for the City's Civilian TMRS Plan.

Notes to Schedule:

Changes of assumptions: In 2015 TMRS adopted a reduction in the investment return assumption from 7.00% to 6.75%, and a reduction in the inflation assumption from 3.00% to 2.50%, which is reflected in December 31, 2015.

Year-Ended September 30, 2018 - 245 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
Fire and Police Pension Fund
Schedule of Changes in Net Pension Liability and Related Ratios
Last Ten Fiscal Years

	Measurement Period Ended			
	12/31/2017	12/31/2016	12/31/2015[1]	9/30/2014
Total Pension Liability				
Service Cost	$ 71,161	$ 74,771	$ 96,631	$ 75,600
Interest	246,848	233,943	277,002	207,003
Differences Between Expected and Actual Experience	(27,776)	(47,670)	(20,698)	
Changes of Assumptions			148,315	
Benefit Payments, including Refunds of Employee Contributions	(156,137)	(152,296)	(179,787)	(122,306)
Net Change in Total Pension Liability	$ 134,096	$ 108,748	$ 321,463	$ 160,297
Total Pension Liability - Beginning	3,411,704	3,302,956	2,981,493	2,821,196
Total Pension Liability - Ending (a)	$ 3,545,800	$ 3,411,704	$ 3,302,956	$ 2,981,493
Plan Fiduciary Net Position				
Contributions - Employer	$ 75,916	$ 75,958	$ 94,816	$ 76,146
Contributions - Employee	37,958	37,978	47,408	38,073
Net Investment Income	407,278	242,007	(1,919)	223,054
Benefit Payments, including Refunds of Employee Contributions	(156,137)	(152,296)	(179,787)	(122,306)
Administrative Expense	(3,034)	(2,795)	(3,677)	(2,790)
Net Change in Plan Fiduciary Net Position	$ 361,981	$ 200,852	$ (43,159)	$ 212,177
Plan Fiduciary Net Position - Beginning	2,834,548	2,633,696	2,676,855	2,464,678
Plan Fiduciary Net Position - Ending (b)	$ 3,196,529	$ 2,834,548	$ 2,633,696	$ 2,676,855
City's Net Pension Liability - Ending (a) - (b)	$ 349,271	$ 577,156	$ 669,260	$ 304,638
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.15%	83.08%	79.74%	89.78%
Covered Payroll	$ 308,101	$ 308,263	$ 384,807	$ 309,031
City's Net Pension Liability as a Percentage of Covered Payroll	113.36%	187.23%	173.92%	98.58%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available. Fiscal year 2014 information is the first year available under implementation for the Fire and Police Pension Plan.

[1]The Fire and Police Pension Fund changed their fiscal year-end to December 31 effective fiscal year 2015, and therefore the City was required to change its measurement date from September 30 to December 31. These amounts reflect 15 months of pension information.

Notes to Schedule:

Benefit Changes: There have been no changes in benefit provisions since GASB No. 67 implementation.

Change of Assumptions: The net investment return was lowered from 7.50% to 7.25% in fiscal year 2016. The inflation assumption was lowered from 3.50% to 3.00% in fiscal year 2016. Each salary scale rate was lowered by 0.50%.

Year-Ended September 30, 2018 - 246 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
CPS Energy
Schedule of Changes in Net Pension Liability and Related Ratios
Last Ten Fiscal Years

	Measurement Period Ended					
	1/31/2017	1/31/2016	1/31/2015	1/31/2014	1/31/2013	1/31/2012
Total Pension Liability						
Service Cost	$ 31,547	$ 30,183	$ 32,591	$ 33,417	$ 33,470	$ 31,420
Interest	128,991	122,800	117,802	116,155	112,356	105,013
Changes in Assumptions			38,296			
Differences Between Expected and Actual Experience	(18,647)	19,691	(35,634)	(24,410)	25,158	(13,581)
Benefit Payments	(91,230)	(91,293)	(84,319)	(74,352)	(70,677)	(66,147)
Net Change in Total Pension Liability	$ 50,661	$ 81,381	$ 68,736	$ 50,810	$ 100,307	$ 56,705
Total Pension Liability - Beginning	1,734,177	1,652,796	1,584,060	1,533,250	1,432,943	1,376,238
Total Pension Liability - Ending (a)	$ 1,784,838	$ 1,734,177	$ 1,652,796	$ 1,584,060	$ 1,533,250	$ 1,432,943
Plan Fiduciary Net Position						
Contributions - Employer	$ 44,500	$ 46,000	$ 55,800	$ 44,400	$ 39,016	$ 37,687
Contributions - Employee	12,144	11,563	12,140	12,569	12,332	11,745
Net Investment Income	207,196	(52,945)	85,520	145,883	110,529	22,510
Benefit Payments	(91,230)	(91,293)	(84,319)	(74,352)	(70,677)	(66,147)
Net Change in Plan Fiduciary Net Position	$ 172,610	$ (86,675)	$ 69,141	$ 128,500	$ 91,200	$ 5,795
Plan Fiduciary Net Position - Beginning	1,299,766	1,386,441	1,317,300	1,188,800	1,097,600	1,091,805
Plan Fiduciary Net Position - Ending (b)	$ 1,472,376	$ 1,299,766	$ 1,386,441	$ 1,317,300	$ 1,188,800	$ 1,097,600
Net Pension Liability - Ending (a) - (b)	$ 312,462	$ 434,411	$ 266,355	$ 266,760	$ 344,450	$ 335,343
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.49%	74.95%	83.88%	83.16%	77.53%	76.60%
Covered Payroll	$ 235,360	$ 256,236	$ 261,085	$ 260,730	$ 251,136	$ 241,318
Net Pension Liability as a Percentage of Covered Payroll	132.76%	169.54%	102.02%	102.31%	137.16%	138.96%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available. Amounts presented are determined as of the measurement date of the net pension liability for fiscal years-ended January 31, 2013 through January 31, 2018.

Notes to Schedule:

For fiscal year 2018 and fiscal year 2017 the annual investment rate of return underlying the calculation of total pension liability was assumed to be 7.50%. For the previous years presented, the rate used was 7.75%. Other actuarial assumptions were modified in fiscal year 2016 (January 31, 2015 measurement period) without significantly affecting trends in the amounts reported above. There were no changes in benefit terms, in the size or composition of the population covered by the benefit terms, in the size or composition of the population covered by the benefit terms, or other factors that significantly affected trends from year to year in the amounts reported above.

Year-Ended September 30, 2018 - 247 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
San Antonio Water System (SAWS) - TMRS
Schedule of Changes in Net Pension Liability and Related Ratios
Last Ten Fiscal Years

	Measurement Period Ended		
	12/31/2016	12/31/2015	12/31/2014
Total Pension Liability			
Service Cost	$ 4,979	$ 4,810	$ 4,379
Interest	12,623	12,480	11,960
Differences Between Expected and Actual Experience	29	(1,311)	(1,717)
Changes of Assumptions		433	
Benefit Payments	(8,186)	(7,337)	(7,461)
Net Change in Total Pension Liability	$ 9,445	$ 9,075	$ 7,161
Total Pension Liability - Beginning	188,624	179,549	172,388
Total Pension Liability - Ending (a)	$ 198,069	$ 188,624	$ 179,549
Plan Fiduciary Net Position			
Contributions - Employer	$ 3,609	$ 3,953	$ 3,721
Contributions - Employee	2,935	2,892	2,722
Net Investment Income	10,909	239	8,818
Benefit Payments, including Refunds of Employee Contributions	(8,186)	(7,337)	(7,461)
Administrative Expense	(123)	(146)	(92)
Other	(7)	(7)	(8)
Net Change in Plan Fiduciary Net Position	$ 9,137	$ (406)	$ 7,700
Plan Fiduciary Net Position - Beginning	161,452	161,858	154,158
Plan Fiduciary Net Position - Ending (b)	$ 170,589	$ 161,452	$ 161,858
Net Pension Liability - Ending (a) - (b)	$ 27,480	$ 27,172	$ 17,691
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.13%	85.59%	90.15%
Covered Payroll	$ 97,818	$ 96,389	$ 90,721
Net Pension Liability as a Percentage of Covered Payroll	28.09%	28.19%	19.50%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available. December 31, 2014 information is the first year available under implementation for SAWS.

Notes to Schedule:

Changes of assumptions: In 2015, amounts reported as changes of assumptions resulted primarily from a reduction in the assumed long-term rate of return from 7.00% to 6.75%. In 2015, mortality rates were updated to reflect updated historical data.

Year-Ended September 30, 2018 - 248 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
San Antonio Water System Retirement Plan (SAWSRP)
Schedule of Changes in Net Pension Liability and Related Ratios
Last Ten Fiscal Years

	Measurement Period Ended		
	1/1/2017	1/1/2016	1/1/2015
Total Pension Liability			
Service Cost	$ 5,724	$ 5,004	$ 5,204
Interest	13,680	12,596	11,709
Change of Benefit Terms		4,339	
Differences Between Expected and Actual Experience	712	555	(622)
Changes of Assumptions	5,532	(405)	2,771
Benefit Payments	(7,283)	(6,318)	(5,796)
Net Change in Total Pension Liability	$ 18,365	$ 15,771	$ 13,266
Total Pension Liability - Beginning	200,206	184,435	171,169
Total Pension Liability - Ending (a)	$ 218,571	$ 200,206	$ 184,435
Plan Fiduciary Net Position			
Contributions - Employer	$ 7,367	$ 7,890	$ 10,339
Contributions - Employee	2,533	2,357	
Net Investment Income	6,971	1,215	15,695
Benefit Payments	(7,283)	(6,318)	(5,796)
Administrative Expense	(195)	(17)	
Net Change in Plan Fiduciary Net Position	$ 9,393	$ 5,127	$ 20,238
Plan Fiduciary Net Position - Beginning	165,886	160,759	140,521
Plan Fiduciary Net Position - Ending (b)	$ 175,279	$ 165,886	$ 160,759
Net Pension Liability - Ending (a) - (b)	$ 43,292	$ 34,320	$ 23,676
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.19%	82.86%	87.16%
Covered Payroll	$ 83,493	$ 85,299	$ 83,812
Net Pension Liability as a Percentage of Covered Payroll	51.85%	40.23%	28.25%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available. December 31, 2015 information is the first year available under implementation for the SAWSRP.

Notes to Schedule:

Total pension liability at December 31, 2017 is based on a rollforward of the January 1, 2017 actuarial valuation.

Benefit Changes: Effective June 1, 2014, the defined benefit plan was frozen to new entrants. In 2015, the normal form of distribution changed and a mandatory employee contribution of 3.00% of payroll was instituted.

Changes of assumptions: In 2016, the long-term rate of returned was reduced to 6.5%. In the measurement period of January 1, 2015, amounts reported as changes of assumptions resulted primarily from a reduction in the assumed long-term rate of return from 7.00% to 6.75%. In 2015, mortality rates were updated to reflect updated historical data.

Year-Ended September 30, 2018 - 249 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
District Special Project Retirement Income Plan (DSPRP)
Schedule of Changes in Net Pension Liability and Related Ratios
Last Ten Fiscal Years

	Measurement Period Ended		
	1/1/2017	1/1/2016	1/1/2015
Total Pension Liability			
Service Cost	$ 71	$ 124	$ 123
Interest	418	446	424
Differences Between Expected and Actual Experience	(381)	18	153
Changes of Assumptions	224		
Benefit Payments	(324)	(261)	(230)
Net Change in Total Pension Liability	$ 8	$ 327	$ 470
Total Pension Liability - Beginning	6,686	6,359	5,889
Total Pension Liability - Ending (a)	$ 6,694	$ 6,686	$ 6,359
Plan Fiduciary Net Position			
Contributions - Employer	$ 280	$ 308	$ 414
Net Investment Income	306	18	394
Benefit Payments, including Refunds of Employee Contributions	(324)	(261)	(230)
Administrative Expense	(8)	(6)	(11)
Net Change in Plan Fiduciary Net Position	$ 254	$ 59	$ 567
Plan Fiduciary Net Position - Beginning	5,156	5,097	4,530
Plan Fiduciary Net Position - Ending (b)	$ 5,410	$ 5,156	$ 5,097
Net Pension Liability - Ending (a) - (b)	$ 1,284	$ 1,530	$ 1,262
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.82%	77.12%	80.15%
Covered Payroll	N/A	N/A	N/A
Net Pension Liability as a Percentage of Covered Payroll	N/A	N/A	N/A

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available. January 1, 2015 information is the first year available under implementation for the DSPRP.

Notes to Schedule:

The plan was frozen in 2008. Therefore, current and future wages have no impact on Net Pension Liability.

Total pension liability at December 31, 2017 is based on a rollforward of the January 1, 2017 actuarial valuation.

The interest rate of return was modified from 7.00% to 6.50% in 2017.

Year-Ended September 30, 2018 - 250 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
City of San Antonio (TMRS)
Schedule of Contributions – Pensions
Last Ten Fiscal Years

Year-Ended September 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2009	$ 33,510	$ 33,510	$ -	$ 259,224	12.93%
2010	32,338	32,338		258,932	12.49%
2011	33,883	33,883		270,708	12.52%
2012	29,981	28,171	1,810	276,095	10.20%
2013	30,416	30,416		288,246	10.55%
2014	32,585	32,585		303,141	10.75%
2015	34,176	34,176		317,518	10.76%
2016	35,942	35,942		340,660	10.55%
2017	40,374	40,374		361,009	11.18%
2018	43,631	43,631		375,931	11.61%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll, Closed
Remaining amortization period	28 years
Asset valuation method	10 Year smoothed market; 15.00% soft corridor

Actuarial assumptions:

Investment rate of return	6.75% including inflation, net of pension plan investment expense
Inflation rate	2.50%
Salary increases	3.50% to 10.50% including inflation
Retirement age	Experience-based table rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to experience study of the period 2010-2014.
Mortality	RP-2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109.00% and female rates multiplied by 103.00% and projected on a fully generational basis with scale BB.

Other Information:

Notes	Granted 70.00% ad hoc COLA

Year-Ended September 30, 2018 - 251 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
Fire and Police Pension Fund
Schedule of Contributions – Pensions
Last Ten Fiscal Years

Year-Ended September 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll[1]	Contributions as a Percentage of Covered Payroll
2009	$ 62,071	$ 62,071	$ -	$ 251,320	24.64%
2010	64,215	64,215		259,904	24.64%
2011	69,648	69,648		281,897	24.64%
2012	69,998	69,998		283,689	24.64%
2013	73,038	73,038		296,180	24.64%
2014	75,911	75,911		307,987	24.64%
2015	75,641	75,641		306,827	24.64%
2016	74,414	74,414		301,993	24.64%
2017	75,039	75,039		320,955	24.64%
2018	77,488	77,488		313,951	24.64%

[1] Payroll is estimated based on the actual member contributions received and a 12.32% contribution rate.

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date

Notes	Actuarially determined contribution is calculated using a January valuation date as of the beginning of the fiscal year in which contributions are reported
Methods and Assumptions Used to Determine Contribution Rates:	
Actuarial cost method	Entry Age
Amortization method	Level Percentage of Payroll, using 3.50% annual increases
Remaining amortization period	13.07 years remaining as of January 1, 2017
Asset valuation method	Five-year smoothed market value based on expected return of 7.25%
Actuarial assumptions:	
Investment rate of return	7.25% including inflation, net of pension plan investment expense
Inflation rate	3.00%
Salary increases	3.00% (plus merit scale of 0.75% - 11.25%)
Cost-of-living adjustments	3.00% for retirement before October 1, 1999; 2.25% for retirement on or after October 1, 1999
Retirement rates	Group-specific rates based on years of service ranging from 20 to 40 years, with 100.00% retirement at age 65 or 40 years of service
Mortality:	
Healthy	RP-2014 Employee and Healthy Annuitant Tables, with rates loaded by 7.00% for females, projected generationally with 50.00% of Scale MP-2014
Disabled	RP-2014 Annuitant Tables, set forward six years, loaded by 7.00% for females, projected generationally with 50.00% of Scale MP-2014

Year-Ended September 30, 2018 - 252 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
CPS Energy
Schedule of Contributions – Pensions
Last Ten Fiscal Years

Year-Ended January 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2013	$ 39,016	$ 39,016	$ -	$ 251,136	15.54%
2014	44,362	44,400	(38)	260,730	17.03%
2015	48,696	55,800	(7,104)	261,085	21.37%
2016	46,001	46,000	1	256,236	17.95%
2017	44,532	44,500	32	235,360	18.91%
2018	46,234	46,200	34	242,477	19.05%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available. Amounts presented are determined as of the measurement date of the net pension liability for fiscal years-ended January 31, as indicated.

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date

Notes	Actuarially determined contribution rates are calculated as of January 1, two years and one month prior to the end of the fiscal year in which contributions are made.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar
Remaining amortization period	30 years
Asset valuation method	Market value gains/losses recognized over 5 years, beginning with calendar year 2014; expected value adjusted market value for all prior periods

Actuarial assumptions:

Investment rate of return	7.50% per year, compounded annually for fiscal years 2018, 2017 and 2016, 7.75% for prior years
Inflation rate	3.00% per year, compounded annually
Salary increases	Average, including inflation: 4.66% for fiscal year 2018, 4.78% for fiscal year 2017, 5.01% for fiscal year 2016, 5.03% for fiscal year 2015, 5.07% for fiscal year 2014, and 5.18% for fiscal year 2013
Cost-of-living increases	1.50% per year
Mortality	Based on RP-2000 Combined Healthy Annuitant Mortality Table for Males or Females, projected using Scale BB for 2017 and 2016, and Scale AA for prior years.

Year-Ended September 30, 2018 - 253 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
San Antonio Water System (SAWS) - TMRS
Schedule of Contributions – Pensions
Last Ten Fiscal Years

Year-Ended December 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 3,721	$ 3,721	$ -	$ 90,721	4.10%
2015	3,672	3,953	(281)	96,389	4.10%
2016	3,609	3,609		97,817	3.69%
2017	3,852	3,852		104,960	3.67%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available. Amounts presented are for fiscal years-ended December 31, as indicated.

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date

Notes	Actuarially determined contributions are calculated as of December 31 and become effective 12 months later on January 1.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll, closed
Remaining amortization period	In 2015 the amortization period was adjusted to 30 years from 23 in 2014
Asset valuation method	10 year smoothed market value; 15.00% soft corridor

Actuarial assumptions:

Investment rate of return	6.75%, including inflation, net of pension plan investment expense
Inflation rate	2.50%
Salary increases	3.50% to 10.50%, including inflation
Retirement age	Experience-based table of rates that are specific to SAWS plan of benefits.
	Last updated for the 2015 valuation pursuant to an experience study of the period 2010 – 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109.00% and female rates multiplied by 103.00% and projected on a fully generational basis with scale BB

Year-Ended September 30, 2018 - 254 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
San Antonio Water System Retirement Plan (SAWSRP)
Schedule of Contributions – Pensions
Last Ten Fiscal Years

Year-Ended December 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 10,339	$ 10,339	$ -	$ 83,812	12.34%
2015	7,890	7,890		85,299	9.25%
2016	7,367	7,367		83,493	8.82%
2017	7,982	7,982		79,417	10.05%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available. December 31, 2014 information is the first year available under implementation for SAWS.

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date

Notes	Actuarially determined contributions are determined as of January 1 of the year in which the contributions are made.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age Normal
Amortization method	Amortized equally over 15 years using straight line amortization
Remaining amortization period	2013 Unfunded Liability – 15 fixed year period Other gains/losses, plan amendments and changes in assumptions – 10 years
Asset valuation method	Four-year smoothed market value

Actuarial assumptions:

Investment rate of return	6.50% including inflation, net of pension plan investment expense
Inflation rate	2.00%
Salary increases	Scale based on 2011-2013 SAWS experience
Retirement age	In 2015, expected retirement ages were adjusted to reflect actual experience from 2011-2013.
Mortality	In 2017, the mortality table was changed to use adjusted RP-2014 mortality with scale MP-2016 based on data published by the SOA in 2016. In 2016, the mortality table was changed to use adjusted RP-2014 mortality with scale MP-2016 based on data published by the SOA in 2015. Previously the IRS Prescribed Generational Mortality table was used.

Year-Ended September 30, 2018 - 255 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
District Special Project Retirement Income Plan (DSPRP)
Schedule of Contributions – Pensions
Last Ten Fiscal Years

Year-Ended December 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 307	$ 414	$ (107)	N/A	N/A
2015	274	308	(34)	N/A	N/A
2016	279	280	(1)	N/A	N/A
2017	315	315		N/A	N/A

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available. January 1, 2014 information the first year available under implementation for the DSPRP.

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date

Notes	Actuarially determined contributions are determined as of January 1 of the year in which the contributions are made.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Unit Credit
Amortization method	Rolling level-amortization over a declining period
Remaining amortization period	2017: 10 years; 2016: 11 years; 2015: 12 years; 2014: 13 years
Asset valuation method	Fair value with smoothing

Actuarial assumptions:

Investment rate of return	6.50% including inflation, net of pension plan investment expense
Inflation rate	2.75%
Salary increases	Earned benefits frozen in 2008
Retirement age	Normal retirement age – the earlier of age 65, or the “rule of 90” where the participant’s age and years of service added together equal 90 or greater
Mortality	In 2017, the table was changed to the RP-2014 table using a mortality improvement scale MP-2016. Previously, 1994 GAR projected to 2002 was used.

Year-Ended September 30, 2018 - 256 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
City of San Antonio
Schedule of Changes in Total OPEB Liability and Related Ratios
Last Ten Fiscal Years

	Measurement Period Ended 9/30/2018
Total OPEB Liability	
Service Cost	$ 11,665
Interest	11,999
Changes of Assumptions	(32,771)
Benefit Payments	(7,439)
Net Change in Total OPEB Liability	$ (16,546)
Total OPEB Liability - Beginning	322,611
Total OPEB Liability - Ending (a)	$ 306,065
Plan Fiduciary Net Position	
Contributions - Employer	$ (7,439)
Contributions - Employee	
Net Investment Income	
Benefit Payments, including Refunds of Employee Contributions	7,439
Administrative Expense	
Other	
Net Change in Plan Fiduciary Net Position	$ -
Plan Fiduciary Net Position - Beginning	
Plan Fiduciary Net Position - Ending (b)	$ -
City's Total OPEB Liability - Ending (a) - (b)	$ 306,065

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available. Amounts presented are determined as of the measurement date of the net OPEB liability for fiscal years-ended September 30, as indicated.

Year-Ended September 30, 2018 - 257 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
Fire and Police Retiree Health Care Fund
Schedule of Changes in Net OPEB (Asset) Liability and Related Ratios
Last Ten Fiscal Years

	Measurement Period Ended 12/31/2017
Total OPEB Liability	
Service Cost	$ 24,289
Interest	68,947
Differences Between Expected and Actual Experience	(5,165)
Changes of Assumptions	(25,344)
Benefit Payments	(33,560)
Net Change in Total OPEB Liability	$ 29,167
Total OPEB Liability - Beginning	943,479
Total OPEB Liability - Ending (a)	$ 972,646
Plan Fiduciary Net Position	
Contributions - Employer	$ 27,242
Contributions - Employee	13,616
Net Investment Income	25,294
Benefit Payments, including Refunds of Employee Contributions	(33,560)
Administrative Expense	(2,660)
Other Contributions - Retirees	1,829
Net Change in Plan Fiduciary Net Position	$ 31,761
Plan Fiduciary Net Position - Beginning	345,047
Plan Fiduciary Net Position - Ending (b)	$ 376,808
City's Net Pension Liability - Ending (a) - (b)	$ 595,838
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	38.74%
Covered Payroll	$ 308,101
City's Net OPEB Liability as a Percentage of Covered Payroll	193.39%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available. Amounts presented are determined as of the measurement date of the net OPEB liability for fiscal years-ended December 31, as indicated.

Year-Ended September 30, 2018 - 258 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
CPS Energy – Health Plan
Schedule of Changes in Net OPEB (Asset) Liability and Related Ratios
Last Ten Fiscal Years

	Measurement Period Ended		
	1/31/2017	1/31/2016	1/31/2015
Total OPEB Liability			
Service Cost	$ 3,435	$ 3,319	$ 3,207
Interest Cost	18,176	17,601	17,050
Changes in Plan Benefits	(19,185)		
Changes in Assumptions			
Differences Between Expected and Actual Experience	475		
Benefit Payments	(14,001)	(12,756)	(13,275)
Net Change in Total OPEB Liability	$ (11,100)	$ 8,164	$ 6,982
Total OPEB Liability - Beginning	245,908	237,744	230,762
Total OPEB Liability - Ending (a)	$ 234,808	$ 245,908	$ 237,744
Plan Fiduciary Net Position			
Contributions - Employer	$ 8,500	$ 8,806	$ 3,200
Contributions - Employee	6,802	6,734	6,024
Medicare Part D Payment	933	976	933
Earnings (Loss) on Plan Assets	38,949	(9,765)	12,536
Benefit Payments	(20,804)	(19,490)	(19,299)
Administrative Expense	(1,621)	(1,456)	(1,137)
Net Change in Plan Fiduciary Net Position	$ 32,759	$ (14,195)	$ 2,257
Plan Fiduciary Net Position - Beginning	227,889	242,084	239,827
Plan Fiduciary Net Position - Ending (b)	$ 260,648	$ 227,889	$ 242,084
Net OPEB (Asset) Liability - Ending (a) - (b)	$ (25,840)	$ 18,019	$ (4,340)
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	111.00%	92.67%	101.83%
Covered Employee Payroll	$ 223,523	$ 215,964	$ 242,652
Net OPEB (Asset) Liability as a Percentage of Covered Employee Payroll	-11.56%	8.34%	-1.79%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available. Amounts presented are determined as of the measurement date of the net OPEB liability for fiscal years-ended January 31, 2016 through January 31, 2018.

Notes to Schedule:

For fiscal year 2018, claim costs were updated to reflect plan changes and to reflect recent experience. Medical and prescription trend was reset in fiscal years 2018, 2017, and 2016.

Year-Ended September 30, 2018 - 259 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
CPS Energy – Life Plan
Schedule of Changes in Net OPEB (Asset) Liability and Related Ratios
Last Ten Fiscal Years

	Measurement Period Ended		
	1/31/2017	1/31/2016	1/31/2015
Total OPEB Liability			
Service Cost	$ 336	$ 325	$ 313
Interest	3,256	3,244	3,228
Changes in Plan Benefits			
Differences Between Expected and Actual Experience	2,378		
Benefit Payments	(3,469)	(3,358)	(3,313)
Net Change in Total OPEB Liability	$ 2,501	$ 211	$ 228
Total OPEB Liability - Beginning	44,788	44,577	44,349
Total OPEB Liability - Ending (a)	$ 47,289	$ 44,788	$ 44,577
Plan Fiduciary Net Position			
Contributions - Employer			
Contributions - Employee	$ 972	$ 930	$ 911
Earnings (Loss) on Plan Assets	6,936	(2,102)	2,460
Benefit Payments	(3,469)	(3,358)	(3,313)
Administrative Expense	(27)	(21)	(16)
Net Change in Plan Fiduciary Net Position	$ 4,412	$ (4,551)	$ 42
Plan Fiduciary Net Position - Beginning	45,286	49,837	49,795
Plan Fiduciary Net Position - Ending (b)	$ 49,698	$ 45,286	$ 49,837
Net OPEB (Asset) - Ending (a) - (b)	$ (2,409)	$ (498)	$ (5,260)
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	105.09%	101.11%	111.80%
Covered Employee Payroll	$ 198,704	$ 191,984	$ 218,939
Net OPEB (Asset) as a Percentage of Covered Employee Payroll	-1.21%	-0.26%	-2.40%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available. Amounts presented are determined as of the measurement date of the net OPEB liability for fiscal years-ended January 31, 2016 through January 31, 2018.

Notes to Schedule:

The annual investment rate of return underlying the calculation of total OPEB liability was assumed to be 7.50%. There were no changes in benefit terms, in the size or composition of the population covered by the benefit terms, or other factors that significantly affected trends from year to year in the amounts reported above.

Year-Ended September 30, 2018 - 260 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
CPS Energy - Disability Plan
Schedule of Changes in Net OPEB (Asset) Liability and Related Ratios
Last Ten Fiscal Years

	Measurement Period Ended		
	1/31/2017	1/31/2016	1/31/2015
Total OPEB Liability			
Service Cost	$ 527	$ 509	$ 492
Interest	455	448	426
Changes in Plan Benefits			
Differences Between Expected and Actual Experience	255		
Benefit Payments	(974)	(775)	(559)
Net Change in Total OPEB Liability	$ 263	$ 182	$ 359
Total OPEB Liability - Beginning	6,032	5,850	5,491
Total OPEB Liability - Ending (a)	$ 6,295	$ 6,032	$ 5,850
Plan Fiduciary Net Position			
Contributions - Employer	$ 700	$ 175	$ 175
Contributions - Employee	260	248	211
Earnings (Loss) on Plan Assets	501	(158)	177
Benefit Payments	(974)	(775)	(559)
Administrative Expense	(15)	(14)	(18)
Net Change in Plan Fiduciary Net Position	$ 472	$ (524)	$ (14)
Plan Fiduciary Net Position - Beginning	3,762	4,286	4,300
Plan Fiduciary Net Position - Ending (b)	$ 4,234	$ 3,762	$ 4,286
Net OPEB Liability - Ending (a) - (b)	$ 2,061	$ 2,270	$ 1,564
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	67.26%	62.37%	73.26%
Covered Employee Payroll	$ 212,904	$ 205,704	$ 218,939
Net OPEB Liability as a Percentage of Covered Employee Payroll	0.97%	1.10%	0.71%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available. Amounts presented are determined as of the measurement date of the net OPEB liability for fiscal years-ended January 31, 2016 through January 31, 2018.

Notes to Schedule:

The annual investment rate of return underlying the calculation of total OPEB liability was assumed to be 7.50%. There were no changes in benefit terms, in the size or composition of the population covered by the benefit terms, or other factors that significantly affected trends from year to year in the amounts reported above.

Year-Ended September 30, 2018 - 261 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
City of San Antonio
Schedule of Contributions – OPEB
Last Ten Fiscal Years

Year-Ended September 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2018	$ 7,439	$ 7,439	$ -	$ 375,931	1.98%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available. Amounts presented are determined as of the measurement date of the net OPEB liability for fiscal year-ended September 30, 2018.

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date

Notes	Actuarially determined contribution is determined by the adopted OPEB funding policy, through adoption of the City's annual budget. The OPEB programs are funded on a pay-as-you-go basis.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age Normal
Amortization method	Experience/Assumptions gains and losses are amortized over a closed period of 7.5 years starting on October 1, 2017, equal to the average remaining service of active and inactive plan members.
Remaining amortization period	6.5 years
Asset valuation method	N/A

Actuarial assumptions:

Investment rate of return	4.24% per annum
Healthcare and Prescription cost trend rates	Pre-65 Select 7.00% and Ultimate 4.50%; Post-65 Select 6.00% and Ultimate 4.50%.
Salary increase rate	3.50% per annum
Mortality	RP-2014 generational table scaled using MP-18 and applied on a gender-specific basis

Year-Ended September 30, 2018 - 262 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
Fire and Police Retiree Health Care Fund
Schedule of Contributions – OPEB
Last Ten Fiscal Years

Year-Ended September 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2018	$ 29,776	$ 29,776	$ -	$ 313,951	9.48%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available. Amounts presented are determined as of the December 31, 2017 measurement date of the net OPEB liability for fiscal year-ended September 30, 2018.

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date

Notes	Actuarially determined contribution is using a January valuation date as of the beginning of the fiscal year in which contributions are reported

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar
Amortization period	30 years
Asset valuation method	Adjusted market value gains/losses spread over a five-year period

Actuarial Assumptions:

Investment rate of return	7.25% per year
Inflation	3.00%
Healthcare cost trend rates	7.00% for 2019 decreasing 0.50% per year to an ultimate rate of 4.50% for 2024 and beyond
Salary increases	3.00% plus merit and promotion increases that vary by age and service
Mortality	Based on RP-2000 Combined Healthy Mortality Table for males and for females (sex distinct) projected to 2024 by scale AA.

Actuarially Determined Contribution Amounts:

Biweekly Contributions:

Active Members	$145.95
City per Active Member	$291.90

Year-Ended September 30, 2018 - 263 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
CPS Energy – Health Plan
Schedule of Contributions – OPEB
Last Ten Fiscal Years

Year-Ended January 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2016	$ -	$ 8,806	$ (8,806)	$ 215,964	4.08%
2017		8,500	(8,500)	223,523	3.80%
2018				220,522	0.00%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available. Amounts presented are determined as of the measurement date of the net OPEB liability for fiscal years-ended January 31, 2016 through January 31, 2018.

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date

Notes	Actuarially determined contribution rates are calculated as of January 1, two years and one month prior to the end of the fiscal year in which contributions are made.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar
Remaining amortization period	30 years
Asset valuation method	Market value gains/losses recognized over 5 years

Actuarial assumptions:

Investment rate of return	7.50% per year, compounded annually
Healthcare cost trend rates	7.00% initial, decreasing to an ultimate rate of 5.00% for fiscal year 2018, 7.50% initial, decreasing to an ultimate of 5.00% for fiscal years 2017 and 2016
Prescription cost trend rates	7.00% initial, decreasing to an ultimate rate of 5.00% for fiscal year 2018, 8.50% initial, decreasing to an ultimate of 5.00% for fiscal years 2017 and 2016
Salary increases	Projected average salary increases ranging from 4.00% to 9.50% depending on age
Mortality	Based on RP-2000 Combined Healthy, with No Collar Adjustment, projected to 2020 using Scale BB, Male and Female Tables for active and retirees, based on 1987 Commissioners Group Disabled Life Mortality Table for disabled lives

Other Information: For fiscal year 2018 claim costs were updated to reflect plan changes and to reflect recent experience. The medical and prescription trend was reset. No other actuarial assumptions were modified in fiscal year 2018. For fiscal years 2017 and 2016 claim costs were updated to reflect recent experience, and the medical and prescription trend was reset.

Year-Ended September 30, 2018 - 264 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
CPS Energy – Life Plan
Schedule of Contributions – OPEB
Last Ten Fiscal Years

Year-Ended January 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2016	$ 561	$ -	$ 561	$ 191,984	0.00%
2017	145		145	198,704	0.00%
2018	515		515	210,631	0.00%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available. Amounts presented are determined as of the measurement date of the net OPEB liability for fiscal years-ended January 31, 2016 through January 31, 2018.

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date

Notes	Actuarially determined contribution rates are calculated as of January 1, two years and one month prior to the end of the fiscal year in which contributions are made.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar
Remaining amortization period	30 years
Asset valuation method	Market value gains/losses recognized over 5 years

Actuarial assumptions:

Investment rate of return	7.50% per year, compounded annually
Inflation	3.00% per year, compounded annually
Salary increases	4.78% average, including inflation
Mortality	Based on RP-2000 Combined Healthy, with No Collar Adjustment, projected to 2020 using Scale BB, Male and Female Tables for active and retirees: based on 1987 Commissioners Group Disabled Life Mortality Table for disabled lives

Other Information: There were no changes in benefit terms, in the size or composition of the population covered by the benefit terms, or other factors that significantly affected trends from year to year in the amounts reported above.

Year-Ended September 30, 2018 - 265 - Amounts are expressed in thousands

Required Supplementary Schedule – (Unaudited)
CPS Energy – Disability Plan
Schedule of Contributions – OPEB
Last Ten Fiscal Years

Year-Ended January 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2016	$ 793	$ 175	$ 618	$ 205,704	0.09%
2017	886	700	186	212,904	0.33%
2018	1,035	1,300	(265)	216,558	0.60%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available. Amounts presented are determined as of the measurement date of the net OPEB liability for fiscal years-ended January 31, 2016 through January 31, 2018.

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date

Notes	Actuarially determined contribution rates are calculated as of January 1, two years and one month prior to the end of the fiscal year in which the contributions are made.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar
Remaining amortization period	30 years
Asset valuation method	Market value gains/losses recognized over 5 years

Actuarial assumptions:

Investment rate of return	7.50% per year, compounded annually
Inflation	3.00% per year, compounded annually
Salary increases	4.78% average, including inflation
Mortality	Based on 1987 Commissioners Group Disabled Life Mortality table

Other Information: During fiscal year 2016, plan changes to provide employees with immediate coverage and an option to increase the benefit from 50.00% of pay to 70.00% of pay, less Social Security Disability Benefits and other offsets were reflected in the valuation.

Year-Ended September 30, 2018 - 266 - Amounts are expressed in thousands

Required Supplementary Information - (Unaudited)
Postemployment Schedules
Schedules of Funding Progress
Last Three Fiscal Years
(In Thousands)

SAN ANTONIO WATER SYSTEM - OPEB PLAN

ACTUARIAL VALUATION DATE [1]	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
01-01-17	$ 44,028	$ 144,960	$ 100,932	30.37%	$ 79,417	127.09%
01-01-16	33,858	125,244	91,386	27.03%	83,493	109.45%
01-01-14	19,259	139,574	120,315	13.80%	88,895	135.35%

[1] SAWS will perform actuarial studies bi-annually and review annually assumptions and changes in plan design to compute OPEB liability.
SAWS' OPEB plan is as of the last actuarial valuation performed as of January 1, 2017.

Supplementary Budget and Actual Schedules for Legally Adopted Funds

Schedules of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2018
(In Thousands)

	2018 FINAL BUDGET	2018 ACTUAL	2018 VARIANCE WITH FINAL BUDGET
Revenues:			
Taxes	$ 667,238	$ 669,961	$ 2,723
Licenses and Permits	9,389	9,157	(232)
Intergovernmental	6,869	8,113	1,244
Revenues from Utilities	370,041	389,319	19,278
Charges for Services	71,009	69,753	(1,256)
Fines and Forfeits	11,414	11,885	471
Miscellaneous	11,878	20,323	8,445
Investment Earnings	3,615	4,421	806
Contributions		81	81
Total Revenues	$ 1,151,453	$ 1,183,013	$ 31,560
Expenditures:			
General Government	86,166	82,358	3,808
Public Safety	756,451	750,394	6,057
Public Works	67,036	66,466	570
Health Services	28,523	28,592	(69)
Welfare	38,914	38,640	274
Culture and Recreation	124,083	123,454	629
Economic Development and Opportunity	20,494	23,487	(2,993)
Urban Redevelopment and Housing	18,026	17,565	461
Debt Service:			
Principal Retirement	3,140	3,140	
Interest	189	189	
Total Expenditures	$ 1,143,022	$ 1,134,285	$ 8,737
Excess of Revenues Over Expenditures	$ 8,431	$ 48,728	$ 40,297
Other Financing Sources (Uses):			
Transfers In	21,798	22,157	359
Transfers Out	(98,520)	(98,113)	407
Total Other Financing Sources (Uses), Net	$ (76,722)	$ (75,956)	$ 766
Net Change in Fund Balance	(68,291)	(27,228)	$ 41,063
Fund Balances, October 1	284,149	284,149	
Add Encumbrances		93,219	
Fund Balances, September 30	$ 215,858	$ 350,140	

Schedule of Revenues Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2018
(In Thousands)

	2018 FINAL BUDGET	2018 ACTUAL	2018 VARIANCE WITH FINAL BUDGET
Revenues:			
Taxes:			
Property:			
Current	$ 342,164	$ 340,730	$ (1,434)
Delinquent	1,697	(843)	(2,540)
General Sales and Use:			
City Sales	283,340	288,962	5,622
Alcoholic Beverages	9,134	9,554	420
Telecommunication Access Lines Fees	13,662	13,664	2
Cablevision Franchise	13,427	13,971	544
Bingo	1,103	1,035	(68)
Other	580	622	42
Penalties and Interest on Delinquent Taxes	2,131	2,266	135
Total Taxes	$ 667,238	$ 669,961	$ 2,723
Licenses and Permits:			
Alarm Licenses	1,845	1,712	(133)
Alcoholic Beverages Licenses	988	918	(70)
Amusement Licenses	67	68	1
Building Permits	172	146	(26)
Health Licenses	5,091	5,235	144
Professional and Occupational Licenses	608	589	(19)
Street Permits	618	489	(129)
Total Licenses and Permits	$ 9,389	$ 9,157	$ (232)
Intergovernmental:			
Bexar County - Child Support	43	42	(1)
Health Aid from Bexar County	191	191	
Library Aid from Bexar County	2,884	2,884	
Magistration and Detention - Bexar	1,528	2,677	1,149
Other	1,621	1,718	97
SAWS Reimbursement	258	258	
VIA Contributions	344	343	(1)
Total Intergovernmental	$ 6,869	$ 8,113	$ 1,244
Revenues from Utilities:			
CPS Energy	352,470	371,137	18,667
San Antonio Water System	17,571	18,182	611
Total Revenues from Utilities	$ 370,041	$ 389,319	$ 19,278

(Continued)

Schedule of Revenues Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2018
(In Thousands)

	2018		
	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Charges for Services:			
General Government	$ 4,059	$ 4,682	$ 623
Public Safety:			
Fire Department	38,633	35,548	(3,085)
Police Department	7,965	8,376	411
Sanitation:			
Demolition of Unsafe Structures	625	688	63
Health	3,055	2,983	(72)
Streets	33	26	(7)
Culture and Recreation:			
Attractions and Venues	13,155	13,115	(40)
Community Centers	385	380	(5)
Concessions & Rentals	683	1,409	726
Library	1,198	1,214	16
Miscellaneous Recreation Revenue	17	16	(1)
Recreation Fees	1,174	1,301	127
Swimming Pools	27	15	(12)
Total Charges for Services	$ 71,009	$ 69,753	$ (1,256)
Fines and Forfeits:			
Municipal Court Fines	$ 11,414	$ 11,885	$ 471
Miscellaneous:			
Interfund Charges	1,850	1,850	
Other	2,898	4,416	1,518
Recovery of Expenditures	2,817	4,447	1,630
Rents, Leases, and Concessions	559	417	(142)
Sales	3,754	9,193	5,439
Total Miscellaneous	$ 11,878	$ 20,323	$ 8,445
Investment Earnings:			
Interest	$ 3,615	$ 4,421	$ 806
Contributions:			
Contributions	$ -	$ 81	$ 81
Total Revenues	$ 1,151,453	$ 1,183,013	$ 31,560

(End of Schedule)

Schedule of Expenditures Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2018
(In Thousands)

	2018		
	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Expenditures:			
General Government:			
Executive:			
Personal Services	$ 41,054	$ 39,240	$ 1,814
Contractual Services	5,221	5,285	(64)
Commodities	509	440	69
Other Expenditures	8,248	7,226	1,022
Capital Outlay	1,470	246	1,224
Total Executive	$ 56,502	$ 52,437	$ 4,065
Judicial:			
Personal Services	10,889	10,354	535
Contractual Services	1,821	1,715	106
Commodities	147	137	10
Other Expenditures	2,120	2,121	(1)
Capital Outlay	203	223	(20)
Total Judicial	$ 15,180	$ 14,550	$ 630
Legislative:			
Personal Services	4,673	4,581	92
Contractual Services	2,103	2,680	(577)
Commodities	281	353	(72)
Other Expenditures	7,295	7,269	26
Capital Outlay	132	488	(356)
Total Legislative	$ 14,484	$ 15,371	$ (887)
Total General Government	$ 86,166	$ 82,358	$ 3,808
Public Safety:			
Fire:			
Personal Services	262,540	259,576	2,964
Contractual Services	12,779	12,055	724
Commodities	9,012	9,284	(272)
Other Expenditures	30,710	30,929	(219)
Capital Outlay	4,190	4,382	(192)
Total Fire	$ 319,231	$ 316,226	$ 3,005
Police:			
Personal Services	370,243	368,117	2,126
Contractual Services	18,754	18,365	389
Commodities	5,560	5,586	(26)
Other Expenditures	40,826	40,367	459
Capital Outlay	1,837	1,733	104
Total Police	$ 437,220	$ 434,168	$ 3,052
Total Public Safety	$ 756,451	$ 750,394	$ 6,057

(Continued)

Schedule of Expenditures Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2018
(In Thousands)

	2018 FINAL BUDGET	2018 ACTUAL	2018 VARIANCE WITH FINAL BUDGET
Public Works:			
Administration:			
Personal Services	$ 3,044	$ 2,495	$ 549
Contractual Services	4,504	4,610	(106)
Commodities	32	44	(12)
Other Expenditures	860	823	37
Capital Outlay	17	39	(22)
Total Administration	$ 8,457	$ 8,011	$ 446
Streets:			
Personal Services	13,888	13,355	533
Contractual Services	5,547	2,459	3,088
Commodities	5,997	6,116	(119)
Other Expenditures	20,066	19,815	251
Capital Outlay	25	160	(135)
Total Streets	$ 45,523	$ 41,905	$ 3,618
Traffic and Transportation:			
Personal Services	6,033	6,002	31
Contractual Services	4,080	7,669	(3,589)
Commodities	1,070	980	90
Other Expenditures	1,737	1,741	(4)
Capital Outlay	136	158	(22)
Total Traffic and Transportation	$ 13,056	$ 16,550	$ (3,494)
Total Public Works	$ 67,036	$ 66,466	$ 570
Health Services:			
Personal Services	17,373	16,690	683
Contractual Services	4,645	5,331	(686)
Commodities	1,842	1,615	227
Other Expenditures	4,047	4,216	(169)
Capital Outlay	616	740	(124)
Total Health Services	$ 28,523	$ 28,592	$ (69)
Welfare:			
Personal Services	7,374	7,167	207
Contractual Services	23,655	23,852	(197)
Commodities	188	171	17
Other Expenditures	7,347	7,039	308
Capital Outlay	350	411	(61)
Total Welfare	$ 38,914	$ 38,640	$ 274

(Continued)

Schedule of Expenditures Compared to Budget
Budget and Actual (Budgetary Basis)
General Fund
Year-Ended September 30, 2018
(In Thousands)

	2018 FINAL BUDGET	2018 ACTUAL	2018 VARIANCE WITH FINAL BUDGET
Culture and Recreation:			
Downtown Operations:			
Personal Services	$ 4,892	$ 4,800	$ 92
Contractual Services	9,527	10,298	(771)
Commodities	282	262	20
Other Expenditures	2,089	2,036	53
Capital Outlay	10	13	(3)
Total Downtown Operations	$ 16,800	$ 17,409	$ (609)
Libraries:			
Personal Services	25,198	24,071	1,127
Contractual Services	4,866	5,634	(768)
Commodities	5,148	5,276	(128)
Other Expenditures	4,340	4,345	(5)
Capital Outlay	922	908	14
Total Libraries	$ 40,474	$ 40,234	$ 240
Parks:			
Personal Services	42,401	40,902	1,499
Contractual Services	9,965	9,650	315
Commodities	3,576	3,682	(106)
Other Expenditures	9,988	10,712	(724)
Capital Outlay	879	865	14
Total Parks	$ 66,809	$ 65,811	$ 998
Total Culture and Recreation	$ 124,083	$ 123,454	$ 629
Economic Development and Opportunity:			
Personal Services	4,007	3,698	309
Contractual Services	15,903	19,211	(3,308)
Commodities	336	297	39
Other Expenditures	232	245	(13)
Capital Outlay	16	36	(20)
Total Economic Development and Opportunity	$ 20,494	$ 23,487	$ (2,993)
Urban Redevelopment and Housing			
Personal Services	10,420	10,071	349
Contractual Services	4,455	4,298	157
Commodities	284	307	(23)
Other Expenditures	2,752	2,758	(6)
Capital Outlay	115	131	(16)
Total Urban Redevelopment and Housing	$ 18,026	$ 17,565	$ 461
Debt Service:			
Principal Retirement	3,140	3,140	
Interest	189	189	
Total Debt Service	$ 3,329	$ 3,329	$ -
Total Expenditures	$ 1,143,022	$ 1,134,285	$ 8,737

(End of Schedule)

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Debt Service Fund
Year-Ended September 30, 2018
(In Thousands)

	2018		
	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Revenues:			
Property Taxes:			
Current	$ 207,354	$ 208,198	$ 844
Delinquent	92	(514)	(606)
Penalties and Interest on Delinquent Taxes	1,270	1,382	112
Miscellaneous	3,573	3,889	316
Investment Earnings	2,493	1,305	(1,188)
Total Revenues	$ 214,782	$ 214,260	$ (522)
Expenditures:			
General Government:			
Contractual Services	16	491	(475)
Debt Service:			
Principal Retirement	155,865	155,865	
Interest	79,080	79,080	
Total Expenditures	$ 234,961	$ 235,436	$ (475)
(Deficiency) of Revenues (Under) Expenditures	$ (20,179)	$ (21,176)	$ (997)
Other Financing Sources Sources (Uses):			
Transfers In	17,678	17,866	188
Transfers Out		(24)	(24)
Total Other Financing Sources Sources (Uses), Net	$ 17,678	$ 17,842	$ 164
Net Change in Fund Balance	(2,501)	(3,334)	$ (833)
Fund Balances, October 1	41,480	41,480	
Fund Balances, September 30	$ 38,979	$ 38,146	

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.

CITY OF SAN ANTONIO, TEXAS

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, 2018
(In Thousands)

	2018		
	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Revenues:			
General Sales and Use:			
City Sales Tax	$ 17,153	$ 17,165	$ 12
Investment Earnings	63	116	53
Total Revenues	$ 17,216	$ 17,281	$ 65
Expenditures:			
Public Works:			
Personal Services	1,968	1,931	37
Contractual Services	656	632	24
Commodities	74	31	43
Other Expenditures	2,247	2,250	(3)
Capital Outlay	72	83	(11)
Total Expenditures	$ 5,017	$ 4,927	$ 90
Excess of Revenues Over Expenditures	$ 12,199	$ 12,354	$ 155
Other Financing (Uses):			
Transfers Out	(17,793)	(17,025)	768
Total Other Financing (Uses)	$ (17,793)	$ (17,025)	$ 768
Net Change in Fund Balance	(5,594)	(4,671)	$ 923
Fund Balances, October 1	6,449	6,449	
Add Encumbrances		10,808	
Fund Balances, September 30	$ 855	$ 12,586	

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, 2018
(In Thousands)

	2018 FINAL BUDGET	2018 ACTUAL	VARIANCE WITH FINAL BUDGET
Revenues:			
Taxes:			
Occupancy	$ 69,404	$ 71,216	$ 1,812
Penalties and Interest on Delinquent Taxes		210	210
Intergovernmental	6,225	4,352	(1,873)
Charges for Services	32,726	34,446	1,720
Miscellaneous	554	4,233	3,679
Investment Earnings	47	1,173	1,126
Total Revenues	$ 108,956	$ 115,630	$ 6,674
Expenditures:			
Culture & Recreation:			
Arts & Cultural:			
Personal Services	1,668	1,651	17
Contractual Services	1,640	1,574	66
Commodities	48	46	2
Other Expenditures	385	456	(71)
Capital Outlay	7	6	1
Total Arts & Cultural	$ 3,748	$ 3,733	$ 15
Alamodome:			
Personal Services	4,926	5,045	(119)
Contractual Services	5,457	4,744	713
Commodities	421	416	5
Other Expenditures	4,402	4,249	153
Capital Outlay	300	342	(42)
Total Alamodome	$ 15,506	$ 14,796	$ 710
Nondepartmental:			
Personal Services	683	1,723	(1,040)
Contractual Services	5,666	7,224	(1,558)
Other Expenditures	104	2,032	(1,928)
Capital Outlay	100	285	(185)
Total Nondepartmental	$ 6,553	$ 11,264	$ (4,711)
Contributions to Other Agencies	6,330	6,140	190
Total Culture & Recreation	$ 32,137	$ 35,933	$ (3,796)
Convention and Tourism:			
Convention Center:			
Personal Services	14,669	14,810	(141)
Contractual Services	2,952	2,827	125
Commodities	687	826	(139)
Other Expenditures	8,021	7,786	235
Capital Outlay	178	324	(146)
Total Convention Center	$ 26,507	$ 26,573	$ (66)
Contributions to Other Agencies (VSA)	23,340	23,837	(497)
Total Convention and Tourism	$ 49,847	$ 50,410	$ (563)
Total Expenditures	$ 81,984	$ 86,343	$ (4,359)
Excess of Revenues Over Expenditures	$ 26,972	$ 29,287	$ 2,315
Other Financing Sources (Uses):			
Transfers In	6,454	11,197	4,743
Transfers Out	(16,139)	(34,652)	(18,513)
Total Other Financing Sources (Uses), Net	$ (9,685)	$ (23,455)	$ (13,770)
Net Change in Fund Balance	17,287	5,832	$ (11,455)
Fund Balances, October 1	82,444	82,444	
Add Encumbrances		3,037	
Fund Balances, September 30	$ 99,731	$ 91,313	

The City noted budget violations of excess expenditures, transfers out, and encumbrances over appropriations. As there was sufficient actual revenues or fund balances to cover these excesses, the City does not deem these violations to be material.

Note: Includes revenues and expenditures generated from Convention and Tourism activities relating to the promotion of City owned facilities to be used for conventions, community and entertainment venues; the marketing and promotion of the City through VSA and support for arts and cultural organizations in the Department of Arts and Culture.

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Confiscated Property
Year-Ended September 30, 2018
(In Thousands)

	2018 FINAL BUDGET	2018 ACTUAL	VARIANCE WITH FINAL BUDGET
Revenues:			
Intergovernmental	$ 1,112	$ 1,780	$ 668
Miscellaneous	38	38	
Investment Earnings	24	32	8
Total Revenues	$ 1,174	$ 1,850	$ 676
Expenditures:			
Public Safety:			
Personal Services	182	209	(27)
Contractual Services	616	602	14
Commodities	531	460	71
Other Expenditures	94	84	10
Capital Outlay	43	38	5
Total Expenditures	$ 1,466	$ 1,393	$ 73
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ (292)	$ 457	$ 749
Other Financing Sources (Uses):			
Transfers In		58	58
Transfers Out	(363)	(363)	
Total Other Financing Sources (Uses)	$ (363)	$ (305)	$ 58
Net Change in Fund Balance	(655)	152	$ 807
Fund Balances, October 1	1,948	1,948	
Add Encumbrances		303	
Fund Balances, September 30	$ 1,293	$ 2,403	

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, 2018
(In Thousands)

	2018		
	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Revenues:			
Taxes:			
Occupancy	$ 19,830	$ 20,347	$ 517
Penalties and Interest on Delinquent Taxes	70	65	(5)
Investment Earnings		126	126
Total Revenues	$ 19,900	$ 20,538	$ 638
Other Financing Sources (Uses):			
Transfer In	7,696	14,844	7,148
Transfers Out	(30,381)	(35,117)	(4,736)
Total Other Financing Sources (Uses), Net	$ (22,685)	$ (20,273)	$ 2,412
Net Change in Fund Balance	(2,785)	265	$ 3,050
Fund Balances, October 1	2,387	2,387	
Fund Balances, September 30	$ (398)	$ 2,652	

The City noted budget violations of excess transfers out over appropriations. As there was sufficient actual revenues or fund balances to cover these excesses, the City does not deem these violations to be material.

CITY OF SAN ANTONIO, TEXAS

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Parks Development and Expansion - 2015, 2010, and 2005 Venue Projects
Year-Ended September 30, 2018
(In Thousands)

	2018		
	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Revenues:			
General Sales and Use			
City Sales Tax	$ 35,809	$ 36,120	$ 311
Miscellaneous		29	29
Investment Earnings	892	1,035	143
Total Revenues	$ 36,701	$ 37,184	$ 483
Expenditures:			
Culture and Recreation:			
Contractual Services	710	717	(7)
Total Expenditures	$ 710	$ 717	$ (7)
Excess of Revenues Over Expenditures	$ 35,991	$ 36,467	$ 476
Other Financing (Uses):			
Transfers Out	(90,680)	(90,680)	
Total Other Financing (Uses)	$ (90,680)	$ (90,680)	$ -
Net Change in Fund Balance	(54,689)	(54,213)	$ 476
Fund Balances, October 1	69,858	69,858	
Add Encumbrances		66,675	
Fund Balances, September 30	$ 15,169	$ 82,320	

The City noted budget violations of excess expenditures, and encumbrances over appropriations. As there was sufficient actual revenues or fund balances to cover these excesses, the City does not deem these violations to be material.

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Parks Environmental & Sanitation
Year-Ended September 30, 2018
(In Thousands)

	2018 FINAL BUDGET	2018 ACTUAL	2018 VARIANCE WITH FINAL BUDGET
Revenues:			
Charges for Services	$ 7,099	$ 7,078	$ (21)
Investment Earnings	1	2	1
Total Revenues	$ 7,100	$ 7,080	$ (20)
Expenditures:			
Sanitation:			
Personal Services	4,444	4,470	(26)
Contractual Services	2,127	1,638	489
Commodities	110	97	13
Other Expenditures	495	493	2
Capital Outlay	1	1	
Total Expenditures	$ 7,177	$ 6,699	$ 478
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ (77)	$ 381	$ 458
Net Change in Fund Balance	(77)	381	$ 458
Fund Balances, October 1	470	470	
Fund Balances, September 30	$ 393	$ 851	

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, 2018
(In Thousands)

	2018 FINAL BUDGET	2018 ACTUAL	2018 VARIANCE WITH FINAL BUDGET
Revenues:			
Charges for Services	$ 3,130	$ 3,431	$ 301
Investment Earnings	22	37	15
Total Revenues	$ 3,152	$ 3,468	$ 316
Expenditures:			
Public Works:			
Personal Services	2,425	2,339	86
Contractual Services	440	119	321
Commodities	46	27	19
Other Expenditures	250	301	(51)
Capital Outlay	350	323	27
Total Expenditures	$ 3,511	$ 3,109	$ 402
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ (359)	$ 359	$ 718
Other Financing (Uses):			
Transfers Out	(600)	(600)	
Total Other Financing (Uses), Net	$ (600)	$ (600)	$ -
Net Change in Fund Balance	(959)	(241)	$ 718
Fund Balances, October 1	3,179	3,179	
Add Encumbrances		649	
Fund Balances, September 30	$ 2,220	$ 3,587	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Stormwater Operations
Year-Ended September 30, 2018
(In Thousands)

	2018 FINAL BUDGET	2018 ACTUAL	2018 VARIANCE WITH FINAL BUDGET
Revenues:			
Charges for Services	$ 54,751	$ 57,441	$ 2,690
Miscellaneous		96	96
Investment Earnings	297	384	87
Total Revenues	$ 55,048	$ 57,921	$ 2,873
Expenditures:			
Public Works:			
Administration:			
Personal Services	3,967	3,905	62
Contractual Services	5,823	6,057	(234)
Commodities	55	43	12
Other Expenditures	437	451	(14)
Capital Outlay	40	64	(24)
Total Administration	$ 10,322	$ 10,520	$ (198)
Vegetation Control:			
Personal Services	5,117	4,928	189
Contractual Services	857	708	149
Commodities	822	808	14
Other Expenditures	2,374	2,470	(96)
Capital Outlay	243	362	(119)
Total Vegetation Control	$ 9,413	$ 9,276	$ 137
River Maintenance:			
Personal Services	548	113	435
Contractual Services	1,514	740	774
Commodities	5	8	(3)
Other Expenditures	83	86	(3)
Capital Outlay	1	1	
Total River Maintenance	$ 2,151	$ 948	$ 1,203
Street Sweeping:			
Personal Services	2,320	2,265	55
Contractual Services	499	663	(164)
Commodities	271	284	(13)
Other Expenditures	1,042	1,088	(46)
Capital Outlay		4	(4)
Total Street Sweeping	$ 4,132	$ 4,304	$ (172)
Tunnel Maintenance:			
Personal Services	4,229	4,166	63
Contractual Services	2,077	1,735	342
Commodities	649	644	5
Other Expenditures	1,497	1,590	(93)
Capital Outlay	336	388	(52)
Total Tunnel Maintenance	$ 8,788	$ 8,523	$ 265
Design Engineering:			
Personal Services	1,526	1,503	23
Contractual Services	46	37	9
Commodities	11	9	2
Other Expenditures	108	169	(61)
Capital Outlay	9	9	
Total Design Engineering	$ 1,700	$ 1,727	$ (27)
Total Expenditures	$ 36,506	$ 35,298	$ 1,208
Excess of Revenues Over Expenditures	$ 18,542	$ 22,623	$ 4,081
Other Financing (Uses):			
Transfers Out	(42,081)	(40,282)	1,799
Total Other Financing (Uses)	$ (42,081)	$ (40,282)	$ 1,799
Net Change in Fund Balance	(23,539)	(17,659)	$ 5,880
Fund Balances, October 1	27,440	27,440	
Add Encumbrances		21,366	
Fund Balances, September 30	$ 3,901	$ 31,147	

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, 2018
(In Thousands)

	2018 FINAL BUDGET	2018 ACTUAL	2018 VARIANCE WITH FINAL BUDGET
Revenues:			
Administrative Fee [1]	$ 1,103	$ 960	$ (143)
Investment Earnings		11	11
Total Revenues	$ 1,103	$ 971	$ (132)
Expenditures:			
Economic Development and Opportunity:			
Personal Services	603	597	6
Contractual Services	63	79	(16)
Commodities	7	2	5
Other Expenditures	43	43	
Total Expenditures	$ 716	$ 721	$ (5)
Excess of Revenues Over Expenditures	$ 387	$ 250	$ (137)
Other Financing (Uses):			
Transfers Out	(33)	(33)	
Total Other Financing (Uses)	$ (33)	$ (33)	$ -
Net Change in Fund Balance	354	217	$ (137)
Fund Balances, October 1	621	621	
Fund Balances, September 30	$ 975	$ 838	

This fund is incorporated within the Tax Increment Reinvestment Zone reporting unit.

[1] For financial reporting presentation the revenue is reported as an intrafund transfer and therefore is not reflected in the financial statements; however, the above schedule reflects the fund schedule from the City's 2018 Adopted Budget.

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 - Child Safety
Year-Ended September 30, 2018
(In Thousands)

	2018 FINAL BUDGET	2018 ACTUAL	2018 VARIANCE WITH FINAL BUDGET
Revenues:			
Charges for Services	$ 401	$ 368	$ (33)
Intergovernmental	1,871	1,889	18
Total Revenues	$ 2,272	$ 2,257	$ (15)
Expenditures:			
Public Safety:			
Personal Services	1,729	1,796	(67)
Contractual Services	11	11	
Commodities	16	3	13
Other Expenditures	585	585	
Total Expenditures	$ 2,341	$ 2,395	$ (54)
(Deficiency) of Revenues (Under) Expenditures	$ (69)	$ (138)	$ (69)
Other Financing Sources:			
Transfers In		69	69
Total Other Financing Sources	$ -	$ 69	$ 69
Net Change in Fund Balance	(69)	(69)	$ -
Fund Balances, October 1	69	69	
Fund Balances, September 30	$ -	$ -	

The City noted budget violations of excess expenditures over appropriations. This was addressed by supplementing the fund with funds from the General Fund to cover the deficit balance.

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Energy Efficiency Fund
Year-Ended September 30, 2018
(In Thousands)

	2018 FINAL BUDGET	2018 ACTUAL	2018 VARIANCE WITH FINAL BUDGET
Revenues:			
Intergovernmental	$ 90	$ 59	$ (31)
Investment Earnings	14	23	9
Total Revenues	$ 104	$ 82	$ (22)
Expenditures:			
General Government:			
Personal Services	370	369	1
Contractual Services	964	859	105
Commodities	1		1
Other Expenditures	23	11	12
Total Expenditures	$ 1,358	$ 1,239	$ 119
(Deficiency) of Revenues (Under) Expenditures	$ (1,254)	$ (1,157)	$ 97
Other Financing Sources (Uses):			
Transfers In	1,059	1,059	
Transfers Out	(906)	(906)	
Total Other Financing Sources (Uses), Net	$ 153	$ 153	$ -
Net Change in Fund Balance	(1,101)	(1,004)	$ 97
Fund Balances, October 1	1,811	1,811	
Add Encumbrances		818	
Fund Balances, September 30	$ 710	$ 1,625	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Golf Course Operating and Maintenance

Year-Ended September 30, 2018

(In Thousands)

	2018 FINAL BUDGET	2018 ACTUAL	2018 VARIANCE WITH FINAL BUDGET
Revenues:			
Miscellaneous [1]	$ 1,093	$ 993	$ (100)
Total Revenues	$ 1,093	$ 993	$ (100)
Expenditures:			
Culture and Recreation:			
Contractual Services	171	153	18
Total Expenditures	$ 171	$ 153	$ 18
Excess of Revenues Over Expenditures	$ 922	$ 840	$ (82)
Other Financing (Uses):			
Transfers Out	(901)	(901)	
Total Other Financing (Uses)	$ (901)	$ (901)	$ -
Net Change in Fund Balance	21	(61)	$ (82)
Fund Balances, October 1	(129)	(129)	
Fund Balances, September 30	$ (108)	$ (190)	

[1] For financial reporting presentation the revenue is reported as transfers in; however, the above schedule reflects the fund schedule from the City's 2018 Adopted Budget.

Note: The deficit will be covered by MGA-SA over a three year period beginning in fiscal year 2018.

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, 2018

(In Thousands)

	2018 FINAL BUDGET	2018 ACTUAL	2018 VARIANCE WITH FINAL BUDGET
Revenues:			
Charges for Services	$ 930	$ 1,013	$ 83
Investment Earnings	10	7	(3)
Total Revenues	$ 940	$ 1,020	$ 80
Expenditures:			
General Government:			
Personal Services	927	924	3
Contractual Services	38	39	(1)
Commodities	5	3	2
Other Expenditures	118	116	2
Capital Outlay	12	12	
Total Expenditures	$ 1,100	$ 1,094	$ 6
(Deficiency) of Revenues (Under) Expenditures	$ (160)	$ (74)	$ 86
Net Change in Fund Balance	(160)	(74)	$ 86
Fund Balances, October 1	607	607	
Fund Balances, September 30	$ 447	$ 533	

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, 2018
(In Thousands)

	2018		
	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Revenues:			
Charges for Services	$ 350	$ 365	$ 15
Total Revenues	$ 350	$ 365	$ 15
Expenditures:			
General Government:			
Personal Services	361	361	
Contractual Services	64	71	(7)
Commodities	3		3
Other Expenditures	50	50	
Capital Outlay	1	1	
Total Expenditures	$ 479	$ 483	$ (4)
(Deficiency) of Revenues (Under) Expenditures	$ (129)	$ (118)	$ 11
Other Financing Sources (Uses):			
Transfers In	180	180	
Transfers Out	(20)	(20)	
Total Other Financing Sources (Uses), Net	$ 160	$ 160	$ -
Net Change in Fund Balance	31	42	$ 11
Fund Balances, October 1	(30)	(30)	
Fund Balances, September 30	$ 1	$ 12	

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, 2018
(In Thousands)

	2018		
	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Revenues:			
Charges for Services	$ 459	$ 488	$ 29
Miscellaneous	7		(7)
Investment Earnings	4	6	2
Total Revenues	$ 470	$ 494	$ 24
Expenditures:			
General Government:			
Contractual Services	667	667	
Other Expenditures	2	2	
Total Expenditures	$ 669	$ 669	$ -
(Deficiency) of Revenues (Under) Expenditures	$ (199)	$ (175)	$ 24
Other Financing (Uses):			
Transfers Out	(14)	(14)	
Total Other Financing (Uses)	$ (14)	$ (14)	$ -
Net Change in Fund Balance	(213)	(189)	$ 24
Fund Balances, October 1	415	415	
Fund Balances, September 30	$ 202	$ 226	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Special Revenue Funds
Community Service Funds - Tree Canopy Preservation and Mitigation Fund
Year-Ended September 30, 2018
(In Thousands)

	2018 FINAL BUDGET	2018 ACTUAL	2018 VARIANCE WITH FINAL BUDGET
Revenues:			
Charges for Services	$ 2,068	$ 2,745	$ 677
Investment Earnings	77	73	(4)
Total Revenues	$ 2,145	$ 2,818	$ 673
Expenditures:			
Culture and Recreation:			
Personal Services	225	219	6
Contractual Services	4,444	4,465	(21)
Commodities	599	460	139
Other Expenditures	82	80	2
Capital Outlay	3	3	
Total Expenditures	$ 5,353	$ 5,227	$ 126
(Deficiency) of Revenues (Under) Expenditures	$ (3,208)	$ (2,409)	$ 799
Other Financing (Uses):			
Transfers Out	(962)	(962)	
Total Other Financing (Uses)	$ (962)	$ (962)	$ -
Net Change in Fund Balance	(4,170)	(3,371)	$ 799
Fund Balances, October 1	4,874	4,874	
Add Encumbrances		3,577	
Fund Balances, September 30	$ 704	$ 5,080	

Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Permanent Fund
City Cemeteries
Year-Ended September 30, 2018
(In Thousands)

	2018 FINAL BUDGET	2018 ACTUAL	2018 VARIANCE WITH FINAL BUDGET
Revenues:			
Charges for Services	$ 170	$ 253	$ 83
Investment Earnings	4	3	(1)
Total Revenues	$ 174	$ 256	$ 82
Expenditures:			
Culture and Recreation:			
Personal Services	67	67	
Contractual Services	120	70	50
Commodities	4		4
Other Expenditures	7	7	
Total Expenditures	$ 198	$ 144	$ 54
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ (24)	$ 112	$ 136
Net Change in Fund Balance	(24)	112	$ 136
Fund Balances, October 1	187	187	
Fund Balances, September 30	$ 163	$ 299	

Note: This fund is incorporated within the City Cemeteries reporting unit.

APPENDIX E

FORMS OF CO-BOND COUNSEL OPINIONS

This page is intentionally left blank.

McCall, Parkhurst & Horton L.L.P.
700 N. St. Mary's Street, Suite 1525
San Antonio, Texas 78205

LM Tatum, PLLC
84 NE Loop 410, Suite 104
San Antonio, Texas 78216

December __, 2019

CITY OF SAN ANTONIO, TEXAS
AIRPORT SYSTEM REVENUE REFUNDING BONDS, SERIES 2019A (AMT)
DATED DECEMBER 1, 2019
IN THE AGGREGATE PRINCIPAL AMOUNT OF $47,255,000

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 *"Sixteenth Supplemental Ordinance to the Master Ordinance,"* adopted by the City Council of the City on October 17, 2019, which authorized the issuance of the Bonds), (ii) the Escrow Agreement, dated as of December 1, 2019, between the City and U.S. Bank National Association, as Escrow Agent (the "***Escrow Agreement***"), (iii) the Certificate of Sufficiency provided by Hilltop Securities Inc., as a Co-Financial Advisor to the City, with respect to the adequacy of certain escrowed funds to accomplish the refunding purposes of the Bonds (the "***Sufficiency Certificate***"), (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 governmental immunity and 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 "***Current 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 Sufficiency Certificate 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 Current 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,

This page is intentionally left blank.

McCall, Parkhurst & Horton L.L.P.
700 N. St. Mary's, Suite 1525
San Antonio, Texas 78205

LM Tatum, PLLC
84 NE Loop 410, Suite 104
San Antonio, Texas 78216

December _, 2019

CITY OF SAN ANTONIO, TEXAS
PASSENGER FACILITY CHARGE AND SUBORDINATE LIEN
AIRPORT SYSTEM REVENUE REFUNDING BONDS, SERIES 2019A (AMT)
DATED DECEMBER 1, 2019
IN THE AGGREGATE PRINCIPAL AMOUNT OF $63,405,000

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, being (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 *"Sixth Supplemental Ordinance to the Master PFC Ordinance,"* adopted by the City Council of the City on October 17, 2019, 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 December 1, 2019, between the City and U.S. Bank National Association, as Escrow Agent (the "***Escrow Agreement***"), (iii) the Certificate of Sufficiency provided by Hilltop Securities Inc., as a Co-Financial Advisor to the City, with respect to the adequacy of certain escrowed funds to accomplish the refunding purposes of the Bonds (the "***Sufficiency Certificate***"), (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 governmental immunity and 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 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 "***Current 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 Sufficiency Certificate 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 Current 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 PFC 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,

McCall, Parkhurst & Horton L.L.P.
700 N. St. Mary's Street, Suite 1525
San Antonio, Texas 78205

LM Tatum, PLLC
84 NE Loop 410, Suite 104
San Antonio, Texas 78216

December __, 2019

CITY OF SAN ANTONIO, TEXAS
AIRPORT SYSTEM REVENUE REFUNDING BONDS, TAXABLE SERIES 2019B
DATED DECEMBER 1, 2019
IN THE AGGREGATE PRINCIPAL AMOUNT OF $36,280,000

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 *"Sixteenth Supplemental Ordinance to the Master Ordinance,"* adopted by the City Council of the City on October 17, 2019, which authorized the issuance of the Bonds), (ii) the Escrow Agreement, dated as of December 1, 2019, between the City and U.S. Bank National Association, as Escrow Agent (the "***Escrow Agreement***"), (iii) the report and mathematical verifications of Robert Thomas CPA, LLC, a nationally recognized accounting firm, with respect to the adequacy of certain escrowed funds to accomplish the refunding purposes of the Bonds (the "***Verification Report***"), and (iv) 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 governmental immunity and 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 "***Advance 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 Advance Refunded Bonds.

IT IS FURTHER OUR OPINION, that the Bonds are not obligations described in section 103(a) of the Internal Revenue Code of 1986, as amended and therefore, interest on the Bonds is includable in gross income for federal income tax purposes under the statues, regulations, published rulings, and court decisions existing on the date of this opinion.

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.

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 inclusion in 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

McCall, Parkhurst & Horton L.L.P.
700 N. St. Mary's, Suite 1525
San Antonio, Texas 78205

LM Tatum, PLLC
84 NE Loop 410, Suite 104
San Antonio, Texas 78216

December _, 2019

CITY OF SAN ANTONIO, TEXAS
PASSENGER FACILITY CHARGE AND SUBORDINATE LIEN
AIRPORT SYSTEM REVENUE REFUNDING BONDS, TAXABLE SERIES 2019B
DATED DECEMBER 1, 2019
IN THE AGGREGATE PRINCIPAL AMOUNT OF $31,535,000

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) four ordinances (collectively, the "***Ordinance***") of the City, being (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 *"Sixth Supplemental Ordinance to the Master PFC Ordinance,"* adopted by the City Council of the City on October 17, 2019, 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 December 1, 2019, between the City and U.S. Bank National Association, as Escrow Agent (the "***Escrow Agreement***"), (iii) the report and mathematical verifications of Robert Thomas CPA, LLC, a nationally recognized accounting firm, with respect to the adequacy of certain escrowed funds to accomplish the refunding purposes of the Bonds (the "***Verification Report***"), and (iv) 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 governmental immunity and 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 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 "***Advance 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 Advance Refunded Bonds.

IT IS FURTHER OUR OPINION, that the Bonds are not obligations described in section 103(a) of the Internal Revenue Code of 1986, as amended and therefore, interest on the Bonds is includable in gross income for federal income tax purposes under the statues, regulations, published rulings, and court decisions existing on the date of this opinion.

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.

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 inclusion in 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,

This page is intentionally left blank.